Stalin's Economist

The economic contributions of Jenő Varga

André Mommen

Routledge Studies in the History of Economics

Stalin's Economist

This book analyses the contribution of Eugen (Jenő) Varga (1879–1964) on Marxist-Leninist economic theory as well as the influence he exercised on Stalin's foreign policy and through the Comintern on the international communist movement. During the Hungarian Councils' Republic of 1919 Varga was one of those chiefly responsible for transforming the economy into one big industrial and agrarian firm under state authority. After the fall of the revolutionary regime that year, Varga joined the Hungarian Communist Party, soon after which he would become one of the Comintern's leading economists, predicting the inevitable crisis of the capitalist system.

Varga became the Soviet Union's official propagandist. As an economic specialist he would advise the Soviet government on German reparation payments and, unlike Stalin, believed that the capitalist state would be able to plan post-war economic recovery, which contradicted Stalin's foreign policy strategy and led to his disgrace. Thus by the beginning of the Cold War in 1947, Varga was discredited, but allowed to keep a minor academic position. After Stalin's death in 1953 he reappeared as a well respected economist whose political influence had nonetheless waned.

In this study Mommen reveals how Stalin's view on international capitalism and inter-imperialist rivalries was profoundly influenced by debates in the Comintern and by Varga's concept of the general crisis of capitalism. Though Stalin appreciated Varga's cleverness, he never trusted him when making his strategic foreign policy decisions. This was clearly demonstrated in August 1939 with Stalin's pact with Hitler, and in 1947, with his refusal to participate in Marshall's European Recovery Plan.

This book should be of interest to a wide variety of students and researchers, including those concentrating on the history of economic thought, Soviet studies, international relations, and European and Cold War history.

André Mommen obtained a Ph.D. in Political Science from the Free University Brussels, Belgium, where he went on to lecture, before moving to the Department of Political Science at the University of Amsterdam, Netherlands.

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To the memory of Victor Léopold Mommen (1903–57)

Come on up for the rising
Come on up, lay your hands in mine
Come on up for the rising
Come on up for the rising tonight
Bruce Springsteen

The Varga family in Berlin (© Mária Varga)

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Acronyms

AMOSZ	Alkalmazott Mérnökök Orszagágos Szövetsége, National Association of Engineers
AON	Akademiya Obshshestvennych Nauk, Academy of the Social Sciences of the Soviet Communist Party Central Committee, Moscow
CPSU	Communist Party of the Soviet Union
DACOB	Archief en Bibliotheek voor de Studie van het Communisme, Archives and Library for the Study of Communism, Brussels
ECCI	Executive Committee of the Communist International
ERP	European Recovery Program
FÉKOSZ	Földmunkások és Kisbirtokosok Országos Szövetsége, National Conference of Agricultural Workers and Smallholders
GDP	Gross Domestic Product
GDR	German Democratic Republic
Gosplan	State Planning Committee
HSZ	Huszadik század, Twentieth Century
IMEMO	Institut Mirovoy Ekonomiki i Mezhdunarodnikh Otnoshenniy, Institute of World Economy and International Relations
IPC	International Press Correspondence
IPK	Internationale Presse-Korrespondenz
KGB	Committee for State Security
KI	Kommunistische Internationale
KKP	Komunistyczna Partia Polski, Communist Party of Poland
KPD	Communist Party of Germany, Kommunistische Partei Deutschlands
KPJ	Communist Party of Yugoslavia
KPÖ	Communist Party of Austria, Kommunistische Partei Österreichs
KSZ	Közgazdasági szemle
MDP	Magyar Dolgózok Pártja, Hungarian Workers' Party
MKP	Kommunisták Magyarországi Pártja, Hungarian Communist Party
MOL	Magyar Országos Levéltár, Hungarian State Archives, Budapest
MSZDP	Magyarországi Szociáldemokrata Párt, Hungarian Social-Democratic Party

MSZMP	Magyar Szocialista Munkáspárt, Hungarian Socialist Workers Party
MSZP	Magyar Szocialista Párt, Hungarian Socialist Party
NEP	New Economic Policy
NKVD	People's Commissariat for Internal Affairs
NRA	National Recovery Act
NZ	Die Neue Zeit
PCF	Parti Communiste Français, French Communist Party
PCI	Partito Communista Italiano, Italian Communist Party
PIL	Politkatörténeti Intézet, Institute of Political History, Budapest
POB	Parti Ouvrier Belge, Belgian Labour Party
POW	Prisoners of War
PSI	Partito Socialista Italiano, Italian Socialist Parti
RGASPI	Russian State Archives of Social -Political History, Moskou
SFIO	Section Française de l'Internationale Ouvrière, French Section of the Socialist Workers International
SPD	Sozialdemokratische Partei Deutschlands, Social-Democratic Party of Germany
TsKhSD	Central Repository of Documents of Recent Documentation, Moskou
USPD	Unabhängige Sozialdemokratische Partei Deutschlands, Independent Social-Democratic Party of Germany
USSR	Union of Socialist Soviet Republics
VKP(b)	All-Union Communist Party

Preface

This intellectual biography explores the life and works of Jenő (Eugen) Varga (1879–1964) from his early years in the Hungarian socialist movement to his career as a Comintern agent and Soviet economist advising Stalin and his Politburo. The approach to this study is a narrative one, chronicling Varga's growing influence as a scientific adviser.

I have tried to portray Varga as an economic trend watcher analysing and predicting economic crises. Varga was certainly well aware of the political *métier* as well. As an adviser he was by no means a bird of passage. His whole life long he had been close to the power brokers in Hungarian Social Democracy and then to the rulers in the Moscow Kremlin. Hence, all his writings should be interpreted as reflections on politico-economic issues.

Varga can be seen as a 'managerial moderniser', who played a significant role in developing Communist strategy and Stalin's foreign policy. As a director of an important research institute studying world economic and political changes in the capitalist world he attached great importance to an improvement in finding an analysing data. However, Varga thought and wrote in Marxian terminology for a public accustomed to argue in such terms. I was well aware of that problem when writing this intellectual biography. Fortunately, Varga preferred discussing issues that were always directly related to economic reality, which facilitated my task to limit the use of jargon to a minimum.

For this book I used a wide range of sources. Among them are Varga's many publications, papers and documents kept at the Archives of the Academy of the Social Sciences (AON) in Moscow and the Institute of Political History (PIL) in Budapest. Varga was savvy enough to recognise that leaving his genuine convictions and thought in diaries or letters could be dangerous in Stalin's time. Afraid as he was to compromise himself, he destroyed most of his 'political' papers and letters. Hence, many documents may have disappeared in several waves of destruction. Apart from published and unpublished archival documents, I could collect additional information from different sources: memoirs, newspaper articles, interviews with his daughter Mária Varga, and obituaries and published memories.

I have been conscious of two linked and major problems in the course of attempting to chart Varga's career: First, to convey a sense of his importance to

Hungary, the Soviet Union and the Comintern. Second, while so doing, to steer between the Scylla of hagiography and the Charybdis of denigration. In examining the career of one single person, the present study might be considered a revisionist history. The historian can only do his best to present the person in question in all his aspects. However, no historian can hope to cover all aspects of a person's intellectual and political life. The gravest omission of which I am conscious is the failure to deal with social and emotional factors determining political and ideological choices made by an individual.

The origins of this biography are rather prosaic. In 1999, the recently founded Documentation Centre of the Communist Movement (DACOB) in Brussels asked me to lecture on the origins of the theory of state-monopoly capitalism after the Second World War. I agreed at the condition I could limit myself to Varga's contribution. Research brought me later many times to Budapest and Moscow where Varga's papers are kept in the archives.

In the first place I want to express my gratitude to Sergey Artobolevskiy for having opened many a door in Moscow and for having brought me in contact with Mária Varga, who informed me during yearly interview sessions about her father's life. She opened to me her family archive and commented on earlier drafts of my book manuscript as well.

I wish to express my appreciation for the way Zsuzsa Nagy allowed me to consult the rich library collection of the former Karl Marx University (now Corvinus University) in Budapest and for the way she succeeded in mobilising the library personnel at my service. I cannot say enough about the kindness and assistance rendered by the staffs and directors of the various institutes, libraries and archives I visited in Moscow, Amsterdam, Utrecht, Brussels, Antwerp and Budapest, or contacted by e-mail and telephone in Austria, Belgium, France, Germany, Hungary, Russia and the USA.

Finally, I wish to express my heart-felt thanks to all people having replied personally to my letters or questions: Klára Berei (Budapest), Sándor Bősze (Kaposvár), Barta Botond (Budapest), Anna Di Biagio (Bologna), József Berkes (Budapest), Mira Bogdanović (Babin Potok), Judit Ferenc (Budapest), Zoltán Garadnai (Budapest), Péter Farkas (Budapest), Piroska Farkas (Budapest), Sergey Glushakov (Budapest), Ágnes Hadházy (Budapest), Birgit Hoherz (Berlin), Éva Karádi (Budapest), Christine Kasper (Vienna), Markus Keller (Budapest), Amália Kerekes (Budapest), Rudolf Klein (Budapest), Wolfgang Knobloch (Berlin), Judit Kósa (Budapest), Tamás Krausz (Budapest), Thomas Kuczynski (Berlin), Michael Maaser (Frankfurt), Alain Meynen (Brussels), Elena Nikitina (Moscow), Katalin Pécsi (Budapest), Christa Prokisch (Vienna), János M. Rainer (Budapest), Lívia Rudnyánszky (Budapest), Pavol Salamon (Budapest), Csaba Szilagyi (Budapest), Zsazsanna Toronyi (Budapest), Tibor Tardos (Paris) and Katalin Zalai (Budapest).

Notes on the text

Note on translation

There is no solution to the transliterating problem of Russian words and names into English. In general, I have followed the Library of Congress system, but with several exceptions. First, I have dropped the Russian soft signs, represented in English by an apostrophe. Whereever there is a customary English usage, I have allowed it to prevail: thus Trotsky or Beria, not Trotskiy or Beriya. Polish names have kept their Polish spelling, thus Lapinski and not Lapinskiy. A characteristic feature of Soviet revolutionary writing was the polemical use of italics, capitals, underlinings, etc. They all have disappeared in texts I quoted in this book.

Note on references

The Harvard reference system is used. The bibliography lists every work cited in the text. However, articles in newspapers and journals of Varga's time have only received a short mentioning in the text between brackets. No attempt was made to list all Varga's publications in the bibliography. Abbreviations and titles formed from initial letters have become an accepted part of modern writing. For those which I have used, the reader is referred to the list of abbreviations, thus NZ for *Die Neue Zeit* and HSZ for *Huszadik század*.

Introduction

Kinek mondjam el vétkeimet
És a megbocsátást kitől kérjem?
Kinek mondjam el vétkeimet, istenem?

Who can I tell my sins,
Who can I ask for forgiveness?
Who can I tell my sins, God?
(Song written by Szilveszter Jenei,
performed by Friderika Bayer on Emi
Quint P 1994 QUI 906057)

Eugen (Jenő) Varga (1879–1964) was for several decades the Soviet Union's most influential analyst of the capitalist world economy. He published some 80 books and pamphlets and more than 1,000 articles. As an 'industrial writer' dictating his text, his output was enormous. In the meantime, he managed the Institute of World Economy and World Politics in Moscow for 20 years (1927–1947) and participated in active party life as well. In addition, Varga was a disciplined thinker. He was a regular reader of Marx's *Capital,* a book he considered as his main source of inspiration and the fundamental work of Marxism-Leninism, but he never would produce any overall comment on Marx. In Hungarian politics, Varga belonged to a small faction of Karl Kautsky's adepts subscribing to the revolutionary role of the proletariat and the objective economic developments preparing the ground for Socialism. Like many other intellectuals of his generation, he referred also to a passive revolution in which agitation and organisation belonged to the main tasks of the urban intellectuals. Varga was certainly an admirable man, but he was no profound thinker and especially no theorist. Becoming the Hungarian Kautsky must have been his ultimate ambition when being politically active in the pre-1914 Hungarian labour movement.

Already before finishing his study of philosophy at the Budapest University in 1909, Varga had become a militant of the *Magyarországi Szociáldemokrata Párt* (MSZDP, Hungarian Social-Democratic Party) and economy editor of the daily newspaper *Népszava*. From 1909 on he earned his living as a teacher. At the same time he carried out activities in the Freethinkers movement and in

Freemasonry as well. He lectured for a working-class public on social and cultural problems. Meanwhile, he also became a correspondent of several scientific and political journals. His many articles treated problems related to the agrarian question, inflation, democratisation and economic development. In sum, he was a hyperactive man.

During the First World War, Varga belonged to the 'centrist' or 'pacifist' current in the MSZDP. The Aster Revolution in October–November 1918 initiated the end of the Habsburg Dual Empire and the proclamation of a bourgeois republic in Budapest. As a leading Socialist intellectual, Varga discussed with party leaders on economic, agrarian and social reforms to be implemented by a coalition government in which the Socialists participated. When in March 1919 the Republic of Councils was proclaimed, Varga was appointed People's Commissar of Finance, a post he left after two hectic weeks for the newly created post of People's Commissar for Production and President of the National Economic Council. Varga's career ended on 1 August 1919 when the Republic of Councils collapsed. With his wife and other People's Commissars he left Budapest for Vienna.

For Varga and his fellow revolutionaries the fall of the People's Republic constituted a source of pessimism and despair. Varga was nonetheless acute and revolutionary enough to realise that the collapse was complete and that the future was Russian Communism. Hence, he joined the Hungarian Communist Party reconstructed in Vienna. However, he never would look back, either in sorrow or in genuine anger. Meanwhile, the Soviet Union would become his source of redemption and hope. When arriving in the summer of 1920 in Moscow, he was immediately recruited by Lenin who saw in him a very apt functionary for his still to be organised Comintern. For Varga this meant a new start in his life. Varga was then 40, not particularly the age one starts a career as a revolutionary.

Varga saw in Bolshevism a guarantee against the terrible collapse of pre-war Social Democracy and human misery. Bolshevism could appear to him as a kind of redemption in an era of moral and intellectual inconvenience (Hobsbawm 2007: 3–11). People who knew him attested that he was a product of the Hungarian petty bourgeoisie. He was a teacher, but he could have been a bookkeeper as well. With his thick glasses, his pronounced nose and chin, his long teeth and chubby cheeks, he had not been a pretty child or young man. In public, his appearance was neutral. Varga was, at any rate, not the prototype of the Central-European womaniser. Pictures taken in the 1920s in Moscow or Berlin show a short rather corpulent, man with a shaved head. The spells of ill-health and deprivations suffered during the First World War had lined his face. He must have engaged in social intercourse, but only in small groups. One could call him a family man as well.

Varga was not a daring person. He was a man of study, but in no way a Talmudist. He must have nonetheless been happy when sitting at his desk writing reports or articles. He was very fond of facts and figures and he hated demagogues, fools and louts. Unlike Kautsky, he was not a theorist by disposition, who could hardly handle discrete facts without at once knitting them into a theory. As a casuist he could solve practical problems by reconciling extremes

without giving up his principles. His basic theories (or 'laws') were few. Like Kautsky, he could subordinate tactics to basic theoretical assumptions by smoothly basing propositions on fact finding. Like Lenin, he used 'theory' in order to 'prove' his point and no more. This would add to the fundamental dryness of his resolutions, theses and reports. His texts had to be 'useful' by contributing to the progress of the world revolution and the strengthening of the Soviet Union as a bulwark of that world revolution. With Lenin, he thought that war and revolution were objectively inevitable and that peace and progress were bourgeois notions. With Lev Trotsky, he believed in the world revolution. With Bukharin, he argued that capitalism might stabilise for some years. Stalin could convince him that both were enemies of the Soviet regime. Meanwhile, Stalin had become the Prince he had to serve.

Between 1922 and 1927 Varga was employed at the Soviet embassy in Berlin. In 1927 he returned to Moscow. He was appointed director of the Institute of World Economy and World Politics, which indicates that the masters in the Kremlin wanted to be better informed on capitalist development. As a principal economic adviser to the Comintern, Varga had to accept the responsibility for elaborating the official point of view as well. As a scientific manager and author, Varga never would take a clear stand in the Stalin–Bukharin rivalry which developed soon after his return to Moscow. After Bukharin's disgrace in 1929, he became nonetheless an object of attacks emanating from the Stalinists who had seized leading positions in the academic bureaucracy. After a period of semi-disgrace, Stalin would call Varga nonetheless back to the Kremlin. This must have helped him survive the Great Purges of the 1930s. During the Second World War, Varga would emerge as a first-class adviser to a governmental commission studying the problems of German post-war reparation payments. In 1947, Varga was disgraced, but, again, he survived the purges. After Stalin's death in 1953, he easily accommodated to Nikita Khrushchev's policy of peaceful coexistence and the latter's parliamentary road to socialism (Sobolew 1957).

In 1954 and 1959, Varga received Orders of Lenin, in 1954 he obtained the Stalin Prize and in 1963 he got the Lenin Prize for his contributions to political theory. At the end of his life, Varga had become a man of great scientific prestige. For having contributed to the formation of Soviet Marxist theory based on Lenin's interpretation of imperialism, he was hailed as one of the founding fathers of Marxist-Leninist political and economic doctrine.

Lenin had created a systematic theory of modern capitalism. According to Lenin, the internal antagonism and conflicts within the imperialist camp and the contradictions between the capitalist world and the Soviet Union were characteristic for this new stage of history in which monopoly capitalism had triumphed over free capitalism. Lenin's book *Imperialism* should therefore be regarded as a continuation and a further creative development of Marx's *Capital*. In addition, Lenin had often repeated that the laws discovered by Marx in *Capital* had retained their validity under imperialism as well. Concentration of capital had given birth to monopoly capitalism.

Varga's interpretation of capitalist development was centred on the notion of the general crisis of capitalism. Of course, from the beginning Varga entirely subscribed to these postulates. It had certainly something to do with the readiness of Marxists of his generation to jettison prophesies of spectacular misery and breakdown. Varga's theory of the general crisis of capitalism was derived from the modus operandi of capital accumulation and the breakdown theory that provided the battleground between orthodox Marxists like Karl Kautsky and Rudolf Hilferding and Communists like Varga. Especially Hilferding's renunciation of the breakdown theory was high treason to all Communists. Like other orthodox Marxists, Varga was primarily interested in those parts of Marxist theory that have, 'or seem to have, direct bearing upon socialist tactics in what they believe to be the – last – the "imperialist"-phase of capitalism' (Schumpeter 1986: 881).

Varga saw the general crisis as typical for the monopolist stage of capitalist development, a stage at which the social character of the productive forces were blatantly in conflict with the social character of the productive forces and their private capitalist utilisation. That was also the last stage before the turning point to socialism would be reached. The general crisis of capitalism comprised an entire historical period subdivided in several phases. The first phase began with the First World War and ended in 1921, when a period of capitalist stabilisation lasted until the American stock-market crash in 1929. A third period with mass unemployment, an agrarian crisis and an industrial downturn would encompass the 1930s. Meanwhile the Soviet Union had broken away from the capitalist orbit, cutting off capitalism from a large part of the world economy. The consequence was that capitalist production was proceeding on an ever-narrowing basis, meaning that the difficulties in the extraction and the realisation of surplus value were growing. Meanwhile, the higher organic composition of capital (fixed capital) and the decreasing proportion of wages (variable capital) had increased, forcing the monopolists to launch a struggle for their market shares. This aggravated the conflicts among the capitalist states and increased the danger of war. The war economy with its high monopolistic surplus profits depressed, however, the level of consumption, channelled investments into war industries, increased the disproportionalities between the two main divisions of capitalist production (*Department I* of capital goods and *Department II* of consumer goods) and affected the reproduction capacities of the capitalist system as well.

In the period of the general crisis of capitalism – as distinguished from cyclical depressions – the reproduction of capitalist society could no longer be left to the economic laws of free capitalism. Hence, capitalism was no longer capable of functioning in its classical way. Thus imperialism meant also the end of the period of liberal capitalism and the beginning of the expanding role of the state dominated by the monopolies and the war industries. A phase of capitalist stabilisation could not be excluded in this stage of historical development, but at the same time the contradictions having given birth to the general crisis of capitalism had not been superseded. Hence, the stage of the general crisis of capitalism had terminated the era of capitalist expansion and growth, but, at the same time,

it did not mean the automatic collapse of monopoly capitalism. The class struggle between the workers and the capitalist class, the liberalisation movements in the colonies, the peasant movements, etc. signified that the general crisis could also give birth to revolutionary situations and violent takeovers by the workers and the toilers. Monopoly capitalism developed meanwhile on the basis of the economic and political subjugation of the weaker capitalist powers. The revolutionary potential of the working classes was in the meantime corrupted and democratic achievements were restricted when the bourgeoisie allied with Fascist parties and peasant movements in order to defeat the revolutionary movements.

Stalinist foreign policy was in general oriented toward the actual predominance of inter-imperialist rivalries as determining factors. This may explain why Stalin informed the Communist Party at the Nineteenth Congress in 1952 that the inter-imperialist contradictions must be considered as the determining ones, although the contradictions between capitalism and socialism were stronger. Stalin's cynical move in the direction of Hitler in August 1939 was nothing but a consequence of this analysis. Therefore, the Soviet Union had to stay out of any inter-imperialist conflict.

Much depended also on the role played by monopoly capital and its ability to overcome economic crises with the help of the state. The possibility of any ultra-imperialist integration of the capitalist world economy was nonetheless rejected as being anti-Leninist. After the defeat of the aggressive imperialisms of Germany, Italy and Japan, Stalin thought that these countries were looking for revenge and that both France and Great Britain would return to their pre-war diplomatic rivalries. Capitalist unity under American hegemony was therefore pictured as lacerated by internal dissensions and tensions. The progressing decay of monopoly capitalism was not halted. Militarisation of the economy, the Marshall Plan, the expansion of the socialist world system, the liberalisation of the colonial countries, the long overdue renewal of fixed capital and modernisation of equipment, the intensified exploitation of the working classes, etc. appeared as symptoms of the general crisis of capitalism that were announcing a final breakdown of the capitalist system itself.

The question whether or not the bourgeois state could plan investment and consumption was at the heart of discussions during the Great Slump of the 1930s and after the Second World War. Varga's book *Izmeneniya v ekonomike kapitalizma v itoge vtoroi mirovoi voiny* (*Changes in the Economic Structure of Capitalism Resulting from the Second World War)* published 1946 had been rejected because of its emphasis on the integrating and organising role of the capitalist state, especially in the USA, which vitiated the Marxist–Leninist thesis of the class character of the bourgeois state and of the impossibility of coping with capitalist anarchy through centralised planning. In his much criticised book Varga had also minimised the role of the class struggle and the impact of the revolutionary proletariat. He argued in his book that the post-war problems were similar to those one had lived through during the interwar years when, after a period of relative capitalist stabilisation, a long slump had developed. These

digressions were fundamentally unacceptable to the Stalinists who had kept a low profile during the Second World War, but were now pushing for a tougher attitude in foreign policy vis-à-vis American imperialism and cosmopolitans in the Soviet cultural and scientific world.

Another problem pertained to the notion of 'state capitalism' itself. The strengthening of the capitalist state suggested the end of the general crisis of capitalism and the possibility of a period of economic expansion as well. This thesis threatened to undermine the theoretical ground of a revolutionary strategy that denied the existence of a new long period of capitalist stabilisation. Though state-capitalist tendencies were acknowledged, they were not admitted as leading to a new stage to be characterised by state capitalism, because the tendencies to decay in monopoly capitalism were stronger and also progressing, even internationally. During the Stalin period the existence of an economic basis for any long-range stabilisation of capitalism was denied, the proletariat continued to be considered as the revolutionary class par excellence. The reconciliation of the working classes with the capitalist system and the increase of their living standard were both denied. Capitalist consolidation could thus only create a precarious and short-lived period of relative stability. Lenin's thesis of a corrupted labour aristocracy was upheld. Wage increases could only be temporary. For the time being, only a war with a war economy could provide a sufficient outlet for all idle production capacity in a period when the socialist system was consolidating, the class struggle was sharpening in the developed capitalist countries and the toiling masses in the colonial countries were struggling against their colonisers.

Varga's economic analysis of the general crisis of capitalism or the chronic economic stagnation was based on a footnote of Friedrich Engels in his edited volume 3 of Marx's *Capital*. Engels predicted long and indecisive depressions taking place in the various industrial countries at different times as a consequence of protective tariffs and the growth of trusts regulating production, prices and profits. Engels thought that capitalism was expanding overseas in order to escape from overproduction, falling prices and profits. In 1912, Karl Kautsky declared that expanding foreign exchanges and investment would force the capitalists to dismantle tariff barriers. International cartels would prepare the ground for the stage of ultra-imperialism. In *The Accumulation of Capital* published in 1913, Rosa Luxemburg argued that realisation of surplus value required that there should be strata of buyers outside capitalist society. In *Capital* Marx had ignored the fact that the workers could not buy the remaining portion of the surplus value intended for capital accumulation. Imperialism was thus the result of a search for additional outlets in non-capitalist areas. There, capital could find the possibility of realising surplus value for further capitalisation.

Rudolf Hilferding stressed in his *Finance Capital* (1910) changes in the organic composition of capital and the rise of the big corporation. The prolongation of the turnover period lessened the adaptability of industrial firms to change their strategy and lengthened the time required for the transformation of money-capital through the stage of fixed capital back into money capital. This made

industry dependent on credit provided by big banks which were obliged to protect their interests by organising cartels and trusts and by supporting imperialist policies. Finance capital strove for raising profits by changing market forms by organising production and by suppressing competition. Meanwhile conflicts arose from inter-industrial disproportionalities. Redundancy of productive capacities, bankruptcies, relative overproduction and the struggle for market shares could nonetheless break up cartels. Smaller outsiders could enter the market as well. The objective limit to Hilferding's organised capitalism was thus the class struggle and disproportionalities.

Basing himself on Marx, Varga defended the idea that the final cause of the inevitable crises of overproduction was the conflict between the strivings of capital for an unlimited expansion of production and the limited purchasing power of the masses in capitalist society. Varga rejected Hilferding's assumption that capitalist reproduction could take place without hindrance. But he also rejected Rosa Luxemburg's assertion that Marx's scheme proved the inevitability of the automatic collapse of capitalism because of the impossibility of accumulating capital. In Varga's words, Luxemburg's conceptions contradicted the entire spirit of *Capital* as the scientific foundation of the theory of the class struggle. 'The accumulation of capital goes on at high rates despite the general crisis of capitalism' (*Kommunist* 1961/17: 28).

The war economy had meanwhile changed many theoretical assumptions. During the war Nikolay Bukharin referred to the rise of collective capitalism because the state was regulating prices and output, thus also profits. Capitalist anarchy having been superseded, the cyclical economic crises had disappeared as well. Bukharin assigned an important role to the state bank in transforming private accumulation of capital into public expenditures and to finance the war economy. Individual capitalists had been transformed into stakeholders of the war machinery. In place of the working of the spontaneous law of value and the endless rivalry of individual capitalists over accumulation of surplus value, the state was now deciding on investment and profits. However, Lenin rejected Bukharin's theory that the 'state-capitalist-trust' could abolish the capitalist business cycle. Contradictions between organised and unorganised (or free) capital would persist and struggles for market shares and colonial territories would go on notwithstanding all forms of market organisation.

In the 1920s, Bukharin analysed capitalism from a different point of view. Technological innovations had revolutionised the production process. New industrial branches had developed while bringing new products on the market. Mass production of consumer goods had driven out small domestic producers and had created new markets as well. Meanwhile, Varga preferred focusing on labour saving through cost-cutting rationalisations and on increased competition for foreign markets. With Luxemburg, Varga thought that capitalism suffered from a chronic problem of markets, because the number of productive workers was declining even during normal periods of cyclical upswing. Increased productivity was thus engendering growing industrial unemployment, while industrialisation of agriculture was eliminating the domestic non-capitalistic market.

A transfer of income from the capitalists to the workers was, however, politically impossible. The capitalists would oppose wage increases in order to find additional purchasers for their produce. The collapse of the world economy in 1929–33 would provide arguments for the thesis of chronic overproduction and underconsumption. Varga now argued that the instability of the capitalist world system was posing the greatest threat to capitalism's survival. Currency depreciations, tariff walls and German reparation payments were destabilising normal trade relations, while the international division of labour had been destroyed and American industrial and agricultural capacity had swollen beyond its own needs as a result of the demand of the Entente's war economies.

At the outbreak of the Great Depression, Varga still believed that the big banks and industrial monopolists would be able to weather the crisis at the expense of the working class and small businesses. He called the general crisis 'classical' and 'unique'. 'Classical' in the sense that it was caused by the contradiction between consumption and production, and 'unique' because of finance capital that prevented a new period of economic expansion. Meanwhile, Varga maintained that finance capital was still able to meet credit needs of its own companies despite falling prices. In May–July 1931, large banks like the Austrian Credit-Anstalt and the German Danatbank collapsed. In September 1931, Great Britain abandoned the gold standard. Governments had to save the credit system and to bring cartel prices under control. Meanwhile industrial output, especially in heavy industry, shrank.

With the rise to power of Hitler and Roosevelt in 1933 a new period of unprecedented state intervention was inaugurated. The opinion prevailed in the Soviet Union that deficit spending would cause inflationary problems. However, Hitler financed industrial recovery with the help of the Reichsbank and price controls. According to the Comintern, Roosevelt's *National Recovery Act* (NRA) had introduced forms of 'disguised' fascism and state capitalism as well. Varga had nonetheless to admit that the credit crunch had been prepared during the previous booming period with its monopolistic pricing system. It meant a new stage in the economic crisis as well. Varga persisted in believing that recovery was due to the immanent laws of capitalism, not to interventions of the capitalist state in the USA or a military-inflationary boom in Germany. The internal forces of capitalism continued operating as before, a point of view he also defended in his report *The Great Crisis and its Political Consequences* (Varga 1935b) to the Seventh Congress of the Comintern.

Sergey A. Dalin, Varga's colleague at his research institute, had discovered that Roosevelt's methods differed much from Hitler's, although their purposes were about the same. However, state intervention in the capitalist economy could help in overcoming the slump and thus reinforcing capitalism's internal forces of recovery. National income could increase at the same time and also redistribute profits. Hence, the problem of markets had to be studied in terms of the classical business cycle and the ability of capitalism to increase production without interruption by public investment and consumption. Not surprisingly, Varga would pay much attention to the proposals John M. Keynes had made in his pamphlet

How to Pay for the War? (1940). In that book, Keynes argued that the war effort could be largely financed by higher taxation and compulsory borrowing, rather than by deficit spending. The idea of Keynes was that these state bonds could be repaid later to offset the widely expected post-war slump. This said, it is important to remember that Varga was a man of practice. As a People's Commissar in 1919 he had been in charge of Hungary's economic policy.

What is Varga's importance in economic thought? The answer lies in the importance and relevance of certain elements in his thought. Varga must have had a mind of unusual quality. The intellectual superiority of his arguments must have been a source of considerable relevance. Stalin would keep him at his side from 1934 to 1947. It is perhaps typical of Stalin that he liked to have Varga as his personnel consultant. Already when coming to Moscow in 1920, Varga impressed the Bolsheviks by his understanding of economic problems related to a Socialist revolution in a backward country. Varga was a 'productivist' wanting to increase productivity of agriculture and industry after the socialist revolution. He was already interested in Taylorism as a management instrument to increase productivity and organise labour discipline in the factories. Meanwhile, he had discovered that a revolution overthrowing the landlords and dividing the land among the peasants creates for itself a very awkward problem.

Varga always argued that the intensification of contradictions would lead to the collapse of the capitalist system after a period of chronic and intensified economic crises characterised by mass unemployment and by inter-imperialist wars. State and monopolies worked together to enrich the monopolies and to keep wages low. However, after the Second World War, Varga also pointed out that state-monopoly capitalism was redistributing the national income through the state to the benefit of monopoly capital and other layers of the bourgeoisie. Though the monopoly bourgeoisie had certain common interests, the individual layers of the bourgeoisie had their own specific interests contradicting most of the time those of the monopoly bourgeoisie as a whole. The monopolies had many interests in common, but in the meantime they were also individually competing for state orders, pressing for tax reliefs and tariffs. Monopolies of different branches and even between those of a single branch kept on competing and struggling, which gave rise to conflicts between the state and the monopolists as well. Varga would nonetheless break with Stalin's assertion that under state-monopoly capitalism the state apparatus was entirely subordinated to the capitalist monopolies. In addition, Varga pointed to the fact that the relations between monopoly capital and the state were complicated by the parliamentary form of government. Because of electoral competition the monopolies had to secure their interests by funding election campaigns of the political parties.

Having become a policy adviser to the Comintern and the Kremlin, Varga's career and life were several times endangered by shortcomings discovered in his research. In 1929, he was disgraced by the Comintern leadership as their chief economic adviser. In 1931, Varga was in trouble for not having foreseen the credit crunch which had led to the international monetary crisis and a deepening

of the economic crisis. In 1943, he was publicly attacked for having all the time mistakenly predicted a German economic breakdown that would lead to the end of the war. In 1947, he was attacked for having defended in his publications and research projects a bourgeois vision of the economic planning capacities of the capitalist state. Only in March 1949, after several debates and a press campaign, he would confess his reformist sins. In 1952, Varga unwisely contested Stalin's view on the inevitability of inter-imperialist wars. A few weeks later he was obliged to admit that he was wrong. In 1958, he predicted that the economic crisis in the USA would spread to all other countries. Then, he was obliged to revise his forecasts at a public debate organised by his institute.

As a policy adviser, Varga was mainly interested in concrete analyses. He believed in facts and figures, not in theoretical models or abstract digressions. His publications on the capitalist reproduction cycle, the agrarian crisis, the impoverishment of the proletariat, the economic and financial consequences of the world war, German reparation payments, etc. brought him many times in conflict with power-brokers and his fellow economists. As a consequence of his anti-dogmatic attitude, Varga would suffer a serious eclipse in 1947, when his enemies succeeded in removing him from his function of director of the Institute of World Economy and World Politics and having his institute merged with the Institute of Economics. This occurred at the beginning of the Cold War when the problem of Marshall Aid was dividing the policy-makers in the Kremlin. All dissident voices were silenced, the scientific institutes were streamlined and the Soviet controlled countries in Central Europe and the Balkans then unilaterally realigned to Moscow. Varga, who had since 1943 become an advisor to the Ministry of Foreign Affairs and a close associate of Vyacheslav Molotov, would lose much support when the latter's position at the head of the Ministry of Foreign Affairs was gradually eroding.

Varga cannot easily be catalogued as belonging to one particular faction or conspiring clique. He supported Stalin against Trotsky in the former's rise to the top. However, Varga knew the weakness of his position as an adviser to the Prince very well. As a foreigner he could always be unmasked as a spy. His fluency in Russian was rather limited. These handicaps made him unfit to participate in political discussions and decision making at the highest level. As a teetotaller, he never participated in Stalin's drinking nights.

As long as the Comintern used German as the organisation's working language, Varga could easily write all his texts first in German. Nonetheless, at his institute in Moscow German would remain the working language. That was a serious handicap when the Comintern was increasingly transformed into a Soviet organisation. Meanwhile Varga had also earned Stalin's esteem. From the dictator in the Kremlin he obtained a world-receiver radio to listen to the BBC's news programmes in the German language.

For most foreigners meeting Varga, he would nonetheless remain an enigma. Varga was an atypical revolutionary. He had never carried a gun. Nor had he

been liable to military service. Thus he could be easily identified as a lunatic pacifist in politics. Obviously, Varga only aspired to work for newspapers and magazines, or to write books. He was a pedagogue interested in popularising knowledge or advising the power brokers of the revolution. As a research director at the Institute of World Economy and World Politics he was in charge of a large staff of more than 125 people.

Varga was a disciplined and civilised man. He disliked wasting his time. His attitude to life was subordinated to his scientific activities. As a teetotaller he did not resemble to his fellow Comintern agents residing at Hotel Lux in Moscow (Vaksberg 1993).

He must have disliked music. Though he had been a regular visitor of *Café Meteor* in Budapest, he never joined the anarchist artists having their coffee and wine there. Was its irrelevance to the political and economic present that had motivated his lack of interest in the revolutionary art movement? As a member of the so-called 'reform movement' dominating the cultural scene in Budapest before 1914, Varga had nonetheless participated in a cultural revolution.

Though his wife Sári Grün was fond of Hungarian operettas, he accompanied her to the theatre reluctantly. Varga's artistic tastes must have been conservative or obsolete, but never vulgar. He had neither the pioneering disdain for convention of an aristocrat nor the self-satisfied certainties of working-class realism. He never referred to literary figures or heroes in his writings. Like Trotsky and Ernest Mandel, he was a great reader of detective novels as well. When growing up he must have suppressed some artistic feelings or fantasy in his heart.

Throughout his life, Varga remained always a self-conscious Hungarian having for once and always adhered to internationalism, but certainly not to nationalism. The only attainable fatherland he really knew was the proletariat and the toiling masses struggling for national and social liberation. By 1920, his political home had become the Soviet Union. Though references to his Hungarian fatherland were not always absent, he always associated his homeland with the liberation of the proletariat and the social revolution. After 1945, he travelled back to Budapest in order to advise his friend Mátyás Rákosi in economic and monetary matters.

Meanwhile, Varga had deliberately and clearly renounced the attempt to find refuge in any particular nationalism at all. He never published on Zionism or the Jewish Bund wherein many Jewish workers had found refuge. After 1948, he never would write on the state of Israel or on the national question. He seldom pointed to the fate of the Jewish people under Nazism. He preferred attacking the Nazis as a gang of robbers and murderers. His reserved attitude to anti-Semitism must have been influenced by some optimism in the future of humanity in general.

Until recently in history, Soviet political figures have – by tradition – revealed little about their private lives. Varga was certainly not an exception in this. Did he ever cross the border between humour and bitterness? Yes. When looking back at the end of his life, he discovered the bureaucratic deformation of the

Soviet Union, anti-Semitism and the schism between the Soviet Union and China. That occurred when dictating his memoirs to his Hungarian secretary Rószi Loránd. Varga must have trusted her like his sister. During the Second World War she had been in charge of his bank accounts and she cashed his salary as well as his other allowances.

1 The making of a Marxist

Don't you know you're talking about a revolution
It sounds like a whisper
Don't you know they're talking about a revolution
It sounds like a whisper

Tracy Chapman

Jenő Varga was the youngest of eight children born to Szamuel Weisz and Julia Singer. He was born on 6 November 1879 in Nagytétény, a village situated at the Danube some 20 kilometres to the south of Budapest. His mother – a tuberculosis patient – died in 1884. At the age of 13 Jenő Weisz left school for his father's timber trade. He had other different jobs before finding employ as an assistant bookkeeper at a large estate in Somogy *komitat* (county). In 1899 he would return to Budapest. With the financial backing of his elder brother Emil, he took evening classes as an 'external student' at a Protestant gymnasium. Together with his brother Emil, he broke with his father's religion of Judaism in 1903. Both had their family name changed to Varga. After having obtained his gymnasium diploma with the highest marks, Varga entered university in 1904.

Party life

Jenő Varga was a brilliant student. He obtained his credits for Hungarian language and literature, history, Greek philosophy, geography, astronomy, history of religion and logic. In February 1909, he passed his exams for philosophy, pedagogy and geography and obtained his Ph.D. with a dissertation on Leibniz and Kant and the phenomenological critique of the transcendental method. He probably joined the *Magyarországi Szociáldemokrata Párt* (MSZDP, Hungarian Social-Democratic Party) in 1906. The MSZDP, a typical labour party built up by small trade unions of skilled workers, was still influenced by the teachings of Ferdinand Lassalle, but, at that moment, Marxism had already become dominant. The MSZDP adhered to Karl Kautsky's *Erfurt Programme* adopted in 1891 by German Social Democracy. At the basis of the success of Kautsky's orthodox Marxism in the Hungarian labour movement were several facts. First of all, the German Social Democratic party had already developed a huge organisation

offering inspiration, support and literature to other Central European parties. Second, Kautsky, who had known Karl Marx in London, was constantly developing Marxist doctrine and inspiring a younger generation of Marxist intellectuals having joined Social Democracy. Third, intellectual life in Budapest was deeply influenced by German scientific publications. Marxism could easily be identified as an offshoot of the historical school and associated with the works of Max Weber or Werner Sombart as well. Especially Sombart's popular editions of *Moderner Kapitalismus* (1902), representing a historical-school synthesis influenced by Marx, was also popular in Hungary.

Having joined the MSZDP in 1906, Varga became responsible for the economic pages of the party daily *Népszava* and its German counterpart *Die Volksstimme*. In the meantime Varga started collaborating with theoretical journals like *Szocializmus, Huszadik század* (*HSZ*), *Közgazdasági szemle* (*KSZ*) and Kautsky's *Die Neue Zeit* (*NZ*). In 1909, Varga started teaching at different gymnasia before finding a regular teaching job (history and German language) at the *Polgári és Kereskedelmi Közép-Iskola*, a girl's school for secretaries. Not by coincidence, Mayor István Bárczy had launched in 1909 a five-year plan developed by Mór Erdélyi to build 55 schools in Budapest. In 1908, Varga had married Sári (Charlotte) Grün, a young waitress at *Café Meteor* in Budapest where anarchists and artists used to meet each other around the table. In 1910, the young couple had a son they named Bandi (András). Then, the Vargas occupied a fashionable apartment at the Gutenberg Otthon. At that time, Varga already belonged to the intellectual middle class of Budapest.

Varga's political activities were determined by the struggle for democratic reforms. In January 1905, the ruling landed aristocracy lost the parliamentary elections to a loosely organised coalition striving for independence from Austria. Pushing for democratic reforms, the MSZDP mobilised the urban working classes and called twice for a general strike in order to speed up democratic reforms. Finally, in 1908 a travesty of universal suffrage was introduced, but without giving the urban workers a chance to be represented in Parliament. Although the MSZDP evolved into a reformist mass party, a revolutionary *syndicalist* tendency influenced by Ervin Szabó gained a foothold in several trade unions and kept the attention of intellectuals. A leftist Marxist wing also developed. Gyula Alpári, who was in close contact with Kautsky in Germany, was its spokesman. Being a Marxist too, Varga nonetheless kept a distance from Alpári, whom he considered an adventurer. In reality, both characters had already clashed on tactics. Being 'not a militant by nature', but a person being 'more inclined to abstract studies', Varga reported to Karl Kautsky that he preferred staying in the party for 'the sake of his educational activities' (Haupt *et al.* 1986: 506–9).

The role of Kautsky as a guardian of Marxist orthodoxy and inspirer of radical intellectuals was of crucial importance for Varga's intellectual and political development. Kautsky had taught him that the semi-feudal capitalist oligarchy could be destroyed, because objective developments would lead to the breakdown of the capitalist regime (Schorske 1965: 111–96). Hence, the existence of an

organised party representing the interests of the workers and the toiling peasants was in irreconcilable opposition to the semi-feudal regime of Hungarian landlords and capitalists.

Though Marx and Kautsky had become Varga's main sources of inspiration, he remained nonetheless a rather eclectic reader and commentator. The works of Alfred Weber (1909) and Werner Sombart exercised a certain influence on Varga's thinking. As an active member of the 'reform generation' (Horváth 1974: 305–24), he belonged with other intellectuals like Oszkár Jászi in the free-thinkers' movement to a group of angry young men striving for a profound modernising of the country's political and social structures. At its centre was the *Galilei Kör* (Galileo Society), which published the journal *Szabadgondolat* (Free Thought) and organised lectures at the *Free School of the Social Sciences* (Tömöri 1960). Together with his professor Bernát Alexander, Varga joined the competing *Bembe Kör* (Bembe Society). When in March 1906, Oszkár Jászi entered the Masonic lodge *Demokrácia,* Socialists like Zsigmond Kunfi (editor of *Szocializmus*), Jenő Varga, József Pogány, Zoltán Rónai and Ernő Czóbel (all staff members of *Népszava*) accompanied him. In May 1908, when Jászi left *Demokrácia* for a new lodge, *Martinovics,* they followed him too.

In 1913, Sándor Ferenczi – also a member of *Bembe Kör* – founded the Budapest Psycho-analytic Society (Harmat 1986: 47). Together with György Lukács, Sándor Radó and Mihály Bálint, Varga became interested in Ferenczi's psychoanalysis as well (Karádi and Vezér 1985). Varga was accepted as an irregular visitor at Lukács's sophisticated Sunday Circle as well. Party life pushed Varga to teach at the Party School founded in 1907 under direction of József Diner-Dénes, Zoltán Rónai and Zsigmond Kunfi. However, many party leaders had preferred reducing Marxist theory to some 'useful laws' determining social and economic progress. Because they were not interested in Marxism as a revolutionary theory, they kept theoretical debates outside the party. Intellectual circles, where sociologists and philosophers of bourgeois origins were largely predominant, discussed nonetheless most social and cultural problems affecting Hungarian society (Süle 1967).

The Varga–Bauer debate

Before 1914, protectionism, cartels and agrarian monopolies were cited as the major causes of rising food prices and rents, while growing migratory movements from poor agrarian regions to the Hungarian cities and the New World were considered as its consequence (*Die Volksstimme*, 15 August 1904). Austrian Social Democrat Otto Bauer (*Der Kampf* 1908: 116–23) linked the inflation phenomenon to the international capitalist business cycle with its increased demand for raw materials and foodstuffs. He developed the same thesis more profoundly in his book *Die Teuerung* (Inflation) (Bauer 1910) and in articles in *Die Neue Zeit* (Bauer 1911–12, II: 4–14 and 49–53), arguing that increased gold production and labour productivity in the mining sector could have contributed to additional price increases.

In *Népszava* (25 December 1910), *Szocialismus* (1911–12: 412–21; 1912–13: 12–19), *Huszadik század* (1910: 580–2) and *Közgazdasági szemle* (1911: 487–504; 588–601) Varga opposed Bauer's analysis by insisting that rising domestic prices were due to recently established monopolies, cartels and high import duties. His reputation was growing when he published two essays, one on inflation (Varga 1912a) and another on Hungarian cartels (Varga 1912c). He then contributed to a very academic book on inflation edited by Sándor Tonelli (Varga 1912b). Meanwhile, he attacked Bauer's inflation theory in Kautsky's *Die Neue Zeit* (*NZ* 1912–13, I: 212–20; 1913–14, I: 557–63) as well.

Varga's arguments were based on a footnote remark of Friedrich Engels in his edited volume 3 of Marx's *Capital* in which was argued that changes in the method of the production of gold were affecting prices. The ensuing debate, in which Julian Karski [Marchlewski], Jacob van Gelderen, Miron I. Nakhimson, Bauer and Kautsky participated, centred round Varga's claim that, in contradiction to Otto Bauer's theory, technological progress in the process of gold production had no effect on the level of prices since it could only generate differential rents within the gold-mining branch of production. Varga declared the system of banking, and not the production costs in gold mining, to be the reason why changes in the production of gold and silver would not automatically operate to produce changes in the value of gold. As the central banks cornered all the gold coming to the world market, no lowering of the value of gold could take place. It would appear from this as if the problem were a different one under the modern capitalistic system than under a system in which goods are simply produced. In reality the banks play no part in the economic role of gold in connection with this question. The existence of banks is not necessary to develop this, and the capitalistic method of employing money takes no change in the immeasurability of the tendency to accumulate. In addition, there is no limit to the hoarding of gold and silver respectively, because gold is a commodity, and the only commodity of which one can never have enough. 'With the possibility of holding and storing up exchange-value in the shape of a particular commodity, arises also the greed for gold', Marx wrote in *Capital* (Marx 1954: 131).

Kautsky contested Varga's theory of inflation by setting forth the theory that changes in the production of gold were not accountable for the present price increases, and, furthermore, that such changes would never cause a fall in the value of gold, but only a rise of ground rents in mining. In the past, changes in the cost of gold production had had an impact on the cost of living as well. Finally, the Bureau of the Second International intended to pay some attention to the inflation problem and programmed a debate session on this issue at its 1914 Vienna Congress. In his report written for this Congress that would never take place, Bauer defended the thesis that the value of gold had decreased since society needed less labour for its extraction and that the subsequent decrease of the value of gold reflected itself in the increase of the prices of goods. He assumed that the cost of gold extraction was not the only – not even the main – reason for the high cost of living. But, side by side with the other reasons, he added that the decrease of the value of gold was also a cause of the high cost of

living. The possibility of extracting gold at a low production price had thus had for effect a considerable increase in the gold production (Bauer 1914). Was Varga thus wrong? The arguments advanced on both sides of this discussion were *false* from the point of view of a rigorous application of the labour theory of value. Kautsky insisted on the peculiarity of gold for the purposes of demonstrating that an increase in the production of gold represents an additional overall demand, thus an extension of the market for capitalist commodity production. The production of gold as 'universal equivalent' had the very special use value of being exchangeable for all commodities. As such, gold could never become unsaleable in capitalism (Mandel 1973: 389–90).

The agrarian question

Hungary's export opportunities for agricultural products expanded because of growing demands coming from industrialising Austrian and Czech provinces. This accumulated wealth incited the landowners to invest their money in urban projects and the financial sector, not in new industries in which foreign capital was present. The combination of late and weak industrialisation financed by foreign capital with liberal agrarian reforms brought however enormous social costs for the six million Hungarian landless poor. The desire for breaking up large estates into small parcels was at that time shared by agrarian populist parties. In 1898 the MSZDP party congress was already discussing socialisation and large-scale operation of all industrial and agricultural resources, but no agreement on an appropriate agrarian reform programme taking protection of the small farmers into account could be reached. A 'reformist' current represented by Kálmán Jóscák stressed nonetheless the importance of the agrarian cooperative movement. The 'proletarian' anarcho-syndicalist current represented by Sándor Csizmadia paid much more attention to social legislation for the agricultural workers and their heirs. A centrist current represented by Péter Ágoston tried to reconcile both tendencies. A draft text submitted by Sándor Csizmadia demanding a radical expropriation of all big estates was defeated at the MSZDP congress of 1908. Then a study commission was appointed to rewrite Csizmadia's draft. But, again, at the Nineteenth MSZDP Party Congress in 1912, no agreement could be reached on an agrarian programme. A new study commission was formed, this time including economic expert Varga.

At that time, Varga was known for his 'orthodox Marxist' views on the agrarian question and his combating of the so-called 'David reformists' defending the smallholders. In a commentary to the 1912 draft versions of the agrarian programme, Varga indicated that the 'natural situation' in agriculture differed from that in industry. Referring to Karl Marx and Karl Kautsky, he argued that the big landowners were producing more efficiently than the smallholders, but as long as the *latifundistas* were not interested in competing with the peasants on price, many peasants would survive with a marginal income by working day and night for a low return on investment. The peasantry was by no means forming a homogeneous class. Hence, it would be difficult to reach *all* categories of peasants

(*Die Volksstimme*, 7 and 14 April 1911). Commenting in the party press on several aspects of the agrarian question, Varga referred to the phenomenon of the parcelling-out process that was – at least from a Marxist point of view – difficult to explain in the light of the law of the concentration of capital. With Kautsky, Varga argued that high grain prices incited many peasants to acquire additional small plots from the big landowners. Hungarians abroad and agrarian banks financed the multiplying number of freeholdings in several parts of the country (*Volksstimme-Kalender* 1912: 73–7). All these simple *facts* indicated that the big agrarian enterprise was not superior to the traditional family farm and that the latter could easily survive under a *latifundista* regime. Varga discovered agrarian cooperation in order to reconcile all party tendencies on a reform programme. He advised the creation of different types of credit and purchase cooperatives to eliminate intermediaries and vendors and to break the monopoly position of the big landowners. In the meantime he hailed the start up in Italy of associations of agricultural workers where the workers were making a united front against the *latifundistas* 'in a spirit of solidarity' (*Volksstimme-Kalender* 1913: 28–33).

Radical liberals and sociologists debating on land reforms at *Galilei Kör* and the *Sociological Society* were won over for a *Georgist* experiment propagated by Róbert Braun. The latter's programme of a gradual land nationalisation scheme, financed out of a land value tax, had even gained adherents among reformist socialists. Meanwhile Varga wavered in his Marxist faith. At a debate on the agrarian question at the *Galilei Kör*, Varga defended the break-up of the big estates, while Károly Vantus of the Korvin Group was against the break-up of the estates (Lengyel 1959: 142–3). Reporting on the agrarian question at the Nineteenth Party Congress (*A Magyarországi Szociáldemokrata Párt 1912*), Varga stressed the importance of social reforms for the agrarian proletariat in combination with a more dynamic industrial policy. In his polemics with Otto Bauer, Varga (*Der Kampf* 1914: 408–11) referred to the necessity of increasing the rate of capital accumulation in order to absorb agricultural labour surplus. He pointed to the situation in the United States where immigrant labour combined with capital import had resulted in high economic growth. Losing himself in ambiguities and hesitations, Varga did not come with a clear programmatic outline or political tactic, because in the meantime, he defended an alliance with a new party formed by Gyula Justh for electoral and social reforms (*NZ* 1913–14, I: 194). The only solution consisted in looking for an alliance with this new bourgeois party. Passivity in matters of agrarian and social reforms would lead in 'these circumstances to a political disaster', Varga argued. 'We cannot wait for the moment the agrarian workers be transformed into industrial workers and then be organised and integrated into the Party! We have to find our way to the fields! How? That will be a serious question for the Hungarian Party. It is a matter of to be or not to be!' (*NZ* 1914–15, II: 177).

On imperialism

Two Marxist interpretations of the imperialism phenomenon were developed in the beginning of the twentieth century. On the one hand, Rudolf Hilferding's book *Finance Capital* (1910) stressed a gradual concentration of capital and financial power in the hands of a few industrialists and bankers. On the other hand, Rosa Luxemburg's book *Accumulation of Capital* (1913) challenged this view from the Left by stressing capitalism's need of exporting industrial products to non-capitalist areas and importing raw materials from there. In opposition to Hilferding's thesis, Luxemburg argued that inadequate markets created a chronic realisation problem and incited many capitalists to export their surplus commodities to the colonies. Despite their divergent methods and different conclusions, both shared a common problem such as the relationship between the continuing accumulation, concentration and centralisation of capital in the capitalist centre and the imperialist expansion.

In *Finance Capital* Rudolf Hilferding attempted to grasp economic phenomena such as the rise of cartels and trusts together with the ever closer relationship between bank and industrial capital. The new institutions of capitalism were rooted in the business cycle. Organised capital attempted to raise the profits of cartel members by siphoning off a share of the surplus value created in smaller enterprises buying their products. Cyclical variations in the rate of profit enhanced the trend towards *trustification* and *cartelisation*. The only defensive action open to unorganised businesses was forming cartels. As the lengthening of the turnover period of capital increased, banks could play an increasing role in industry. Hence, accumulation of capital was now more and more depending on big banks. Hilferding's observation must have struck Varga. He published immediately a complimentary comment on Hilferding's book in *Huszadik század* (*HSZ* 1911: 211–22). He would use Hilferding's framework for his two studies on cartels in Hungary and inflationary tendencies in Hungary.

Rosa Luxemburg's thesis was that enlarged capitalist reproduction was impossible within a closed economy. She argued that capitalism would continue to grow just as long as there were pre-capitalist or underdeveloped areas available. Luxemburg associated imperialism thus with all the features of developed capitalism: capital export in the form of international loans, protective tariffs, increasing armaments expenditures, militarism and annexations of colonies by the major imperialist states. For her, imperialism was the historical method for prolonging the career of capitalism. 'It is not so that capitalist development must be actually driven to this extreme: the mere tendency towards imperialism of itself takes forms making the final phase of capitalism a period of catastrophe' (Luxemburg 1913: 426–7). Luxemburg rejected any illusion about the future of free trade in Europe. European free trade had been superseded by protective tariffs as the foundation and supplement of an imperialist system with a strong bias toward naval power. Luxemburg developed no political policy for the colonies. The emphasis was on economics, not on politics (Nettl 1966: 530).

Luxemburg's work received unusually harsh criticism from Anton Pannekoek (*Bremer Bürgerzeitung*, 29 and 30 January 1913) and Gustav Eckstein (*Vorwärts*, 16 February 1913) who wrote that the realisation problem could easily be solved. In principle, all goods could be sold to the workers and the capitalists. Otto Bauer argued in *Die Neue Zeit* (*NZ* 1912–13, I: 831–8; 862–74) that production and sales do correspond, but he also linked accumulation to population growth and technical progress. When reviewing Luxemburg's major work in *Huszadik század* (1913: 521–4), Varga rejected her imperialism theory as 'absolutely false and untenable' because the realisation problems did not push capitalist expansion to the non-capitalist periphery.

War economics

When the First World War broke out, Varga was interested in its economic origins and consequences (*HSZ* 1914: 185–9; 196–200). He thought that mighty lobbies of warmongers were at the origins of the war (*Népszava*, 1 May 1915). In *Neue Zeit* (*NZ* 1915–16, I: 512–17), he rejected Luxemburg's thesis that capital export had been of decisive influence on the outbreak of the war, a thesis he repeated in a lecture given at the *Sociological Society* in February 1916 in Budapest (*HSZ* 1916: 81–104). With Ervin Szabó (1915), he blamed private interest groups, arms producers, the financial oligarchy, the landed aristocracy, and the bureaucracy for having prepared for the war on the Balkans and with Russia.

Tuberculosis obliged Varga to suspend his school teaching from 18 February 1916 on until the summer of 1917, when he voluntarily joined the Budapest food-supply administration. Varga became interested in Hungary's increasing dependency on German finance capital and investment (*Munkásügyi szemle*, 25 December 1915: 529–53), inflation and currency problems (*NZ* 1915–16, I: 814–24) and how to combat the consequences of the money overhang *after* the war. In a letter of 20 October 1916 to Kautsky, Varga announced he was working on 'an important work' of some 500 pages on the history of capitalism, including a section on the war economy (Haupt *et al.* 1986: 528–9). Publication of the complete manuscript was, however, delayed and, finally, cancelled. At the end of the war, he published a little book in a popular style *A pénz* (Money) (Varga 1918). Varga developed in this book on money the theory that revolutions never occur in a period of prosperity, but in periods of economic crisis and financial chaos. Varga's treatise on money was largely based on Hilferding's *Finance Capital*. As governments mobilised all production capacity for war efforts, he argued, production costs were playing a minor role. Output was falling because of shortages, prices were subsequently rising, shops were emptied, people exchanged paper money for goods, real estate or gold. All central banks interrupted their gold transactions and governments were financing war expenditures by selling state bonds to the central bank and by printing large amounts of banknotes. This mass of additional paper money in circulation had meanwhile lost its real purchasing power. As *fictive* money it was not looking

for investment in real economic operations. During the war, Varga argued, the Hungarian population had lost confidence in the magic value of money because goods were bartered, not exchanged for money. He thought that money could be banned from the coming socialist society and replaced by a simple accounting system for all transactions. Varga's *utopia* – or his so-called dream of a better world – was based on Engels' *Anti-Dühring* and, of course, on Karl Kautsky's (1892) *Erfurt Programme* from 1891, both qualifying the liquidation of commodity production as a task of equal rank with the changing of ownership relations.

In 1915, Friedrich Naumann's book on the constitution of a Central Europe or *Mitteleuropa* (1915) under German leadership captured the attention of theoreticians like Karl Kautsky, Rudolf Hilferding and Karl Renner. Hilferding (1915, 1916) saw in Naumann´s project a major danger for the entire 'European humanity', but Renner (1916) thought that such an economic bloc could serve the interests of the proletariat. Naumann's highly controversial proposal caused commotion in Hungarian political and intellectual circles. The *Sociological Society* organised a series of debates chaired by Ervin Szabó, who was an adherent to the plan of a customs union (Szabó 1918). When Naumann visited Budapest, he was invited to a debate on his project on 7 March 1916. The Socialist and Democratic Left split on this question. In a long article published in three parts in *Népszava* on 23, 24 and 25 February 1916, Varga had already criticised – without referring to Naumann's book – the customs union. Varga proposed to combine industrial protectionism with free imports of foodstuffs and raw materials in the interest of the proletariat. Heavy taxes on imported luxury goods completed his taxation scheme (*NZ* 1914–15, II: 241–8; 1915–16, I: 661–7). In *Közgazdasági szemle* (1915: 152–60; 257–71), which was published by the Hungarian Scientific Academy of Economic Sciences, Varga argued that a growing monetary overhang would cause a general decrease of labour productivity, an impossibility of renewed capital accumulation, a growth of so-called 'fictive capital' and severe post-war monetary problems.

Conclusions

Until the very end of the First World War, Varga remained a pacifist who was well aware of the economic and social problems caused by the war. As a Marxist he belonged to the moderate pacifist Left led by Kautsky and Hilferding in Germany and by Zsigmond Kunfi in Hungary. In his writings he paid no attention to revolutionary or defeatist ideas which had gained ground in the MSZDP Left and among soldiers and workers influenced by the Russian Revolution of 1917. Varga preferred remaining in the MSZDP. Importantly he adhered to Hilferding's formula of 'organised capitalism' and experienced 'war capitalism' as a positive experience preparing for a socialist take-over.

2 The making of a Bolshevik

Poor people are gonna rise up
And get their share
Poor people are gonna rise up
And take what's theirs
Tracy Chapman

During the First World War misery invaded Hungary. After three years of war, local strikes for better wages and working conditions multiplied and announced the breakdown of the Hungarian social and political system. Hungary's war costs reached almost three times the country's Gross Domestic Product (GDP). In January 1918, the Viennese general strike for bread and peace spread to Budapest as well. Worried socialist party leaders accepted vague promises concerning the introduction of universal suffrage and ended the strike movement. In October 1918 a number of national and social revolutions obliged the Habsburg Monarchy to end the Danube Empire. The sudden breakdown of the Austro-Hungarian Empire in the beginning of October 1918 was for Varga nonetheless a surprise. Independent nation states emerged completing their national revolution with the diplomatic, military and financial backing of France. That would mean in the case of Hungary the amputation of provinces populated by ethnic minorities. Out of that chaos would emerge in Budapest a Republic of Councils led by a coalition of Communists and Socialists.

The Aster Revolution

At the end of the war Varga radicalised his political views. Defending the idea of a general strike for universal suffrage (*Der Kampf* 1918: 483), he criticised the party's timid struggle for peace and democratic reforms. He sketched the government's assimilation policy as the outcome of gentry and petty bourgeois interests holding positions within the bureaucracy. His views remained nonetheless essentially reformist and pacifist. He could agree with party leader Zsigmond Kunfi who was looking for international contacts in order to approach pacifists from the other countries. Echoes of the Russian Revolution of 1917 were absent in his contemporary writings.

When on 13 October 1918, an extraordinary MSZDP congress met to discuss the situation, Zsigmond Kunfi defended the idea of a democratic republic led by a coalition government of social democrats and bourgeois democrats establishing a federal state respecting the rights of the minorities and carrying out political and agrarian reforms. A federation with Austria should not be excluded beforehand. Jenő Landler of the syndicalist Left pleaded for immediate social reforms. József Pogány, representing the soldiers' councils, wanted a 'workers' government' based on 'workers' councils' (PIL 658.f.21). On 16 November 1918, the founding of the Republic was proclaimed. Count Mihály Károlyi became Prime Minister of a government based on his own Függetlenségi Párt (Independence Party), the Polgári Radikális Párt (Radical Citizens Party) and the MSZDP. Two Social Democrats, Zsigmund Kunfi and Ernő Garami, sat in the coalition government together with allies such as Béla Linder and József Diner-Dénes and the Radicals Oszkár Jászi (Minister for the Nationalities) and Radical Pál Szende (Under-secretary of State for Financial Affairs). The revolutionary government implemented reforms in order to attach the intellectuals of the 'reform generation' to the newly established regime. The appointment of progressive professors at the profoundly conservative Budapest Law Faculty was discussed when the latter took exception to the planned appointment of persons like Jenő Varga (economic policy) and Zoltán Rónai (political science). When in mid-January 1919, Zsigmund Kunfi took over the education portfolio, he nonetheless appointed seven new professors. The highly politicised Jenő Varga was among them (Litván 1968: 401–27).

Returning prisoners of war added to a further radicalisation of the Aster Revolution in Budapest. Jobless workers went over to Bolshevism. Asking Oszkár Jászi, György Lukács and Jenő Varga to contribute, editor Karl Polányi devoted the entire December 1918 issue of the Galilei Kör's journal *Szabadgondolat* to the Bolshevik phenomenon. In his contribution Jászi remained a self-declared opponent of any kind of dictatorship (Litván 2006: 164). Lukács said no to Lenin's experiment, but when his essay appeared, he had already changed his mind. Varga, for whom the dictatorship of the proletariat had become a reality, called the Russian Revolution the realisation of a 'utopia', but he pointed also to the 'fundamental question of combining class discipline with production discipline and how this discipline could be created without coercion from above, and only by voluntary discipline from below' (Litván 2006: 227). The Russian Revolution had meanwhile proven that a conscious minority could take over political power. Varga blamed the worsening economic situation in Russia on the failure of voluntary class discipline and on a lack of understanding between the working class and the intelligentsia. Finally, Varga made an appeal to the 'Hungarian students, Hungarian intellectuals, and Hungarian employees' (Litván 2006: 228) to support the Hungarian Revolution.

Varga's view of the Russian Revolution is interesting. First of all, he made no link with the agrarian question in Hungary at the very moment that land-hungry peasants were parcelling out big estates (Hajdu and Nagy 1990: 302). Second, he was already pleading for 'production' discipline (Péteri 1984: 40–1; 1979: 65–6;

1975). Third, he called for solidarity between intellectuals and workers. The latter view resembled the reformist ideas Kautsky had defended in his *The Dictatorship of the Proletariat* (Kautsky 1918: 216). Kautsky argued that the proletariat should acquire the strength and capacity to free itself, but might need expertise provided by the intelligentsia. Meanwhile, Varga had become a prominent party member. In December 1918, he signed with Zsigmond Kunfi a new draft party programme. He published a pamphlet in which he pleaded for agrarian reforms and for a revision of the laws of 1898 and 1907 repressing agrarian syndicalism (Varga 1919).

Agrarian reforms

None of the three coalition parties possessed a detailed programme of land reform. Instead of encouraging the peasant movement, the government tried to slow it down by distributing land through bureaucratic procedures. Though a MSZDP manifesto of 8 October 1919 had promised 'profound and radical agrarian reforms', nothing was decided. In reality, the party leaders feared a considerable drop in agrarian production with an ensuing starvation of the townspeople. Unharvested crops were still in the fields. Though the so-called *Georgists* inside the Radical Party did not oppose land distribution, they nonetheless believed that the key to the land issue was the expropriation of land rent. A vacillating Varga was inclined to accept this idea as well, but at an agrarian conference held at the Ministry of Agriculture on 20–29 November 1918 several leading Socialists – among them Sándor Csizmadia, Zsigmond Kunfi and Jenő Varga – pleaded against the redistribution of land (Siklós 1988: 88). Again, they feared a parcelling out of the big estates because this could endanger the food provision of the cities.

At the governmental level, the Radicals now favoured the extension of agricultural cooperatives and marketing associations in combination with private property. Károlyi's party was divided between 'leftists' supporting the cooperative movement, and 'rightists' advocating slow reforms. The powerful lobby of the landed interests suggested the expropriation of only the estates over 1,000 cadastral yokes (1 yoke = 0.57 ha) over a period of 20 to 80 years. On 8 December 1918, when the government discussed expropriations, Prime Minister Károlyi argued that parcelling out efficiently operating large estates would be wrong. Hence, he suggested turning them into cooperatives with workers' participation, but with the landowners and the state as their principle shareholders. He proposed to have this model extended to industry as well. Kunfi spoke against distributing land. As no consensus could be reached, the debate was closed. In Kunfi's MSZDP, the support for land distribution remained lukewarm at best (Vermes 1971: 46).

At the National Agrarian Conference held in December 1918, Csizmadia discarded the idea of collective farming, at least for the time being. On 20 December 1918, the Workers' Council of Budapest accepted, however, a joint proposal worked out by the MSZDP and the Földmunkások és Kisbirtokosok Országos

Szövetsége (FÉKOSZ, National Conference of Agricultural Workers and Smallholders) – Kunfi and Varga had been its authors (Hajdu 1968: 386) – acknowledging private land property. Endorsed by the FÉKOSZ on 26 December 1918, this motion demanded a single substantial wealth tax; the exemption from expropriation of private estates up to 500 yokes and Church estates up to 200 yokes; land transferred to the state either through a wealth tax or by expropriation; land was to be distributed in the form of a redeemable permanent tenure; applicants may be allocated land up to between half and twelve yokes, but with priority going to the cooperatives of pick and shovel men; a new land tax or ground value tax had to be drafted and the state was to pay a price corresponding to the estimated value of land for property expropriated in the form of registered unmarketable annuity bonds. This agrarian programme defended by Kunfi at the Workers' Council and by Csizmadia at the FÉKOSZ, was a compromise reached between the different tendencies within the MSZDP.

When the extraordinary National Council's financial committee met in Budapest on 4 January 1919, a host of appeals and temporary measures dealing with the land reform had to be dealt with. The Ministry of Agriculture pressed the landowners to cede parts of their land voluntarily and assured them that compensation would be paid not only for the land, but also for equipment and seeds. The Land Reform Bill passed on 19 February 1919 exempted from expropriation the large estates of the landed gentry up to 500 cadastral yoke (287.7 hectares) and those of the Catholic Church up to 200 cadastral yoke (115 hectares). The law made it possible to exempt a larger proportion or entire large estates, and ordered that the land be given first of all to the farmhands and agricultural workers in the form of either a long lease or as property with compensation paid to the large landowners (Donáth 1980: 37). Communists and many Socialists criticised this bill creating inefficient small farms. The Land Reform Bill having increased the class of smallholders was nonetheless of considerable importance for the Revolution's survival.

The Communist challenge

Under Socialist pressure, the Károlyi Government resigned on 8 January 1919. The Executive Committee of the Workers' Council of Budapest endorsed, after a violent debate on the necessity of a purely Socialist government, further Socialist participation in a coalition government. The debates showed how the MSZDP was divided on this issue. Garami argued that the party lacked trained cadres and disciplined members to rule alone or to exercise a significant share of power. Alexander Garbai feared the military establishment, the old bureaucracy and a postponement of the socialisation of the economy. Vilmos Böhm thought that an all-Socialist government supported by working-class organisations and the army would be in a position to keep in check the Communists until the election of a National Assembly. Kunfi maintained that withdrawal from the government would benefit the counterrevolutionary forces. He feared that the provinces would cut off the food supplies to the cities and that the surrounding foreign

interventionist armies would march on Budapest. Jakab Weltner endorsed Kunfi's proposal. Finally, Kunfi's motion obtained 225 votes to 5 Communist votes.

Károlyi, having become President of the Hungarian Republic on 18 January 1919, appointed his party member Dénes Berinkey as the new Prime Minister of a new coalition government. István Szabó Nagyatádi, the leader of the Peasants' Party, joined the coalition in which Garami and Kunfi kept their posts. Böhm took over the post of Minister of Defence and Gyula Peidl became Minister of Labour and Welfare. The new government remained, nonetheless, deeply divided on several important issues related to foreign trade and the dismantling of the war economy. At that time, the government stood on a platform of free trade, which was completely in accord with the liberal programme defended by the Radical Pál Szende (1921: 337–75) and the Socialist Garami (Siklós 1988: 81). But no blueprint for the organisation of the post-war economy existed. At a conference held at the Ministry of Commerce on 14 March 1919, the representatives of the industrial and commercial lobby pleaded for the abolition of the wartime coordination centres, whilst the Radicals and the Socialists (Pál Szende, Mór Erdélyi and Jenő Varga) advocated the setting up of democratised coordination centres. Opposing the idea of total nationalisation of production, Garami pleaded for 'symbolic actions' and socialisation of all large companies where the workers were 'red' (like at the Manfréd Weisz company in Csepel) (Péteri 1984: 38). Varga called for expanded state intervention. Already in December 1918 he had published a plea for a comprehensive socialisation programme to be completed with an appropriated taxation policy and a strong social policy. 'It would be a mistake', he argued, 'to imagine that for the Social Democrats that plank [socialisation of production] in their programme is an end in itself. Social democracy's real, ultimate aim is to eliminate unearned income and, concurrently, to raise productivity to the highest level' (*Népszava*, 1 December 1918).

Radicalised industrial workers were spontaneously 'socialising' their plants by removing all managers. The foundation of the Kommunisták Magyarországi Pártja (MKP, Communist Party of Hungary) on 20 November 1918, in part by returning former prisoners of war led by Béla Kun, and partly by leftist Socialists and syndicalists who had broken away from the MSZDP, influenced this leftist movement. The organised trade-unionist militants however withstood the onslaught of the growing communist agitation, but food shortages bred disagreement among the socialist workers as well. Communist propaganda spread with calls for the dictatorship of the proletariat and the socialisation of industry, land and housing. Meanwhile, the MSZDP failed in its determination to execute its reform programme. Its radical wing started attuning its point of view to that of the Communists, while the right wing was clinging more than before to far-reaching social reforms. Because hardly any of these proposals were realised during the five months of the revolution's democratic phase, leading centrists broke openly with reformism. This radicalism, however, should not be measured primarily by the relationship to the Communists. Jenő Landler, József Pogány,

Jenő Varga, Jenő Hamburger and others differed from right-wingers not because they wished to collaborate with the Communists, but rather by the fact that they urged a showdown with big capital (Borsányi 1993: 126).

Growing working class radicalism and the incompatibility of workers' councils with a centralised planned economy concerned Varga. He was afraid that these workers' bastions could be transformed into centres defending particular working-class interests. He feared a clash between workers' control and the systematically and centrally executed expropriation of capital. He drew lessons from recent conflicts at the Schlick factory at the end of January 1919. Single companies could, however, not be the subject of special treatment, or the socialist project would fail. Varga argued that 'socialisation can only be instituted systematically, by the state or the cities, and simultaneously, even the big factories representing whole sectors of industry can only be socialised once a huge state bank has been founded to provide an immediate replacement for the previous bankers to the factories being socialised and to fund the factories with the sums necessary for production continuation' (*Népszava*, 26 January 1919).

Though Varga showed little sympathy for Hungarian Bolshevism, his views now would come near its programme. In a speech delivered at the Budapest Workers' and Soldiers' Council of 24 and 25 February 1919, Varga pleaded for an immediate implementation of thoroughgoing socialist reforms. 'We must be able to show progress in a clearly socialist direction, otherwise Bolshevism would gain too much influence' (Péteri 1984: 41). His draft resolution accepted by the Workers' Council called for a property tax, a socialisation committee, public works, a real estate inventory, a large state bank, and a central office for registering and distributing materials in order to take command of the country's factories and raw materials. In an article published on 2 March 1919 in *Népszava*, Varga suddenly declared that capitalism was 'dying'. A swift progress toward collectivisation was requested.

> Only by reorganising production quite independently of the private interests of individual private capitalists, by concentrating production in a few well-equipped and well-situated plants, by so reorganising society that people will do productive works on a greater scale than before, by centrally utilising available means and materials for production resolutely and purposefully, and by making clear to all working people that they are working for themselves and their fellow workers and not for the greater profit of the hated capitalists, can a renewal of production be hoped for; a radical policy is required in order to move the economy speedily toward collective production and to effect a rapid transformation of capitalist production relations.
>
> (Péteri 1984: 41)

A week later, on 8–9 March 1919, he opined that a centrally planned economy could generate 'an important production surplus' because of the concentration and rationalisation of production organised under Taylor's 'scientific' management (Péteri 1984: 42). He pleaded for a 'planned reorganisation' of production,

including concentration, specialisation, normalisation, and type determination, and, generally speaking, 'scientific' factory organisation, including administration of the labour force. In an unsigned article on 'free commerce or organised production' published on 16 March 1919 in *Népszava*, which was probably authored by Varga, the question was raised how to organise production with the best results attainable. 'That cannot all be left to freedom of trade, because freedom of trade will not direct things to where they should go from the point of view of economy, it will direct them to where they fetch the best price' (quoted in Péteri 1984: 42–3). Because coordination was still lacking between the activities of the existing coordination bodies for coal, iron, timber, housing, and food to bring about a purposeful unity of production development, Varga called for the immediate installation of a supreme production council.

Varga's proposals resembled Bukharin's Communist Programme (1918) in which was stressed that 'the whole production is carried out in accordance with a strictly calculated and deliberate plan that takes into account every piece of machinery, every tool, all the raw materials, and all the labour in society. Annual social consumption is calculated with equal exactitude' (Bucharin 1918: 14). Bukharin urged for an immediate nationalisation of large-scale conglomerates and syndicates serving as the basic economic nerve of the new economic system. With slogans such as that 'a revolution expropriates capital', or 'through the socialisation of production toward socialism' (Cohen 1975: 74), Bukharin envisaged something like state control over key sectors of the economy, but he excluded small enterprises and subsidiary industries from nationalisation.

Workers' control had become one of the MKP's preferred tactical slogans as well. Though the Communists wanted full nationalisation of industries and economic centralisation under the aegis of the government, they rejected plans bearing any relation to Varga's state capitalism. At a meeting of trade union presidents and secretaries on 20 January 1919, Communist Béla Szántó criticised Varga's views based on state capitalism. Szántó: 'The dictatorship of the proletariat will organise production and consumption through workers' direction and not through state capitalism' (Péteri 1984: 44). Also Gyula Hevesi of the Alkalmazott Mérnökök Országos Szövetsége (AMOSZ, National Association of Engineers) made an outline of an economic reform programme laying down the targets for centralised raw material management, concentration of production and specialisation.

On 20 February 1919, a crowd of unemployed workers proceeded to the editorial office building of *Népszava* situated at Conti Street. It was assumed that their aim was to destroy the building. A similar well-planned incident on the previous day had resulted in the destruction of *Pesti hírlap*. In front of the *Népszava* building shooting broke out between the crowd and the police and the voluntary people's guard. Several policemen were killed. Forty-three leading Communists were arrested. The next day, the MSZDP staged a mass demonstration. The turnout was so impressive that Jenő Varga remarked to Garami: 'One has to admit that the Communists have no followers in Budapest' (Garami 1922: 103; Zsuppán 1965: 329–30).

The announced parliamentary elections created a nervous kind of rivalry in the ailing coalition government. Draconic measures were nonetheless taken. In February 1919, the lard ration was reduced to 100 grams per week. Meatless days were introduced. Consumption of alcohol was prohibited (Rákos 1920: 22). The Radical Party, with its strong pro-Entente leanings, decided to abstain from the parliamentary elections in April 1919. The Socialist Left pushed for faster and more radical reforms. The major problem was that the peasantry was parcelling out big estates. Therefore, Varga advocated the 'establishment of agricultural cooperatives as an alternative to economically unsound land distribution' (Hajdu and Nagy 1990: 302). A second problem was growing MKP support among organised workers (Rudas 1922: 35), which incited Socialists to consider an alliance with the MKP. A third problem was inflation. Meanwhile, expenditures topped to more than four billion korona, while tax receipts did not exceed some 1.2 billion korona. Within five months the value of the korona had dropped by half because Minister of Finance Pál Szende, had failed to introduce a comprehensive tax reform. A fourth problem was the international situation. The famous note of lieutenant-colonel Fernand Vix of the French military mission in Budapest (Zsuppán 1969: 198–218) handed over to President Károlyi on 20 March 1919, demanding the retreat of all Hungarian forces between the Tisza River and the mountains on the eastern edge of the Hungarian plains, signified the end of the government. At his cabinet meeting on 20 March 1919, President Károlyi argued that only an all-Socialist government could salvage the situation. He proposed to stay on as President. The government rejected the Vix note and handed over all powers to the Socialists leaving to them the obligation of conducting a war of national defence (Hajdu and Nagy 1990: 303).

People's Commissar

On 21 March 1919, President Károlyi appointed Zsigmond Kunfi Prime Minister. The MSZDP leadership convened that morning in presence of Landler, Pogány and Jenő Varga. Only three voices (Máno Buchinger, Garami and Peidl), all three from the right wing, were raised in opposition to assuming full power and the attendant search for compromise with the MKP. Finally, the leadership decided to send Landler, Weltner, Pogány, Kunfi and József Haubrich to Béla Kun – who had been arrested after the clash at the *Népszava* building at Conti Street – to discuss the formation of an all-Socialist government including the Communists (Szántó 1920: 53–5; Böhm 1924: 273–7; Pastor 1976: 141) and to merge both parties. Finally, Varga, Hevesi and József Kelen were entrusted to draft the united party programme. Garami and Weltner refused to serve in a government with the Communists. Landler was made Minister of the Interior, Kunfi Minister of Education, Varga Minister of Finance, Pogány Minister of War, and Böhm Minister for Socialisation. There was a general agreement that Béla Kun would receive the ministry of foreign affairs. The Communists demanded that Károlyi resign as President, that the new regime be known as a Soviet Republic, that the ministers be called people's commissars, and that the government be

named the Council of People's Commissars. The principal Communist leaders joined the government as (deputy) commissars (Károlyi 1957: 154–5). Some 30 of the 48 people's commissars of the Hungarian Soviet Republic were 'ethnic' Jews. At the same moment the Workers' and Soldiers' Council of Budapest proclaimed the dictatorship of the proletariat, with the mason Sándor Garbai as the formal president of the Republic. The Council applauded the announced fusion of the two Marxist parties. The councils were not only legislative, but also executive and judicial organs. All official functions became elective and their remuneration should not exceed that of a skilled worker. Higher pay could be granted only to specialists.

Though Varga's economic expertise was uncontested, his administrative experience was limited to a year's service at the food-supply department of the Budapest municipality (Várnai 1977: 251–2). By 3 April 1919, Varga was appointed People's Commissar for Production and President of the Presidium of the Economic Council. Varga's task was enormously complicated as well. After four years of war economy, Hungary's economic situation was as disastrous as possible. Commercial links with the major capitalist countries had been interrupted. Crucial was the expropriation decree of all estates and lands not cultivated by the owner and his family. Free distribution of land to the peasants was however halted. Though the formation of cooperative farms was considered as a 'short-term solution', its principle was not attacked. Meanwhile, nationalisation measures of banks, bank deposits, industries and transport were completed by a state monopoly of foreign trade and wholesale commerce.

Nationalisations and production

Varga's concept of the proletarian mission was largely determined by an overoptimistic belief in the possibility of overcoming any problems (Buchinger 1919: 516). Varga argued that socialist planning and large-scale production could overcome capitalist anarchy. Socialisation of land and industry was thought of as a guarantee to ensure the continuity of production and food supply as well. At the Revolutionary Governing Council's meeting of 22 March 1919, Varga proposed socialisation of enterprises employing more than 15 workers in order to prevent small capitalists and artisans from hiding their capital (Péteri 1984: 57). His proposal was postponed until 25 March 1919. Vilmos Böhm put forward an amendment to socialise all works using power engines and employing 20 or more workers. The overall low limit of 20 workers for companies to be socialised was more radical than that chosen for 'war communism' in Russia. This low limit of 20 workers had been set because of Hungary's higher level of capitalist development and better organisational traditions of the workers. The foundation for the socialisation of large estates, industries, mines, banks, and transport companies occupying more than 20 persons was laid down (Decree of 26 March 1919). The decision on limiting socialisation at the low level of 20 employees was, however, only taken after a long debate, during which the Russian experience was cited. In Russia, socialisation had been limited to large companies. The socialisation

process was 'more thoroughly and energetically carried out in Hungary than in Russia', Varga would later boast, but 'its organisation was more centralised, bureaucratic' (Varga 1921b: 65; Gratz 1935: 107–8), and with less workers' participation. At a meeting of the Revolutionary Governing Council on 27 March 1919, Varga estimated that about 1,600 companies could be socialised (Péteri 1984: 69).

At the meeting of the Revolutionary Governing Council on 30 March 1919, the Commissar for Financial Affairs took under his aegis all financial institutions suitable for socialisation and the foreign-owned insurance companies. The latter received nominees appointed by a financial commissar at their board of directors. No legal changes in the statutes of the enterprises were, however, introduced. At that meeting, Böhm and Varga argued against the nationalisation of the insurance companies and the invalidation of the (foreign) loans taken up by the previous governments. Kun attacked Varga personally with the remark that 'the task of the dictatorship of the proletariat cannot be the collection of data. The annulment of the war loan is equally as important as socialisation and the land reform. […] We'll make a complete break, and that will show what for foundations we have' (quoted in Péteri 1984: 60). Later, Varga would recall that the radicalism of expropriation policy in the foreign-owned financial and insurance companies had been tamed by considerations of foreign policy. As he put it, the revolutionary government had simply 'refrained from formal nationalisation' (quoted in Péteri 1984: 66).

On 2 April 1919, all wholesale and retail shops were to be nationalised by decree. Decrees socialising all 'chimney-sweeping-businesses', power stations, gasworks, tenement houses, cleaning services, consumer cooperatives, etc. would follow. At the meeting of the Revolutionary Governing Council on 8 April 1919, Varga expressed, however, his disapproval that the concrete decisions on socialisation were being postponed because of the absence of an efficiently working administrative body empowered to carry them out. Mátyás Rákosi remarked that the decree on the socialisation of wholesale companies, of which he was in charge, had been issued without his knowledge. He considered the Commissariat for Socialisation loosely constituted. 'On the question of trading companies', Varga replied, 'there is discord within the Commissariat itself. Rákosi wants to grab everything, while Erdélyi and I do not consider that everything must be done at once. The point is that the proletariat should obtain [what they need]' (quoted in Péteri 1984: 60). Varga suggested that production councils be formed with trade-union participation. His suggestion was met with approval by the other commissars, especially by József Kelen and Gyula Hevesi (Kende 1977: 76–7). According to Varga, wages should be fixed centrally (Péteri 1984: 78). Finally, it was agreed that small-scale industry should not be socialised.

'Productivists' like Varga or Zoltán Rónai were aware of the concrete conditions of Hungary's industrial structure and technical problems of running small industries through state agencies. Hence, the direction of production and the use and allocation of supplies would be organised in function of political reality.

Though socialisation of small-scale industries would not result in increased production, the Revolutionary Governing Council decreed nonetheless that small-scale industry engaged in several sectors, such as the repair and maintenance of housing, be socialised. Soon the major part of the small-scale sector was drawn into the state sector as the artisans met increased difficulties in obtaining materials and finance for their production. Small workshops were spontaneously concentrated into big factories making the same type of products. Varga criticised this tendency in vain. Commissar Béla Székely dealing with the financial sector and Varga objected altogether to the socialisation of 'manicure shops' and 'barber shops' (*IPC* 1928: 1188). Rónai suggested that it should be decreed that every commissariat review its own socialised concerns 'with the view to deciding which ones to retain' (Péteri 1984: 73). His colleague Samu Lengyel thought it necessary to consider, when organising sectoral centres of industry, that certain already socialised companies should return to the private sector. Production rationalisation became a central issue in Varga's preoccupations. Agriculture and industry were to cover the most basic essentials of survival. Usable stocks for production had to be utilised with the utmost circumspection and economy. The shortage of resources demanded economy and selectivity in supplying industries and factories that varied in efficiency, and in certain areas of industry that could lead to rising unemployment.

Unemployment

The Revolutionary Governing Council linked the obligation of employing jobless workers in other sectors or factories or trades, to calling them up into the Red Army or to mobilising them for public works. The latter plan was connected with the idea of forced central management of labour and unemployment benefits. Péter Ágoston took issue with those who intended to raise unemployment benefits. He saw the solution in public works (roads, housing). Other commissars opined that (higher) unemployment benefits could endanger recruiting for the Red Army. Varga himself asked the trade union leaders to discover 'the number of unemployed after the mobilisation. Then the Governing Council should decide accordingly whether to continue or cease paying unemployment and coal benefits' (quoted in Péteri 1984: 87). Public works should absorb unemployment. Varga reported on the imminent launching of a housing programme in Budapest and he projected railway construction projects by the Railway Construction Office. It was, however, entirely due to 'the problem of materials that work had not started' (Péteri 1984: 87).

Stricter coordination of economic and social policy had become an urgent matter. Therefore Varga pressed for incorporating the unions into a functional relationship with the Party and the Revolutionary Governing Council. Already on the 2 April 1919 meeting of the Revolutionary Governing Council, Varga defended the idea of having the unions participate in economic policy making. The setting up of the National Economic Council was discussed on 8 April 1919 at a meeting of the Revolutionary Governing Council. Kun and Varga wanted a

Council serving as a central economic directory. On 10 May 1919, Gyula Lengyel (Commissar of Finance) proposed to include the workers' representatives into the National Economic Council. Finally, Lengyel and Varga received the task of drawing up a detailed plan. In the decree on the establishment of the National Economic Council published on 20 May 1919, it was decided that their task was the 'direction of production and the distribution of goods, the issuing and executing of decrees concerning the economy, and the technical and financial supervision of production and of those organs in charge of distribution' (quoted in Kende 1977: 84–5). Varga was appointed its president.

On 2 June 1919, Varga outlined the structure of the National Economic Council in his opening speech. He said that the decisive role should belong to the trade unions. The first session of the steering committee discussed wages, work performance and unemployment insurance. Varga defended a proposal for the creation of a permanent body to oversee wages. Controversies arose about setting minimum work norms and establishing work discipline. Varga noted that nominal wages had increased, but production had declined. During this first phase of the revolution production decline had been inevitable because of the termination of capitalist methods of work discipline in the factories and disturbances due to military activities. Varga urged for more work discipline, but János Vanczák of the influential Union of Iron and Metal Workers opposed him with the argument that the union's role was not to enforce discipline and minimum production goals. Dezső Bokányi argued that the unions had to be responsible and therefore defend the revolution (Péteri 1984: 86). Finally, an agreement was reached on minimum production norms and on the principle that the unions would assist the plant workers' councils and the production supervisors in this endeavour.

The third item on the agenda was a reform of state assistance to the unemployed, because making the labour market work was still an enormous problem. Varga informed the National Economic Council's steering committee that on 31 May 1919, 46,974 persons were unemployed, and that benefits, excluding coal benefits, were costing the budget five million koronas a week (Péteri 1984: 89). Assistance to the unemployed between the ages of 18 and 45 was only granted if they could certify they were unfit for military service. Finally, it was agreed that the eligible unemployed should sign up for the army and that manpower should be transferred to those sectors suffering from shortages. On advice of Varga, a governmental agency dealing with these problems would be set up. Commenting on what had been going on, Varga wrote in *Népszava* of 3 June 1919 about union participation in the National Economic Council. He argued that the Revolutionary Governing Council 'had definitely erred in not establishing this organisation earlier' (Kende 1977: 87).

Notwithstanding that the unions had been assigned responsibilities in directing the economy, their activities were by no means restricted or confined to limited activities. The union of the construction workers with its rich tradition of revolutionary syndicalism initiated the foundation of a Directorate for Construction (Péteri 1984: 88). Gyula Hevesi wanted to have the unions on his side in

order to manage factories, to control the production supervisory bodies and, especially, to carry out the delicate task of maintaining labour discipline. At that time, Varga optimistically wrote in a pamphlet on Workers' Management that 'the role of the trade unions, as a factor of directing the economy, was only in an embryonic stage' (Varga 1919: 16). Péter Ágoston took issue with those who intended to raise unemployment benefits. Like Sándor Garbai, he saw the solution in public works (roads, housing) (Péteri 1984: 86). Other commissars opined that (higher) unemployment benefits could endanger recruiting for the Red Army. Varga himself asked the trade union leaders to discover 'the number of unemployed after the mobilisation. Then the Governing Council should decide accordingly whether to continue or cease paying unemployment and coal benefits' (quoted in Péteri 1984: 87). The steering committee of the National Economic Council had decided that labour discipline become in principle a unions' matter. No concrete measures were taken with regard to this important item. After consultation with the trade unions, the National Economic Council was, according to a decree of 4 June 1919, in a position to declare that workers throughout certain trades or at certain workplaces could not be granted unemployment benefits. This decree had to drive the jobless workers into the Red Army and into vacancies in other trades. However, it did not contain measures for a centralised allocation of the labour force. On 2 July 1919, a Decree issued by the National Economic Council forbade this time the payment of unemployment benefits to any male or female worker capable of work.

Hidden unemployment was another major problem. Plants were out of operation due to the lack of coal or raw materials. The number of shifts where no work was done increased considerably. Meanwhile, jobless workers remained on their companies' payrolls (Varga 1921c: 62). The workers' councils were ready to dismiss these workers for military service, but most of them could stay with a full salary doing cleaning or maintenance work. 'War communism' required nonetheless a mobilisation of all resources to ensure manufacturing of military equipment. In an article published in the 3 June 1919 issue of *Népszava*, Varga pleaded for a central allocation system in order to avoid growing shortages of raw materials. On Varga's and Hevesi's proposal, the Revolutionary Governing Council of 17 May 1919 made decisions to meet any demands of war and to limit the waste of materials. The War Commissariat was invited to take part in the work of the Presidium of the National Economic Council, which had been set up a few weeks earlier. The socialisation debate in the Revolutionary Governing Council had meanwhile revealed that the Socialist members of government were better prepared than the Communists for their governmental tasks. From the third week on it was the Socialists' view that would prevail in domestic politics. Kun's ignorance of economic planning problems was only compensated for by his missionary zeal. At the socialists' demands, three Revolutionary Governing Council commissions were set up to rectify the initial mistakes. Meanwhile, the real wielders of power in the Revolutionary Governing Council, i.e. Kun, Landler, Böhm, Kunfi, and the heads of the economic commissariats, were too preoccupied with daily decision-making

problems at the many Party and councils meetings to lead the unified party of socialists and communists.

The liquidation of both parties and the constitution of a new party was still an important issue. The Socialist right wing, including Ernő Garami, Sándor Propper, Manó Buchinger and Gyula Peidl, had already broken with the MSZDP. Though the Centrists had accepted the communist platform, they refused to accept communist identity. Hence, a false sense of party unity was created by the recently acquired governmental power. In addition, Kun enticed the Socialist Left by his impulsive behaviour and revolutionary rhetoric. The Communists, forming by no means a solid group, were weakened by factionalist rivalries undermining Kun's authority. Finally, Kun excluded these radical elements from sensitive positions, but, on the other hand, he tolerated the activities of a 'terrorist group' (the 'Lenin Boys'). Kun's drive for full control of the united party was, however, doomed to fail. The Communists represented only a vociferous, but powerless minority in the district councils, the factories and the trade unions where they melted into the established socialist structures (Tökés 1967: 167).

After two months of struggle, Kun was forced to conclude that the party was still the old by trade unions dominated MSZDP having absorbed his small MKP. The Communists constituted a tiny minority in the governing bodies of the Budapest Council of Workers' and Soldiers' Deputies created after the elections for local councils on 7 April 1919. The Budapest Council wielded powers that often surpassed those of the Revolutionary Governing Council. There was never a doubt that the ultimate source of authority was not in the Revolutionary Government Council, but in the Budapest Council where the influence of the Budapest trade-union leaders and syndicalist shop stewards was felt.

The most important pending question was party unity (Rudas 1922: 64–81). When on 12 June 1919, the first congress (*A magyar munkásmozgalom történetének* 1960: 10–48) of the united party met in the Parliament building, the overwhelming majority of its 327 delegates represented the socialist current. Kun talked about the new party programme. He expressed great satisfaction with regard to the problem of land reform. 'Social production is no longer a utopia among us', he claimed. He considered farmers collectives as a short-lived transition towards large-scale agricultural production (Borsányi 1993: 178). At the end of his presentation, he urged the delegates to adopt the name 'Communist Party' in order to exploit the name's revolutionary attractiveness. However, Kunfi called for retaining the party's new name adopted on 21 March 1919 (Hungarian Socialist Party), while Weltner pressed for a compromise solution: Szocialista-Kommunista Munkások Magyarországi Pártja (Socialist-Communist Party of Hungary). Kunfi rejected the use of terror in the revolution and coercion in the name of Lenin against the majority of the workers. He dismissed Kun's arguments on the party's name: the name 'Communist' would be an imitation of the Bolshevik example. One of the ironies of the debate was that although the socialist majority rejected Kun's proposal on the name of the party, the congress adopted without debate an essentially communist programme. The election of a party executive was the last item on the agenda. With the exception of Kun, the

Communists failed to have their candidates directly elected. Kun announced that they would abandon the party unless the originally proposed slate was restored. Finally, all Communist candidates were elected, but the incident proved that the party was only unified in name. Socialists and Communists still formed two distinct currents cherishing their own identity and ideology and having totally different concepts concerning the nature of the newly established regime.

Meanwhile, the agrarian question was still poisoning the country's domestic affairs. Though in December 1918 the rural proletariat (seasonal harvesters and landless peasants) had voted down at a national conference the communist draft resolution demanding immediate land nationalisation, the Communists and Socialists refused satisfying the demands of the peasants craving land. A decree on the socialisation of land, promulgated on 4 April 1919, called for the immediate nationalisation of big estates larger than 100 cadastral yokes (57.55 hectares) and instituted their collective or cooperative cultivation by the agrarian workers (Botos 1978: 104). Only those who undertook to perform at least 120 workdays a year could be members. Peasants labouring their own small plots could remain owners of their land. To the agricultural labourer, it seemed that nothing had changed. He still had to work for the same employer, because former – and often disliked – agrarian managers and entrepreneurs were kept in function. Jenő Landler knew the inadequacy of this agrarian policy and therefore he pressed Kun to distribute the land among Red Army veterans (Tökés 1967: 187).

During the nine-day National Congress of Councils, which opened on 14 June 1919 at the Parliament building in Budapest, the last important power struggle between the peasantry and the urban working class was fought. The Congress elected a 150-members-strong Federal Central Executive Committee, discussed the new constitution and heard the reports of several commissars. The government was recomposed after the defection of several Socialists. The debates on the economic situation (Jenő Varga), finances (Gyula Lengyel), agriculture (Jenő Hamburger), foreign policy (Kun), military affairs (Böhm), and food supplies (Mór Erdélyi) were interrupted by exclamations and anti-Semitic jeers (Janos 1971: 90). About 70 delegates with an agrarian or provincial background occupying the floor obliged the presiding body of the National Congress to impose closure on the stormy economic debate and a time limit of ten minutes on every speech, except for the people's commissars. The target of these attacks coming from the agrarian delegates was the newly created bureaucracy and its system of political and production commissars. According to the peasant delegates, the latter were inexperienced urban intellectuals, wearing city clothes, collecting food for their relatives in Budapest, issuing contradictory orders, living well and doing nothing. These provincial delegates defended the idea of an autonomously producing agrarian society against the commissars' bureaucratic nepotism and attacked the Councils' Commissars with exclamations of crude anti-Semitism. That most commissars were intellectuals and (former) Jews of middle-class background corroborated the prevailing thesis of an overall anti-agrarian and anti-revolutionary complot. Delegate Sándor Iványi thought that these Jews, for

reasons of economic interests, were 'natural' counterrevolutionaries. Varga's speech was interrupted by shouts of 'get out the Jews' (*A magyar munkásmozgalom történetének* 1960: 100). Finally, Béla Kun intervened: 'A Jew as I am, I am not embarrassed to raise these issues. My father was a Jew but I am no longer one, for I became a Socialist and a Communist. But many others who were born in the Christian religion remained what they were: Christian Socialists' (Janos 1971: 97).

At the session of 16 June 1919, Varga's report (Varga 1969: 336–46) to the Congress of Councils gave a rather true picture of a general and rapid decline in labour performance and productivity (*A magyar munkásmozgalom történetének* 1960: 94–105). After socialisation, labour productivity had declined less in agriculture and more sharply in a great number of industries. In coal mining, total output had dropped with 10–38 per cent compared with the beginning of the year. But productivity per mineworker had declined by over 50 per cent in comparison with peacetime output. The engineering industry reported a decline of 30 per cent at the Láng factory, 75 per cent at the Friedrich's Elevator factory in Mátyásföld, 25 per cent at the Röck factory, and 50 per cent at the Wörner factory. The only exceptions to this downward trend in labour productivity were the automated process industries (chemical factories and flour mills) (Péteri 1984: 92; *A magyar munkásmozgalom történetének* 1960: 101–2).

Varga reported on all growing difficulties the government had met during the previous months in the socialised big factories. According to Varga, experience had proven that a good proletarian was not always a good director and that without good management it would be impossible to direct a coalmine or to maintain labour discipline. He castigated those incompetent workers occupied with discussing and smoking at length at the management board of their factory. Hence, he criticised the workshop committees of workers' control for having broken down labour discipline. After having eliminated 20,000 to 30,000 capitalists, Varga said that he had to create a new bureaucracy capable of replacing them in the organisation of the production process. For the time being, that new bureaucracy was not functioning satisfactorily. 'There are too many incompetent and too many young people working who are lacking either the demanded experience or political judgement; there are also gangs of cunning adventurers who from one day to another changed their political mind, who are calling themselves Communists and who are taking advantage of the situation' (*A magyar munkásmozgalom történetének* 1960: 101).

Varga's remarks at the Congress of Councils did not increase his popularity among the members of the new bureaucracy. Still calling himself a 'Socialist', Varga attacked the recently introduced system of hourly wages paid in industry. He called for an immediate return to the former system of piece-wages in order to increase labour productivity. He criticised the behaviour and mentality of many workers in the socialised factories. 'In the factories and workshops the workers keep looking over their shoulders to see whether there is enough coal, whether there are enough raw materials, and they are preoccupied with the single thought that "if we throw ourselves into the work, within three days there won't

be any coal left or there won't be any raw materials left, and then we'll be unemployed" and one is inescapably led to the conclusion – No, I won't say consciously but because they involuntarily slow down their work – that the fresh will to work is paralysed' (Péteri 1984: 97–8). János Vanczák of the Iron and Metal Workers rejected this return to pay-by-achievement at the first meeting of the steering committee of the National Economic Council. The only method to increase productivity was through education of the workers and by providing them with a decent livelihood, not by so-called scientific methods of work (Taylorism) (Kende 1977: 91). The picture the other commissars drew was even more dramatic. Commissar Gyula Lengyel (Finances) declared that rationalisation of the production organisation met resistance from the workers (Lengyel 1969: 349–62). The same workers preferred being paid for doing nothing while in other factories vacancies could not be fulfilled. Collieries were looking for mineworkers while idle quarrymen were earning a salary that was higher than that of the miners. In the offices, clerks were hiding themselves behind their desks in such a way that nobody could figure out what they were really doing. Hamburger (Agriculture) blamed it on the peasantry refusing to feed the cities. Peasants were withholding grain and selling their produce on the black market or preferred feeding their pigs with the milk destined for children. Labour discipline of the agricultural workers was as bad as that of other workers (*A magyar munkásmozgalom történetének* 1960: 100–18).

The final breakdown

Moral, social, economic and political problems announced the fall of the Councils' Republic. Now that the peasantry refused to feed the city of Budapest, the divide between the urban working classes and the peasantry was, after all, total. Reactionary forces rallied by the catholic clergy and angry peasants plotted in order to annihilate the Councils' Republic. While charges of a 'Jewish conspiracy' having usurped state power fell on fertile soil, the government saw the counterrevolution gaining ground. A coup planned for 24 June 1919 was easily defeated. Its psychological impact was nonetheless important. Resigning from the Revolutionary Governing Council, Kunfi, Böhm, and Erdélyi predicted the irremediable decline of the regime.

In an effort to boost the disastrously plummeting industrial production, the National Economic Council, headed by Varga, reinstituted the recently abolished piece rates and incentive wages in all enterprises. Varga launched a campaign for socialist work competition that called for a seven-day working week without overtime pay. The restructured Revolutionary Governing Council, now exclusively including Kun's Communist followers and the Socialist Left, launched a barter programme for wheat, which helped little to relieve the food shortages in Budapest. The Communist extreme left reappeared on the political scene. In an attempt to save the dictatorship of the proletariat, Communist leftists attacked the vestiges of bourgeois reformism in the party and in the communist-controlled Commissariat of Public Education. Other Communist leftists like Tibor Szamuely – 'a man of

action, detesting compromises' (Rákos 1920: 39) – wanted an immediate purge of the party apparatus. Increasing desertions from the regiments were indicative of the workers' mood. At the Danubius plant only 27 workers voted for the dictatorship of the proletariat. Party leaders started referring to those workers who disagreed with them as elements of the *Lumpenproletariat*. From now on, the survival of Kun's regime hinged on a hypothetical Soviet Russian intervention.

In an often-cited article published on 15 July 1919 in *Népszava*, Varga described the rapidly deteriorating situation of public morality:

> Sadly one must confess that this loose moral attitude we find in every strata of society: the proletariat takes as much advantage of their official power as the educated men; the former Communist as well as the former Social Democrat; the old as well as the new generation; the soldiers no less than the civilians. Conditions in the countryside are worse than in the capital. Trustees sent to the rural areas occupy themselves with hoarding of foodstuffs; the village executive committees issue orders against food deliveries. Today they declare the old [blue] money non-negotiable, tomorrow, the same authority demands payment in old money. The Red Guards, instead of strictly enforcing all orders, in many places participate in transgressions, themselves. The biggest worry of the office workers is how to find a new swindle to get into a higher pay category. The majority of the physicians are contributing to the sacking of the proletarian state in a most bastardly fashion, by declaring each office worker who comes to them, ill, and sending him to a spa for an eight week cure. In the public distribution of food the abuses are daily. The food supplies are robbed on their way to the capital […]. While the decent and capable bourgeois keep themselves apart and refuse to participate in production and organisation, the scum of this class is busily active in 'comrading' everyone, loudly screaming [about] their loyalty and stealing everyone blind […]. This situation is desperate and the decent man is incapable of producing anything due to the constant fear that no matter whom he entrusts with something, the result is always bribery and corruption.
>
> (*Népszava*, 15 July 1919)

The military crisis had become extremely acute at the end of July 1919. The Russian Red Army in Ukraine could not make contact with the Hungarian forces. On 29 July 1919, the Romanian army crossed the river Tisza and marched on Budapest. Discussing the situation on 31 July 1919, Kun rejected the idea that the government resign and hand over power to a reformed Social Democratic government (Tökés 1967: 195). He pleaded for continuation of the war. Béla Vágó, Szamuely, Hamburger, Pogány and Landler supported his proposal, but the other commissars opposed it. By then, the Council of the Unions had already voted 43 to 3 – Landler (Railroad Workers Union), Ferenc Bajáki (Metal Workers Union), and Garbai (Construction Workers Union) – for surrender and the abolition of the dictatorship of the proletariat.

Kun organised his departure to Vienna. Landler, Pogány, and Hamburger decided to accompany him. As they feared reprisals, several leading Socialists, like Böhm, Kunfi, Varga and Rónai, left as well. In Budapest, power was handed over to a so-called caretaker government of trade-unionists and fellow commissars headed by Gyula Peidl. This government dissociated itself from the policy of the Republic of Councils. The former Parliament was restored and a so-called People's Republic installed. On 3 August 1919, the Romanian troops marched into the capital. On 6 August 1919, a group of counterrevolutionary officers headed by István Friedrich made a pro-Habsburg coup forcing the Peidl Government to resign. Having his headquarters at Siófok, admiral Miklós Horthy refused to recognise the Friedrich Government. Horthy's troops began to cut a swathe of terror and murder in the occupied areas of the country. After the evacuation of the Romanian troops, Horthy marched on 16 November 1919 into Budapest. On 22 November 1919, Károly Huszár formed a Cabinet of Concentration and organised elections in an atmosphere of terror.

Fearing diplomatic problems, the Austrian government arrested the arriving commissars and interned them at the castle of Karlstein. Their wives were relegated to Drosendorf. In February 1920, Varga was released and he moved to Vienna, where he organised his social life as well as possible. He contacted Sigmund Freud and Alfred Adler (Tögel 2001). Alfred Rosmer visited him before leaving for Moscow (Rosmer 1971: 25). Meanwhile, Béla Kun had already made up his mind. In his essay *From Revolution to Revolution* (Kun 1962), Kun argued that the Hungarian Revolution had been doomed from the moment that the weak MKP had merged with the MSZDP. Anti-revolutionary currents in the workers' movement had undermined the dictatorship of the proletariat as well.

After having read Kun's pamphlet *From Revolution to Revolution* (Kun 1962), Lenin got upset by its 'complete lack of facts' and its verbalism. Though Lenin could agree with Kun's critique of Social Democracy, he completely disagreed with his ultra-leftism. Taking stock of the lessons of the Hungarian Republic of Councils, Lenin's pamphlet *Left-Wing Communism: An Infantile Disorder of Communism* (Lenin 1964: vol. 30) was clearly meant as an open attack on the 'doctrinaires of the revolution', especially the Hungarian leftists Kun and Lukács. Lenin criticised Kun for having missed 'that which is the most essential in Marxism, which is Marxism's living soul – the concrete analysis of a concrete situation'. He attacked Lukács for his verbalism and Kun for rejecting the parliamentary road to power or having broken with centrists like Kunfi and Böhm. Meanwhile, Kun's 'Russian faction' had already become at odds with the Landler-Lukács faction (Szabó 1966: 368–96). Varga, who had joined the refounded MKP, kept meanwhile a low profile.

Past experiences

While interned at Karlstein, Varga wrote a book in which he evaluated all his past experiences as a People's Commissar. In his *Economic Problems of the*

Proletarian Dictatorship he analysed the dictatorship of the proletariat as a dynamic outcome of the war and its fall as a result of a series of adverse circumstances. The material preconditions for building a socialist society were not available. Expropriation of capital was but one factor in this process. The 'egoistic psyche' (Varga 1921c: 8), that is so typical for capitalism, was still guiding the workers' attitudes, because the proletariat was more interested in individual consumption than in developing a sound economic infrastructure that could fulfil society's needs. Proletarian indiscipline was one of the causes of the disappearance of the Councils' Republic marking also the proletariat's ruling incapacity.

The revolution broke out because the international crisis of capitalism had weakened the hegemonic capacities of the ruling classes and increased the proletariat's willingness to break with capitalism; but the latter's self-consciousness was still very low and its material condition bad. The war had, nonetheless, demonstrated that a centrally planned economy was possible, not utopian (Varga 1921c: 14), and that capitalist anarchy was not the only available economic model. Because capitalism was unable to meet the demands of the working classes, it had lost its support of the masses.

In Varga's opinion, his organised labour relations had stood for labour rationality. The new regime's aim was to increase the general educational level and thus employability of the workforce by developing industrial standards based on more sophisticated technologies. By applying an absolute prohibition of alcohol consumption, by reforming the educational system and by introducing a culture of 'free speech', output could be raised. In addition, technological progress, i.e. an increase of constant capital in combination with specialisation and cooperation, would raise labour productivity as well. In a capitalist system, labour productivity was however lagging behind because of the repressive environment, the unwillingness of the workers to apply innovations and cartels and trusts keeping less-productive factories in operation. As anarchy of production led to periodical crises and depressions, important gains in productivity could be obtained by concentrating production in the best-performing production units, by applying industrial standards and norms, and by sharing patents (Varga 1921c: 211).

Varga paid attention to qualitative aspects, such as product quality, wastages, and a correct use of instruments increasing productivity in order to produce more efficiently than under capitalism. A centrally organised management system should exercise control over day-to-day management. In capitalism, he argued, Taylorism and piece-wage workers were compelling workers to higher labour intensity. Taylorism had thus intensified the exploitation process. However, its introduction in a socialist economy could be extremely valuable. Average labour productivity could further increase by eliminating all non-productive labourers, *rentiers*, bourgeois women and domestic servants. Taylor's 'scientific management' was indispensable for employing unskilled workers in new factories (Varga 1921c: 27). As long as workers' consciousness was insufficiently developed, piece-wage might increase labour productivity as well.

In his digressions on his past experiences, Varga also referred to the frivolous treatment of state property or the appropriation of bourgeois property by the

workers, which reflected a capitalist egotistical attitude. This was due, he thought, to the fact that during the war moral awareness had been undermined in combination with a widespread lack of clarity concerning socialist property relations. Proletarians administering the confiscated factories were too prone to believe that 'these factories were their own property', and not of the 'whole of society' (Varga 1921c: 43). Many workers exercised controlling tasks. They occupied offices 'multiplying the number of non-productive office workers' (Varga 1921c: 47).

In the beginning of the dictatorship of the proletariat, total output – and thus the standard of living of the urban workers – decreased. Expropriation of the bourgeoisie did not provide the proletariat with many more additional consumption goods unless the whole productive infrastructure would be reformed. Expropriation of the landed aristocracy could increase the living standard of the peasantry, but at the same time reduce the amount of foodstuffs the peasantry would be willing to sell to the cities. Varga blamed the Hungarian proletariat for not accepting a lower standard of living in exchange for a consolidation of proletarian hegemony (Varga 1921c: 33).

The revolutionary regime had never been in a position to take all necessary and radical measures against the bourgeoisie. Public debt had not been cancelled. Foreign capital had not been expropriated. Varga rejected, however, Kautsky's assertions that one should wait before taking over all authority from the bourgeoisie until all material preconditions were fulfilled. After abolition of commercial and non-productive functions, a centrally planned economy would be able to produce more efficiently for social demand at fixed prices under a new kind of non-bureaucratic regime of labour discipline. Holding the bourgeoisie experts in check, political commissars defending the common interests of the proletariat in the factories and elected workers' councils should re-establish labour discipline and guarantee better working conditions. The elected workers' councils had, however, increased the number of unproductive workers in the factories. They could be blamed for their laxity in matters of working discipline and wages. According to Varga, a complete and immediate socialisation of the whole economy had given better results in Hungary than in Russia, where only the big enterprises had been nationalised.

In Hungary, Varga had been confronted with several cases of mismanagement when running the centrally planned economy. The local economic councils used to debate on all centrally taken decisions, but meanwhile they were also hindering the establishment of an adequate labour distribution system. Now Varga pleaded for concentration of production on a few industrial sites where workers could be housed collectively. Again, he blamed workers' enterprise chauvinism, their laziness and their vicious behaviour as well. In order to combat squandering of public goods, financial controllers were supervising the nationalised factories and organising distribution of raw materials in cooperation with the factory commissars and the commodity administrators. In the meantime, many problems had remained unsolved. The factory directors were known for their bureaucratic style of management and their raw material hoarding. The central commodity

administrations were not receiving adequate information about the factories' real shortages or the presence of idle workers. Varga blamed the workers for their low level of class-consciousness, their cowardice and all their other vices rooted in capitalism. Therefore Varga proposed the introduction of a personal identification card to collect adequate information about the workers' employability.

Instead of a 'good organised Communist Party enlightening the working class about the aims and the tasks of the economic change' (Varga 1921c: 74), bureaucratisation had developed. Although bureaucratic privileges had been suppressed, many low-paid teachers, technicians, postmen and railroad workers – natural allies of the working class – had remained at their posts. Because the young intelligentsia had chosen in majority for the Councils' Republic, Varga concluded that higher salaries for the badly needed specialists had been superfluous.

About a quarter of Varga's book was devoted to the agrarian question as 'the most difficult problem of the dictatorship of the proletariat […] because the urban population is depending for its food provision on the peasantry. Therefore, a policy not putting a break on production, but, instead, furthering it, should be chosen' (Varga 1921c: 84). One should therefore 'at least' win over, Varga urged, the agrarian proletariat and the village poor (i.e. small peasants not employing wage workers) for the dictatorship of the proletariat while at the same time neutralising the majority of the middle-peasants in order to secure the cities with a continuous flow of foodstuffs.

Though Varga could agree on the principle of a complete socialisation of all landed property, he had no objective criterion for expropriation. Everything depended on the distribution of landed property and the type of class composition based on it. Where big estates dominated agriculture, the landless peasants and agricultural workers were numerous. There a complete socialisation of the soil should be decreed. Where small property was evenly distributed and dominating, one could meet many more difficulties if pushing for a completely socialised agriculture. Expropriation of all big and middle estates (more than 100 yokes or 57 ha) and all farming implements without financial compensation by the Republic of Councils had thus been the right decision. About 50 per cent of the soil, with 35 to 40 per cent of arable land, had been passed to the agrarian proletariat without having been parcelled out or self-appropriated by the landless peasants. The former managers or landowners had often stayed in office, which had alienated the agricultural workers. Because the landowners had prevented any socialist agitation in the villages and most agricultural workers had remained illiterate, they had not been touched by the ideas of the revolution.

After nationalisation, all big estates were federated into regional production cooperative structures depending on the farming section of the National Economic Council. This administrative structure had been chosen not only 'because of the social backwardness of the agricultural workers' (Varga 1921c: 88), but also to defeat high wage demands and impose labour discipline. Some improvised expedients, such as the creation of dairy farms near railway stations or gardens at the outskirts of town, had helped in feeding Budapest. Jobless workers

in the luxury industry, members of the former ruling class and redundant civil servants were 'assiduously and cheerfully' working there as market-gardeners in 'a productive, healthy environment' (Varga 1921c: 90).

Conclusions

During the Hungarian Republic of Councils Varga emerged as a technocrat only interested in organising production, establishing labour discipline and inventing management techniques in order to feed the cities. His model of a centrally planned economy was inspired by the principles of 'war capitalism'. *Taylorism* and *productivism* were the guiding principles in Varga's management concept.

3 Economist of the Comintern (1920–8)

Entering the new world, I know
That there are men and things to do.
Aleksandr Blok

During the 1920s Varga would emerge as the Comintern's leading economist, authoring all reports on the international economic situation and participating in all debates on the Comintern's strategy. In the meantime, he developed the theory of the general decline of capitalism and the imminent breakdown of the

Table 3.1 Dates of key Comintern meetings

First Congress	2–6 March 1919 (Moscow)
Second Congress	19 July–6 August 1920 (Moscow and Petrograd)
Third Congress	22 June–12 July 1921 (Moscow)
First Enlarged Plenum of the ECCI	24 February–4 March 1922
Second Enlarged Plenum of the ECCI	7–11 June 1922
Fourth Congress	5 November–5 December 1922 (Moscow and Petrograd)
Third Enlarged Plenum of the ECCI	12–23 June 1923
Fifth Congress	17 June–8 July 1924 (Moscow)
Fourth Enlarged Plenum of the ECCI	12–13 July 1924
Fifth Enlarged Plenum of the ECCI	21 March–6 April 1925
Sixth Enlarged Plenum of the ECCI	17 February–15 March 1926
Seventh Enlarged Plenum of the ECCI	22 November–16 December 1926
Eighth Plenum of the ECCI	18–30 May 1927
Ninth Plenum of the ECCI	9–25 February 1928
Sixth Congress	17 July–1 September 1928 (Moscow)
Tenth Plenum of the ECCI	3–19 July 1929
Eleventh Plenum of the ECCI	26 March–11 April 1931
Twelfth Plenum of the ECCI	27 August–15 September 1932
Thirteenth Plenum of the ECCI	28 November–12 December 1933
Seventh Congress	25 July–21 August 1935 (Moscow)

capitalist system. Varga's expertise was widely acknowledged. He reported to the Third (1921), Fourth (1922), Fifth (1924), Sixth (1928) and Seventh Congress (1935) of the Comintern. Apart from Lenin's imperialism theory, he remained profoundly influenced by Rudolf Hilferding and Rosa Luxemburg as well. Finally, he succeeded in staying out of all factional struggles.

Working for the Comintern

On 15 July 1920 Varga and Béla Kun left Vienna for Moscow with a special Red-Cross train carrying Russian prisoners of war (POWs). In Stettin, they were shipped to the port of Reval (Tallinn) from where they reached Moscow. There they arrived just in time for the Second Congress of the Comintern. Varga's family remained in Vienna where they faced bravely the many hardships of living in exile (PIL: 783 f 11.ő e 12–22). In 1921 Varga's wife and son would also arrive in Moscow.

When attending the Second Congress of the Comintern, Lenin approached Varga for a discussion on his book *Economic Problems of the Proletarian Dictatorship* (Varga 1921c) and also on the situation in Austria (Pawlowsky 1921: 275). Apparently, Lenin was interested in establishing contacts with the Austrian Social Democrats. Varga would later recall that Lenin had 'made sharp notes of criticism in the margins of some pages' of his book (Varga 1947b: 277). He had even underlined a sentence on the hostility of the prosperous peasants to the revolution.

Meanwhile Varga had to earn his living in Moscow. At the Second Congress in 1920, he had been elected candidate member of ECCI (Executive Committee of the Communist International) (Kahan 1976: 158). In November 1920, the ECCI appointed him director of the newly founded office of economic statistics. At that bureau he studied agrarian and labour problems in relation to the capitalist crisis cycle on which he wrote a report to the Profintern (Varga 1921c). At Lenin's request, he drafted a project for an information centre (with Berlin, Vienna, Copenhagen and Christiana-Oslo as possible sites). In Moscow, Varga was also employed as organiser and teacher. He assisted Pogány at the secretariat of the Hungarian Section of the Russian Bolshevik Party and with Kun and Pogány he taught at the party school in Moscow (Babitschenko 1993: 42–3; Borsányi 1993: 245).

As a prolific author he published in the Comintern journals *Internationale Presse-Korrespondenz* (Berlin), *Kommunismus* (Vienna), *Russische Korrespondenz* (Leipzig), *Jahrbuch für Wirtschaft, Politik und Arbeiterbewegung* and *Kommunistische Internationale* (Hamburg), and in the Soviet press (*Pravda*, *Narodnoe khozyaistvo*, *Ekonomicheskaya zhizn*).

Varga was close to Kun, but he did not share the latter's 'offensive' strategy for an armed uprising in Hungary. He disliked factional struggles now ravaging the MKP. As a Comintern agent, Varga specialised in unmasking Kautsky, Hilferding, Renner, Bauer and Adler as traitors of the proletarian revolution (*IPK* 1921/16: 138). As a propagandist of the Soviet regime, he hailed Lenin's New

Economic Policy (NEP). He described the Russian peasant as an independent economic subject 'free to produce anything they want' and taxes in kind were 'voluntarily and quickly delivered' now that peasants were selling freely their produce on the market. With its 30 million farms, he argued, it was nearly impossible to rule Russia 'against the will' of the peasantry (*IPK* 1921/17: 149). Varga's theoretical sources were now diverse. With Bukharin (1979: 78), he attributed a decisive importance to the role of the banks in building socialism (*IPK* 1921/1: 3–4), but echoing Hilferding he ascertained that the amalgamation of all individual banks in a single State Bank could contribute to socialist development.

Third Congress of 1921

Varga developed the rudiments of his theory of the post-war economic production cycle already in the beginning of 1921. He pointed to the fact that the capitalist world economy had been deformed 'as a consequence of the war' (*IPK* 1921/16: 137–6). The world had fallen apart into two different areas, with on the one hand a pauperised European part, and on the other hand the United States and Japan having developed their production facilities beyond the absorbing capacities of their home markets. The economic crisis was thus a crisis of overproduction in the rich part of the world and a crisis of underconsumption in the pauperised areas. The only way out of the crisis for the capitalists was thus cutting labour costs, which could only aggravate the realisation problem. Therefore, the short slump of 1921 should be interpreted as a signal that capitalism was entering into a long phase of decay. Varga saw the periods of economic upswing growing shorter and shorter and the crisis deepening; more and more countries were dragged into a process of general decay; meanwhile the revolutionary movement of the working class was pushing capitalism into ever more crises, until after long struggles the social revolution would finally triumph (Varga 1921a: 60).

Having meanwhile risen to prominence, Varga was invited by the ECCI leadership to submit a report on the international economic situation to the Third Congress of the Comintern meeting from 22 June 1921 to 12 July 1921 in Moscow.

There was a good reason for Lenin to have Varga at his side. The ultra-radicals led by Kun and others were still forming an influential faction of 'empty-headed emotionalists' and 'unprincipled opportunists' (Deutscher 1959: 64–5), pushing for action in a period when Russia was exhausted after several years of war. In order to defeat the radicals, Lenin had joined hands with Trotsky. Lenin entrusted Varga with the writing of a preliminary report dealing with the economic situation in the world in order to calm down the impatient radicals.

For the first time in his life Varga had to report on the international economic situation in relation to the revolutionary perspectives of the moment. Varga's thesis was that the economic crisis of 1921 was by no means a 'normal overproduction crisis', but the result of several structural deformations caused by the

war economy. Though not all countries had been equally hit by this crisis, all were nonetheless suffering from a world market having been broken up by growing protectionism, currency crises and the rise of competing industries in the colonies (Varga 1921a: 4–5). The masses had become sensitive to revolutionary changes as well, which would hasten the decay of the capitalist world system. However, for the time being imperialism had maintained its hegemony. On the other hand, revolutionary movements and communist parties having seen the daylight everywhere were announcing the end of capitalism.

The necessity of working out a comprehensive theoretical framework revealing the dynamics of the process by which imperialism maintained its hegemony inspired Varga to refine Lenin's imperialism theory. He accepted that capital export was the key concept for analysing imperialist contradictions and inter-imperialist rivalries. But in his report Varga fell back on Rosa Luxemburg's underconsumption thesis that the disturbed world market could not absorb all produced goods, meaning that the overproduction crisis was spreading from the defeated European countries to other countries as well (Varga 1921a: 60). Thus, objectively speaking, there was no way out of the crisis. Meanwhile, the task of the proletariat had to consist in seizing power and establishing proletarian regimes. This perspective must have pleased the radicals, but without giving them arguments for a further radicalisation of their agitations.

Although Varga's analysis was nearing Lenin's imperialism theory, the difference was that he had reduced imperialist rivalries this time to the competing interests of the United States, England and Japan, i.e. the three big powers having acquired advantages from the outcome of the past world war, and the other imperialist powers. Varga's analysis concentrated mainly on Europe where the Russian Revolution and upheavals in Central Europe had engendered a 'business cycle of a special kind'. In Central Europe, underproduction had created a state of permanent crisis with only temporary and very short cyclical recoveries soon ending up in a world war for a new repartition of the world. Finally, Varga identified the United States as the most aggressive imperialist power wanting to supersede the British Empire and acquire the latter's oil reserves in Mesopotamia (Varga 1921a: 61).

Combining Marx's economic analysis in *Capital* with Lenin's imperialism theory, Varga tried nonetheless to avoid the traps of Rosa Luxemburg's imperialism theory by using Hilferding's financial stabilisation thesis. Another problem consisted of the periodicity of crisis in intervals of roughly ten years. Did they still stem simply from capitalism's ability to overcome the overproduction of capital through changes in conditions of production that increase the mass of surplus value relative to the existing capital? Crucial in Varga's analysis was his rejection of any chance of economic recovery. Chronic underproduction in Central Europe was meeting with chronic overproduction in other parts of the world. In the past, overproduction had caused falling prices on the world market, which had then given birth to technological innovations stimulating higher productivity and lower production costs. But in the age of monopoly capital, big firms were regulating production, upholding prices and cutting wages in order to finance technological innovations.

Though Varga's analysis carried the imprint of many theoretical influences (Lenin, Hilferding and Luxemburg), his main thesis was nonetheless that the revolutionary tasks of the proletariat had to be derived from a concrete analysis of the economic situation in the different capitalist countries. His thesis was now that capitalism had stabilised with the help of the social-democratic parties and their trade unions. Hence, Varga could qualify the situation of the European proletariat as completely hopeless. However, he nonetheless added that only a revolution would be able to give a valuable response to the fatal process of falling living standards, rising price levels and increasing mass unemployment.

The content of Varga's report must have disappointed Lenin. Varga's text contained heterodox sources of inspiration. Lenin was not quoted. Instead, Varga referred to Alfred Weber's (Weber 1909) *Standort* (location) theory (Varga 1921a: 4–11; Varga 1973). The imprint of Kautsky's and Hilferding's *economism* could not be denied. Varga's hope for a revolutionary upswing had been inspired by Luxemburg's *spontaneism*. The analysis of the capitalist cycle had remained articulated within purely geographical terms and restricted to some immediate appearances of the political and economic situation. Lenin, doubting the prospects of an imminent world revolution, must have been waiting for a more thoroughgoing inquiry into the nature of what one could call a period of 'relative stabilisation' of international capitalism.

At the Third Congress of the Comintern, Trotsky and Varga (1921) opened the debates about the international economic situation with an additional text. In that report, Trotsky and Varga argued now that three kinds of equilibria existed at the international level: (1) the international economic equilibrium; (2) the rural–urban equilibrium in each country; (3) the equilibrium between *Department I* (heavy industry) and *Department II* (light industry), or between investment and consumption.

The equilibrium between agriculture and industry was disturbed by grain and meat shortages because of a depletion of herds, fertilisers, high prices of manufactures and peasants' resistance to wartime requisitioning. The resulting disequilibrium was hindering Europe's economic recovery and stability. However, the prevailing disequilibrium between production and consumption was much more deteriorated and dangerous to the capitalist world order than the rural–urban equilibrium, because during the war 'fictitious' capital (treasury bonds and currency issues) had replaced 'real' capital when financing war expenditures. Capitalism was no longer compatible with an artificial split-up of national markets flooded by unsaleable manufactures and distorted by large-scale destruction. Though the developed capitalist countries forming the core region of the world economy were economically interdependent, the imperialist war had nonetheless led to explosive contradictions because of an upsurge of isolationism and a widening conflict between the United States and Europe. International balance of payments crises were proliferating in combination with increasing tariff barriers in a divided Europe. Meanwhile, Europe's purchasing power had shrunk and had nothing to offer to the United States now suffering from an overproduction crisis. As a consequence, capitalist decline had become a reality.

Trotsky, who defended the report at the Third Congress, proclaimed that capitalism lived by cycles of booms and crises (*Protokoll des III Kongresses* 1921: 71). Cyclical fluctuations would thus continue in the future. Limited recoveries could be expected as a result of endogenous factors within the cycles themselves. For the Soviet Union, the situation was not extremely dramatic because the capitalist countries were looking for investment opportunities in Russia's industry and railroad system. Trotsky addressed the question of whether capitalism was now achieving a new phase of equilibrium. Because capitalism was still alive, 'it will have to breathe, i.e. that fluctuations will occur' (*Protokoll des III Kongresses* 1921: 73). The war had, on the one hand, not only provoked an acute crisis, but also a long crisis which had ruined the European economies. On the other hand, capitalism was still developing, notwithstanding its complete social decay. Then Trotsky attacked German Social Democrats like Heinrich Cunow and Hilferding who had defended the possibility of an 'automatic equilibrium' as a new social base for a reformist policy in a period when the accumulation of capital resumed. Trotsky predicted that this stabilisation policy would be followed by resurgent class struggles (Galli della Loggia 1974: 985–90).

Because of the impoverishment of the European economy and China's and Latin America's resistance, the United States would be unable to find an outlet for their products on the world market. 'Thus we are in a period of depression; this cannot be denied', Trotsky exclaimed. However, he did not identify this economic downturn with revolutionary upheavals (*Protokoll des III Kongresses* 1921: 82–3). He only discovered a growing antagonism between French and British imperialism on the one hand, and between the United States and Great Britain on the other hand. The revolutionary period was thus over. The Communists should therefore prepare for applying a defensive strategy to get working-class support. The radicals were not convinced by Trotsky's arguments. Pogány pleaded for a more offensive attitude. August Thalheimer thought that Trotsky's theses were not 'sharply enough' formulated (ibid. 113–14) and, after a hectic discussion, Trotsky's theses were sent to a special committee for revising. There, the radicals failed to have a majority on their side. Varga rejected any proposal in favour of a more radical strategy in a period when the bourgeoisie had gained the support of the majority of the peasantry against the proletariat (ibid. 708–16).

After the Third Congress, Varga decided to revise his preliminary report thoroughly. In a second and enlarged edition published in 1922 (Varga 1922a), he argued that he had worked on the concept 'tendencies furthering the restoration of a new balance in the world economy'. This concept would allow him to explain why post-war capitalism had recovered in the second half of 1921. He called that recovery 'volatile and partial'. As long as the economic crisis was interwoven with foreign policy and revolutionary struggles, the central question remained if there was to follow an even more serious economic crisis (Varga 1922a: 122–31).

The Fourth Congress of 1922

Varga's way of analysing the world economy would nonetheless be adopted. At the First Plenary Meeting of the ECCI in March 1922 the adopted theses reflected Varga's way of analysing international politics. At the Fourth Congress of the Comintern meeting from 5 November to 5 December 1922, Varga refined his analysis further by making a distinction between 'normal' pre-1914 liberal capitalism and post-war declining monopoly capitalism.

In his report *The Process of Capitalist Decline* (Varga 1922c) to the Fourth Congress of the Comintern, Varga argued that the falling apart of the world capitalist system had caused a general decline of capitalism and that the uneven development of capitalism and the persisting agrarian crisis in Europe had disturbed the economic cycles. Keeping his distance from Luxemburg's accumulation theory, he thought that the origins of the imperialist wars were not to be found in the impossibility of peaceful inclusion of the non-capitalist world into capitalism, but in the profit-seeking activities of the capitalist class. Varga raised the fundamental question: 'Is the present industrial crisis of the world a transitory and usual one within capitalism, which, after having run its course, will be followed by a period of prosperity and social consolidation of class domination, in order to give way, some time later, to a less severe and usual crisis. Or have we to do with a permanent crisis, which, while it may be broken by spells of prosperity, can no more be topped?' (Varga 1922c: 5). His answer sounded rather *voluntaristic*: without a protracted and embittered struggle, 'without the self-sacrificing spirit of the proletariat', capitalism would not fall to pieces. Capital would strive to surmount all difficulties at the expense of the proletariat and 'it will pauperise the working class; it will drive down society to the pre-capitalist level rather than relinquish one particle of its class domination'. He warned against the mistake into which Social Democracy had fallen – 'the mistake of scientific fatalism, of merely theorising, in Marxist terms, on the collapse of capitalism and then passively waiting for its tumbling down' (Varga 1922c: 5).

The difference between the former crisis and the present period of crisis was that the former crises of capitalism were periodically recurring phases in the ascending line of evolution of capitalism. Capitalism had, up to the outbreak of the world war, exhibited an upward tendency, while the capitalist form of production expanded geographically. New countries were increasingly opened up to capitalism. Capitalism extended its sphere of operation in the capitalist countries themselves by drawing the pre-capitalist strata of society into its vortex. The falling rate of profit in the highly developed capitalist countries was compensated for by the export of capital to less developed capitalist countries, with higher rates of surplus value and profit. The landowners had been turned into capitalists. The centralisation of capital into monopolist forms of production, covering the whole economic field of a country, reduced the cost of capitalist management. Meanwhile, the proletariat of the imperialist countries received a small share of the extra profits it got out of colonial exploitation. Meanwhile, the

Table 3.2 Varga's ten characteristics of decaying capitalism (1922)

The geographic expansion of the capitalist form of production is slackening; in a growing number of countries, the proletariat is preparing for the dictatorship of the proletariat.
Within various capitalist countries there is a growing tendency towards a reversion to pre-capitalist forms of industry and agriculture.
The international division of labour is getting narrowed; foreign trade is shrinking; economic life of the world, which used to develop itself organically around the highly developed industrial nucleus of Western European countries, is losing its centre of gravity and is disintegrating into elements with very diverse economic structures.
The Gold Standard is being replaced by an unstable, fluctuating paper currency; and there is even a tendency to revert to barter.
Accumulation of capital is being replaced by a progressive impoverishment and disaccumulation.
The volume of production is decreasing.
The whole credit system is crumbling.
The standard of life of the proletariat is getting lower, either because normal wages are not keeping pace with the rise of prices or through wage cuts, or through unemployment.
Among the various strata of the possessing classes a severe struggle is going on for the division of the diminishing social product. This manifests itself, politically, in the disruption of the governing political parties, in the failure to form new political bodies, or to formulate new programmes, etc.
The faith in the unity and solidity of the capitalist order of society is being shaken. The governing classes, which are losing their moral authority, have recourse to force and and are arming themselves for the protection of their dominance.

aristocracy of labour was separated from the mass of the working classes. The tendency of financial capital was to amalgamate all possessing sections of the nation with one another.

Mixing Luxemburg, Hilferding and Lenin, Varga defined the crises as a transitory phase 'within an upward development – the effects of the anarchy of the capitalist form of production', causing 'but superficial disturbances in the structure of capitalism'. The system 'as a whole', however, would lose nothing of its equilibrium.

Varga called this post-war period the 'decaying stage of capitalism or the period of permanent crisis, or the crisis-period, for short' (Varga 1922c: 7) or a 'period of permanent crisis, or crisis-period, owing to its world dimensions must be of long duration' (Varga 1922c: 8). He clearly distinguished three types of crisis: (1) acute crises in the period of ascending capitalism; (2) the crisis-period, or the period of the decline of capitalism; (3) acute crises within the crisis-period itself. Finally, Varga concluded that one was again in a phase of crisis, 'as we were at the time of the Third Congress' and that 'we are in a phase of improving

trade, but still within the crisis-period of capitalism'. He warned his readers that his conception would meet with opposition from the Social Democrats and generally from all those who were interested in the continued existence of the capitalist order, but also from certain adherents of the 'Left' of the communist movement 'who deny that we have entered any phase of improving trade'. Against his opponents of both sides he tried to demonstrate that one had actually entered 'a period of permanent crisis; that the war which gave rise to this crisis-period was no "accident", but the necessary consequence of the imperialism which is the present evolutionary stage of capitalism; that an improvement of the economic situation is drawing near' (Varga 1922c: 8).

The essential features of Varga's theory of declining capitalism, especially the disturbed accumulation cycle and the disappearance of the equilibrium, deserve attention. In the time of Marx the capitalist mode of production only touched a small part of the civilised world. However, Marx comprised in his model of analysis the capitalist world as a whole. Therefore, Varga approached the equilibrium of the economic life of the capitalist world from the point of view of the balance of exchange values. Until the outbreak of the war the centre of capitalist economic life, Western and Central Europe, received annually, without equivalent, from the whole world large masses of values and profits from investments abroad and from the political exploitation of the colonies. The centre exported other and new accumulated masses of values as new investments to the less developed capitalist countries. That a kind of equilibrium established itself was proved by the fact that the rates of foreign bills fluctuated little.

The war, however, destroyed – at least temporarily – the bases of the former equilibrium of the capitalist world. During the war the European belligerent powers consumed not only the profits of their foreign investments, but the capital sums themselves; the accumulation of capital stopped and, partly, even a disaccumulation took place. This destruction of the exchange-value-equilibrium of the economic life of the capitalist world manifested itself in the chaos of the currencies. The regions that used to supply foodstuffs and raw materials were establishing their own manufactures. The goods of manufacturing centres could find therefore no markets. Hence, the glut of manufactured commodities in the highly developed industrial countries, and a glut of foodstuffs and raw materials in the agricultural countries. And this led to a deliberate limitation of production. Instead of reproduction on an extending scale there took place a reproduction on a shrinking scale. This was, in Varga's view, the theoretical outline of the present grave disturbances of the equilibrium of the capitalist system. And this was the essence and meaning of the present crisis-period. The result of it was that the whole economic life of the capitalist world no more moved on the ascending, but on the descending line (Varga 1922c: 10–11).

Some remarks can be made about Varga's pamphlet. First, Varga's analytical framework had already reached a high degree of maturity. Varga would use this framework for most of his academic studies. Second, Varga remained far from embracing Rosa Luxemburg's imperialism theory, but he accepted the idea that imperialism leads necessarily to war. 'We are thus in agreement with Rosa

Luxemburg as to the fact, that highly developed capitalism in its political form as imperialism leads necessarily to universal conflicts. But we differ as to its motivation. We do not believe that an accumulation or the continued existence of capital is impossible without an extension of capitalist mode of production in hitherto non-capitalist strata' (Varga 1922c: 23). Third, Varga classified the various countries into categories in order to create some order into the international chaos of his period, and grouped them according to their position in the economic life of the world, and then he brought into prominence certain types. In comparison to his pamphlet of 1921, this meant a real progress in his analysis of world politics.

The first group embraced countries at very diverse stages of economic and public development. At the lowest level he situated the oppressed colonial regions in Africa inhabited by an uncivilised native population. Colonial countries having reached a higher level of civilisation constituted a third subcategory. Finally, the subgroup of British settlement colonies would probably have recourse to protective duties moving along the direction of establishing a self-sufficient economic life (Varga 1922c: 26). The second group comprised fully developed and essentially intact capitalist countries like Japan, the USA, Great Britain and the neutral European countries. In some of these countries capitalist decay was not yet evident. In Great Britain as a fully developed country, the proletariat was still on the way to a revolutionary conception of the situation, while the trade-union leaders were cooperating with the capitalists. More hopeful for the revolutionary movement were those countries where decay of capitalism was already evident, also because they had taken part in the war. Their common feature was 'a large decrease of production as compared with the pre-war period' (Varga 1922c: 30).

France, Italy and Belgium formed another subgroup of victorious countries of which France exercised a dangerous influence on Central Europe where decline was important and accumulation of capital had come to a standstill. There, currencies were being rapidly depreciated, the credit system had broken down, the rates of interest were reaching fantastic heights and the whole region was sinking, economically and politically, to the level of a colony of the Allied Powers. Finally, the smaller countries and border states in Eastern Europe, among them Bulgaria and Hungary, were in a relatively better economic condition, but they were, nonetheless, nearer to a proletarian revolution than those of Central Europe, because the dominant classes were not united in their resistance. Finally, the 'group' of Soviet countries constituting a vanguard force against the capitalist class, was still stronger than the proletariat, and this fact compelled isolated proletarian Russia to make 'serious concessions to capitalism' to accelerate the economic reconstruction of Russia. While the 'decline of capitalism is proceeding apace, the new governmental type, the Soviet power, so full of promise for the future, is growing in strength', Varga (1922c: 35) argued.

Remnants of Kautsky's theory of super-imperialism were still present in Varga's analysis. However, his revolutionary optimism had not left him. The headlines of the Kremlin's foreign policy mixed up with revolutionary optimism

and elusive statements were still alive. But new ideas about monetary solutions were absent. Varga was still holding onto the Gold Standard as a guarantee of currency stability. When presenting prospects for the near future, he preferred making overviews of possible development, thus leaving room to different interpretations. Hence, he concluded that capitalism had acquired 'a certain firmness' and this through 'its inherent tendencies towards a restoration of the equilibrium'. As there was no possibility for the goods of the 'overproduction region' to be sold at profitable prices on the world market, many capitalists preferred closing their factories, thus hampering recovery. Because of the depreciation of the money prices, the foreign goods in the 'underproduction regions' were increasing sharply, their consumption diminished, and stimulated import-substitution production. Increased production at home meant at last diminishing international exchanges. Total result: a tendency towards 'a restoration of the distributed equilibrian (sic) between the rich and the impoverished countries' (Varga 1922c: 44). According to Varga, the great powers were only willing to overcome the crisis of capitalism by passing the bill to the proletariat and by transforming the whole world into a 'colonial region and to create in this manner a new world-economic equilibrium on capitalist lines', even if in this process many millions of proletarians would perish from starvation and 'the whole civilisation of Europe be wrecked' (Varga 1922c: 47). Varga held onto his thesis of capitalist decline, which offered him the hope of a victorious proletarian revolution, but in the meantime 'proletarian control must be fought for' because the material development did not 'automatically result in the collapse of capitalism' (Varga 1922c: 48).

Bukharin's mocking undertone in his reaction to Varga's report was a clear signal that he disagreed with its content. Bukharin called Varga 'a courageous guy, who is believing that we all are cowards who do not agree with his position on a workers' government. […] His courage is an opportunistic courage and his cowardice is the cowardice of not being an opportunist. That is our cowardice. We are afraid to be transformed into opportunists and Varga is not such a coward to fear it. That is the difference between him and us' (*Protokoll des Vierten Kongresses* 1923: 422–3).

The Fifth Congress of 1924

Varga was already known for his quarterly economic analyses in *International Press Correspondence* (*IPC*). In his reports he showed some interest in predicting an imminent collapse of the capitalist world system as a consequence of the built-up production capacity during the war in all basic industries and depreciating European currencies against the US dollar. The unsolved reparation question and the hopeless situation of Germany's finances contributed to the deepening of the ongoing crisis, he argued. Varga's point was that the American boom of 1923 had been incapable of raising the European economy to a higher level and to revive 'the whole capitalist world' (*IPC* 1924: 48). The crisis was accentuated by currency problems, which had necessitated an international action by the

Anglo-Saxon bourgeoisie for regulating German reparations. Was the world proletariat facing now a new crisis or a sharp downturn of the capitalist economy? That question was of crucial importance to the Comintern (Varga 1924b).

Already before the Fifth Congress of the Comintern met on 17 June 1924, the failure of the attempted German revolution of October 1923 had discredited the 'Brandlerite' leadership of the KPD (Communist Party of Germany). Then, the conditions for the British revolutionary movement had become favourable. Hence, Grigoriy Zinoviev could describe the Comintern as standing at the moment between two waves of the proletarian revolution. Stalin spoke about the inability of the imperialist powers to bring about a durable peace. Lev Kamenev confirmed that capitalism was 'incurable'. Trotsky qualified the situation nonetheless 'as revolutionary' (Carr 1972: vol. 3, 75).

At the Fifth Congress one had to assume that the cause of the world revolution had suffered a major setback from its early hopes. In his opening speech, Zinoviev repeated in almost the same words what Trotsky had already said to the Third Congress: 'We misjudged the tempo: we counted in months when we had to count in years' (*Protokoll Fünfter Kongresses* 1924: 5). Zinoviev set forth the basic assumption that a stabilisation of the world economic situation was out of the question. He insisted on the revolutionary situation in Germany. While putting the problem of power on the European agenda, he attacked the Rightists as the main enemy and took the sting out of Trotsky's demands for an even more aggressive revolutionary policy. Zinoviev attacked in his speech social democracy as a third party of the world bourgeoisie and a wing of Fascism. Then he pleaded for a 'united front from below', meaning a policy of splitting Socialist parties against their leaders. He attributed all past defeats to a false interpretation by the 'Right' of the slogans of the united front and the workers' government.

Zinoviev's political report was immediately followed by Varga's introduction to his economic report *The Decline of Capitalism* (Varga 1924c). Varga predicted the collapse of capitalism although the 'acute social crisis of capitalism' after the war had been 'by and large overcome'. He was not at all very clear in his analysis and statements. Combining vagueness with revolutionary optimism, he pointed to 'factors that are important for gauging developments cannot be determined at this time' (Varga 1924c: 3). Though the American boom had come to an end, it was yet impossible to qualify the sharp decline of the boom as the beginning of a steep crisis. The agrarian crisis was however still a key factor in the world economy and the outcome of the harvest was of great importance 'for shaping the course of the market during the ensuing business year'. A decidedly poor harvest would put an end to 'the sparse beginnings of a recovery of business in Middle Europe' (Varga 1924c: 3).

Varga's report made use of paragraphs of his report to the Fourth Congress of 1922, which suggested continuity in his analysis. Strangely enough he married this time Lenin's imperialism theory to Rosa Luxemburg's thesis that capital employs different means for combating the falling tendency in the rate of profit. Capital in every highly developed, capitalistic country is thus compelled, in order to retard the decrease in the rate of profit, to subjugate larger colonial

areas. 'The principal means, however, is the exportation of capital to countries where the time involved in labour is shorter and the rate of profit and for overtime is a higher one. […] We therefore find ourselves in agreement with Rosa Luxemburg with reference to the fact that highly developed capitalism in the form of imperialism leads to warlike conflicts of world dimension. The reason for this, however, is not the impossibility of accumulation without the existence of non-capitalistic elements, but the simple desire for higher rates of profit' (Varga 1924c: 8).

Varga repeated that the direct economic consequences of the war were the separation of the world into spheres of relative overproduction and absolute under-production. Again, he stuck to the opinion that the period of decline of capitalism continued, but this did not mean that single sections of the earth, which were only recently encompassed within capitalism, would not pass through a strong economic ascendancy on a capitalistic basis. Nor did it mean that there could be no more business booms for Europe. It did mean, he argued, that capitalism, as a whole, was proceeding along a downward curve. Considered over a longer period of time, total production was decreasing, crises were lasting longer and more intensive, while periods of boom were of a short duration and weak. Unity of the capitalist world economy was not achieved, industrial cycles crossed each other's paths, interlocking of world-economic interests became less and less tight (Varga 1924c: 51–2). Hilferding's optimism vis-à-vis capitalism's future proved that Social Democracy had concluded an accord with the bourgeoisie against the proletarian revolution by promising the workers a betterment of their condition within the capitalist system.

At the Fifth Congress Varga was less pessimistic about the economic situation and the chances of the world revolution. 'American capitalism is still healthy', he concluded. As opposed to European capitalism, 'it is certainly on the upgrade'. But he still held out hope that the American upswing would come to a quick end. Varga reiterated this view in his speech as well when arguing that the capitalist world would nonetheless remain in crisis and that a further deterioration could be expected. Stagnation and production decline in combination with declining living standards would create the objective possibility of a successful struggle for power. Although American finance capital was now more powerful than ever, it would get ever more deeply entangled in the contradictions and crises of European capitalism. Nothing could alter the final downfall of capitalism having already entered its last stage. But within the general crisis of capitalism, many variations could occur, in the form both of partial recovery and of incongruities between different countries now that capitalism was no longer a uniform world system (*Protokoll Fünfter Kongresses* 1924: 109–21; Kozlov and Weitz 1989: 392).

During the debates different positions emerged. French delegate Albert Treint supported Zinoviev against the Rightists. Polish German delegate Gustaw Reicher declared that in October 1923 the KPD had been in a position to seize power. British delegate John T. Murphy pointed out that the united front was the essential basis of the tactics of the British party. Indian delegate Manabendra

Nath Roy castigated the British proletariat as a class penetrated through and through by the unconscious and conscious spirit of imperialism. John Pepper (Pogány) scoffed at the idea that US real wages were moving downward and that the American working class was then undergoing a process of radicalisation. Karl Radek attacked Zinoviev and turning on Varga, he read extracts from Varga's pamphlet of the previous month, contrasting them with the more bellicose passages of his report to the Congress. Predicting the imminence of an acute revolutionary crisis, Ruth Fischer rejected the united front slogan as 'obsolete'. Varga's theses on the economic situation, having been referred to an economic drafting commission, were adopted unanimously, though it was reported that, presumably as the result of pressure from the 'Left', they had been further modified in the commission in order to make them more favourable to the prospects of revolutionary action (*Protokoll Fünfter Kongresses* 1924: 415–16). In their final form the theses dwelt on the exceptional character of capitalist prosperity in America, which contrasted with the misery and chaos of capitalism in Europe, and on the worldwide agrarian chaos.

At the Fifth Congress of the Comintern, Varga had sketched all recent economic improvements in a few nations, such as France or the United States, as 'isolated' and not representative for the general trend of a 'decaying capitalist world economy'. In 1925 he had his views somehow revised now that the European economies had expanded their productive potential as a result of technological changes and reorganisations. A gaping contradiction between the production and realisation possibilities of European industries still existed, because there was no demand for the increased output capacity. In 1921, Varga had nonetheless argued that low wages had been the consequence of economic chaos. By 1925 he thought that they were causing the maintenance of an idle productive apparatus (Kozlov and Weitz 1989: 392).

Varga's views were, strangely enough, already in line with the guidelines Stalin defended at the Fourteenth Congress of the All-Union Communist Party (VKP(b)) in December 1925 and the latter's claim at the Seventh Enlarged Plenum of the ECCI (November 22–December 16, 1926) (*Protokoll Erweiterte Exekutive 22. November–16. Dezember 1926*) that 'the starting point for the position of our Party is the recognition of the fact that present-day capitalism, imperialist capitalism, is moribund capitalism' (Stalin 1975: 612). Capitalism had not yet gone completely bankrupt, but it was nonetheless 'on its road to extinction'. Stalin added that the 'law of uneven development in the period of imperialism means the spasmodic development of some countries relative to others, the rapid ousting from the world market of some countries by others, periodic re-divisions of the already divided world through military conflicts and catastrophic wars, the increasing profundity and acuteness of the conflicts in the imperialist camp, the weakening of the capitalist world front, the possibility of this front being breached by the proletariat of individual countries, and the possibility of the victory of socialism in individual countries' (Stalin 1975: 615). Already in his polemic with Trotsky, Stalin had used Lenin's words that uneven economic and political development was an absolute law of capitalism, and that

the victory of socialism was possible in one country taken separately. This time, he also gave a brief outline of the basic elements of the law of uneven development under imperialism, but in the meantime he completed them with Varga's analysis of international capitalism.

Stalin:

> Firstly, the fact that the world is already divided up among imperialist groups, that there are no more 'vacant', unoccupied territories in the world, and that in order to occupy new markets and sources of raw materials, in order to expand, it is necessary to seize territory from others by force. Secondly, the fact that the unprecedented development of technology and the increasing levelling of development of the capitalist countries have made possible and facilitated the spasmodic outstripping of some countries by others, the ousting of more powerful countries by less powerful but rapidly developing countries. Thirdly, the fact that the old distribution of spheres of influence among the various imperialist groups is forever coming into conflict with the new correlation of forces in the world market, and that, in order to establish equilibrium 'between' the old distribution of spheres of influence and the new correlation of forces, periodic redivisions of the world by means of imperialist wars are necessary.
>
> (Stalin 1975: 615)

According to Stalin, the implications of these 'facts' were unequivocally clear: they showed a growing intensity and acuteness of the uneven development, an impossibility of resolving the conflicts in the imperialist camp by peaceful means, an untenability of Kautsky's theory of ultra-imperialism preaching a peaceful settlement of these conflicts (Stalin 1975: 616). Stalin would always stress that the revolution would have a violent character. He would explain this position later in his pamphlet *Concerning Questions of Leninism* of January 1926 (Stalin 1975: 268–346). This opinion did not, however, mean that the proletariat could not share power with another class, especially the 'labouring masses of the peasants' for the achievement of its aims (Stalin 1975: 281–2).

Meanwhile, Varga had not yet abandoned his underconsumptionist view on capitalist realisation problems. At the Enlarged Plenum of the ECCI meeting from 17 February to 15 March 1926 in Moscow, Varga acted as a referee on the world's economic situation. He diagnosed a temporary and fragile economic stabilisation of capitalism at the expense of the European proletariat. Because of a sinking living standard of the working class a revolutionary tendency would develop at the end of the stabilisation period. In America, the economic boom would end up in a slow down initiating a worldwide economic crisis putting an end to the period of economic recovery in Europe. Europe had lost its predominant position, colonial super-profits had evaporated, while revolutions were spreading over the Asian continent. This time Varga was talking about a 'structural change in world capitalism' (*Protokoll Erweiterte Exekutive 21. März–6. April 1926*: 109). At the end of his speech, Varga attacked ultra-leftist Werner

Scholem (KPD) for criticising him as a 'rightist deviationist' who had taken over Hilferding's stabilisation theory. Varga forcefully repeated that there was no perspective on a period of further peaceful development of European capitalism. Conquering political power required a long process of revolutionary upheavals of which the result would be highly uncertain. In order to reassure his audience, Varga said that the vanguard of the proletariat had nonetheless prepared this bid for power. Though Varga was 'believing in and hoping for a fast final victory of the proletariat', he did not believe in an automatic collapse of capitalism. 'Without risking a revolutionary struggle against the bourgeoisie no revolution can succeed', he exclaimed (*Protokoll Erweiterte Exekutive 21. März–6. April 1926*: 112–13).

Conclusions

By 1925 Varga's analysis of the general crisis of capitalism had become the Comintern's basic tenet. His theoretical approach allowed the Comintern leadership to hold a revolutionary discourse in a period when post-war capitalism had stabilised and reached an international economic equilibrium. Lenin's law of uneven development of capitalism and imperialist wars could be used with Varga's underconsumptionist thesis for the prediction of an economic crisis and subsequently also for the moment of revolutionary struggles. Though capitalism had gained an extended lease on life – also called a partial and temporary stabilisation – recovery of capitalism could thus be described as a mere postponement of the inevitable final breakdown. Finally, Stalin would take advantage of Varga's theory of the general crisis of capitalism and use it by combating the United Left Opposition and later the Right.

4 Between Bukharin and Stalin (1928–30)

What if the Universe wears a mask?
What if no latitudes exist?
Boris Pasternak

Though the Sixth Congress of the Comintern (July–August 1928) had detected signs of a new revolutionary upsurge, capitalist stabilisation was still a reality. A possible radicalisation of the proletariat was nonetheless expected. From now on the reformist labour leaders were officially identified as Social Fascist constituting the last pillar of bourgeois hegemony. During the power struggle raging between Stalin and Trotsky for party leadership, Varga preferred to keep a neutral stance. However, after Zinoviev lost his post at the head of the Comintern in October 1926, Varga's position was still near to Bukharin's. After the latter's fall, Varga's theory that rationalisations and technological innovations would lead to rising unemployment, but not to lower wages (Varga's 'law'), was now dismissed as a variant of Rosa Luxemburg's realisation theory, thus fundamentally contrary to Marx's impoverishment theory. Bukharin was formally expelled from the ECCI at the Tenth Plenum of the ECCI in July 1929. Varga was not re-elected candidate member of the ECCI. That occurred at the moment that the Stalinist faction was edging its way towards forced collectivisation of agriculture and breakneck industrialisation.

Capitalist stabilisation

Bukharin saw the 'first period' of post-war capitalism ultimately ending in 1923 with the Communist defeats in Germany and Bulgaria. In the ensuing 'second period', capitalism had stabilised. At the Seventh Enlarged Plenum of the ECCI (22 November–16 December 1927) and at the Fifteenth Party Conference of the VKP(b) in December 1927, Bukharin asserted that the capitalist economies had completely recovered from the destructive consequences of the war and that qualitative improvements in the organisation and technical methods of production had occurred. Meanwhile, Bukharin revived his concept of state capitalism he had developed in 1925 (Bukharin 1982: 6–37). He even called it by its

forbidden name (because of its association with the ideas of Rudolf Hilferding and Otto Bauer) 'organised capitalism'. Meanwhile, a second round of state capitalism was under way. Stabilisation was not 'an accidental' fact, but the result of monopolisation and concentration of capital regulating the economy. Overcoming its anarchical nature by reconstructing and rationalising its post-war productive apparatus on a higher foundation, large enterprises colonised the state after having fused with the organs of state power from below. Bukharin called this development *trustification* of state power. Both Varga and Bukharin were amazed by the spirit of 'scientific management' having brought about an unprecedented rationalisation of economic life. Dissociating himself from Hilferding (the latter believed that organised capitalism could develop on an international level as well), Bukharin thought that Hilferding's pre-war analysis of finance capital was still valid. As a consequence, capitalism of Marx's time with its fatal, crisis-producing contradictions could not be applied at the national level, but did apply to the international economic level where competition still existed. Thus Bukharin concluded that organised capitalism would not bring peace, but war. Varga could underwrite this thesis.

Being close to Bukharin, Varga had referred in his *The Decline of Capitalism* (1924c) to the possible overcoming of an approaching acute social crisis. At the Fifth Enlarged Plenum of the ECCI in March 1925, he provided the first Comintern reference to the term 'stabilisation of capitalism'. At the Seventh Plenum of the ECCI in November–December 1926, a 'third period' was already predicted, but not yet defined (*Protokoll. Erweiterte Exekutive 22. November – 16. Dezember 1926*). By 1927, the Comintern responded to the coming revolutionary tide with the tactic of 'class against class'. At that moment Bukharin, Varga and Palmiro Togliatti were still holding to a more 'realistic strategy' (Kinner 1999: 123; Aga-Rossi and Zaslavsky 1997; Agosti 2000). The theory of 'social fascism' (Bahne 1965: 211) and the tactic of 'class against class' were launched in order to attack the Social-Democratic organisations. Especially in the Weimar Republic, Social Democracy could easily be identified with bourgeois rule as well. In the meantime, Stalin campaigned for building socialism in 'one country'.

Before the Fifteenth Congress of the VKP(b) met in December 1927, Stalin had already defined the necessity of collectivisation in a considerably less flexible way than Bukharin or Rykov had done before the congress, arguing that only collective cultivation could solve the problem of agriculture. Although Stalin predicted an imminent end of capitalist stabilisation and a new revolutionary upsurge in the colonies and in the West, he spoke in a moderate pro-NEP tone. However, it would soon become clear that he was preparing for a new course. At the CC Plenum of the VKP(b) meeting of 9 July 1928 a fortnight before the Sixth Congress of the Comintern, Stalin had already overtly criticised Bukharin's draft of the new Comintern programme. Stalin criticised – without naming its author – Varga's thesis that isolated revolutions could have no chance against an imperialist intervention. No revolution was isolated since the Soviet Union had grown much stronger with the Comintern's guarantee of international solidarity,

he trumped (Stalin *Works* 1954: vol. 11, 154). The debate then became so heated that some participants – among them were Varga, Bukharin and Kliment Vorochilov – kept interrupting each other. Stalin, however, avoided an open conflict with Bukharin (Anderson and Chbaryan 1998: 661–74). Though the right-wingers had become after Trotsky's elimination his enemies, he nonetheless preferred undermining Bukharin's authority slowly. Therefore, he tried to weaken the influence of the moderate elements in the Comintern by replacing several of them with Leftists. Meeting a few weeks later, the Sixth Congress of the Comintern offered Stalin – with Varga's help – that chance.

At the Sixth Congress of the Comintern (17 July–1 September 1928)

Before the Sixth Congress of the Comintern met, Varga published his preliminary economic report, 'The Decline of Capitalism after Stabilisation'. In it he argued that capitalism had become unstable. This thesis was contrary to Bukharin's (*IPC* 1928: 726) claim that one was still living in a long period of capitalist reconstruction and stability. However, at the Sixth Congress Varga presented not only his report on the world economy, but also a second one treating recent economic problems in the Soviet Union. That a Hungarian Communist like Varga was allowed to present a report on the Soviet economy was rather unusual. Although Varga had joined the VKP(b) in 1925, he was certainly not a prominent leader. His knowledge of Russian state affairs and agriculture were limited. Varga's sudden rise to prominence was obviously due to Stalin, who had opposed Aleksey Rykov as a referee on the Russian situation, because of the latter's unwillingness to back Stalin's industrialisation drive.

The Sixth Congress of the Comintern was devoted to lengthy debates on Bukharin's drafted new Comintern programme. Bukharin, who was still the Comintern's acting president, argued that state capitalism had further stabilised at a higher technological and organisational level (*IPC* 1928: 727–40). New inventions and industrial processes, such as electrification, synthetic fuels, artificial silk, the use of light metals such as aluminium, the spread of automobiles in the USA, and the assembly line, announced a period of ascending capitalist development. State capitalism was furthering this ongoing technological revolution. During the war, 'war capitalism' with its cartels had dominated the state, but from now on these cartels had been linked up with and grafted onto public organs capturing the state from below. Hence, the bourgeoisie of all categories was becoming transformed into a receiver of dividends notwithstanding all existing antagonisms. Though revolutionary upheavals were inevitable, they could only come from external contradictions (wars), not from internal crises shaking individual countries. As long as state capitalist systems called for a policy of working-class unity, not for sectarian adventures, Western capitalism was not on the brink of a profound revolutionary crisis. In addition, Bukharin rejected the idea of excluding an alliance with social democratic workers beforehand.

Varga's preliminary report on the world economy, which was visibly based on articles already published in *Mirovoe khozyaistvo i mirovaya politika*, *Die Internationale* and *Internationale Presse-Korrespondenz*, explained that 'the stabilisation of capitalism' did not mean the 'stability of the capitalist system' and that 'the internal contradictions of stabilised capitalism must necessarily lead to new revolutionary situations, that the period of decline of capitalism is not ended' (Varga 1928: 1). After the war, capitalism had stabilised with the help of the reformist labour leaders, but concessions granted by the capitalists to the workers were soon wiped out by inflation and the property of the *rentiers*, the petty bourgeoisie and the peasants were expropriated. Post-war capitalism was leading to 'a peaceful super-imperialism, whose economic basis is international monopoly, economic cooperation between banks of issue and the balance of forces; whose form of organisation is the League of Nations' (Varga 1928: 6). It would be 'blind stupidity to attempt to deny the fact of the economic and political stabilisation of capitalism as compared with the position in the years immediately following the war' (Varga 1928: 6–7). Then, Varga nonetheless tempered his estimation. Compared with the pre-war situation, the increase in production was insignificant. Post-war capitalism was not a 'dying' capitalism, 'but one already in the process of mortification' (Varga 1928: 7). In the post-war period Varga identified a new phenomenon having arisen from the industrial cycle. An important decrease had occurred in the number of workers employed in industry in the leading capitalist countries, while the increase in production per worker exceeded the extension of production. The displacement of workers by machinery was no longer compensated for by an extension of production, while the capacity of the distribution services to absorb workers was rather limited as rationalisation of all forms of office work tended to decrease employment in this sector as well.

Varga enumerated several arguments drawn from Lenin's works on the corrupting influence of the labour aristocracy. He blamed the reformist theoreticians for combining *Sismondism* (higher wages in order to sell more goods) with capitalist rationalisation policies. Ideologically, the bourgeoisie had lost David Ricardo's free trade ideology in favour of Gustave Cassel, 'the most superficial vulgar economist' (Varga 1928: 15). Capitalism was no longer a unified whole. Its world system was broken up into imperialist states struggling for hegemony. The overthrow of the capitalist system and the establishment of the dictatorship of the proletariat within the Soviet Union signified 'the beginning of the period of the decline of capitalism' (Varga 1928: 10). Varga saw growing instability, 'both in its economic sub-structure and in its political-social and ideological super-structure, which could lead to a new imperialist war'. Though Varga quoted Bukharin's stability theory of capitalism, he nonetheless marked his distance from Bukharin by giving his own interpretation of the character of the crisis which 'differed fundamentally from all previous crises of capitalism that could succeed in solving the contradictions […] within the framework of the capitalist system, while this crisis led to the break up of the system itself, to the overthrow of the bourgeoisie and the attainment of the proletarian dictatorship in one of the greatest States of the world' (Varga 1928: 10).

Varga rejected Hilferding's thesis that capitalism was approaching a new period of expansion and that today capitalism differed from earlier forms of capitalism because it had become organised and planned. The state in the period of organised capitalism had thus not become of decisive importance to the fate of the working class. He categorically rejected the possibility advanced by Hilferding that the transition from capitalism to socialism could be realised by the gradual attainment of economic democracy, not by a previous collapse of capitalism. Otto Bauer's and Hilferding's strategy consisted of widening economic democracy by factory councils and participation in the management of monopoly concerns, which Varga identified as establishing the workers' right 'to decide on the appointment and dismissal of workers' (Varga 1928: 91). International instability was nourished by inter-imperialist rivalries between the four independent imperialist powers (the USA, the British Empire, Japan and France) dominating a host of small independent states and semi-colonies. Germany had been reduced to 'half an imperialist Power, half a colony under the control of imperialist Powers' (Varga 1928: 78). He noticed a tendency towards the unification of the great mass of the working class and a spreading of industry through the whole of the country. Varga qualified the conveyer system 'as the centre of organisation' (Varga 1928: 37–8) of 'mass production, the production of exactly similar commodities in unbroken repetition', and the essential precondition for mass production 'is a large market for the commodities produced' and a 'standardisation of demand' (Varga 1928: 37).

In his speech to the Sixth Congress, Varga highlighted the menace of war threatening the Soviet Union's very existence. Then he criticised Bukharin for having too briefly analysed 'the economic basis' of this threat. Varga noted that during the last two years a far-reaching technical progress in the USA had taken place. This process had already caused tremendous changes in the economic basis and in the structure of the working class. Increased productivity of labour due to technical changes in the production process and increased intensity of labour had led to a new kind of unemployment, which Varga qualified as being 'structural unemployment [...] economically different from the industrial reserve army'. He saw a tendency towards the rise of a 'new type of privileged worker, a new type of labour aristocracy'. The conveyer system implied that any worker might learn in a few days the simple manipulations required by the function. A 'new class of workers' had meanwhile arisen in the large factories. In order to secure their employment, these new workers were systematically placing themselves at the 'service of the capitalists' against the working class 'as a whole' (*IPC* 1928: 819). Structural unemployment was progressing since the crisis of 1921. Its new character consisted in that the number of workers employed by industrial capital had decreased in absolute figures in the USA in a period of great industrial prosperity, and, in spite of the reduced number of workers, output of manufactures had increased as well. As a consequence of technical progress and labour intensity output had surpassed the capacity of the market. 'Today we find that the expansion of the market no longer suffices to provide work again for those who have been previously thrown out of work in the

imperialist countries' (*IPC* 1928: 818). The peasants producing in the first place to satisfy their own needs had become farmers producing for the market and were purchasing industrial products. Hence, the struggle for markets would become more and more acute as big imperialist countries would try to push their goods into foreign markets. However, these opportunities were rather limited because of industrialisation in the dominions overseas, high protective tariffs, import embargoes, etc. Varga denied that Rosa Luxemburg had inspired him:

> What I am saying here is by no means identical with the teachings of Rosa Luxemburg. According to the theory of Rosa Luxemburg, when there are no independent producers, no third persons, the realisation of the surplus value, and consequently the accumulation is impossible. Of course, this is not true. […] These are two different things: the theoretical impossibility of accumulation without 'third persons' according to the theory of Luxemburg, and the historic fact that through the transformation of peasants into farmers the capitalist market had once experienced a tremendous expansion. Those two things are by no means identical, and they should not be identified.
>
> (*IPC* 1928: 818)

During the ensuing debate, Varga would draw the attention of his audience to a very sharp distinction existing between his theory and that of Luxemburg. 'My point is not that it is impossible to realise surplus value within the capitalist system generally […] but that the former expansion of the capitalist markets – which can only take place once in history – in these countries has now been completed' (*IPC* 1928: 1188). Then, Varga nonetheless subscribed to the thesis that increased mass unemployment would 'naturally' mean a strong impulse, an increased discontent of the workers whose very existence was endangered, and a 'rise in the volume of revolutionary energy'. But, on the other hand, Varga noted that the living standard of the American proletariat had risen because the increased intensity of labour necessitated a 'well-fed worker' (*IPC* 1928: 818).

Drawing a more optimistic picture of the forward march of capitalism in the western world, Bukharin warned in his reaction against believing in a steady decline of a crisis-ridden capitalism in almost all capitalist countries. The more state capitalism was progressing, the less likely would crises occur. Under full state capitalism a crisis would be impossible. The only serious threat to capitalism's stability was a war between organised national trusts. Bukharin warned for 'overestimating the so-called parasitic aspect of capitalism' or for the idea that the 'productive forces of capitalism' were not operating anymore. Meanwhile, one was living during a 'peculiar phase of capitalism' in which science and technological development were playing a major role. Varga's 'law' and the subsequent presumed effects did not impress Bukharin. The rationalisation crisis and the absolute growth of unemployment were for him Luxemburgism in a new dress. 'I absolutely disagree with the argument advanced […] to the effect that the internal possibilities of American capitalism have been "exhausted". […] It

is wrong both in theory and practice [. . .] it is a reiteration of Rosa Luxemburg's theory' (*IPC* 1928: 871).

Commenting unfavourably on Varga's theory of structural unemployment, Stalinist Besso Lominadze saw in Varga's new law of development under which the amount of variable capital, and consequently also the number of workers, would decline absolutely in the face of a simultaneous increase in constant capital, as contrary to Marx's *Capital*. Expanded accumulation reproducing capitalist relations on an expanded basis would always lead to the creation of more capitalists or bigger capitalists at one pole, and more wageworkers at the other pole. The accumulation of capital operated thereby as the *multiplicator* of the proletariat. In addition, Varga's theory was not entirely new, but inspired by bourgeois economist M. I. Tugan-Baranovskiy. It was 'not permissible to make conclusions on the basis of a questionable table which revised the whole teaching of Marx' (*IPC* 1928: 934). According to Lominadze, Varga had confused two things, the technical composition of capital and its value composition. In England, unemployment was growing on the base of a depression. In America it was not the technical transformation, but the slackening tempo of the development of productive forces having caused unemployment. According to American Jay Lovestone, mass unemployment had arisen from both the depression itself and from a 'tremendous rationalisation process' (*IPC* 1928: 934). Capitalist stabilisation had not yet altered that fundamental fact, he argued, that one was still living in the epoch of moribund capitalism and proletarian revolutions. In the Soviet Union the class struggle in 'the most acute forms' was continuing and the alliance between the proletariat and the vast masses of the 'toiling peasants' (*IPC* 1928: 1116) remained one of the principles of the dictatorship of the proletariat. Economic achievements of the last years had been obtained 'by means of its own resources', but meanwhile 'the rate of economic growth had slackened down' (*IPC* 1928: 1117).

In his reply to his critics, Varga denied that his views were related to 'war communism'. With regard to the mistakes made during the Hungarian Councils' Republic, he argued that the distribution of land was not necessarily excluding a form of war communism. The capture of power in other countries than Russia or Hungary could even come about in the form of a bloody civil war with sections of the working classes. In the first period of the dictatorship of the proletariat 'production must decline, primarily because labour discipline is considerably weakened in such a situation' (*IPC* 1928: 1118), making an amelioration of the living conditions of the proletariat impossible. In the not yet nationalised factories the capitalists would have no stimulus to produce. Labour discipline would be very lax and the rate of exploitation very low. Inflation would prevail making continuation of production unprofitable. For political reasons, the bourgeoisie would sabotage production as well. The peasantry would send less produce to the markets, first for economic reasons, and second for political reasons. Requisition of manufactured goods in the stores and distribution of them among the workers would become necessary. Confiscation of houses of the bourgeoisie should be organised. Varga repeated that distribution of the land among the

peasants was not contradicting war communism. Distribution of land taken from the rich peasants (kulaks) and distributed to the landless agricultural workers would increase resistance of the kulaks. At the very end, Varga conceded that he had made a serious mistake when prohibiting private trade during the Republic of Councils in Hungary.

Varga's report on the economic situation of the Soviet Union was marked by Stalin's 9 July 1928 speech to Central Committee Party Plenum. In that speech, Stalin had depicted the merchants and kulaks as the worst enemies of socialism. With Stalin, Varga now thought that the period of the proletarian dictatorship did 'not bring with it the cessation of the class struggle; it merely assumes another form' (*IPC* 1928: 1115). However, he did not announce the end of NEP. He defined the limits of cooperation with the peasantry in a manner that was still consistent with Bukharinism. By fixing agrarian prices the dictatorship of the proletariat had been strengthened, but there were 'certain limits to the employment of these methods, and these limits will exist as long as the private economic section exists. [...] Unless the limitations of these methods are recognised a rupture with the masses of the peasantry will be inevitable'. Varga recognised that some difficulties had occurred in the grain collection campaign during the current year, but there was 'no crisis whatever in the Soviet Union' (*IPC* 1928: 1122). Varga accepted the idea that the peasants contribute to the build-up of industry in the form of the 'scissors' until the Soviet Union had reached the level of the capitalist countries, but he criticised the Left opposition wanting to raise the price of manufactured goods in order to extract the largest possible share of the income of the peasantry for the purpose of socialist industrial development. On the other hand, however, the peasantry could dispense with manufactured goods for a very long time. Meanwhile, private industry, handicrafts and home industries were competing with the socialist sector. In addition, a 'certain differentiation' (*IPC* 1928:1120) among the peasantry had taken place with the rise of the class of kulaks who represented about 2 per cent of the total peasantry. For the time being, the dictatorship of the proletariat was not able to solve this problem, but as soon as the industry of the Soviet Union was able to produce sufficient machinery and tractors the poor peasants would be able to cultivate their land themselves and, if possible, to get organised into cooperatives.

Moving in Stalin's direction

The Sixth Congress of the Comintern ended with an impressive victory of Stalin's political line against his opponents (Cohen 1975: 294–5). Though Bukharin was still the Comintern's acting president, the Stalinist current was now dominating the VKP(b). The Rightist German leaders sympathetic to Bukharin (Heinrich Brandler, August Thalheimer and Arthur Ewert) would soon break away from communism. The same would happen with the moderate leaders of other Communist parties. Under Stalin, the Communist world movement opted for a radical turn to the extreme left.

By 1928 Varga was still catalogued as belonging to Bukharin's tendency. Although he had taken a radical stance, he could have been some kind of Bukharinist in disguise for he did not belong to Bukharin's inner circle. When in 1922 Varga published a lengthy review of the German edition of Bukharin's *The Politics and Economics of the Transition Period* (1920), he mocked Bukharin's attempt at developing a so-called general theory of socialist transformation. In addition, he criticised Bukharin for having neglected his impoverishment thesis. After having discovered several 'imperfections' in Bukharin's interpretations concerning the still existing capitalist production relations in Russia – partial capitalist production relations existed under the rule of the working class – Varga complained that Bukharin had 'insufficiently' analysed the relations between the peasantry and the proletariat. In addition, he had omitted analysing the important problem of feeding the cities. Moreover, Bukharin had not studied the extraordinary development of the production forces in Japan, the USA and, partially, also in England, although these countries were at the very origins of the actual overproduction crisis (Varga 1922b: 380–5).

After having corrected Bukharin's stabilisation theory by pointing to rising mass unemployment during the phase of capitalist stabilisation, Varga could not be catalogued as a clear-cut Bukharinist or Rightist deviationist. In his report *The Decline of Capitalism* (1924c), Varga had already criticised Hilferding's theory of 'organised capitalism' or any theory promising a prolonged period of capitalist stabilisation. However, Varga's position on agriculture was quite unclear. For having defended in the past both war communism and then an alliance of the proletariat with the peasantry, he could be catalogued as an outspoken opportunist as well, but, on the other hand, his authoritarian solutions in matters of labour discipline could make of him an ally of Stalin's rapid industrialisation too. In addition, in the recent past, Varga had been very close to Stalin's preferences in the Asian question (Haithcox 1971: 114–23). Doubting whether there ever had been 'real feudalism' in China, Varga argued that there only had been a 'form' of feudalism. The Chinese bourgeoisie could thus resolve the 'agrarian question' before making a national revolution (*IPK* 1928: 853).

When on 19 December 1928 the Presidium of the ECCI met to discuss the situation in the KPD at the initiative of Stalin and Vyacheslav Molotov, Varga drafted with Sergey Gussev, Otto W. Kuusinen, Strakhov [Li Lisan] and Gaston Monmousseau an open letter against the German Rightists, and he wrote a confidential message to the KPD leadership as well (Humbert-Droz 1971: 349–51; Puschnerat 2003: 364–6; Weber and Bayerlein 2003: 274–5). Then the KPD party organisation was purged of all Rightist deviators and all those refusing to accept the notion of an imminent crisis of capitalism and the theory of social fascism.

Varga's Luxemburgism

Varga's problem was that his crisis theory could be identified as a variant of Rosa Luxemburg's underconsumptionist thesis which had found in this period in

the person of Fritz Sternberg her most talented follower (Sternberg 1926, 1947). In *The Accumulation of Capital*, Rosa Luxemburg (1913) had argued that Marx's reproduction scheme in *Capital 2* (1957) was contradictory to the limits of consumption in *Capital 3*. In *Capital 3*, Marx had stated that 'the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit' (Marx 1959: 472–3). But in the same volume 3, Marx had remarked that 'things are produced only so long as they can be produced with a profit' and that the 'rate of profit is the motive power of capitalist production', which meant that 'new offshoots of capital' were seeking to find 'an independent place for themselves' (Marx 1959: 254). Marx had observed that workers were hired only as they could be profitably employed and that the development of productivity of labour proceeded 'very disproportionately in degree but frequently also in opposite directions' (Marx 1959: 254).

In *Capital 1* (1954: 612–712), Marx had argued that the absolute volume of employment will tend to grow despite technological change, albeit at a slower rate than investment: 'The accumulation of capital, though originally appearing as its qualitative extension only, is effected, as we have seen under a progressive qualitative change in its compensation, under a constant increase of its constant, at the expense of its variable constituent' (Marx 1954: 628–9). 'The labouring population therefore produces, along with the accumulation of capital produced by it, the means by which itself is made relatively superfluous, is turned into a relative surplus population; and it does this to an always increasing extent. This is a law of population peculiar to the capitalist mode of production' (Marx 1954: 631–2). Marx completed his *Verelendungstheorie* (empoverishment theory) with the observation that the 'greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army. The same causes which develop the expansive power of capital, develop also the labour-power at its disposal' (Marx 1954: 644).

Basing himself on Marx's *Capital 1*, Varga argued now that in 'pure capitalism' accumulation and technological progress automatically caused an absolute decline in the number of productive workers and, therewith, also engendered a chronic realisation problem. This neo-Luxemburgist reinterpretation of Marx crisis theory was met by criticism on behalf of other Communist economists who did not appreciate Varga's assertion that crises occur because workers are not paid sufficient wages to consume the increasing output. Varga was here gravitating towards Luxemburg when arguing that crises occurred because workers were insufficiently paid and external markets were non-existent. He used data from the USA indicating that for the first time in history the number of productive workers had declined in a period of industrial boom.

In an article published in *Mirovoe khozyaistvo i mirovaya politika* (1928/5: 3–12) (fragments also in *IPK* 1928: 1223–44), Varga argued that during the post-war years employment had fallen by 8 per cent in mining, rail transport and

agriculture, which 'proved' that an absolute reduction in the number of workers was taking place in combination with an increasing output per worker. Hence, the rate of labour displacement in some branches of production exceeded the absorption rate in others. At earlier stages the effects of technological changes had been offset by the use of machinery in agriculture and handicrafts, while labour power in these sectors could find employment in industry. But now that the American peasantry was mainly producing for the market and the working class was shrinking, absolute impoverishment would be their fate. Without renewed access to 'third-party' markets the realisation problem would become, despite the achievements of the monopolies in the regulation of production, so acute that further accumulation and realisation of surplus value would stagnate. Thus the only method to solve the problem was a transfer of income from the capitalists to the workers to sustain demand. In practice this would be impossible because of bourgeois resistance to any income redistribution. Varga referred to the American automobile industry where a realisation crisis had caused about four million jobless workers (about 10 per cent of the working population or 18 per cent of the wage earners). However, low interest rates were engendering a hitherto unknown stock-market speculation bubble that would burst (*IPC* 1928: 863). Varga's 'law' pointed to a chronic tendency towards a sharpening contradiction between the productive forces and the working classes' purchasing power. Hence, Varga's 'law' demonstrated the impossibility of continuously raising wages and consumption.

Soviet economists did not share Varga's views on the impossibility of a normal business cycle in the post-war period. They were not convinced by the validity of Varga's 'law'. D. Bukhartsev, E. S. Gorfinkel, P. Shubin, Spektator (Nakhimson), and N. N. Osinskiy (Valerian V. Obolenskiy) and Modeste I. Rubinshtein were sceptical about the impact of technological advance on employment. Rubinshtein thought that American unemployment was exceptional. Bato Batuev argued that America was hit by an enormous underutilisation of its productive apparatus (Day 1981: 151). Spektator stated that labour intensification was far more important than technological progress. Hence, high unemployment rates were due to insufficient investment rates sustaining or creating additional employment. He identified Varga's remarks on 'pure capitalism' as a return to Tugan-Baranovskiy's thesis that capitalism might continue developing even in a period of growing unemployment (*Planovoe khozyaistvo* 1928/5: 198–9). In an address to the Communist Academy in April 1928, N. N. Osinskiy admitted (*Mirovoe khozyaistvo i mirovaya politika* 1928/7: 14–15) that in American industry a high unemployment rate was a fact, but he rejected, however, Varga's theory of the non-existence of expanded reproduction in the USA. Hence, he predicted the take-off of a new reproduction cycle superseding the actual level of production in several branches.

In the meantime, Varga's position as a Marxist-Leninist economist was challenged by a fast growing group of young Stalinists. Lominadze had already disqualified Varga's theory of growing unemployment during the

period of stabilisation as mainly based on partial bourgeois statistics. In the meantime, a fierce campaign against the bourgeois specialists was decreed and public, artistic and scientific life was brought under a tighter control of the leading organs of the VKP(b) (McDermott 1995: 413). Stalinist attacks on Varga's unemployment thesis intensified in the beginning of 1929. Christoph Wurm (KPD) published in *Die Kommunistische Internationale* (February 1929: 395–416) extensive and personal attacks on Varga's 'unemployment law' (rationalisations and technological innovations leading to increased unemployment in capitalism) as being in contradiction to Marx's Capital. Wurm's thesis was that Marx had clearly stated that after a period of increased unemployment a new investment wave should create more employment. Although the introduction of more machinery in the production process destroyed jobs, workers could find employment in the booming machinery industry. Though nothing was new in this attack – Lominadze had developed the same reasoning at the Sixth Congress of the Comintern. – Varga was unable to refute Wurm's argumentation. Varga referred to American statistics of the Federal Reserve Board. He argued that Marx had made a distinction between the concrete historical nature of unemployment and its 'pure' theoretical analysis. Wurm remarked that Varga's crisis theory came nonetheless very near to Rosa Luxemburg's imperialism theory.

Meanwhile Stalin dealt with the right-wing danger in the VKP(b). At a meeting of the Politburo on 15 April 1929, Bukharin, Mikhail Tomskiy and Rykov tried to constrain Stalin's industrialisation goals. When opening the Plenum of the Central Committee (16–23 April 1929), Stalin urged for beating the Right deviators. Molotov attacked Bukharin's and Rykov's proposals to issue a 'two-year working plan' and Bukharin's theory of the kulaks growing into socialism. By endorsing Stalin's five-year plan, the Plenum confirmed his leading position as well. In Stalin's words Bukharin's errors in regard to the policy of the VKP(b) were 'unseparately connected within his erroneous line in international policy' (*IPC* 1929: 964–5). Meeting on 23–29 April 1929, the Sixteenth VKP(b) Party Conference adopted the new industrial and agricultural policy and ordained by decree a merciless combat against the Right deviators. Completely discredited, Bukharin and the other right leaders were now removed from their leading positions (Schapiro 1971: 365–81).

Meanwhile, Stalin's foreign policy underwent a radical change as well. It would be ridiculous, he argued at the Plenum of the CC, 'to think that the stabilisation of capitalism had remained unchanged' (Stalin 1947: 242). In Europe, conditions were maturing for 'a new, revolutionary upsurge', which would dictate 'the new tasks of intensifying the fight against the Right deviation in the Communist Parties' (Stalin 1947: 243). An expected imminent economic downturn would therefore necessitate a radical response and a destruction of reformist illusions (Watlin 1993: 94). Stalin urged the Communist parties to destroy Social Democracy that was passing from reformism to 'social fascism'. Several arguments could be found in favour of a radical turn to the left and a break with any form of cooperation with Social Democracy.

Tenth Plenum of the ECCI

At the Tenth Plenum of the ECCI on 3–19 July 1929, additional decisions had to be taken about the representatives of the Rightist current (Natta 1965: 117–73). After Bukharin's removal, only Varga's ideological and political position with regard to the left turn could be qualified as highly ambivalent. Varga's amendments to the draft reports had caused some disagreements in the ECCI Presidium. In his amendments he defended the thesis that during the period of capitalist stabilisation the standard of living of the workers had not decreased. Growing unemployment was due to technical innovations, not to decreasing production. With regard to the recently signed Young Plan, Varga argued that this international agreement should be seen as a provisional attempt to bridge over the imperialist differences on the German reparations question, rather than a result of sharpening inter-imperialist contradictions. Both theses were qualified as 'Rightist' and thus unacceptable to be included in the draft text. They would be debated during several sessions of the Tenth Plenum of the ECCI.

After Bukharin's removal from the Comintern leadership, it was up to Otto Kuusinen and Dmitriy Manuilskiy with Molotov as Stalin's trouble-shooter to direct the debates at the Tenth Plenum (Natta 1965: 139). Opening the Tenth Plenum, Otto Kuusinen gave a detailed analysis of the international situation and the revolutionary tasks of the Comintern (*IPC* 1929: 837–51). Then he dealt with Varga's thesis of wage increases in a period of capitalist rationalisation and with Varga's 'unorthodox' appreciation of the recently signed Young Plan. Kuusinen's debating technique was very tricky. First, he tried to ridicule 'Red Professor' Varga by extensively quoting from Marx's *Capital* against him. Then, he designed an offensive strategy by stressing the importance of struggles for higher wages and a shorter working day now that the living and working conditions of the working classes were deteriorating as a consequence of the introduction of the conveyer system and the subsequent rationalisation of the production process. Though recognizing Varga's merits, Kuusinen nonetheless rejected the utility of his 'general law' – with arguments Lominadze had already used in 1928 when rejecting Varga's 'law' as a 'superfluous ornament' – of a general tendency towards an absolute decrease of the number of workers. 'A warning example is the mistake made by such a great revolutionary as Comrade Rosa Luxemburg who, in her desire to construct a simple, purely economic "law" of the collapse of capitalism, was diverted into the wrong channel.' Kuusinen discerned in Varga's law of the tendency of the decreasing number of workers 'the germ of a new theory of the gradual decay of capitalism' (*IPC* 1929: 842).

Then, Kuusinen attacked American Jay Lovestone and John Pepper (Pogány) because of their overrating of technological progress under capitalism. They had unduly pretended that rationalisation of production could generate higher wages and imply a 'second industrial revolution'. As capitalist apologists they were advocating a 'revision of the foundation of Marxism' (*IPC* 1929: 837). Not labour productivity, but Lenin's analysis of the parasitic character of monopoly capitalism preventing technological innovations should be the essential economic

criterion. Marx had demonstrated that increased productivity only could mean that a worker would produce more within the same span of time, not that his wage would increase. Then, Kuusinen attacked Varga for having defended at the Presidium meeting the thesis that rationalisations and the conveyer system had contributed to a higher living standard of the American working classes. However, real wages could not possibly rise as intensification and rationalisation were creating mass unemployment, increased labour intensity could only mean a declining general wage standard. Capitalist rationalisation should bring with it 'an absolute worsening of the position of the working class even when real wages are rising' (*IPC* 1929: 839), namely in the sense as Marx had said that 'in proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse' (Marx 1954: 645). Monopoly capital did not only enforce monopolist prices for goods, but also reduced the price of labour power well below its value. He attacked Varga on the latter's assertion that in America real wages showed a tendency to rise without having investigated how big or how small the rise was, because such an investigation would have revealed that the standard of living of the workers was not rising.

Kuusinen conceded that the conveyor system determined the degree of the intensity of labour and that capitalism was capable of crushing labour resistance much more rapidly than before. It was thus 'to the credit of Comrade Varga' that he had 'laid the necessary stress not only on the importance but also on the new character of the present mass unemployment in the United States, Great Britain and Germany'. Kuusinen could however not agree with Varga's attempt 'to construct a general law or a general tendency out of the absolute diminution of the number of labourers. But insofar as he establishes a causal connection between the enormous growth and the chronic character of mass unemployment [...] and capitalist rationalisation, he is certainly right' (*IPC* 1929: 846). As a consequence of the worsening of the living conditions of the workers, proletarian consciousness would increase and shatter all reformist illusions.

Finally, Kuusinen attacked Varga for the latter's treatment of the Young Plan. In the spring of 1929, American diplomat Owen Young had renegotiated a reduction in the reparations annuity from 2.5 billion to two billion pre-war Goldmarks. Now, Varga was arguing in his amendment to the ECCI thesis that the Young Plan could prevent a sudden economic downturn and thus bridge over imperialist contradictions, but Varga had not solved the underlying contradictions of the reparations problem.

In his response, Varga opined that Kuusinen's report was 'too general, especially in regard to economics' and that the latter's theses did not pay 'sufficient attention to the concrete elements in the present situation' (*IPC* 1929: 863). During the past period of 'uninterrupted economic revival' a revival of the labour movement had occurred leading to an increase in the volume of production on a world scale. This could, however, by no means be considered as the end of the general capitalist crisis. The American economy was not only suffering from overproduction in the agrarian sector, but also shaken by a huge overcapacity in the automobile industry. He signalled a new agrarian crisis in the

United States, causing a sharp decline of wheat prices and the danger of an international credit crisis because of high interest rates. He predicted the collapse of the stock market because of 'unprecedented speculation' in the United States and in other countries leading to a comprehensive rationalisation and dequalification process and announcing a general reallocation of the entire labour force.

During the discussions in the Presidium, Varga had already argued that the standard of living of the workers had been increased, not lowered. There he had explained that for the time being the workers' standard of living had not been lowered, but that did 'not at all mean that the position of the workers has not become worse' as the worker was squeezing out of him 'more labour power in one hour than a few years ago' (*IPC* 1929: 865). Unemployment was not the consequence of reduced production. 'It runs on the contrary, parallel with considerable increase of production' and that it did not 'disappear in a favourable economic situation'. The greatest unemployment could be found 'in the most highly developed capitalist countries' and was 'partly disguised by the transference of wide sections of labour from the sphere of production to the sphere of consumption and distribution' (IPC 1929: 866). Varga pointed now to the fact that average labour productivity had increased by 40 per cent. The new unemployment was due to the rationalisation process in industry and the mechanisation drive in American agriculture. He refuted Kuusinen's opinion that 'over-estimation of technical progress' was a Right deviation. 'The Right deviation begins only when someone overestimates the consequences of technical progress for the stabilisation of capitalism. The Right deviation begins when someone imagines that the capitalist contradictions are lessened by technical progress, that stabilisation is consolidated thereby' (*IPC* 1929: 867).

Varga criticised 'some comrades' who had indulged in the joke of calling the definition a 'Varga law'. 'I cannot let that stand, he argued. I am a much too modest person to make a law. […] I merely spoke of a tendency' (*IPC* 1929: 866). A 'new type of privileged worker' had emerged: technical assistants, spies, members of company unions in the United States, but also the *Stahlhelm* (a nationalistic and paramilitary organisation supporting the big landowners) in Germany. Varga pointed to the revolutionary potential of the growing army of unemployed workers. Characteristics of unemployment were related to the ongoing technological revolution in the developed capitalist world. Unemployment was not the consequence of reduced production and it would not disappear in a favourable economic situation. The highest unemployment was registered in the most developed countries and the transfer of workers from industry to services was partially disguised unemployment. New unemployment was caused by the fact that there were 'not enough capitalist outlets to absorb again the young generation of the working class and the workers where thrown out of work!' (*IPC* 1929: 866). Varga argued that on the one hand the Young Plan could certainly exacerbate imperialist antagonisms, but that on the other hand the Young Plan was also 'an attempt at a compromise in regard to a very dangerous point of the imperialist differences' (*IPC* 1929: 911). The Young Plan would nonetheless

postpone Germany's decision to join the French and English alliance against the Soviet Union.

Béla Kun blamed Varga for having been contaminated by 'bourgeois economics' (*IPC* 1929: 869). Kun could only admit the relative destitution of the working class. John R. Campbell attacked Varga's analysis of the rationalisation process in British industry. Ivan Teodorovich (secretary-general of the Krestintern accused in 1930 of 'right-wing deviations') was charmed by Varga's concrete analysis of the economic crisis. British left-winger Harry Pollitt attacked Varga for having used bourgeois statistical evidence. According to Bulgarian Vasil Kolarov (Balkan Secretariat) the presumed rise in the living standard of the working class remained a 'question of dispute between revolutionary Marxism and reformism' (*IPC* 1929: 950). According to Varvara Moirova (ECCI Women's Department), Varga's thesis on the standard of living was wrong. Rafael M. Khitarov (Young Communist International) opined on the absolute lowering of the living standard. Thomas Bell congratulated Kuusinen for having taken him back to 'some fundamentals of Marxism, particularly on this question of the standard of living' (*IPC* 1929: 1040). Ercoli (Palmiro Togliatti) defended the view that the workers in Italy had meanwhile lost a good part of their purchasing power. German left-winger Hermann Remmele argued that Varga had given 'too much prominence' to the increase of production, 'whilst he had not taken sufficiently into consideration the elements which make for the growth of contradictions within the capitalist system' (*IPC* 1929: 946). Varga had left out of account the fact that the production capacity was increasing to a much greater extent than the production figures. Therefore, it was preferable to talk 'about the shrinkage of markets' (*IPC* 1929: 946) and a worsening of the standard of living of the workers. Remmele accused Varga of reformist attempts by using bourgeois statistics. 'As a matter of fact, bourgeois statistics have now entered into the period of their fascisation, becoming transformed into fascist statistics. This is the fact which Comrade Varga overlooks. Comrade Varga is anxious to explain away the reformist character of his theory' (*IPC* 1929: 950).

Against this plethora of negative remarks, Varga stressed that he had 'never said that the living standard had risen, as was ascribed to be by some comrades here' (*IPC* 1929: 1019). He had only discerned a relative increase in the living standard of the working classes in some countries. In addition, a stock-market crash was imminent because of the ongoing extraordinary gambling. Sure signs of a new economic crisis were visible. By 1930 there would be more fights between capital and labour. Finally, everything depended on the 'right interpretation' of the available statistics. 'To my mind, it is the greatest opportunism to keep silent because of fear to clash with the prevailing line of thought. This is the most dangerous kind of opportunism unworthy of a Communist'. Many times, Varga had been blamed for his alleged opportunism. Hence, he could refer to the Fourth Congress, where he had been 'described by Comrade Bukharin as an opportunist because I believed that the partial demands should be included in the Comintern Programme. […] a few days afterwards Comrade

Bukharin, on behalf of the Russian delegation, was bound to make a declaration in which the charge of opportunism was withdrawn'. At the Third Congress Varga had been branded by a group of comrades as 'an opportunist'. However, these critics had now joined Social Democracy. Varga: 'The only one whom I still have the joy to see in our midst is my friend Bela Kun! (Bela Kun: "But at that time you were at one with Trotsky!") But also with Lenin on this question!' (*IPC* 1929: 1019). Then Varga attacked Kolarov for having given 'the most opportunist speech ever made in the Comintern', for his 'liquidatorship of the purest brand' and for having used 'nothing but the old vulgar theory of under-consumption', which was 'politically the theory of social-fascism' defended by Social Democrat Fritz Tarnow in Germany (*IPC* 1929: 1020).

Molotov proved to be Varga's trickiest opponent who connected Varga's Right opportunism to the faction of the German Reconcilers. He revealed that Varga's speech and propositions on the Young Plan and on the living standard of the workers had been strongly opposed at the Plenum. Molotov warned that Right-opportunist tendencies 'did not only come from, so to speak, advanced Right and conciliatory elements. They penetrate also by other means. An example of this is Comrade Varga'. These elements were 'evidently singing in unison with social-democracy'. Molotov argued that the amendments Varga had proposed concerning the standard of living of the workers and the reparation problems contained palpably opportunist conclusions. 'What he wanted to prove is in substance, that the general position of the working class gets worse without a lowering of its standard of living' (*IPC* 1929: 1045). Varga could thus agree with the apologists of capitalism from the social-democratic camp. Molotov commented that one should be astonished about the fact that a member of the Plenum had formulated such opportunistic conclusions.

In his closing speech Kuusinen commented on the problem of Marxism's accuracy in the use of economic terms and the fact that the ECCI had differed from Varga's opinion about an absolute or only relative decline in the living standard of the working class. 'My whole argument was directed against Comrade Varga's assertion that there was only a relative, but no absolute decline in the living standard of the workers' (*IPC* 1929 1144). In addition, Varga had overlooked the situation of the unemployed. He had not considered how much increase would be required in the wages to compensate merely for the increased intensity of labour. Kuusinen: 'I have advanced two chief arguments in my report against Comrade Varga: firstly, that he has overlooked the unemployed, and secondly, that he did not consider how much increase would be required in the wages to compensate merely for the increased intensity of labour. Nevertheless, I was reproached by Comrade Béla Kun and Khitarov for having made a concession to Comrade Varga on this question. This was not at all the case' (*IPC* 1929: 1144). Kuusinen added that Varga had not repeated his own proposal at this Plenum, 'although he had tried to maintain his assertion against the thesis of the decline of the living standard of the working class as the result of capitalist rationalisation. He failed, however, to refute our arguments in any way. He was forced to admit that he did not allude to the living standard of the working class

as a whole, especially to that of the unemployed, who are also a section of the working class. Secondly, he admitted that there was no compensation by capitalist rationalisation for the increased intensity of labour in the sense of "real wages", which he had used in his argument. But he pleaded that the term of "real wages" in this restricted sense had been used by bourgeois statisticians. […] Comrade Varga objected that even if the absolute figures in the bourgeois statistics are falsified (this he admits) nevertheless the dynamics of the real wages are correctly shown by these statistics, and in this he is wrong again' (*IPC* 1929: 1144–5).

Kuusinen thought that Varga's contribution to the discussion consisted 'only in that he finally mustered the courage to admit the possibility that he was too isolated from the real life of the working masses and was capable of overlooking hard facts that are visible to every worker'. Kuusinen mentioned Varga's excelling in the study of economic conditions or his describing of various details of the economic situation. 'For instance, there can be made a little amendment in the resolution from what he has said on the agrarian crisis and on the actual crisis of credits. There could be made a "little amendment" to the resolution from what Varga had said 'on the agrarian crisis and on the actual crisis of credits'. But Kuusinen criticised Varga also for his 'deductions and generalisations' and for having drawn 'wrong conclusions from a whole series of absolute correct data' (*IPC* 1929: 1144) on the question of reparations. Varga's so-called 'law' was thus a derivate of the American bourgeois economist Rexford G. Tugwall. 'That is the baby, a bourgeois baby which Comrade Varga has wrapped in the napkin of "Marxian" phraseology' (*IPC* 1929: 1145). Varga was in his eyes 'a conscientious investigator, he is conscientious with all his facts', but unfortunately Varga's method was 'not always unobjectable', and his 'conclusions were not always pure'. Although the number of workers in certain industries could diminish, this did not mean that one could speak 'about a general tendency' (*IPC* 1929: 1146).

According to *Pravda* of 21 July 1929, the Tenth Plenum of the ECCI had recorded 'the decline of capitalist stabilisation, a further intensification of its contradictions […], a further deterioration of the position of the working class, upon which the burdens of capitalist rationalisation are being cast, and it recorded a further increase of the war danger and before all of a military attack upon the Soviet Union'. In addition, 'a growing revolutionary advance, especially in such countries as Germany, France, and Poland' could be expected. However, it was also 'a question of cleansing the Communist Parties from the tail politicians, the opportunist, semi-social democratic elements who will not see the maturing revolutionary advance (or are incapable of seeing it), who are not able to lead the working class in the coming revolutionary struggles, who are laying down their arms before capitalism and the social democracy and who are beginning to play in our Parties the role of an inner agency of the enemy forces' (*IPC* 1929: 800–1). As a consequence of that cleansing, Varga was not re-elected as a candidate member of ECCI. He would not be the only one. By 1930, seven members of the ECCI elected at the Sixth Congress of 1928 had already been expelled from the Comintern leadership.

Conclusions

The Tenth Plenum of the ECCI had brought the confirmation of Varga's Rightist deviationism and heresies (*KI* 1930: 2260). However, Varga's dissident voice was for the time being not completely silenced. Though his incriminated views on the Young Plan and the German reparation payments problem were published in the Comintern press (*KI* 1929: 1471–84), they were however not fully accepted. As predicted, the Wall Street stock market would soon collapse. The announced breakdown of the US financial sector would follow and the economic downturn would end in a deep crisis of the capitalist system.

5 The agrarian question

> The recruiting ground of socialism is the class of the propertyless.
>
> Karl Kautsky

Although the Comintern developed a strategy for peasant revolutions in backward countries, many Marxists saw in the peasant population a transient social class, soon to disappear with the development of industrial capitalism. Varga, who was also an agrarian specialist, would play an important role in the Comintern's agrarian strategy. He stood at the cradle of the Peasant International or Krestintern in Moscow.

Marxism and Peasantism

According to Marx, peasant interests could be best identified with those of the urban petty bourgeoisie. As members of the petty bourgeoisie, peasants were obsessed by the insignificant property that made them owners, but without ever being protected from the threat of poverty.

Marx detected in *The Class Struggles in France* and in *The Eighteenth Brumaire of Louis Bonaparte* the negative attitude of the peasantry. Although he undertook no particular investigation of peasant social conditions, Marx assumed that French peasants were forming something like a 'sack of potatoes' without internal cohesion (Marx 1973: 238–9). Marx's treatment of the peasant in *Capital* did not contradict the conclusions reached in his previous political writings. Subsistence farmers or associated producers helped the capitalist system to survive cyclical crises. The low degree of division of labour in traditional peasant communities functioned to stabilise the feudal order, while associated peasant producers sustained the capitalist system. Peasant farms blocked the concentration of capital and the application of new technology to agriculture. The system of small proprietorship had therefore to be abolished (Marx 1954: vol. 1, 762).

It was not until the publication of *Capital 1* that Marx began seriously studying pre-capitalist social formations. It seems that Marx's interest in feudalism and serfdom grew at the end of his life because of the evolution in Russia

(Hobsbawm 1964: 22–3). Responding to Vera Zasulich in 1881, Marx argued that the peasant commune, still existing on a national scale, could gradually shake off its primitive qualities and develop directly as an element of collective production on a national scale. In his second draft, Marx wrote that the Russian peasant cultivator already owned the house in which he lived. 'Here we have the first dissolving element of the archaic formation, unknown to older types' (Marx 1964: 143). He added that the isolation of the village communities permitted 'the emergence of a central despotism above the communities' (Marx 1964: 143). The crux of the question was that one could not overlook the fact 'that the archaic type, to which the Russian commune belongs, conceals an internal dualism, which may under certain historic circumstances lead to its ruin' (Marx 1964: 143). Marx conceded that 'the analysis given in Capital assigns no reasons for or against the vitality of the rural community, but the special research into this subject which I conducted, the materials for which I obtained from original sources, has convinced me that this community is the mainspring of Russia's social regeneration, but in order that it might function as such one would first have to eliminate the deleterious influences which assail it from every quarter and then to ensure the conditions normal for spontaneous development' (Marx and Engels 1953: 412).

Georgiy V. Plekhanov who considered himself as a 'Westerniser' (Walicki 1992: 82–95) and Marxist, rejected Russia's barbaric society and its 'semi-Asiatic' character. For Plekhanov, Russian socialism had to follow the path of Western political tradition. According to Plekhanov in his polemics with the populists, capitalism had already made some progress in Russia, the commune was disintegrating, while peasants had remained conservative. According to Plekhanov, the *obshchina* (traditional community) no longer existed since rural development had destroyed the commune principles. Meanwhile, Karl Kautsky's theses on the agrarian question had become immensely influential in Russia after the publication of *Die Agrarfrage* (*The Agrarian Question*) (1899). According to Kautsky, the small proprietors were condemned because small peasants were incapable of influencing social evolution. In the long run, the more efficient large-scale capitalist farmers would supersede the smallholders. They would hasten the victory of socialism.

Although Lenin derived most of his economic insights from Kautsky, his belief in the peasant's dismal fate did not inspire him to lose any interest in the peasantry. Instead, he started a polemic with the Populists on scientific grounds. He ridiculed the Populists' belief in the Russian peasants' civilisation. Lenin saw the Populists as petty-bourgeois ideologues and utopian socialists emphasising distribution of wealth rather than control over the means of production.

Lenin and Soviet peasantism

Lenin's tactical and temporary positions differed with regard to the peasantry all along his political career. In the throes of the revolution of 1905, Lenin indicated that support for the peasants' struggle against feudalism had to end before the

peasant achieved his objectives. But in 1917 he called for the redistribution of large estates among the poor and landless peasants (Kingston-Mann 1983). After the October Revolution, Lenin argued that the Soviet government should establish a dictatorship of the proletariat over other hostile classes. Lenin saw in state capitalism and planned production elements favouring socialist development. The main threat to the Soviet regime came from the small commodity producers aspiring to become capitalists (Cox 1986: 20–2; Lewin 1968: 21–40). During the Civil War, the Bolsheviks were nonetheless able to consolidate their power by rallying the majority of the poor peasants. This was the key factor in the process by which the theory of the 'unshakable nature' of the alliance between workers and peasants 'came deeply rooted in Party doctrine' (Lewin 1968: 33). Lenin argued that this petty bourgeois capitalist threat should not be fought head on, but mastered by state control and agricultural cooperatives. Lenin showed great contempt for socialist planners like Lev N. Kritsman (1929), Vladimir P. Milyutin (Miljutin 1920a, 1920b, 1921) and Yuri Larin supporting the idea of a 'single economic plan' for the Soviet Union.

Peacetime conditions and the NEP would bring a rapid restoration of agricultural production. The central problem was how to find an alternative source to the surpluses produced by the large estates. Without them there would be little hope of economic development. Yet the Revolution had brought the overwhelming preponderance of small peasant landholding. In most ways the system of small peasant landholdings in Russia was the fulfilment of the Populist dream, but in the early 1920s it had already become obvious that the large amount of small peasant farms could not produce a surplus for the market. Peasant farms had comprised 70 per cent of agricultural area before 1914, and by 1921 comprised 96 per cent. One of the most striking features was the increase of dwarf farms not producing for the market. This threatened the provision of the cities with grain (Ellison 1978: 472–5).

The peasantry occupied in these years the centre of debates in the VKP(b). Populist economist Boris D. Brutzkus (Kojima 2008: 126–31) emphasised the advantages of peasant farming, but he also stressed the importance of giving way to large farms employing modern technology and producing important surpluses for the markets (Ellison 1978: 475). Like Brutzkus, Menshevik economist Peter Maslov regarded the growth of a prosperous peasant class as a progressive economic development, but he opposed the formation of large estates. Former Kadet Minister Aleksandr A. Manuilov reduced all problems of Russian agriculture to productivity. He insisted that Russia should follow the American way of capitalist farming. Liberal economist L. N. Litoshenko proposed to solve all problems by specialisation in different agricultural produce (Ellison 1978: 476–80).

By 1920, Bukharin (Tarbuck 1979) noticed that the revolution of the proletariat took place first of all in Russia 'because the proletariat in its striving for communism was backed up by the peasantry, which was opposed to the landowners'. Elsewhere, the revolution was a painful process. Everywhere, the peasantry was proving to be the 'greatest obstacle' to the proletarian revolution. The speed with which the revolution advanced was 'inversely proportional to the maturity of the

capitalist relations and the height of the model of the revolution' (Bukharin 1979: 170). Bukharin therefore trusted the disintegration of relations between the imperialist states and their numerous colonies as 'a major factor in the decomposition of the capitalist system' (Bukharin 1979: 172). He greeted the colonial uprisings and national revolutions shaking the imperialist system. These upheavals were entering into 'the great, world revolutionary process', which shifted 'the entire axis of the world economy' and would facilitate 'the victory of the proletarian revolution and the dictatorship of the working class' (Bukharin 1979: 172–3).

The Second Congress of the Comintern had already debated in 1920 the agrarian question (*Der Zweite Kongreß* 1921: 538–70). In his preliminary draft of the theses Lenin argued that the urban industrial proletariat, led by the Communist Party, would save 'the toiling masses in the countryside from the yoke of capital and landlordism, from dissolution and from imperialist wars, inevitable as long as the capitalist regime endures. There is no salvation for the peasants except to join the Communist proletariat, to support with heart and soul its revolutionary struggle to throw off the yoke of the landlords and the bourgeoisie' (Lenin 1964: vol. 31, 152–64). In Lenin's preliminary draft the peasant was presented as the chief ally of the worker regardless of the level of economic development, and the industrial proletariat, as a truly revolutionary and socialist class, had to act as the vanguard of all working people. This could not be achieved without the introduction of the class struggle in rural areas or without the unification of the toiling masses of the countryside around the Communist Party. Redistribution of land had won over the peasantry to an alliance with the working class. The middle peasant could be won over on condition the workers support him against the rich peasant. The small peasant could be drawn to the Bolsheviks by promises of freedom from rent and mortgages, of stronger state support for the cooperative movement, and state assistance in the acquisition of agricultural machinery. For the leading capitalist countries, Lenin pleaded for the preservation of the majority of large-scale agricultural enterprises and their operation along the lines of the soviet farms in Russia with the former wage labourers transformed into state employees. It would be the greatest mistake to exaggerate this rule and never to permit the free distribution of expropriated land to the small and even middle peasantry. On this question Lenin could refer to the positive experience in Russia and the negative example in Hungary. According to Lenin, the primary reason for the failure of the Hungarian Revolution was the failure to distribute land to the peasantry.

The Comintern resisted, however, Lenin's view. Julian Marchlewski, the appointed secretary of the Agrarian Commission of the Second Comintern Congress, stressed the importance of making a distinction between backward and developed capitalist countries. Finally, Lenin's last paragraph was deleted and Marchlewski's point of view was brought in. Lenin's remark referring to the correctness of the preservation of large-scale exploitations was retained as a distinctive paragraph and as a general rule. Marchlewski noted that the proletariat had to secure control over its own food supply and that Lenin's tactic of redistribution

was restricted to backward economies. Finally, Marchlewski supplied the distinction between advanced and backward countries. Giancinto Serrati suggested that Lenin was overly impressed by his own experience in the October Revolution and that the preliminary draft did not reflect the problems of the revolution in the West. He referred to the danger of peasant parties emerging in Central Europe and the Balkans. But all that seemed unimportant at a moment when the Red Army was pushing the Polish invaders to the gates of Warsaw.

Agrarian development

In the mid-1920s the prevailing view was that the NEP was working quite well. The egalitarian repartition of land did play a revolutionary role and strengthened the middle peasant masses. Food output was growing while class differentiation was not proceeding rapidly enough to pose any problems in the near future. However, this development was only made possible because of land nationalisation, the liquidation of gentry land tenure and the limitation of kulak development. Lenin saw egalitarian land use as a 'transitional' measure towards socialism, which made concessions to the peasantry but without harming the future of socialism. It satisfied the peasants' aspirations, while they sought to expand their smallholding family farms (Danilov 1988: 80–4).

Agrarian developmentalists like Bukharin argued now that socialist elements in the economy could coexist with market relations. They went as far as to argue for further removal of restrictions on well-off peasants to enable them to accumulate capital. His main concern was the balance between the industrial and agrarian sectors with a peasantry slowly increasing exchanges with the cities (Cox 1986: 24–6). Evgeny Preobrazhenskiy opposed these gradualist views. His main argument was that Bukharin's strategy would lead to a growing contradiction between socialist economic planning and capitalist tendencies. In his *New Economics* (1980), Preobrazhenskiy developed the concept of 'primitive socialist accumulation' involving the use of such methods as taxation, income from the external trade monopoly, and non-equivalent exchanges with the peasantry for investment in an expanded socialist industrial sector. But opinions diverged. For Lev Trotsky, the influence of capital was not only increasing in agricultural production, but also in trade, because kulaks and small tradesmen were exercising a strong influence on the peasantry. Hence, NEP would permit retail traders to expand their impact on the agrarian sector.

During the 1920s statistical studies of the Russian countryside expanded greatly. Talented young people were recruited for the new centres of thinking and research in the field. Disagreement on agrarian issues and rural development 'politicised', and the political affiliations or beliefs of the disputants were permitted to affect their assessments and their analysis (Solomon 1975: 554–82). Some agrarian economists carried out research on different agrarian social issues. Since 1925, their research results were published by Kritsman's new journal *Na agrarnom fronte. Ezhemesyachny zhurnal* (edited at the Agrarian Section of the Communist Academy in Moscow). Varga would become its

regular contributor on problems of agrarian crisis, stabilisation of capitalism, rising wheat prices, agrarianism versus industrialism.

Thanks to the research carried out by Kritsman, the conditions producing social changes in the villages were also debated. Notwithstanding the levelling in the distribution of land, income – thus class – differentiations were making progress. The main problem was the grain market dominated by kulaks. Not the allocation of land, but the unequal distribution of the other means of production was at the very origins of social inequality in agriculture. In addition, the tax in kind, which hit the poor farmers much harder than the kulaks, was causing a rise in hired wage labour and stimulated an exodus of poor peasants to the cities (Cox and Littlejohn 1984). This development did, however, not facilitate the transition to collective farming. Meanwhile, agricultural productivity was falling because of the transformation of millions of agrarian workers into smallholders. Agrarian specialist Kritsman thought that on the one hand the majority of the peasantry constituted an ally of the proletariat under the dictatorship of the proletariat, but that on the other hand, the composition of the peasantry was extremely heterogeneous. Moreover, the poor peasantry was infected by petty-bourgeois illusions as well. A central problem was the contradiction between the economy of the proletariat tending to socialism, and the economy of the peasantry tending to a petty-bourgeois capitalist development. The transition to the NEP fuelled an upturn in peasant economy within the system of commodity production and exchange, strengthening spontaneous capitalist tendencies in the countryside to the benefit of the rural bourgeoisie (Kritsman 1929: 69, 73, 423). Capitalism was growing thanks to NEP. Already in 1927, the Left Opposition including Preobrazhenskiy declared that the rural districts were evolving into the direction of capitalism. The Left sought the solution in large-scale socialised production requiring investment in the production of machinery and fertilisers, while the Right led by Bukharin planned for the further development of cooperatives and other inducements to greater production for all peasants, including the kulaks.

The Peasant International

By 1919, newly established peasant parties in Central Europe and the Balkans advocated the confiscation of large-scale property and its redistribution to the landless peasants. The economic programme of these agrarian parties seemed realistic. Their ideology flattered the rural population. Early in 1921, the Bulgarian peasants' leader Alexander Stamboliski visited Prague, Warsaw and Bucharest to solicit support for his project of a Green International. Finally, a permanent bureau was established at Prague. Stamboliski entertained high ambitions for it, hoping that the Green International of peasant parties would lead to a Green Entente of peasant states as a counterpoise to both the West and Soviet Russia (Bell 1977). Especially the new nations having emerged out of the war in Eastern Europe and the Balkans sought the sanction of history in an imagined past with the peasant as the symbol of national identity (Jackson 1966: 51–3). That inspired the Comintern to court the peasant as well.

The creation of the Krestintern (Peasants' International) in October 1923 in Moscow was the product of this special temporary situation. The NEP had given explicit recognition to the fact that the Bolsheviks had to come to terms with the peasantry and the small commodity producers. Efforts to socialise land were slowed down and a tax in kind was replacing the forced collection of grains. In the Comintern Lenin had already begun to adapt strategy and tactics to non-revolutionary situations. At the Second Congress of the Comintern in 1920, Lenin had urged the Communist parties to prepare for a long struggle for the masses and for the use of legal means where possible during a non-revolutionary period. Soon, after Lenin´s stroke in 1922, the VKP(b) would become the scene of factional struggles for leadership. The faction advocating a rapid industrialisation joined with Trotsky. The other faction surrounding Bukharin, Zinoviev and Stalin agreed on the necessity of promoting agricultural development with a prosperous peasantry providing the economic base for industrialisation. This point of view got the support of the Twelfth Congress of the VKP(b) in April 1923.

The *coup d'état* in Bulgaria on 9 June 1923 led to the fall of the Stamboliski government in Bulgaria (Rothschild 1959: 117–32). Thinking that it was a conflict between the urban and agrarian factions of the bourgeoisie, the Bulgarian Communists refused to intervene on Stamboliski's side. On 12 June 1923, at the Third Enlarged Plenum of the ECCI in Moscow, Zinoviev castigated nonetheless Stamboliski's attempt to create a Green International opposing both big bourgeoisie and Comintern. Ignoring the Bulgarian CP's neutral stance in the conflict, Zinoviev however compared the situation in Bulgaria to that which had existed in Russia at the time of the Kornilov putsch in 1917. A few days later, Vasil Kolarov condemned the conduct of his party as serious blunder. Karl Radek stated that the June coup represented the greatest defeat ever suffered by a Communist Party. The Plenum adopted a resolution calling for a joint battle between Communists and peasants against the Bulgarian putschist government (Bell 1977: 242–6).

Thinking that the NEP was an international phenomenon, not just an episode in the Russian Revolution, Zinoviev now dropped the reticence he had displayed at the Fourth Congress of the Comintern toward the slogan of 'workers' and peasants' government'. He pleaded now for an alliance with the peasants in almost all countries. The resolutions based on the slogan repeated, however, the formulas of the Second (1920) and Fourth (1923) congresses of the Comintern. It was decided that the Communist parties should analyse the agrarian situation in their country. The resolutions specified two dangers: the danger of interpreting it in terms of petty-bourgeois socialism or populism, and the danger of opportunist alliances with the peasant leaders. The new slogan was not supposed to replace the slogan of the dictatorship of the proletariat, but was only intended to enlarge the possibilities for the application of the united front in the rural areas. Jenő Varga expressed doubts about the slogan 'workers' and peasants' government' and its implications. If implemented, said Varga, the slogan might lead Communists to ally themselves with peasants who exploited others. It

would be much better, he said, to define one's allies more carefully and speak of workers and toiling peasants (*IPK* 1923: 884; Rothschild 1959: 47–8). Zinoviev´s new slogan was tested in Bulgaria where the Comintern had re-established its authority over the Bulgarian Communist Party. After an abortive revolt led by the Bulgarian Communists in alliance with the remnants of Stamboliski's Agrarian Union in September 1923, Zinoviev admitted that without the working class the peasantry was nothing in its struggle against the bourgeoisie. Émile Vandervelde, who investigated the situation in Bulgaria, reported that between 1923 and 1925 about 16,000 Agrarians and Communists had been killed.

Meanwhile an 'agrarian faction' in the Comintern had already developed the idea that the revolution should first take place in agrarian Balkan countries and then spread to semi-industrial countries like Italy and Hungary. The outcome of these internal debates was the founding of the Krestintern (Peasants' International). Its invention was due to a young Polish communist named Tomasz Dąbal [Dombal], who had published two days after Zinoviev's espousal of the slogan 'workers' and peasants' government' an article in *Pravda* entitled 'The Peasant International' in which he drew on his own experiences to advance this strikingly novel proposal (*Pravda*, 19 June 1923; *IPC* 1923: 563).

Dąbal thought that the passionate debates on this question at the Second and Fourth Congresses of the Comintern already belonged to the past and that the agrarian question was proving the 'Achilles' heel of capitalism', because 'the interests of the majority of the peasant masses are striving to change it'. The object of this new tactic was clear. The peasant masses were dissatisfied with the state of affairs and had to be drawn over to the side of the revolutionary proletariat. 'It is only a question of formulating the watchword properly, and of creating a guarantee that the rapprochement between proletariat and peasantry is set about in the right manner.' The important question was 'to find the right forms for the cooperation of the proletariat and the peasantry' (*IPC* 1923: 563). Dąbal said that Zinoviev had been completely right when referring to the experience of the Russian revolution as well. Giving a populist turn to his suggestion, he argued that Varga's suggestion to supplement the word 'peasants' by that of 'working', or even 'poor', was aimless and superfluous. 'We must go out in the country with the purpose of creating unity between the workers and peasants, we must show that the peasantry is ruled by a small number of rich peasants, and that the present leaders and representatives of the peasants are betraying the interests of their great majority, and are supporting the interests of the bourgeoisie and land-owners' (*IPC* 1923: 563). Varga's proposal to win over the Western workers and peasantry for the slogan 'village poverty' was too doctrinaire. This slogan would unnecessarily narrow the base of Comintern activity as well, Dąbal argued. Therefore, he asked for the creation of a new peasant organisation directed by the Comintern's Central Committee and implementing the slogan 'workers' and peasants' government'. Dąbal pleaded for the creation of Peasants Parties devoted to the Comintern's cause and he called for the convening of an international congress preparing for the creation of a Peasants' International.

A conference for the creation of a Peasants' International was scheduled in Moscow for 10–15 October 1923. There 158 delegates, most of them Communist militants representing 40 countries, met in the Kremlin. At the conference, Zinoviev, Varga and Mikhail Kalinin were the keynote speakers, but Dąbal stole the show with his plea that the 'exploited peasantry' was willing to overthrow the rule of the bourgeoisie and the landowners. Apparently, the proposed new tactics with regard to the peasants were in full accord with the united front tactics from below. Under certain conditions, a temporary alliance with the reformist labour leaders was permitted to promote a revolutionary situation. How could one include the peasants into this new grand strategy? The answer was given in a call for the creation of workers' and peasants' parties in all countries where the 'toiling peasants' constituted the overwhelming majority of the voters and where they were inclined to make a united front with the workers against the landlords and the bourgeoisie. Land redistribution could be the most useful slogan.

The call for land redistribution had never been absent in Communist rethoric. At the Second Congress of the Comintern in 1920, Marchlewski had redefined Lenin's theses on the use of land redistribution. At the Fourth Congress of the Comintern in 1922, Varga had tried to adapt Lenin's agrarian theses to the problem of Communist strategy in a period of capitalist stabilisation (*Protokoll des Vierten* 1923: 636–701). Now, at the International Peasants' Conference, Dąbal had already transformed the peasantry into a revolutionary class. In his intervention Zinoviev insisted nonetheless on the 'transitional character' of the alliance with the peasantry in the struggle for the dictatorship of the proletariat. In his speech Varga underscored the same fact. He refused to amalgamate the Comintern with the peasant movement. Instead, he underlined the importance of proletarian leadership in this struggle for social liberation. The difficult problem of religion, he thought, should be avoided by subscribing to the principle of freedom of conscience. Varga preferred criticising profits made by the agrarian cartels and monopolies at the expense of the peasantry instead of debating on concrete reforms protecting the peasantry. It was not the proletariat claiming higher wages, but the agrarian monopolists who were causing misery among the peasantry. Therefore he launched the slogan of a 'government of all workers and exploited people' (*Première Conférence Internationale* 1924: 27). Finally, the adopted congress resolution underscored the fact that such a government should not be an 'inevitable stage' in the development of the communist revolution, nor that it would be the same thing as the dictatorship of the proletariat (Jackson 1966: 58; Varga 1923–4: 1013–21).

Meanwhile, more information was needed about the peasantry in the different European countries. Varga, who was collecting data on the agrarian question (Varga 1924a: 3), complained that relevant first-class statistical information on this topic was not sufficiently available. With the help of some authors (Rudolf Gerber, alias of Rudolf Schlesinger, Emile Burns, Giulio Aquila and Adrian Wlad) he nonetheless compiled an edited book on respectively Germany, France, Italy and Romania, before the Fifth Congress of the Comintern opened in June 1924 in Moscow. In that book, Varga signed a long theoretical introduction on

the role of the agrarian rent in capitalism. His account was largely based on Marx's *Capital* and *Theories on Surplus-Value* (Varga 1924a: 5–58). Varga's article confirmed the correctness of the theses of the Second and Fourth Congress of the Comintern. A proletarian takeover in countries with an overwhelmingly agrarian majority would be a utopia. Only a revolution supported by a majority of the agrarian population and led by a Communist Party could be successful. At any rate, Varga warned for optimism in this matter. Class conscience of the toiling masses in agriculture was much lower than in industry. Any agricultural worker had the opportunity of acquiring 'a small plot of land' to work it with a shovel and a spade. Varga rejected nonetheless Kautsky's theory that Marx's concentration of capital was operating in agriculture.

At the Fifth Congress of the Comintern (17 June to 8 July 1924), the agrarian question was an important item on the agenda. New slogans had to be launched as well. Although Zinoviev accepted the thesis of the stabilisation of capitalism, he still clung to the theory that revolution could always break out somewhere. But how could one include the peasantry in the Comintern's strategy? According to Zinoviev, the slogan 'workers' and peasants' government' was not intended to describe a special transitional form between bourgeois democracy and the dictatorship of the proletariat. For Zinoviev, this slogan was nothing but a euphemism for the dictatorship of the proletariat. Then, he redefined the tactic of the united front more carefully: no alliances should be made with other political parties unless the latter were infiltrated by Communists. Bulgarian Vasil Kolarov (*Protokoll Fünfter* 1924: 776–88) pointed out that the Comintern had paid almost no attention to existing peasant organisations or to tactics in relation to them. No single tactic could be devised in advance for peasant parties. Hence, the Communist parties concerned by peasant movements should decide according to local conditions.

Enthusiasm for the agrarian question was, however, extremely low. By the time Varga rose to speak, most delegates at the Fifth Congress of the Comintern had already left the conference hall. In his speech, Varga complained that the agrarian question was visibly not met with enthusiasm. Hence, he warned the audience about adopting radical resolutions in agrarian questions. The Communists should, at any rate, meet peasants' demands and therefore back a policy of parcelling out the big estates in order to keep the peasantry on the proletariat's side (*Protokoll Fünfter* 1924: 794). The next speaker, who presented himself as a certain Ordon [Tomasz Dąbal], complained about the vagueness of the proposed congress theses (*Protokoll Fünfter* 1924: 795–6). Finally, one could agree on the necessity of infiltrating peasant organisations and combatting peasant parties dominated by kulaks and landowners.

A mitigated success

Krestintern's most conspicuous but short-lived success was the recruiting of Stjepan Radić of the Croat Peasant Party in June 1924. Although he hoped to transform the Yugoslav state into a federal peasant republic, he nonetheless

opposed the use of violence as a political method. Radić, who felt some sympathies for the Russian Revolution, arrived in Moscow on 2 June 1924. There, he decided to join the Krestintern, which unanimously embraced Radić's policy of Croat national self-determination as well. The Fifth Congress of the Comintern denounced Yugoslav unitarism during Radić's stay in Moscow. Yugoslav Communists were urged to wage a determined struggle against national oppression in their country (Biondich 2000: 196–7). But Radić refused to cooperate with the Yugoslav Communists and showed no inclination to assist in a violent confrontation with the Serbian establishment.

The Krestintern's organisational structure followed that of the Comintern. Its slogan was 'Peasants and workers of all countries, unite' (Dombal 1925–26: 41). The first International Peasant Council counted 52 member organisations and was supposed to meet at least once a year. No congresses were ever held. Only two conferences would ever meet, the founding conference in October 1923, and another one in November 1927. Only two Plenums were ever held, the first one in October 1923 just after the founding congress, and a second one in April 1925, immediately after the Fifth Enlarged Plenum of the ECCI. The agents of the secretariat in Moscow generally turned out to be either non-Communist leaders, with a peasant following, or Communists delegated by their parties. The General Secretariat published studies on the 'toiling peasants'. It created a Peasant Information Bureau disseminating a monthly journal, and established the Moscow-based International Agrarian Institute.

On paper, the Krestintern was certainly an impressive organisation channelling the peasantry into a Communist direction. In reality, the Krestintern was lacking any workable strategy. Discussions about the peasants' plight never went beyond the stage where delegates reminded one another how important it was having peasants on the Communist side. Nowhere, not even in the speeches of a trained economist like Varga, was a detailed analysis of the agrarian problems of Eastern Europe comparable to Lenin's *The Development of Capitalism in Russia* (Lenin 1964: vol. 3, 21–608) worked out.

Meanwhile, different interpretations of the agrarian question subsisted in a period that the Krestintern had to refine its strategy. People working for the Krestintern could be identified as supporters of the Right in the Comintern and in the VKP(b). The Agrarian Institute in Moscow, with its editorial boards and research teams, provided jobs to émigrés with 'rightist tendencies' (Jackson 1966: 73). With Dąbal as his assistant, Aleksandr P. Smirnov occupied the post of secretary general. Smirnov was at that time Commissar of Agriculture and a member of the Central Executive Committee of the Supreme Soviet. He had come over from the Narodniki. He belonged now to the rightist faction in the Bolshevik Party. N. L. Meshcheriakov, who was an organiser of the Krestintern, and Ivan Teodorovich, who was a member of the Commissariat of Agriculture, had both the same 'Rightist' background. All these active members of the Krestintern were drawn from Eastern and Central Europe as well. Bošković (Filip Filipović), a former secretary of the Yugoslav Communist Party and a participant in the Russian Social Democratic Party from 1899 to 1912, was a

contributor to *Krestianskii Internatsional*. He often spoke for the Krestintern at the congresses and plenums of the Comintern. Some of its functionaries, like Austrian Rudolf Schlesinger, had previously worked for Varga in Berlin.

Agrarian opportunism

The Krestintern developed a 'Rightist' tendency backing Bukharin's agrarian policy under the NEP. At the Third Enlarged Plenum of the ECCI in June 1923, Bukharin had pleaded for a distribution of confiscated land among the peasants. Shortly before the Fourteenth Party Conference of the VKP(b) in April 1925, Bukharin had called upon the kulaks to 'enrich themselves'. Bukharin's assumption was that the kulaks should create a domestic market upon which socialism could be built. This vision of agrarian strategy was, however, met by resistance.

Already in June 1925, the Leningrad section led by Zinoviev and Kamenev, opposed Bukharin's choice. Stalin, with the support of the Moscow section and the technicians, gave cautious support to Bukharin's thesis. Then, Zinoviev's faction was defeated at the Fourteenth Party Congress of the VKP(b) in December 1925, where Stalin had successfully contended that the Leningrad opposition threatened to destroy the alliance with the middle peasant. In April 1926 Zinoviev and Kamenev joined Trotsky in his fight against Stalin. The United Left Opposition's themes were gradual collectivisation and rapid industrialisation, to be financed by heavier taxation. At the Fifteenth Party Conference of the VKP(b) in October 1926, the United Left Opposition was nonetheless easily defeated. Bukharin replaced Zinoviev at the top of the Comintern; Trotsky was dropped from the Politburo (Service 2010: 308–27).

Meanwhile, Varga's opportunism with regard to the agrarian question had raised much criticism in the academic world. His introduction to his edited book *Contributions to the Agrarian Question* (Varga 1924a: 1–58; Varga ed. 1924) and his *Documentary Study on the Evolution of the Peasants' Movement* (Varga ed. 1925) was criticised by agrarian specialist Milyutin because of Varga's revisionist views on agrarian development. Holding to Kautsky's orthodox view on the agrarian question (Kautsky 1899), Milyutin (*Pravda,* 25 October 1924) attacked Varga for his 'anti-Marxist' and 'anti-Leninist views' on the agrarian question and his 'petty bourgeois' and 'revisionist' leanings. First, Varga denied that the evolution in agriculture was following the same path as in industry. Second, Varga based his analyses on the non-Marxist 'law of diminishing returns'. Third, Varga did not recognise the superiority of big estates and the inferiority of small farms. Varga replied in *Pravda* of 11 December 1924 with a 'provisional' answer in which he argued that Milyutin had 'misunderstood' him. Being 'completely in line with the Communist International' on the point of 'the general, but also the particular question of the relationship between proletariat and peasantry', Varga refused to revise his 'purely theoretical' point of view. Karl Korsch, who was at that moment a member of the German Left and who had already criticised Bukharin's draft programme of the Comintern (Korsch 1924: 320–7), identified Varga as an opportunist. Having already attacked in

1924 Varga's analysis of gold inflation in the USA, Korsch denounced Varga as an incompetent economist having misunderstood Marx and now distorting the latter's theory of ground rent (Korsch 1925a: 41; 1925b: 42–7).

Events in Europe had already begun to turn against the Krestintern's project for winning the peasantry for the world revolution. Meanwhile, the Comintern turned increasingly to Bukharin, who saw in the temporary stabilisation of capitalism an accomplished fact. Hence, more concentration was advised on the use of legal means with more effective propaganda, better-organised electoral campaigns and improved party discipline. Apparently, Bukharin's *peasantism* was founded on the expectation of a long non-revolutionary period ahead, just as in Russia the NEP could become a means of evolving to socialism. At the Fifth Enlarged ECCI, that held its session in March–April 1925 (*Protokoll: Erweiterte Exekutive* 1925), Bukharin reported on measures the bourgeoisie had taken to organise the peasantry in its own interests. However, Bukharin found no occasion to mention the Krestintern's workings. Neither Kun nor Varga referred to the Krestintern during the debates. Only Bošković [Filip Filipović] spoke about attempts to create organisations affiliated to the Krestintern. He attributed the weakness of Krestintern to the absence of peasantry sections or departments affiliated to the communist parties

Three days after the adjournment of the enlarged ECCI, the Second Enlarged Plenum of the International Peasant Council met on 9 April 1925. Speeches of Mikhail Kalinin and Dąbal were heard. A resolution defined the organisation's fundamental task to assist the liberation of the toiling peasantry from the influence and leadership of the landowners, the kulaks and the bourgeoisie. The adherents were recommended to enter existing peasant organisations in an attempt to win them over to the platform of the Krestintern or to form separate organisations only if reactionary elements were making a split inevitable.

Meanwhile, the Krestintern met increased difficulties when setting up local organisations and organising agitation among the peasantry. In his main report to the Sixth Enlarged ECCI in February 1926, Zinoviev claimed some achievements for Krestintern, such as the contacts with the various peasant movements in several countries.

Asian peasantry

More important were revolutionary developments in Asia where the peasantry resisted imperialism. The situation of the Asian peasantry differed from that in Europe or America. The problem of the so-called 'Asiatic mode of production' was related to the idea of a dynamic capitalist West opposed to a static and despotic agrarian East. Asian economic stagnation and backwardness could be explained as a result of what Marx had called 'oriental despotism' with the absence of private property in land, the existence of large-scale irrigation works and an omnipresent despotic state preventing economic development and class differentiation.

Though Marx mentioned the Asiatic mode of production in his well-known preface to *A Contribution to the Critique of Political Economy* (Marx 1977: 388–414) as a stage in societal development, his remark had never attracted much attention from Socialists. After Marx's death, Engels wrote in the *Anti-Dühring* (1894) and in *The Origins of the Family, Private Property, and the State* (1886) that the ruling class in Asia was a politico-administrative elite. Isolated villages there had prevented capitalist development. Every local community depended on the political centre for its survival.

Until the 1920s, however, no one definition of an Asiatic mode of production would prevail. When the Chinese revolution appeared on the Comintern agenda in the 1920s, a debate broke out on the Asiatic mode of production. In the case Chinese society could be defined as feudal or semi-feudal, then a 'bourgeois revolution' could break out and an alliance with the nationalist Kuomintang, as demanded by the Comintern, could then be appropriated. If China was still characterised by an Asiatic mode of production, then an alliance of peasants and workers could even lead to a 'socialist' type of revolution. Finally, the debate centred mainly on the question whether an Asiatic mode of production existed in China, and, if so, what aspects of it had been preserved or disappeared.

Opening the debate at the Fifth Enlarged ECCI in 1925, Varga denied that China was feudal. Referring to Max Weber (1905), he thought that mandarins ruled China and that village clans prevented any form of capitalist development. Varga adhered thus to the thesis of the existence of an Asiatic mode of production (Fogel 1988: 59). That thesis would be confirmed by Karl A. Wittfogel (1926; 1981) who was then working at the University of Frankfurt (Wittfogel, 2004: 49–53; Ulmen 1978), and by Lajos Magyar. According to Magyar, the Asiatic mode of production had determined the functioning of Chinese society until the early years of the twentieth century. Having collected materials during a stay in China, Magyar published several major works on this subject (Madyar 1928; Kokin and Papayan 1930: 1–75).

Denying the existence of the Asiatic mode of production, Sergey Dubrovskiy attacked Magyar and other Aziatchiki. He posited ten modes of production, but the Asiatic was not one of them. Other critics pretended that the Asiatic mode of production was some kind of feudalism, but certainly not a specific mode of production. At discussions held in Tbilisi, Baku and Leningrad in 1930 and 1931, the existence of the Asiatic mode of production was denied and its mode was transformed into an Asiatic variety of feudalism. In Tbilisi, it was argued that the development of the Asian countries had 'throughout history, been highly individualistic' and that in a certain sense this peculiarity had created a 'special structure of feudalism which may be called the Asiatic mode of production' (quoted in Varga 1968: 336).

The reports of the debates in Baku were, however, never published and copies of those in Tbilisi were extremely rare. In Tbilisi, T. D. Berin had spoken in favour of an Asiatic mode of production (Fogel 1988: 56–79). At the more famous Leningrad Conference in February 1931, neither Varga nor Magyar had been invited. There, M. D. Kokin and G. Papayan represented the Aziatchiki.

Their outspoken critics represented by Evgeniy Iolk and M. Godes claimed that the Asiatic mode of production was dangerous to spread revolutionary uprising among the colonial peoples. Because of a different mode of production and the absence of a nascent bourgeoisie, a revolutionary upheaval would have little chance of success and thus endanger the Comintern's leadership in the region. Godes attacked his opponents for failing to explain the transition from the Asiatic mode of production to the next historical stage within the categories of class struggle (Fogel 1988: 63). Finally, an identical formulation as in Tbilisi prevailed in the concluding remarks of M. Godes: 'We prefer to speak of a peculiar feudalism in the Orient, and not of an Asiatic mode of production' (quoted in Varga 1968: 336).

Due to the Comintern's role in the Chinese revolution, the discussion on the Asiatic mode of production had become highly politicised. It was not assumed that Magyar or Varga had misunderstood Chinese history or Chinese society (Fogel 1988: 74–5). Their alleged crime was that they misinterpreted Marx and Engels and endangered the role of the Comintern in China with their call that the Asiatic mode of production had retarded Chinese development. According to Karl A. Wittfogel, the discussion of the Asiatic mode of production in Leningrad in 1931 had warned him and his fellow-deviators against upholding their views (Wittfogel 2004: 51).

Meanwhile, Stalin had already insisted on the fact that an economically and socially retarded country like China was not ripe for a socialist revolution and, therefore, an alignment of the Communists with the 'bourgeois party' Kuomintang be established. Later, Varga would argue that Stalin had sanctioned the denial of the former existence of the Asiatic mode of production. Indeed, Stalin would not mention it among the stages of universal historical development in his article on *Dialectical and Historical Materialism* published in his *History of the Bolshevik Party* (Stalin 1947: 569–95; Varga 1968: 351).

At the Eighth Plenum of the ECCI meeting on 24 May 1927, Stalin reasoned that in capitalistically underdeveloped countries, where a special agrarian problem of the anti-feudal type existed, the petty bourgeoisie, particularly the peasantry, was bound to play an important role in the event of a revolutionary upheaval. In such countries intermediary stages were required such as a dictatorship of the proletariat and the peasantry, which would lead, at a later stage, to the dictatorship of the proletariat.

The Sixth Congress of the Comintern held in 1928 discussed the colonial question at great length, but rejected the possibility of widespread agrarian reform in the colonial and semi-colonial countries. It was argued that imperialism supported the survival of feudalism. The economic and political interests of imperialism and the national bourgeoisie of India and China were 'so closely bound up with large ownership as also with trading and usury capital in the village that they are not in a position to carry through an agrarian reform of any wide significance' (*IPC* 1928: 1517–18).

Conclusions

Varga's contribution to the development of the Comintern's agrarian strategy was rather limited. Although he was considered as an influential strategist, his wavering position would undermine his authority. At the Fourth Congress of the Comintern in 1922, he had authored the peasants' report that defined the role of the peasantry as an 'independent' player in the class struggle. He noticed that among the various strata of the possessing class a sharp struggle was going on for their respective share in the distribution of the diminished social produce (Varga 1922a: 19). According to Varga, the peasantry had become 'a factor of the first magnitude', this time not only in Central and Eastern Europe, but also in the USA (Varga 1922a: 19). Upheavals caused by dissolving connections between town and village were undermining social and political stability in all countries. Meanwhile, the peasantry refused to contribute, in the form of taxes, material assistance to the rebuilding of the bourgeois state. The peasantry as a whole was not forming a revolutionary mass, he warned. 'It is but the fear of the proletariat, which keeps the rich peasant and the bourgeois together, while the middling and the poor peasants are making advances to the fighting proletariat' (Varga 1922a: 119). Meanwhile it had already become clear to Varga that the Bolshevik strategy applied only to revolutionary situations and that agitation among the peasant masses was facing increased difficulties when applied in more developed capitalist countries. The existence of these difficulties was never fully admitted by the Comintern technocracy. In addition, claims of special conditions were always treated as doctrinal heresies.

6 Germany, a colony?

Don't talk!
Don't consult!
Don't negotiate!
Act!
Rosa Luxemburg

At the end of April 1922, Varga was posted as Lenin's confidant for five years as a 'trade specialist' at the Soviet legacy in Berlin. Lenin's choice was certainly motivated by Varga's authoring of *The Bankruptcy of Germany* (Pawlowski 1921). Although he was a Comintern agent, Varga was officially now in the Russian diplomat service. Soviet-Russian and German diplomats had already signed the Treaty of Rapallo in order to facilitate trade between the two *pariah* states of Europe. During his stay in the German capital, Varga was witnessing for several years the KPD's painful Bolshevisation process (Weber 1969), hyper-inflation in 1923 and an aborted revolution attempt in October 1923. In the meantime, Varga became a specialist reporting on German politics and economy and informing Moscow on the Weimar Republic's stabilisation policy.

Diplomat

Establishing an information bureau in Berlin (also called Bureau Varga) had been Lenin's idea when contacting Varga. Meanwhile, the Berlin Office of Foreign Science and Technology had to be reorganised (Kröber and Lange 1975: 207–8). However, his contacts with Lenin would be abruptly interrupted after Lenin's stroke on 25 May 1922. From then on, he would have to report to Zinoviev on his political activities in Germany. In Berlin, Varga was now in charge of collecting data on recent economic and social developments. He published on German affairs under the pseudonyms of Dr. Eugen Pawlowsky or Pawlowski. Sometimes he used the pseudonym Eugen Schuster. A 'shoemaker' is a 'Schuster' in German and a 'varga' in Hungarian.

In Berlin he started studying the role of Social Democracy as a counterrevolutionary force (Varga 1926a). However, Varga discovered also that Social

Democracy was not organised according to a set of coherent principles, but was a prisoner of opportunist alliances with petty-bourgeois parties against the industrial and agrarian interest groups. The problem was that the reformist trade-union leaders could still rely on the confidence of the overwhelming majority of the industrial workers (Varga ed. 1926a, 1926b).

As a Comintern functionary he attended KPD and PCF party congresses. Because of Lenin's illness, Varga now reported to Zinoviev and Trotsky on German and French Communist Party problems (Komolov 1999). However, his reports were not always appreciated in Moscow. On 23 November 1922, Varga reported to Trotsky on the PCF Congress held on 11 November 1922. Immediately, Trotsky vented his gall in a note to Zinoviev: 'The report presents what is purely a lawyer's defence of the centre against the left, and gives evidence of the fact that the author of the report utterly fails to understand the situation. I think that the author should be summoned to Moscow and that we should have it out with him; otherwise we risk losing him altogether if he keeps on along the same line' (Meijer 1971: vol. 2, 767–9).

Meanwhile, Varga became on good terms with the representatives of the Berlin merchant class. As a trade specialist, he attended with I. A. Trakhtenberg and S. M. Goldshteyn, a commission preparing the new Soviet-German trade treaty of 12 October 1925 (Besymenski 2002: 48). Under the regime of the most-favoured nation, Germany had already become Moscow's most important trading partner. As a result of the new trade treaty, a large delegation of Russian trade experts was now holding office in the Victoria Insurance building at the Lindenstraße in Berlin. However, Russian–German relations would soon be threatened by the signing of the Treaty of Locarno that year.

As a trade expert, Varga continued working for the Soviet diplomatic service. A delegation led by N. N. Osinskiy (Valerian V. Obolenskiy), Grigoriy Ya. Sokolnikov and Varga arrived in May 1927 for the World Economic Conference in Geneva (*World Economic Conference* 1927). At that moment Varga had already left the Berlin legation for Moscow, where he had been appointed director of the Institute of World Economy and World Politics. At the conference in Geneva, French representatives proposed to dismantle direct trade barriers and to replace them with international cartel agreements. Osinskiy pleaded for more credits to facilitate Soviet trade. The British Government was not interested in growing trade with Soviet Russia. A police raid on the Soviet trading company Arcos in London would signify the end of Russian–British trade relations.

The Treaty of Versailles

Varga's double life of diplomat and Comintern agent did not go unnoticed. On German politics, he published under pseudonyms (Pawlowsky, Schuster). Before coming to Berlin in 1922 he had already published *The Bankruptcy of Germany* (Pawlowski 1921), in which he argued that the Treaty of Versailles had reduced Germany to the status of an industrial colony of England and France. The formation of an alliance between the KPD and the German bourgeoisie against the

Treaty of Versailles could thus be a logical outcome of Germany's submission (Varga 1933: 3) now that the country's reparation payments were at the very origins of her economic and social breakdown. In the near future, the Versailles system would certainly collapse in a conjuncture of 'violent class struggles'. Conflicts would also arise within the ruling classes about the shrinking 'real economic product of the country' and the increasing 'costs of the maintenance of the state'. With the KPD 'setting the guidelines of the struggle and leading the fighting proletariat to victory' (Pawlowski 1921: 7–8), the workers would take the lead in the struggle against the Treaty of Versailles. The Communists should not limit themselves to 'negative propaganda', but also promote positive solutions going 'beyond decaying capitalism' (Pawlowski 1921: 8).

In this book, Varga focused on German post-war impoverishment, the disastrous food situation created by the consequences of the lost war and the fact that the majority of the German population was living below the existence minimum. As a consequence, industrial productivity had decreased. Thus the German bourgeoisie was unable 'to feed its wage slaves' (Pawlowski 1921: 69). Varga held the Versailles reparation payments responsible for the creeping impoverishment of Germany, because reparation payments were now strangling Germany's economy. They obliged Germany to increase exports. They were sharpening international competition and thus contributing to an economic downturn in the Entente country. As they were contributing to the current overproduction crisis in the world, they were also at the origins of the underfeeding of the population and the lowering of the investment rates in German industry (Pawlowski 1921: 74–7). Varga drew attention to the economic and humanitarian consequences of a German industry finding insufficient export outlets. Post-war financial and economic problems were connected to tax reform proposals, at that moment debated at the Reichstag. He mentioned the industrial rationalisation drive contributing to the creation of additional overcapacity, engendering higher unemployment rates and thus a further decline of Germany's economy. All these tendencies pointed to a proletarian uprising and the creation of revolutionary conditions.

Meanwhile, Varga had discovered that the SPD (Social-Democratic Party) wanted to remedy the financial crisis of the Weimar Republic by increasing taxes on consumption and imports, which, of course, would hit the living standard of the working class (Pawlowski 1921: 154–7). He criticised Rudolf Hilferding's (USPD – Independent Social-Democratic Party) proposal for a tax levied on capital and paid in 'gold value' or shares. That would make of the state a shareholder of industrial and agrarian key enterprises. Hilferding's financial programme was furthermore based on the wrong assumption that Germany's economy was already on its way to full recovery. Varga was not against a tax reform as such, but only against the proposed reforms he estimated insufficient to finance the German budget deficit. Hence, Varga pleaded for a Communist-inspired tax reform preparing for a complete nationalisation of the entire industrial and agrarian sectors. Finally, Varga highlighted the not yet elucidated problem of state capitalism. Would it be preferable to control the whole economy by bringing a majority of capitalist property into state hands? 'Or should that

control be exercised by a system of workers' control? Thus state capitalism?' Varga's answer was: 'Yes and no!' (Pawlowski 1921: 186).

Varga's analysis was rather ambiguous, thus giving rise to different strategic precisions about a struggle going 'beyond capitalism'. A national uprising of the proletariat on the model of the Bolshevik seizure of power could be suicidal in a period of capitalist stabilisation and with a Reichswehr able to crush any uprising. Therefore, Varga opted for the strategy of a national liberation struggle in case of a French armed occupation of a large part of Germany. It should be then the task of the Communist Party 'to save Germany from this fate by launching a victorious German proletarian revolution' (Pawlowski 1921: 182).

Much remained nonetheless unclear in Varga's national liberation strategy about the specific class demands of the German proletariat. State capitalism could not be a proletarian demand. State capitalism did not break the bourgeoisie's political power. It might be even 'worse than private capitalism', he argued. However, he nonetheless saw the importance of a struggle for a 'revolutionary transitional programme to expropriate the bourgeoisie', and a 'revolutionary action of the united proletariat' (Pawlowski 1921: 187). Varga argued that the 'struggle for "state capitalism", for state control on production will therefore be a struggle of the whole working class, even of all workers opposing the exploiters'. He returned now to Lenin who had already formulated similar demands in 1917 when demanding control of production and profits by revolutionary-democratic organisations. Varga argued that for Lenin socialism could be nothing but a step into the direction of state-capitalist monopoly serving the interests of the whole population.

The Bolshevik leadership in Berlin was certainly hoping for a revolutionary crisis in Germany. An ill-prepared uprising inspired by Kun and Zinoviev in March 1921 had already resulted in thousands of casualties. After that defeat, the Comintern adopted united front tactics from below to mobilise the broadest sections of the working class against capitalist attacks on the social and economic achievements won after 1918. Why should Communist workers not join hands with Socialist workers in their common struggles against the reaction?

The French–Belgian military occupation of the Ruhr in January 1923 opened up the prospects of a revolutionary liberation struggle in alliance with other political forces. In June 1923, Karl Radek delivered at the Third Enlarged ECCI Plenum his famous 'Schlageter speech' in which he offered a political alliance to the ultra-right nationalists fighting against the French–Belgian occupation army. For a while, Communist speakers shared now platforms with Fascists denouncing Jewish capitalism.

By 1923, Varga had become the Comintern's political oracle opining from Berlin on the French–Belgian occupation of the Ruhr (*IPK* 1923: 242; KI 1923: 96–106f.; Varga 1923), the bankruptcy of German capitalism (*IPK* 1923: 1121–3) and reparation payments (*Jahrbuch für Wirtschaft* 1923/24: 178–93; *IPK* 1923: 590). The *Bankruptcy of Germany* was now published under the pseudonym V. Antropin in Russian translation. He announced the coming of a final battle in Germany. In another pamphlet he redefined Germany as a colony

(Pawlowsky 1923). Varga's point of view in all these matters reflected the Comintern's hope of a 'German October'.

After the collapse of the Cuno Government in August 1923, the Russian leaders in the Comintern speculated on an uprising in Saxony and Thuringia where the KPD had already formed a so-called 'workers' government' with the SPD. The KPD leadership failed, however, in October 1923 to win the support of the Saxon Social Democrats. In addition, the willingness of the soldiers and workers to support the uprising had been overestimated. Before and during the abortive uprising, Varga was at the centre of the conspiracy of the Comintern emissaries in Germany. Previously, on 25 September 1923, he had already participated in the Moscow conference of the Germans, French and Czechoslovaks. On 24 October 1923, he reported to Zinoviev and on 1 November 1923 to Trotsky on the abortive coup (Bayerlein *et al.* 2003: 162–78; 242–4; 294–5). This disaster led to the banning of the KPD (Angress 1963). At the ECCI of January 1924, the Heinrich Brandler leadership was defeated and the United Front tactic reduced to its simplest form of 'unity from below'. At the Ninth Party Congress of the KPD in Frankfurt in April 1924, a Leftist leadership headed by Arkadi Maslow and Ruth Fischer took the leadership of a party in complete disarray.

Capitalist stabilisation

In his report to the Fifth Congress of the Comintern in July 1924, Varga stated that capitalist stabilisation had meant the end of the post-war revolutionary situation. However, the German Leftist leadership criticised Varga's stabilisation theory. Leftist 'K. S.' [Kurt Scholem] blamed Varga in *Die Internationale* for 'having betrayed the world revolution'. He quoted from Varga's treacherous reports to the Third and Fourth Congress of the Comintern and from Varga's pamphlet *Deutschland eine Kolonie?* (*Germany, a Colony?*) (Pawlowski 1923). However, Varga felt at ease and replied that Scholem had mixed up several quotations from different sources. Hence, the discussion was closed (*Die Internationale* 1924: 387–95; 466–7).

At the Tenth Congress of the KPD in July 1925, Bolshevisation was decided on. Later in 1925, Leftists Ruth Fischer and Maslow were nonetheless removed from their posts for anti-party activities. Party leadership was definitely entrusted to Ernst Thälmann. The KPD reiterated that there had been a 'relative stabilisation' in world capitalism. Hence, a return to the United Front policy could take place. The Communist unions were wound up and the KPD was reorganised into factory units (Fowkes 1984: 129–37). After the fall of the Fischer–Maslow group, Karl Korsch led the still influential ultra-left current – now called Resolute Left (*Entschiedene Linke*). The Leftists opposed Varga's view that capitalism had been stabilised. They wanted to abandon the parliamentary strategy for revolutionary class actions by workers' councils and unemployed workers. According to Leftist Ivan Katz, the kulaks had triumphed in Russia and Stalin was their Peasants' Napoleon. Karl Korsch argued that the Comintern had become an instrument of Russian foreign policy. Thus the theory of 'stabilisation' reflected the needs of a

Soviet state looking for an alliance with the capitalist world. Being expelled from the KPD, Korsch described Varga as 'the official economic theoretician of the Comintern who fulfilled the pitiful official function of providing the continuous changing strategic line of the communist party politics with appropriate economic "basics" ' (Korsch 1996: 151).

In his commentaries on German politics, Varga analysed the industrial rationalisation drive in German industry by referring to the assumption that increased profits would also sharpen the class struggle and thus contribute to new international tensions. Capacity of German industry was too large for finding an outlet on the domestic market, thus necessitating increased exports (Pawlowsky 1923). These increased exports would in turn disturb international economic stability. Varga concluded that 'imperialism is built on the interest community of industrial capital and labour aristocracy. Capitalists are able to guarantee higher costs of living to the labour aristocracy; but on the other hand, they are obliged to do this to obtain the support of the labour aristocracy in their struggle against the other imperialist powers and in their exploitation of the oppressed colonial areas' (Pawlowsky 1926: 435). The SPD and the unions supported the rationalisation drive of the German bourgeoisie creating additional jobs in industry. Hence, rationalisations were a part of a fatal process of lowering production costs at a moment when production capacity remained idle. Varga rejected the idea that capitalism was forming a homogenous world system, or that the Dawes Plan (1924) and the Treaty of Locarno (1925) had restored economic and political stability. Locarno meant nonetheless the reintegration of Germany into the concert of European nations but, otherwise, this could also threaten German–Russian economic cooperation and trade (Pawlowsky 1925). Meanwhile, the rise of international cartels had hollowed out the Versailles system. As European capitalism was declining and continental Europe was losing its leading position as a capital exporter and a receiver of dividends, stabilisation could only be obtained by destroying production capacity.

Conclusions

Varga's stay in Berlin between 1922 and 1927 had greatly contributed to his knowledge of the functioning of the European capitalist system and the subjection of Germany to the victorious powers. Germany's industrial overcapacity, concentration of capital and macro-economic stabilisation at a low level were typical for that situation. Insufficient domestic outlets for industrial products had led to decreasing German industrial competitivity and underemployed production capacity. The rationalisation slogan 'meant thus nothing else than a further centralisation and destruction of existing production capacity' (Pawlowsky 1926: 13). The economic crisis, Varga had discovered in Germany, was intimately linked to political factors as well. Germany's position in Europe might be improve, but never in the way Hilferding or the Social Democrats pretended. 'European capitalism as such, with German capitalism as a part of it, is living a

7 The general crisis of capitalism

Only children and fools know
The darkness and cold of coming days
Aleksandr Blok

In 1927 Varga was appointed director of the Moscow-based Institute of World Economy and World Politics. In Moscow, Varga's attention would shift to the problem of the general crisis of capitalism. However, he never published an authoritative work on this subject. Meanwhile, Stalin had already defeated the United Left Opposition grouping Trotsky, Kamenev and Zinoviev. Now Bukharin and the group of the Right deviators and capitulators were also defeated. At the Tenth Plenum of the Comintern in July 1929, it was Varga's turn to be dismissed of his Comintern functions.

Capitalism's collapse from within

Although at the end of the 1890s Eduard Bernstein had already raised some important empirical objections to the prophecy of increasing proletarian impoverishment and subsequently the coming of the proletarian revolution, the idea of an inevitable collapse of capitalism from within was still shared by all Marxist thinkers. However, Rudolf Hilferding, Rosa Luxemburg, Heinrich Cunow, Otto Bauer and Tugan-Baranovskiy would nonetheless struggle with this issue from a more theoretical vantage point. After the First World War this issue would become more acute. In his book on imperialism published in 1926, Fritz Sternberg (1947: 10–11) argued that imperialism was only a delaying factor in capitalism's demise and that the main task of capitalism is 'to find a profitable market for steadily growing mass of commodities. The contradictions of the capitalist mode of production show themselves in the solution, or failure to find a solution, for this problem of markets. A favourable solution spells prosperity. The lack of one spells crisis'.

In 1929, young Polish scholar Henryk Grossmann with strong Communist sympathies and at that time working at the Institute of Social Research directed by Carl Grünberg in Frankfurt, presented in his book *Das Akkumulations- und*

Zusammenbruchsgesetz des kapitalistischen Systems (Zugleich eine Krisentheorie 1929) (*The Law of Accumulation and Collapse* 1992) a Marxist analysis of the coming economic collapse that antagonised both bourgeois economists and Marxist ones. Grossmann developed a thesis already explained in an article published in 1922, that any enlargement of the apparatus of production 'can only take place, without disturbance, on condition that the coefficient *m* intended for accumulation be divided in strictly defined proportions: (1) Among different branches of joint production (the sphere producing instruments of production, the sphere producing goods for consumption, etc.); (2) Within each such branch among the component parts of capital *c*: *v*' (Grossmann 2000: 171–80).

Grossmann's book reconstructed Marx's account of economic crises deriving from the tendency for the rate of profit to fall. In addition, his analysis offered a theory of capitalist breakdown and the shaping of a revolutionary take-over. It was also a critique of Luxemburg's voluntarism and Hilferding's belief in the virtues of organised capitalism. He rejected Rosa Luxemburg's imperialism theory for not being rooted in the immanent laws of the accumulation process of capital, but in the sphere of circulation. According to Grossmann, colonialism was driven by the need to exploit labour and create surplus value. Industrialisation of colonial countries signified an increase in the possibilities for exports and that explained why booms and slumps had become internationally synchronised. This process of capitalist interdependent development of the productive forces led in a country exercising a raw material monopoly to monopolistic rises in prices and a subsequent pumping of supplementary surplus value from outside into a domestic economy. Then Grossmann argued that Lenin, Varga, Bukharin, Hilferding and Bauer had 'explained' capital export because of higher profits that could be made abroad. Grossmann found that Lenin had offered no theoretical analysis of the facts that could demonstrate the necessity of capital export under high capitalism. Lenin had limited himself to the explanation that the need to export capital arose from the fact that in a few capitalist countries capitalism was 'overripe' and that owing to the backward state of agriculture and the poverty of the masses capital could not find a profitable outlet for realised profits.

Though Grossmann was well aware of the advanced degree of Lenin's canonisation, he nonetheless hit the nail on the head when remarking that 'what this over-ripeness consists of and how it is expressed, that Lenin has not demonstrated us' (Grossmann 1992: 182–3). Grossmann argued that when further capital accumulation leads to a reduction of accumulation in the capitalists' own consumption instead of accumulating the surplus value, capitalists will earmark it for capital export or for speculation.

Contrary to Varga, Bukharin, Hilferding and Bauer, Grossmann supposed that not higher colonial profits, but a shortage of domestic investment opportunities led to capital export (Grossmann 1992: 191–2). In addition, capital export would raise profits at home, because domestic industries would be able to gain export opportunities and obtain higher prices. Grossmann pointed out that a rapid expansion of capital export in the form of loans was a consequence of a high

level of capital accumulation. He adhered to Lenin and the latter's analysis that capital export was typical of imperialism but he, nonetheless, criticised Lenin implicitly when attacking Hilferding's theory that finance capital was only a historical tendency of capitalism. Preponderance of banks was only typical of a particular phase of capitalism when banks had to mobilise funds from outside to finance industrial expansion. Later on, industry would mobilise money from the market or from other industries and thus dominate the banks. Grossmann argued that the historical tendency of capital was not to create a single bank dominating industries and federating them into cartels, but to accumulate capital 'leading to the final breakdown due to overaccumulation' (quoted in Kuhn 2006: 7).

Grossmann saw in the state an instrument to overcome the tendency to the breakdown of capitalism by securing the flow of additional surplus values from the outside world. He attempted to build on Bauer's mathematical models derived from Marx's *Capital* a deductive system to prove Marx's crisis theory. According to Grossmann, pauperisation was not that of the proletariat, but that of the capitalists because of their tendency to overaccumulate that would produce an unavoidable decline in the profit rate. Countertendencies, such as the more efficient use of capital, might mitigate but not forestall the terminal crisis of capitalism. Beyond a certain stage in the accumulation of capital, the incentive for investment will decline and capitalists will look for more profitable opportunities for investment, outside of production, or they will export surplus capital, Grossmann argued. The more free competition was replaced by monopoly capitalism on the domestic market, the more competition would sharpen on the world market and increase economic problems and instability. Finally, he stressed the necessity for revolutionary initiatives on behalf of the revolutionary party of the proletariat.

The Varga–Grossmann polemic

Varga criticised Grossmann's book in a very long review article published in *Unter dem Banner des Marxismus* (*Under the Flag of Marxism*) (Varga 1930: 60–95). Varga's criticism must have been influenced by Grossmann's negative evaluation of Varga's underconsumptionist crisis theory. Indeed, Grossmann had argued that Varga belonged to those who thought that Lenin was the first to have proposed the law of uneven development and that Marx in *Capital* had not given a purely economic foundation to the law of uneven development of capitalism. In addition, Grossmann had classified Varga as somebody who had 'simply described the surface appearances' and that he had made 'no attempt to build these into Marx' overall system' (Grossmann 1992: 180). In *The Decline of Capitalism* (1928) Varga had pointed to the importance of capital exports to monopoly capitalism; this process had been analysed in detail in Lenin's *Imperialism* book and thus something new could hardly be added to it. Grossmann remarked that Varga had simply castaway any attempt to analyse the problem theoretically and that he had only produced facts about the volume and direction of international capital flows. Varga had argued that the rate of profit was

regulating 'not only the influx of capital into individual branches of industry, but also its geographical migrations'. Thus capital was invested abroad whenever there are prospects of obtaining a 'higher rate of profit'. Nobody, however, could find this assertion 'hardly original' (Grossmann 1992: 181). In addition, Varga had failed to understand the dimensions of the question when arguing in 1927 in *Die Internationale* that capital was exported 'not because it is absolutely impossible for it to accumulate domestically without thrusts into non-capitalist markets, but because there is the prospect of higher profits elsewhere' (Varga 1927: 363). Varga had thus, according to Grossmann, started from 'the false assumption' that whatever its total amount, capital could always find an unlimited range of investment possibilities at home. He had thus overlooked the 'simple fact that in denying the possibility of an overabundance of capital' he simultaneously had denied the 'possibility of overproduction of commodities'. Grossmann added that Varga had imagined 'any argument that there are definite limits to the accumulation of capital, and that capital export necessarily follows, is incompatible with Marx's concentration and can only be made from Luxemburg's position' (Grossmann 1992: 181). Finally Grossmann concluded that Varga was a Böhm-Bawerk imitator pretending that Marx had skipped over the influence of competition on prices (Grossmann 1929: 438 note 344).

These critical and rather harsh remarks must have had a serious impact on Varga's temper. Varga reacted that Grossmann's 'undialectical' research method was inappropriate to explain the necessary breakdown of the capitalist system. In addition, Grossmann had omitted to consider the Russian and the Hungarian revolutions as a part of the process of capitalist decay. Varga discerned the influence of Luxemburg on Grossmann's stressing of the overaccumulation phenomenon and the non-economic origins of the imperialist war. 'Without dialectics no Marxist method', Varga exclaimed (Varga 1930: 65). More insults and insinuations *ad hominem* accompanied Varga's digressions as well. He called Grossmann an immodest 'scroundel' ('Lumpe'), a 'pseudo-Marxist', a 'forger', a user of 'Talmudism', a 'striver' wanting to become a professor at the University of Frankfurt, a *Herr*, etc. In contrast, Varga called himself a 'fighting Communist' working 'at the downfall of capitalism' (Varga 1930: 60–6).

Varga's diatribes against Grossmann were followed by a critical review of Bauer's reproduction scheme having influenced Grossmann and incited Grossmann to prove that, finally, overaccumulation must lead to a breakdown of capitalism (Varga 1930: 66). Bauer had demonstrated in his model that capitalism could go on forever without crises, so long as the output of exchange values from the industrial sectors was kept in the correct ratios. Then, Grossmann had found that this model could run without difficulties for 36 years before collapsing. After 20 years the incentive to invest would decline. Varga's preliminary remark was that both Bauer and Grossmann had formulated the problem in a 'undialectical way' by making an abstraction of violent clashes. According to Varga, O. Bauer was a 'harmonist for the future' and Grossman a 'harmonist for the past' (Varga 1930: 67). Grossmann's scheme was furthermore drawn from 'pure capitalism' implicating an automatic collapse of capitalism. Then Varga

tried to refute Grossmann's theory by referring to the fact that his arguments had been derived from a collection of ill-chosen quotes from Marx's *Capital*. He reproached Grossmann for having omitted historical events, such as the Russian and Hungarian revolutions, and for having reduced his crisis theory to the problem of overaccumulation of capital in combination with an insufficient purchasing power of the whole population (Varga 1930: 76).

Varga's malicious criticism that Grossmann's book did not pay attention to revolutionary struggles was unfair. Grossmann had only argued that a continuous deterioration of wages was only possible theoretically. In reality, the constant devaluation of labour power accomplished by continual cuts in wages had to run up against insuperable barriers. Every major cut in the workers' conditions of life would inevitably drive the proletariat to rebellion. In this way, and 'through the very mechanism that is internal to it', the capitalist system was, being dominated by the 'law of entropy of capitalist accumulation', incessantly moving towards its final end. Varga warned his readers that this book, just like Rosa Luxemburg's book on accumulation theory, could reassure people that capitalism inevitably would collapse and that the exact moment of that event could be predicted. 'Therefore it was necessary to reveal the wrongness of Grossmann's whole theory' (Varga 1930: 95). Meanwhile, a debate between Grossmann, Varga (*Problemy ekonomiki* 1930/3: 31–62), Alfred Braunthal, Anton Pannekoek and Ottó Benedikt developed about the theory of automatic capitalist collapse and the role of the class struggle. Fritz Sternberg, Arkadij Gurland and Hans Neisser had begun a discussion on the flaws in Bauer's original concept. Friedrich Pollock, a colleague of Grossmann at the Institute for Social Research in Frankfurt stayed out of the whole debate; at that time Pollock was nonetheless known for having pointed to the growing importance of the services sector where additional surplus value might be extracted from the workers employed there.

Many years later, Predrag Vranicki would argue that Varga's critique on Grossmann's fatalism had been unfair (Vranicki 1972: 534). Maybe Varga's reaction had been an attempt to silence a young rival by launching personal attacks instead of dissecting Grossmann's arguments. That was also Grossmann's opinion. In a letter to Paul Mattick written in mid-1931, Grossmann complained that Varga had 'preferred to abuse me in a Communist journal. He hasn't gone into my argumentation and objections with a single word. As soon as I have the time, I will write a critique of Varga and illuminate this puffed up statistician from closer up' (Letter from Grossmann to Paul Mattick, 21 June 1931, quoted in Kuhn 2007: 146). However, it was not only a matter of abuse, but also rivalry that had inspired Varga's attacks. In Moscow, Grossmann could rely on several supporters being themselves at odds with Varga and his institute. Among them was Spektator (Nakhimson) of the International Agrarian Institute who had already rejected Varga's Luxemburgist underconsumptionist views. Because Spektator preferred explaining crises in terms of disproportion between spheres of production, he drew, just like Grossmann, much attention to the role of the turnover of fixed capital. Due to Spektator, Grossmann was named in

November 1930 a corresponding member of the International Agrarian Institute. Thereupon, Grossmann was also invited to Moscow. When meeting director Sergey M. Dubrovski in Moscow, he was simply told that 'no one here takes Varga seriously' (Kuhn 2007: 140).

Analysing the Great Slump

In a single week of October 1929 Wall Street wiped out US$25,000 million in fictitious value. That incident would mark the end of the period of post-war stabilisation. In October 1929, Varga had already pointed to the danger of stock-market crash and a coming economic downturn as well (*KI* 1929/10: 1625/37). Meanwhile, the interpretation of the origins of the crash varied widely, but the consequences were clear to everybody. In the USA and in Germany, investment was rapidly falling during the months following the stock-market crash. The subsequent depression spread within a few months to other countries and continents. World agricultural prices plunged as did raw materials prices. At first, Varga had not foreseen an immediate production crisis. At a discussion meeting organised at Varga's institute on 17 December 1929, Varga gave an analysis of the crisis in which he argued that the presence of monopolistic firms had prevented investment in new enterprises. As a result people had been forced to speculate on the stock market (*Problemy ekonomiki* 1929/12: 142–51). However, he argued, as long as producers did not dump their produce at lower prices, the shock of the stock-market crisis could be absorbed.

In Varga's reasoning, Hilferding's basic ideas about monopolies able to weather the crisis were back and that savers preferred stock of big companies because of higher return on investment (Day 1981: 178–9). Varga was still holding to the theory that monopolists could weather the crisis by cutting production. He believed that the crisis would be of a rather classical type and that it had been caused by the limited purchasing power of the masses. Given the links between banks and big industry, a credit crisis was improbable (*Mirovoe khozyaistvo i mirovaya politika* 1930/2: 5–8). Meanwhile, many small businesses would collapse or be taken over by larger competitors. Just as during the crisis of 1920–1, the monopolies would force the working class and the better-off strata of the population to bear the burden of the crisis (Day 1981: 184–6; Duda 1994: 102–3). However, not everybody was convinced by the arguments Varga had used when predicting a slow economic downturn managed by monopoly capital. His colleagues Y. Goldshtein, L. Y. Eventov and M. I. Rubinshtein could not even agree on a common theoretical denominator for the character of the crisis. During the whole year of 1930, Soviet economists would debate the character of this deepening economic crisis now hitting the whole capitalist world.

When crossing swords with Eventov, Varga revised his own view on the problem of price stability slightly. Meanwhile, he rejected Eventov's view on future price stability as 'too radical'. Varga admitted now that producers were not always able to adjust their output to decreasing demand without observing some delays, thus creating additional costs. Unsold stocks of finished goods,

such as automobiles, radio sets and furniture, would thus accumulate and that would necessarily lead to an overproduction crisis (*IPC* 1930/8: 150–1; *IPK* 1930/12: 303–4).

On 10 May 1930, Varga explained before an audience of Leningrad economists that the world crisis was due to the general crisis of capitalism (*Problemy marksizma* 1930/4–6: 89–110). Monopolistic prices and Varga's 'law' had prevented a normal market expansion, thus initiated a period of chronic depression with acute phases of crisis. Capitalists would stop investing as long as the prospects were gloomy. Otherwise, they could also invest in labour-saving machinery which would add to the growth of structural unemployment, thus leading to a further contraction in the number of productive workers. Now that the crisis had spread to other countries, the quarrel on his 'law' should stop (*IPC* 1930/26: 463), because the characteristics of the general crisis were clearly recognisable in the fact that the expansion of the capitalist market had come to a halt. As monopolistic pricing and the 'law of Varga' – that 'law' implied that investment in labour-saving technologies created unemployment and thus a narrowing market for industrial products – an industrial downturn had been transformed into a prolonged crisis. Markets would shrink due to structural unemployment in industry. By defining the general crisis as being both 'unique' and 'classical', Varga tried to link the present crisis with both finance capital and the 'classical' capitalist contradiction between social production and consumption (Day 1981: 199).

Varga's analysis of the actual 'general crisis' did not convince most specialists and certainly not the Stalinists. At the Leningrad meeting on 10 May 1930, several economists objected that Varga's analysis was heavily tainted by neo-Luxemburgist underconsumptionist views. They could not be reconciled with Marx's theory that the uneven reproduction of fixed capital – due to differential variations in the rate of profit – constituted the 'material basis' of any crisis (*Problemy marksizma* 1930/4–6: 100). Other Leningrad economists criticised Varga for having omitted Marx's thesis that fixed capital is the material basis of the cyclical movement of capitalism. L. Karsharskiy summed up that Varga had directly attributed the 'cause of the crisis to the contradiction between production and consumption, or, in other words, to the narrowness of consumption resting on a capitalist basis. But amongst Marxists, it seems, there are few exceptions to the proper view that a crisis cannot be viewed as the direct result of this contradiction'. Thus, Varga's view did not include 'the conditions of the reproduction of capital' (quoted in Day 1981: 189). That left thus no room for the Marxist investment cycle that was driven by the changing rate of profit.

After the Leningrad debate, Varga attacked his opponents on the point that not Marx, but bourgeois authors like Werner Sombart or Gustav Cassel were their sources! Varga: 'When Marx speaks of the decline of the norm of profit, he relates it to the course of capitalist development in general – not of the separate phases of the industrial cycle. The thoughts developed by Comrade Livshits are characteristic of Hilferding and Cassel, not of Marx. This theory slurs over all the contradictions of capitalism; it is purely apologetic theory and in fact it is true' (quoted in Day 1981: 189).

Varga's denial of the role of the profit rate in the investment cycle was, however, highly controversial and incoherent. On the one hand, he accepted the fact that because of a chronic disproportion between productive and consuming capacity, 'shortened periods of recovery' would not disappear. On the other hand, he believed that, even in a period of booming businesses, the capitalists would certainly not be tempted to expand their still underutilised productive apparatus. That would make the crises and depressions much longer and the periods of expansions much shorter, which would result in a long period of economic stagnation.

Stalin's and Molotov's intervention

Only Stalin's genius could find the appropriate solution to this confusion-creating debate between economists. In his political report *The Growing Crisis of World Capitalism and the External Situation of the USSR* (Stalin *Works* 1955: vol. 12, 242–385) to the Sixteenth Congress of the VKP(b) in June–July 1930, Stalin approved the view that the world crisis was far from 'classical'. Hence, he accepted Varga's view of a 'crisis of overproduction'. In that speech Stalin exulted about 'a turning point period' in mankind's history. An economic and agricultural crisis was shaking nearly all the industrial countries of capitalism, while the Soviet economy was industrialising and growing. A major characteristic of the present crisis was its worldwide character in the sense that the industrial crisis coincided with an agricultural crisis that affected 'the production of all forms of raw materials and food in the chief agrarian countries'. The crisis was an overproduction crisis, because the home market and the foreign market could not absorb all products. 'Hence overproduction crises. Hence the well-known results, recurring more or less periodically, as a consequence of which goods remain unsold, production is reduced, unemployment grows and wages are cut, and all this still further intensifies the contradiction between the level of production and the level of effective demand' (Stalin *Works* 1955: vol. 12, 244–6).

Stalin declared that the basis of the crisis 'lies in the contradiction of capitalism', thus in the contradiction 'between the colossal growth of capitalism's potentialities of production', and the 'relative reduction of the effective demand of the vast masses of the working people' (Stalin *Works* 1955: vol. 12, 250). Stalin supported Varga's views in general, but he criticised him immediately by reminding him that the present crisis was different from the old crises. The present industrial crisis was also interwoven with the agricultural crisis in the agrarian countries. Monopoly capitalism was keeping up the high monopolist prices of goods, in spite of overproduction, which made the crisis ruinous for the masses of the people. The present economic crisis was developing on the basis of the general crisis of capitalism which had led to sharpening contradictions between the major imperialist countries and, probably, to a definite superiority of the United States. Meanwhile, the danger of war would grow at an accelerated pace. Stalin disqualified the Young Plan as a plan for exacting reparations from

Germany and the establishment of the Bank for International Settlements as a means by which American monopoly capital could control the trade and currencies of the European countries. As a consequence, the Young Plan was speeding up Germany's industrial war potential and would allow the German bourgeoisie to squeeze 20,000 million marks reparation payments out of its own working class. Stalin saw an intensification of the contradictions between the imperialist states and the colonial countries in Asia and North Africa and resurgent revolutionary working-class movements in Europe.

Having already acquired the status of Stalin's confident and executioner of the ultra-rapid collectivisation programme (Watson 2005: 93–7), Molotov's contribution to the Sixteenth Party Congress was limited to a report on the developing crisis of world capitalism and the tasks of the Comintern (Molotov 1930). In his report Molotov sketched the growth of a 'new wave of revolution', the ensuing 'changes in the tactics of the Communist Parties' and the unprecedented rising importance of the Soviet Union 'as an international revolutionary factor' in connection with the 'inevitability of the collapse of capitalism' (Molotov 1930: 5). Molotov's speech included attacks on the already defeated Right and Trotsky. Meanwhile, the world economic crisis had swept away the illusions about organised capitalism.

Of course, Molotov referred to Stalin's 'adequate analysis' of the developing crisis of world capitalism. He qualified the ongoing crisis as a 'crisis of overproduction'. The growth of industry in Europe had been 'quite insignificant' since the war (Molotov 1930: 7). In addition, this industrial crisis coincided also 'with a crisis in the agrarian countries', thus, the agrarian was bound up with 'the considerable fall in the prices of agricultural products' (Molotov 1930: 8). A characteristic of the present crisis was that it had not been preceded by a general industrial boom and that in conditions of monopolist capitalism led to its 'prolongation and deepening' (Molotov 1930: 9). Of course, monopoly capital was striving to transfer the burden of the crisis to other branches of industry and social classes. Meanwhile, capitalism had already entered the phase of a general crisis, 'the stage of general crisis' (Molotov 1930: 11). In addition, the capitalist world as a single entity no longer existed. The very existence of the Soviet Union and the anti-colonial movements were in the meantime undermining capitalism as well. 'The narrowing of the market and the absence of any prospects of its extension create ever-increasing difficulties for capitalism. The vast and constantly increasing volume of unemployment is one of the most vivid indications of the growing crisis of capitalism' (Molotov 1930: 11). In order to maintain its supremacy, the bourgeoisie had recourse to Social Democracy and to Fascism. Together with the reformist trade unions, Social Democracy was 'rapidly moving towards Fascism' (Molotov 1930: 24). Molotov warned the Right elements in the Comintern who wanted to transform the Communist Parties into an appendage of Social Democracy. He castigated the Left sectarians for failing to understand the difference between the Social Democratic workers and the Social Fascist bureaucracy. Thus, the struggle against Social Fascism should remain 'indissolubly bound up with the struggle against Fascism'

(Molotov 1930: 28). In the meantime, the Left wing of Social Democracy was identified as 'the last reserve of the bourgeoisie among the workers' (Molotov 1930: 29).

Varga published an account on Stalin's report to the Sixteenth Party Congress in the review of his institute *Mirovoe khozyaistvo i mirovaya politika* (1930/6: v–xv) and in *Unter dem Banner des Marxismus* (1930/3: 293–303). Essential parts of his analysis of the economic crisis based on Hilferding (organised capitalism) and Luxemburg (underconsumption) had been included in Stalin's and Molotov's reports. According to Stalin, the industrial crisis was interwoven with an agrarian crisis as well. Monopolists were trying to keep up the price level of industrial goods, while the workers were starving. Meanwhile the danger of war was growing.

Tightening ideological control

The Sixteenth Congress of the VKP(b) signified Stalin's victory over all his enemies, not only the Rightist deviationists and the Trotskyists, but also the bourgeois intelligentsia in all branches of industry, the kulaks struggling against collective forms of farming, and the anti-Soviet elements in the state bureaucracy. Only people having lost their heads could seek a way out in Bukharin's 'childish formula' about the capitalist elements 'peacefully growing into socialism'. Stalin's offensive aimed at mobilising class vigilance and increasing revolutionary activities against the so-called 'capitalist elements' and the bureaucrats in the 'institutions and organisations' in order to expel from them the alien and degenerate elements, and promoting new cadres from the rank and file. Purged of his major rivals, the Politburo stood with Stalin. From now on, all Politburo members would defend his political line (Cohen 1975: 343). Behind the regime's difficulties arising from the class struggle were also hiding class enemies. Therefore the Party started developing wide self-criticism from top to bottom and from the bottom up, irrespective of persons, upon shortcomings in organisations and institutions. The Party had organised a campaign against the bureaucracy by issuing the slogan of purging the Party and the trade unions of alien and bureaucratised elements. Stalin defined the essence of Trotskyism as the 'bourgeois denial' of the possibility of leading the peasantry to socialist construction.

The Sixteenth Party Congress of June–July 1930 was the starting point of a merciless struggle for a tighter control on the academic institutions as well. Scientific and party institutes were urged to contribute more seriously to state planning activities. Hidden Trotskyists and Right-wing deviators had to be unmasked and excluded. New textbooks had to be written. From now on, economic literature was scrutinised by Stalin's services. In 1929 the Communist Academy was made responsible for all Marxist research projects. In 1931, it was merged with the Institute of Red Professors, founded in the winter of 1920. In the beginning, ideological control lacked any consistency. It took, however, some time to repress heterodoxy. By 1934, all specific communist academic organisations were dissolved and integrated into the Academy of Science.

In order to speed up ideological purges, Stalin had launched an attack on the 'semi-Trotskyites' and the 'Social Democrats' when 'emphatically' protesting against Slutskiy's semi-Trotskyist article, 'The Bolsheviks on German Social-Democracy in the Period of Its Pre-War Crisis', published in *Proletarskaya revolutsiya* in 1930 (Stalin 1954: vol. 13, 86–104). In this article Slutskiy had asserted that Lenin (the Bolsheviks) had underestimated 'the danger of centrism in German Social-Democracy and in pre-war Social Democracy in general'. Stalin stated that the author had argued that Lenin was 'not yet a real Bolshevik; that it was only in the period of the imperialist war, or even at the close of the war, that Lenin became a real Bolshevik'. Thus Slutskiy was a 'slanderer' and a 'falsifier', because the Bolsheviks had smashed the opportunists and the centrists as no other Left group had done before them anywhere.

A return to the Leninist stage of political economy could be observed in most economic publications. Confronted with increased ideological repression, Varga decided therefore to dump Eventov's theory of the short cycles because it had been inspired by American business researchers. When commenting in his survey in *International Press Correspondence* of the second quarter of 1930 on the 'deepening' of the economic crisis, Varga pointed now to the role of the law of value and the breakdown of monopolistic price controls during the deepening of the crisis (*IPK* 1930: 1625–55). He announced now for the autumn a prolonged crisis with the possibility of an even greater crisis in 1931 (*IPK* 1930: 2285–322).

The Stalinists, who were repeating Lenin's law of uneven development on every conceivable occasion, could nonetheless find enough ammunition for renewed attacks on Varga's Luxemburgism. Varga's article on the prospects of the world economic crisis in *Bolshevik* of December 1930 (Varga 1930: 36–59) was criticised as 'debatable and incorrect' in an editorial footnote. It took V. E. Motylev (a geographer and former Luxemburgist) two months to publish an attack on Varga in *Bolshevik* (1931: 56–70). In his article, he denounced Varga for having defined the 'general crisis' in a 'one-sided and wrong manner' and for having omitted to interpret imperialism as the last stage of capitalism (Tikos 1965a: 57–60). Motylev rejected the idea of a 'normal' and 'classical' crisis in America. For having overestimated new capital expenditures and as, a mere consequence, Varga had explained the crisis of 1929 in Luxemburgist terms when stressing the exhaustion of third-countries' demand. Varga had thus deduced the inevitable crash of capitalism directly from the conditions in the market. Motylev disqualified Varga's 'law' as 'absurd' (Day 1981: 193), because the monopolists were at any rate unable to control prices. Their accumulated losses would drive them to bankruptcy, which would mean an inevitable credit crunch in the short run. Motylev predicted a long-lasting crisis. Varga's theory of a mixture of 'classical' and an 'normal' crisis was thus nothing more than 'an opportunistic appraisal' (quoted in Day 1981: 193) of future prospects for an upturn in America and later in Europe.

Meanwhile attacks on Varga continued all the time. Lev A. Mendelson [Mendelsohn] of the Moscow-based Institute of Red Professors blamed Varga in

Bolshevik (1931/8–6: 21–37) for having forgotten the revolutionary role of the proletariat and thus for having diverted to the Hilferding camp. Because of underestimating both the economic crisis and the revolutionary role of the Soviet Union, Varga believed now that the next crises would be less severe. Hence, Varga's 'law' consisted of a denial of Lenin's imperialism theory and that would lead – via Luxemburg – directly to Trotsky's stagnation theory. Mendelson could not grasp why capitalism should be qualified as 'mortally ill' when at the same time American capitalism was undergoing a 'classical' crisis after a long period of expansion. For Mendelson the classical cycle had ended up in a crisis in the USA (Mendelson 1931: 28–32). Did the theory of the general crisis sometimes only apply to Europe?

Closer to Stalin?

The attacks on Varga's views in *Bolshevik* had nonetheless remained within the limits of academic fairness and politeness. This was certainly not the case with everybody being attacked by the Stalinists. In 1931, Preobrazhenskiy was expelled from the Party for having ascertained in a book manuscript entitled *The Decline of Capitalism* (Preobrazhensky 1985) that the capitalist business cycle also existed during the 'third period' of capitalist decline and that capitalism was resilient enough to overcome disproportions between the two sectors of the economy as long as capitalist economies were internationally competing. Hence, economic recovery should not be excluded. By then, Preobrazhenskiy was accused of being influenced by Bukharin, Luxemburg, Hilferding, Kondratiev, Tugan-Baranovskiy, Trotsky, Kautsky and Spektator. E. Gromov rejected in *Mirovoe khozyaistvo i mirovaya politika* (1931/4) Preobrazhenskiy's thesis that the uneven reproduction of fixed capital be the key factor for the understanding of the cycle. In addition, Marx had situated the decisive cause of the periodic crises in the contradiction between the social character of production and private appropriation. Ilya N. Dvorkin declared in *Pod znamenem marksizma* (1931/11–12: 170–87) that Preobrazhenskiy was defending Trotsky's theory of absolute stagnation in combination with the theory of Hilferding's organised capitalism, thus denying the law of uneven development. Dvorkin associated Trotsky with Bukharin because both depended on 'abstractions'. In addition, Preobrazhenskiy had overlooked the contradiction between the social character of production and the private form of appropriation. He called Preobrazhenskiy's theory of the 'monopolistic cycle' a 'social-fascist' construction. In *Problemy ekonomiki* (1931/9: 93), Gromov connected Preobrazhenskiy's analysis to Kautsky's theory of ultra-imperialism. Preobrazhenskiy's expulsion from the Party in 1931 must have warned everybody who had been in contact with him. A few months later Varga would be associated with the 'Trotskyist' Preobrazhenskiy as well.

At the Eleventh Plenum of the ECCI meeting between 25 March and 13 April 1931, Varga was not allowed to submit a report on the evolving capitalist world economy. He lectured now on the agrarian crisis, also one of his preferred

subjects (Carr 1982: 29–44; *IPK* 1931/13: 363–4). Manuilskiy read a long report on the building up of socialism in the USSR and on the deepening crisis of the capitalist world system. This change in the international power balance had strengthened revolutionary movements everywhere. Revolutionary crises would break out, but, unfortunately, the 'subjective factor' was lagging behind the 'objective factor'. He called social democracy the chief prop of the bourgeoisie, but insisted on the need to pay more attention to day-to-day tasks. Quoting Stalin and Molotov, Wilhelm Knorin saw no reason for modifying the standpoint of the Tenth Plenum of the ECCI in 1929. He attacked Varga in his speech for believing in an automatic collapse of capitalism. Finally, he urged the communist parties to urge more vigorous revolutionary actions.

Unmasked as a Luxemburgist, but not as a Trotskyist, Varga had prudently moved closer to Stalin's analysis of the general crisis of capitalism. He adopted a more critical stance to Hilferding's theory of organised capital and to the idea that monopoly capital would be able to weather the crisis. In Varga's adjusted views the credit crunch spreading to several countries and causing monetary instability was from now on a factor of the economic crisis (*IPK* 1931: 2381–408). Varga explained that the credit crunch had been prepared well in advance by a wave of hoarding and speculation. He situated the origins of the financial crisis not exclusively in the pre-1929 prosperity period, but also in recent developments of the general crisis of monopoly capitalism. Notwithstanding all efforts deployed by monopoly capital to prevent its spread, the crisis had touched the entire capitalist world by shaking the banking system (*IPK* 1931: 2382). Varga made no mystery of his conviction that the economic preconditions of the credit and financial crisis had been present in all industrial countries because of rising production costs and accumulated stocks of unsold products. He thought that one should also consider the 'political moment' of the general crisis, because the period of the general crisis of capitalism was also 'the period of the social revolution' (*IPK* 1931: 2383).

Varga's slightly readjusted analysis of the general crisis must have displeased his Stalinist critics who were still hunting all remaining Right deviationists and Trotskyists in the academic institutes. In *Pravda* of 24 December 1931, three young Stalinist economists, Boris S. Borilin, Nikolay A. Voznesenskiy and Solomon P. Partigul published a frontal attack on the Trotskyite Preobrazhenskiy, the Luxemburgist Varga, and the Right-wing statistician Stanislav G. Strumilin. *Bukharinist* Strumilin was at that time involved in the modelling of the Soviet type planned economy he wanted to marry with spontaneous forces. In 1931, he had become a member of the Academy of Sciences. This must have displeased Voznesenskiy who was at that moment the coming man of the planning school (Lewin 1975: 99–100).

The timing of their attack in *Pravda* was nonetheless perfect and must have been inspired by the Stalinists of the Central Committee. The attacks went well beyond the scientific nature of their contents. That Varga was associated with the 'Trotskyist' Preobrazhenskiy and Right-winger Strumilin was rather fortuitous, but nonetheless insidious. In March 1931, Preobrazhenskiy had been

invited to give at Varga's institute a lecture on his incriminated book project on the decline of capitalism. Strumilin was a planner and statistician. However, he could have been Partigul's competitor as well. In addition, he was an 'opportunist'. In order to broaden the base of their offensive the three Stalinists had associated Varga with the Trotskyist Preobrazhenskiy and Bukharinist Strumilin (Duda 1994: 108).

At the moment of publication of their attack in *Pravda*, the three Stalinists must have been informed that Varga had been scheduled a session of self-criticism at his institute for 29 December 1931 and 14 January 1932. At these two sessions, Varga reluctantly confessed his theoretical mistakes and shortcomings. He admitted that he had not foreseen the recent credit crunch and the ensuing monetary crises. He confessed having believed in Hilferding's theory that monopoly capital could weather the crisis by controlling output and prices. He recognised that the bourgeois state was refloating the banks and that monopolised heavy industry was suffering from shrinking markets. 'My error arose from underestimating the acuteness of the world economic crisis […] and from overestimating the powers of monopolistic capital' (quoted in Day 1981: 253). Varga's self-criticism did not go very deep. Making forecasts was a hazardous and difficult activity, he argued. However, his critics had blamed him for having made serious mistakes. When omitting to trace back the current crisis to an earlier phase of cyclical expansion, he had failed to predict the very moment of the banking crisis and to predict a possible revolutionary moment. The debates turned sour when Pavel Lapinski needed two hours for commenting on Stalin's speech to the Sixteenth Congress of the VKP(b) and M. Engibaryan was urging for a meticulous study of the writings of Marx, Lenin and Stalin in order to better elucidate the political implications of the actual economic world crisis (*Problemy mirovogo krizisa* 1932; Duda 1994: 108–9). Finally, Varga survived the confrontation with his opponents.

Varga's Stalinist enemies in the Central Committee and the academic institutes would not yet completely disarm. A. Amatuni (A. Amo, in *Bolshevik* 1932/9: 80–94) criticised the lag in theoretical work on the part of the Communist economists with regard to 'reality'. Again, Varga was blamed for clinging to the theory that monopoly capital could forestall bankruptcies. That theory was alien to Marxism, Amatumi claimed. It was derived from 'bourgeois beliefs' denying capital's internal contradictions and Varga had detached the credit-monetary crisis from the cyclical development of capitalism. A. Amatuni argued now that the credit crunch had already existed in 1929, but then in a 'disguised form' (Day 1981: 254). Amatuni's article was published at the moment Varga's institute was preparing for a debate on monetary problems. In his introductory speech to the debate session at Varga's institute, I. A. Trakhtenberg agreed with Amatuni's analysis that the origins of the credit crunch went back to the stock-market collapse, and thus had existed in a 'hidden form' for several years. Not everybody was charmed by Trakhtenberg's hazardous analysis. Finally, Varga would emerge as the dominant discussant questioning the 'real meaning' of the presumed 'hidden credit crisis' (*Sovremenniy kreditniy krizis* 1932).

Textbooks on imperialism

After Lenin's death in 1924, Evgeniy B. Pashukanis (1928) of the Faculty of Law in Moscow authored the first serious textbook on imperialism. In this book little was said about international economics or colonialism. I. Lapidus and K. Ostrovityanov – both were working at the Plekhanov Institute of National Economics in Moscow – then published a widely acclaimed textbook *Outline of Political Economy* (1929) containing a chapter on imperialism and capitalism's decay as well. Hilferding's theory of finance capital had served them as an authoritative source of inspiration. The industrialists had become 'slaves' of the big banks and 'under the rule of monopoly capital, the banks, syndicates, trusts, and the State, had been transformed into one gigantic combined enterprise under the control of the financial oligarchy. Quoting Lenin, Bukharin and Stalin, the authors were hoping that 'these antagonisms must sooner or later end in a clash'. The authors were convinced that capitalism was inevitably 'declining towards its destruction' and that the 'moribund bourgeoisie' would not be in 'a position to recover' because its growing antagonisms limit the further development of society and its productive forces. 'If there is still a certain development of technique to be observed in some spheres, that development proceeds most unevenly and is largely connected with the requirements of war, i.e. with the prospect of future destruction' (Lapidus and Ostrovityanov 1929: 451). The crises in the period of stabilisation of capitalism were extremely irregular – 'they differ from the crises of classical capitalism by their frequency, by the fact that there is no regularity in their succession, as is the case with "normal" crises' (Lapidus and Ostrovityanov 1929: 453). Without naming Varga, the authors referred nonetheless to his underconsumptionist 'law' when underpinning the theory of a 'mortally ill' capitalism. On the one hand, the capitalists were capable of producing more than they actually produce, but on the other, the millions of unemployed and badly paid workers had no means of buying what they need.

In the meantime, this handbook did not meet Stalin's standards anymore. By 1932, a new textbook was published, this time edited by L. Kasharskiy and V. Serebryakov (Kasharskiy and Serebryakov 1932) with contributions by V. Gryzdev, E. Katchurinev, K. Luknitskiy, M. Merkin and N. Mironov. In 1933, a second edition was published. M. Bortnik was named as its third editor. Varga was not involved in these projects. However, on the eve of the Seventeenth Party Congress in January 1934, he was charged with the task of making an updated version of Lenin's book on imperialism. Together with Mendelson, Varga co-authored an updated edition of Lenin's imperialism book. A second revised and extended edition followed already in 1936. This time E. Khmelnitskaya had joined as the third editor. In 1938, an English translation of the second edition was published, but this time E. L. Khmelnitskaya had disappeared from the title page. In 1937, she had been arrested and imprisoned.

This updated version of Lenin's imperialism book (*New Data for V. I. Lenin's Imperialism, the Highest Stage of Capitalism* 1938) was a purely 'mechanical exercise' (Roberts 1977: 369). It followed Lenin's canonised original text. It

contained many business statistics informing the reader about recent economic development, but the editors had made no effort to expand or enrich Lenin's theory of imperialism. Lev Mendelson, not Varga, authored the conclusions in the last chapter. Echoing Rosa Luxemburg, Mendelson argued that 'the difficulty of finding markets' (Varga and Mendelsohn 1938: 275) had retarded growth rates and caused overcapacity. Capital export to the colonies had decreased. Free capital flows in the form of short-term investments had much contributed to monetary instability. 'The fact that investors are less eager today to invest in long-term investments than they were before the war is due to the unstable position of capitalism in the midst of the general crisis, to the shrinking of the realm of capital as a consequence of the formation of the Soviet Union, and the growth of colonial revolutions' (Varga and Mendelsohn 1938: 294). This thesis of decreasing capital export to the colonies contradicted the theoretical base of Lenin's imperialism theory.

Meanwhile Varga's institute had already drafted an ambitious research programme for the study of all major imperialist countries. Already in 1937 Rebekka S. Levina published a volume on US imperialism (Levina 1937; Varga ed. 1937). No other volumes would be published.

Conclusions

By 1929–30, Varga believed that the crisis would be of a basically classical type, but this time with several unique features. Given the intimate connections between the banks and the industrial monopolies, there was little probability of a credit crunch and a monetary crisis. Meanwhile, Varga preferred referring to a classical crisis of overproduction as well. In 1930 he had nonetheless to admit that the crisis was spreading to the whole world. Hilferding's influence had in the meantime led to Varga's underestimation of the economic crisis, while Luxemburg's underconsumptionist views and 'third parties' doctrine had obscured Lenin's imperialism theory. Stalin's intervention in the debates between economists at the Sixteenth Party Congress would make clear by then that Varga should put more emphasis on the general crisis of capitalism than on finance capital's ability to manage the crisis.

8 A depression of a special kind

> It has always been the privilege of the 'epigones' to take fertile hypotheses, turn them into rigid dogma, and be smugly satisfied, where a pioneering mind is filled with creative doubt.
>
> Rosa Luxemburg

In the early 1930s, Varga's intellectual influence on the Comintern leaders had considerably declined. Though he backed the Leftist strategy of the Comintern, his position was nonetheless contested. Stalinists in the VKP(b) saw in him a Luxemburgist tainted by Rightist deviationism and opportunism. Varga moved meanwhile closer to Stalin. In 1934, when Georgiy Dimitrov took the leadership of the Comintern and introduced the Popular Front strategy, Varga returned definitively as the Comintern's uncontested leading economist reporting on the crisis of capitalism.

Social Fascism

Already in 1928 at the Sixth Congress of the Comintern, 'Social Fascism' had been identified as a pillar of bourgeois rule. This had been confirmed at the Tenth Plenum of the ECCI in July 1929. However, by then, the Comintern was still talking about 'germs' of Fascist methods used by Social Democracy. Left Socialism was seen as an even greater evil than Social Democracy, because the Left Socialists prevented the workers from joining Communism. Though the demise of the Weimar Republic in 1933 was not immediately interpreted as a severe blow to the entire working-class movement, nobody in the Comintern was pleading for a revision of the ultra-left strategy. Hitler's access to power in Germany did not change the Comintern's strategy. A united front with the Social Democrats was still out of question as long as the latter were qualified as 'Social Fascists' (Knorin 1934). The Social Democrats had disguised their subservience to capital, while the Nazis represented the dispossessed petty bourgeoisie at the service of capital. In 1931, the KPD connived with the Nazis to bring down a Social Democratic government in Prussia.

When on 28 November 1933 the Thirteenth Plenum of the ECCI met, the accepted analysis of the Fascist phenomenon was that the indignation of the

broad masses against the rule of capital was growing in a period when the capitalists were no longer able to maintain their dictatorship by parliamentary methods. They were thus compelled to pass to an 'open terrorist dictatorship' (*Theses and Decisions* 1934: 6). In his congress report on *Fascism, the Danger of War and the Tasks of the Communist Parties*, Otto V. Kuusinen (1934) predicted a new phase of revolutions and wars. Japan and Germany had already left the League of Nations. Fascism would not impede revolutionary development. Meanwhile fascisation of Social Democracy had accelerated as well. The chief slogan of the Comintern remained thus 'For Soviet Power'. Finally, Wilhelm Pieck defined Fascism as a form of monopoly-capitalist dictatorship (Weber and Herbst 2004). Optimism reigned, but some doubts had assailed the speakers as well. Vasil Kolarov wanted an alliance with the peasantry in order to fortify the Communist parties. According to Knorin capitalism had outlived its time now that Germany was in turmoil. Béla Kun blamed the Social Democrats for their customary slanderous offensive against the united front. Aleksandr Lozovskiy called for working in the Fascist trade unions (Carr 1982: 107). The Thirteenth Plenum gave a clear-cut definition of Fascism. 'Fascism is the open, terrorist dictatorship of the most reactionary, most chauvinist and most imperialist elements of finance capital.' Fascism tried 'to secure a mass basis for monopoly capital among the petty bourgeoisie' and 'to penetrate into the working class' (*Theses and Decisions* 1934: 6).

Because of developments in Germany, the Thirteenth Plenum of the ECCI decided nonetheless to convene a new Congress of the Comintern for the second half of 1934. About the victory of Fascism in Germany, it was noted that the 'revolutionary crisis and the indignation of the broad masses against the rule of capital' was growing and that the 'methods of parliamentarianism' had become a hindrance to the capitalists. Hence, capital was compelled 'to pass to open terrorist dictatorship' and to 'unrestrained chauvinism' (*Theses and Decisions* 1934: 6). A general tendency to fascisation could be recognised in all bourgeois parties, including Social Democracy. The establishment of Hitler's dictatorship had unmasked the SPD, but meanwhile Social Democracy continued to 'play the role of the main social prop of the bourgeoisie also in the countries of open fascist dictatorship' in a time that the financial oligarchy was unable to overcome the crisis or to restore economic stability (*Theses and Decisions* 1934: 9). At a moment when the mainstays of capitalism had been destroyed by virtue of these contradictions, the great task of the international proletariat was 'to turn this crisis of the capitalist world into the victory of the proletarian revolution' (*Theses and Decisions* 1934: 12).

At the Thirteenth Plenum, Varga was back on stage with an analysis of the international situation. In his report, he addressed the necessity of winning over the majority of the working class and the peasantry. Because of their class position, the overwhelming majority of the exploited peasants were objectively belonging to the Communist camp, Varga asserted (*Rundschau über Politik, Wirtschaft und Arbeiterbewegung* 1934/10: 360–2). The problem was how to mobilise these 'objective allies' under Communist leadership (Tikos 1969:

87–99). The peasantry had not developed a revolutionary movement and, meanwhile, the Krestintern had been reduced to a phantom organisation.

The Seventeenth Congress of the VKP(b)

The Soviet Union was in the beginning of the 1930s, in a process of forced industrialisation and collectivisation of its agriculture. Stalin's First Five-Year Plan had been a success. Productivity in agriculture had improved. The rapid industrialisation, the efficient utilisation of all productive forces, the tremendous change in class relationships after collectivisation of agriculture and, above all, the economic crisis shaking the developed capitalist world had enhanced the dictator's prestige inside and outside the Soviet Union. Stalin tried now to appear as a national and international figure, a charismatic leader capable of uniting the toiling masses around his person.

A new era was inaugurated. At the Seventeenth Party Congress that met from 26 January to 10 February 1934, Stalin appeared as the uncontested political leader of the Soviet Union. In the meantime, Stalin wanted to be well informed on the global economic situation before facing the Party Congress. A few weeks before the Congress met, he suddenly called Varga to the Kremlin. Then he asked him to draft a report on the international economic situation. Why? Stalin must have distrusted all the reports and articles on the international economic and political situation having recently arrived on his desk. Stalin was above all a man of facts and figures, not of rhetoric. In a discussion with Molotov and Dimitrov, Stalin explained that he had called for Varga's help, because he had been sick and tired of all the hollow phrases he had heard:

> One does not make Marxist analyses. For my report I called Varga and I asked him for figures of the crisis. Astonished and frightened, he asked me: What kind of figures? The figures that exist, I said. True figures? – Yes, of course – true figures! He brought me the figures. And he recovered his breath. For God's sake, he said, there exist people who like to know the truth! Imagine, he is afraid to give the Comintern the true figures, because he would in that case be qualified as a Right-wing opportunist… He could not decide to publish that report without my approval! Molotov – Yes, Varga is a good scientist, but a coward.
>
> (Bayerlein 2000: 299)

A few days before the Seventeenth Party Congress met, Varga's report was distributed to all delegates. His *New Appearances in the World Economic Crisis* (Varga 1979: vol. 2, 323) was a hastily assembled text with many statistics and press clippings only provided a general description of the actual economic crisis. Varga gave some general characteristics of the industrial and agrarian crisis, its features per country and the general conditions of the working class and the peasantry. He recognised that the industrial crisis had led to a catastrophic credit crunch in Germany (1931) and the United States (1933). He paid now much

more attention to the economic policy practiced by the Roosevelt Administration (Varga 1979: vol. 2, 370) and to the role the state played in overcoming the crisis 'artificially'. The state appropriated and redistributed a growing share of the national economy, regulated exchange rates and domestic prices, organised cartels and exercised a prominent influence on credit banks. Parliaments had lost much of their influence at the expense of bureaucratic organisations. Although finance capital was dominating the state and determining economic policy making, the role of state bureaucracies was growing because of increasingly complicated legal regulations (Varga 1979: vol. 2, 335).

Varga pointed out that the crisis had gone over into a depression determined by the general crisis of capitalism. He reiterated his underconsumptionist thesis as well. Because of the declining purchasing power of the workers, all attempts to plan agricultural production had lamentably failed. Meanwhile, agricultural workers were unable to find employment in industry. As protectionism generalised, exports of agricultural products declined further, which in turn reinforced the agrarian crisis. Varga did not believe in a 'normal' solution to the crisis. The depression would soon go over into a new boom reaching an industrial output level well beneath the already low production figures of 1932 (Varga 1979: vol. 2, 392). Though one could certainly speak of a 'cyclical overproduction crisis', this crisis was not 'a normal crisis, a simple "repetition" of former crises', because capitalism was now in its declining phase. 'The overcoming of the acute crisis phase, the evolution to a depression does certainly not mean a new stabilisation of capitalism. […] The industrial crisis has led to a further deepening of the general crisis of capitalism.' This meant the end of capitalist stabilisation. The agrarian crisis, chaos on the currency exchange markets, monopolisation of markets, etc. could lead 'at any moment' to a new world war. Varga discovered in the deepening of the general crisis of capitalism 'the ripening of the revolutionary crisis' (Varga 1979: vol. 2, 392). The hope for a new economic upswing was thus lacking any foundation, he warned. Therefore the bourgeoisie had broken with parliamentarism and chosen for an 'openly terrorist dictatorship of Fascism' (Varga 1979: vol. 2, 310).

In his report to the Seventeenth Congress of the VKP(b), Stalin had also used several ideas contained in Varga's report. Stalin (*Collected Works* 1955: vol. 13, 671–2) vindicated that 'in the economic sphere these years have been years of continuing world economic crisis'. The crisis had thus affected not only industry, but also agriculture as a whole and had also extended to the sphere of credit and money circulation. The established credit and currency relations among countries were now completely upset. 'While formerly people here and there still disputed whether there was a world economic crisis or not, now they no longer do so, for the existence of the crisis and its devastating effects are only too obvious', Stalin exclaimed. For Stalin, the controversy centred around another question: 'Is there a way out of the crisis or not; and if there is, then what is to be done?' In his report, Stalin defined the ongoing economic crisis in the capitalist countries as different from all previous crises. 'Formerly crises would come to an end in a year or two', he said, 'but the present crisis, however, is now in its

fifth year, devastating the economy of the capitalist countries year after year and draining it of the fat accumulated in previous years' (Stalin *Collected Works* 1955: vol. 13, 674).

Stalin gave the most important characteristics of the crisis in his speech. First, the present economic crisis had 'affected every capitalist country without exception, which has made it difficult for some countries to manoeuvre at the expense of others'. Second, there was the fact that the industrial crisis had become 'interwoven with the agrarian crisis', which had affected all the agrarian and semi-agrarian countries. Third, the agrarian crisis had grown more acute and had affected 'all branches of agriculture and it had brought about a retrogression of agriculture, a reversion from machines to hand labour […], a sharp reduction in the use of artificial fertilisers, and in some cases a complete abandonment of them – all of which has caused the industrial crisis to become still more protracted'. Fourth, the monopolist cartels maintained high commodity prices, a circumstance which made the crisis 'particularly painful' and hindered the 'absorption of commodity stocks'. The chief thing was thus that the industrial crisis had broken out in the conditions of 'the general crisis of capitalism', when capitalism no longer had, nor could have, either in the major countries or in the colonial and dependent countries, the strength and stability it had had before the war and the October Revolution. 'As a heritage from the imperialist war, the imperialist countries were confronted with a chronic under-capacity operation of plants and with armies of millions of unemployed' (Stalin *Collected Works* 1955: vol. 13, 675). Furthermore, Stalin argued that the crisis had attained the credit system and exchange rates as well. Hence, the traditionally established relations had broken down both between countries and between social groups in the various countries. The fall in commodity prices had played an important role as well. In spite of the monopolist cartels, the fall in prices had increased with elemental force, affecting primarily and mainly the commodities of the unorganised and small commodity producers and only gradually and to a smaller degree the producers united in cartels. Mass bankruptcy of firms and of individual capitalists was the result. Bankruptcies were followed by currency depreciations, which slightly alleviated debtors' position, caused non-payment of international debts and a further decline in foreign trade (Stalin *Collected Works* 1955: vol. 13, 676).

Then Stalin predicted that this crisis would 'be followed by a new upswing and flourishing of industry'. He was now thinking with Varga about a 'continuing general crisis of capitalism because of the circumstances of which the economic crisis was proceeding; the chronic under-capacity operation of the enterprises; chronic mass unemployment; the interweaving of the industrial crisis with an agricultural crisis; the absence of tendencies towards a more or less serious renewal of fixed capital, which usually heralds the approach of a boom, etc., etc'. With Varga this time, he reiterated once more that one was witnessing 'a transition from the lowest point of decline of industry, from the lowest point of the industrial crisis, to a depression – not an ordinary depression, but a depression of a special kind, which does not lead to a new upswing and flourishing of

industry, but which, on the other hand, does not force industry back to the lowest point of decline' (Stalin *Collected Works* 1955: vol. 13, 690).

The prospects for the world revolution were good, but Stalin also warned that the victory of the revolution would not come automatically because only a strong proletarian revolutionary party could 'prepare for and win victory'. Thus everything depended on the existence of a revolutionary party of the proletariat 'with sufficient strength and prestige to lead the masses and to take power' (Stalin *Collected Works* 1955: vol. 13, 687). Stalin remarked that the ruling classes in the capitalist countries were destroying the last vestiges of parliamentarism and bourgeois democracy 'which might be used by the working class in its struggle against the oppressors'. Meanwhile, they were 'driving the Communist Parties underground and resorting to openly terrorist methods of maintaining their dictatorship' (Stalin *Collected Works* 1955: vol. 13, 691). However, Stalin paid in his congress report much more attention to his peace offensive in Europe, than to the prospects of the coming proletarian revolution in the world.

Criticism of Henri de Man

At the instigation of Henri de Man, the Belgian Labour Party (Parti Ouvrier Belge, POB) adopted at the end of 1933 a programme for structural economic reforms (nationalisations of big banks and industrial firms). This Labour Plan intended to break with deflation and to stimulate economic growth and employment. De Man's Plan, which had attracted the attention of many foreign observers, promised, however, neither fast economic growth nor a complete absorption of long-term unemployment. In France, SFIO leader Léon Blum argued that indemnities paid for nationalisation would favour capitalism's survival, not its decay. Exploitation of the workers would meanwhile continue. For Trotsky, the whole scheme, 'half adventure, half plot against the people', would end up in a disaster (Trotsky 1958: 51). Many leftist elements within the POB were nonetheless fascinated by De Man's methods of mass mobilisation and his promise to break with deflationary policies. Lacking serious arguments to combat De Man's Plan, the Belgian Communists called Varga in for propagandistic help.

Varga had already commented on De Man's Plan in his quarterly economic analysis in *Rundschau über Politik, Wirtschaft und Arbeiterbewegung* of 28 May 1934 (1229–52), but at the request of the Belgian Communists he would write with the help of Henryk Walecki a thoroughgoing study of the Belgian Plan (Varga 1934a, 1934b, 1935c). In his text, Varga concentrated on the fact that the bourgeoisie would not be expropriated, but only bought out, while wage increases would be denied to the workers in the nationalised sector. Meanwhile, the international economic interests of the Belgian bourgeoisie would be left intact. This Labour Plan would also pave the way to Fascism, not to Socialism. He even predicted that the Labour Plan belonged to the requisites of electoral politics and forging a coalition with the bourgeois parties. De Man sneered in *Le Peuple* that the Belgian Communist Party had to hire a Comintern functionary to combat his Labour Plan. He pointed out that his Labour Plan only

envisaged the seizure of the 'levers of command' (De Man 1935; Laurat 1935), not full nationalisation of the economy (Dodge 1966: 124–72). Varga replied that the condition of the workers could only 'be improved (by using economic struggles) at the expense of profits' ('Antword an de Man', PIL, 783. f. 10). Basing his criticism on Marx's 'underconsumption' thesis in volume 3 of *Capital*, Varga stressed the fatal existence of periodical crises in combination with overall mass poverty. 'The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit' (Marx 1959: vol. 3, 472–3). Publication of Varga's reply to De Man was, however, unexpectedly delayed. The Comintern had meanwhile definitely chosen for a broad alliance including the other left parties. In Belgium, a new coalition government comprising the Socialists had been formed in March 1935. De Man and four other Socialists had joined that national coalition that, however, had not adopted the Labour Plan.

In his reworked answer to De Man, Varga accentuated now the necessity of a 'united front and a popular front' to 'purify the state apparatus of elements protecting or supporting the fascists, to repress draconically the speculative manoeuvres of the financial magnates and to take other measures susceptible to weaken really the position of big capital' (Varga 1936: 77). He called for the formation of a 'united front against unemployment and misery, against fascism and war, in order to weaken the position of capital' (Varga 1936: 71). All defenders of liberty and peace were invited 'to break the velleities of fascism' and to fight a regime generating misery, oppression and war. Only a united action of the 'toiling masses' could prevent the bourgeoisie from utilising state power against the workers. That united front 'would not yet signify the realisation of socialism, but certainly reinforce the position of the working class, give her new weapons in order to organise successfully a revolutionary attack on the capitalist regime' (Varga 1936: 77). Varga warned that 'the question of a united front should not signify an agreement with the concepts of the Plan'.

Popular Front tactics

When Dimitrov arrived at the end of February 1934 in Moscow after having been acquitted in the case of the Reichstag fire in Berlin, he pleaded for a closer collaboration with the Social Democrats at the top level. Many, Stalin was among them, found it difficult to adopt his proposals. Dimitrov's diaries reveal that in April 1934 Stalin still believed that parliamentarism could no longer be used as an instrument in the hands of the proletariat. Although Stalin agreed with Dimitrov on certain points, he nonetheless worried about a probable undermining of his leadership (Firsov 1989: 40). In May 1934, Stalin agreed on an anti-fascist front between the PCF and the SFIO. Curiously, however, Stalin did not interfere at that moment in the debates occupying the staff of the Comintern during the preparations for the Seventh Congress.

Behind the scenes in the ECCI headquarters resistance to any strategic change was still great. The preparatory commissions could make no further progress until on 23 June 1934 the PCF Party Conference acclaimed the idea of a united front with the SFIO. Dimitrov contacted Stalin. In a letter demanding to drop the disqualification of the Social Democrats as the bourgeoisie's main pillar (Dallin and Firsov 2000: 13–16), he wanted to know if the Left Socialists remained unacceptable as potential allies (Sobolew *et al.* 1970: 433–7) and if the united front could only be brought about from below (McDermott and Agnew 1997: 240). Stalin's opinion had, however, changed little. But Dimitrov was able very soon to reach a breakthrough with the help of Dmitriy Manuilskiy, Klement Gottwald, Otto Kuusinen and Palmiro Togliatti on the necessity of an alliance with the Social Democrats. The debate dragged on during the whole summer. A minority with Kun, Lozovskiy, Pyatnitskiy, Knorin, Fritz Heckert and Varga was still holding onto the old slogans (Hochman 1984: 84–5; Borsányi 1993: 397; Lejbzon and Širinja 1975a, 1975b; Shirinya 1979).

In this period, Varga belonged with Kun to the Leftist faction opposing any accord with the Social Democrats. Already in 1932 he had published with Kun and Serafina Gopner (Hopner) an Agitprop pamphlet against the 'Social Fascists' as the promoters of an armed intervention against the Soviet Union (Varga 1932: 6–14). Varga's opposition to an alliance with the Social Democrats would now progressively erode, but without losing an outspoken radical undertone. With his past experiences in his mind, Social Democracy still constituted an obstacle to a proletarian revolution.

Varga's report to the Seventh Congress

On 1 September 1934, Manuilskiy saw in the united front a 'promising experiment'. A few days later, on 4 September 1934, Varga signed the final draft of his report *The Great Crisis and its Political Consequences* (Varga 1935b: 7) to the Seventh Congress of the Comintern in which the new course was announced. Meanwhile nothing was definitively decided. Though the Seventh Congress would clearly break with the ultra-left course, Varga's report was still tainted by radical phraseology. In his report, Varga argued that the outbreak of the economic crisis in 1929 'had furnished practical confirmation of the absolute truth of the Comintern's conception' and of the 'utter emptiness' of the usual Social-Democratic apologies (Varga 1935b: 12). The 'cyclical crisis' of 1929–33 had played a 'special role' in the course of the general crisis of capitalism because of its many contradictions and its long duration in capitalism's history. Each crisis and cycle had, nonetheless, its own 'concrete historical peculiarities' and place in the history of capitalism.

Varga reiterated that the actual crisis was influenced by the general crisis of capitalism, by the increasingly monopolist character of post-war capitalism, by its intertwining with the agrarian crisis and by the extraordinarily sharp fall in prices. Other factors were the artificial measures taken by monopoly capital which had caused a considerable delay in the outbreak of the credit crisis and a

prolongation and deepening of the crisis as a whole. This first world crisis in the era of the general crisis of capitalism had proven to be much deeper and longer than any other cyclic crises. Varga noted that qualitatively new aspects 'not present in any of the previous crises' were developing with currency depreciation, non-payment of foreign debts, and practically complete cessation of capital export. Meanwhile, the crisis had already caused a general economic war of all countries. The cyclic crisis was hastening 'the end of capitalism's temporary stabilisation' and resulting in 'the maturing of the objective prerequisites for the revolutionary crisis', but for the Comintern stabilisation had never been more than 'a transient phenomenon within the enduring general crisis of capitalism, as a trough in the waves of the revolutionary movement' (Varga 1935b: 13).

The realisation problem of capitalism had reached its nadir in the middle of 1932. From 1934 'no basis for a further prosperity phase' could be expected during this period of a 'depression of a special kind' (Varga 1935b: 15). Hence, the correctness of Marx's theory of revolutionary collapse could be verified during the current crisis. This crisis of overproduction was thus due to the 'contradiction between the limited consuming power of society, and the boundless expansion drive of capital, due chiefly to the proletarian condition of the masses' (Varga 1935b: 19). The relative diminution of consuming power compared to the development of the productive forces must necessarily lead to a chronic accentuation of the contradiction between the productive power and the consuming power of capitalist society. An absolute impoverishment of the working classes hampered the accumulation process and limited the production of capital goods. Varga's theory of overproduction crisis was nonetheless influenced by Rosa Luxemburg's accumulation and imperialism theory. Prosperity only could continue 'as long as the process of real accumulation' was in full swing, 'as long as new factories, harbours, railways are built, and old machines are replaced by new ones'. But the contradiction between the development of productive power and consuming power would necessarily grow 'more acute' and determine to 'an ever increasing extent the course of the industrial cycle', which would lay down 'the economic basis for the accelerated maturing of the revolutionary crisis' (Varga 1935b: 24–5).

The growth of monopoly capital had distorted the functioning of the market, thus influencing the accumulation process. The great crisis of 1929–33 had chronically developed because of a narrowing of the market, a sharp competition for sales opportunities and growing imperialist antagonisms. Capital's manoeuvring possibilities were 'considerably restricted' in these circumstances (Varga 1935b: 29). The chronic agrarian crisis, the chronic surplus of capital, and chronic mass unemployment should be added to the major characteristics of the actual general crisis of capitalism with its 'exceptional depth, intensity and duration' (Varga 1935b: 29).

In his report, Varga referred several times to Stalin's report at the Seventeenth Party Congress of the VKP(b). Like Stalin, he enumerated several aspects of the crisis, but without giving a detailed analysis of its mechanism. Finally, Varga was now talking about the 'general crisis' of capitalism in which several aspects

of the realisation problem of the capitalist system could be identified in diverse forms and features. Of course, Hilferding was not completely absent in his analysis, but this time he had refrained from stressing the absolutely dominant role of financial capital in setting prices and realising profits. The state was thus back as an important player in the accumulation process of monopoly capital.

In his report, Varga argued that only branches directly involved in war production had been exempted, price declines had engendered falling profits and then caused a credit crunch. A far-reaching fusion of bank capital and industrial capital into finance capital had delayed the outbreak of a credit crunch in all countries, but the longer this outbreak had been delayed, 'the more catastrophic were the forms assumed by the credit crisis' (Varga 1935b: 39). The depreciation of currencies was a qualitative new factor not found in any previous crisis. There were still countries holding onto the gold standard, others were with a formal gold standard. All other countries had an openly depreciated currency tied to sterling or the dollar. Together with the currency crises, inflation and the debt burden the credit system had disintegrated. Payment of international debts became impossible owing to a lack of gold reserves and export surpluses or due to war reparations. The consequence was an almost complete standstill of capital export, which was 'an important factor in the exceptional nature of the present depression' (Varga 1935b: 45). As every crisis entailed a drop in the volume of foreign trade, the ideology of 'autarchy' could gain many adherents (Varga 1935b: 47). Meanwhile, the bourgeoisie had been all the time unsuccessful in its endeavour to overcome the crisis artificially (Varga 1935b: 63). Hence, the general crisis of capitalism was a historically transient form of society that was passing through a period of revolutionary collapse.

In his account of the crisis of 1929–33, Varga paid much attention to the world agrarian crisis he defined as being interwoven with the industrial crisis. He pointed nonetheless out that peasant agriculture still outweighed capitalist agriculture. The bulk of the agricultural produce was not produced by capitalist farmers, but by peasants. Agriculture's low organic composition of capital still reflected its backwardness. Due to the meagre development of capitalism in agriculture, the crisis did not take on the form of a sudden decline in production. Other factors such as the ground rent in the form of leasehold and mortgages played a role as well. The peasant would continue production even when he could not make a minimum living. Varga connected the industrial crisis to the situation in agriculture: every industrial crisis made the situation in agriculture worse, and vice-versa (Varga 1935b: 49–56).

Varga was however fascinated by Roosevelt's New Deal as 'the most grandiose effort to overcome the crisis by governmental measures' (Varga 1935b: 66). Roosevelt's policy aimed at (1) saving the credit system by a government guarantee of deposits, (2) a reduction of the debt burden through depreciation of the US dollar, (3) through an artificial increasing of agricultural prices, (4) by the establishment of compulsory cartels, (5) by combating unemployment by means of public works, (6) by minimum wages. These measures had resulted in a zigzagging sharp rise in industrial output. Varga also prudently noted that the

increase of production remained 'within the bounds' of that of what the 'inner forces of capitalism would have reached'. Varga's view was that 'in the long run' all efforts to overcome the crisis would fail (Varga 1935b: 66). According to Varga the fact that the acute phase of the crisis had passed into the 'depression of a special kind', was not due to the bourgeoisie, but to the 'inner forces of capitalism' tending to overcome the cyclical crisis by preparing for war. About the role of price policies pursued by European governments, Varga noticed that through several measures domestic agrarian prices had risen two to three times higher than world market prices. On the other hand, the exporting countries tried to raise world market prices by retaining grain from the world market, but all these efforts had ended in a failure. Only production restriction could stabilise prices at a higher level. Because of fixed costs and defective control these measures had failed to stabilise agricultural prices. The only recourse left was a systematic, wholesale destruction of agricultural produce of every kind. Hence, the decay of capitalism was 'tangibly obvious to every peasant and worker' (Varga 1935b: 68).

Meanwhile, the bourgeoisie was in a process of strengthening state-capitalism tendencies: (1) an increased role of the government budget; (2) foreign trade concentrated in the hands of the state; (3) credit is becoming state credit with banks depending on the state; (4) increasing state control over the distribution of labour power; (5) commodity prices determined by the state (Varga 1935b: 69–70).

Repeating Stalin's definition given in the latter's report to the Seventeenth VKP(b) Congress of January–February 1934, Varga asserted that the crisis had passed into a depression of a special kind. Considered mechanically, the present depression was hardly to be distinguished from all preceding phases of depression, as characterised by Marx. Considered dynamically, there was a fundamental difference. The present depression (in contrast to 'normal depressions') did not furnish a sufficient basis for an ensuing boom. The special nature of the depression consisted in the 'deformation of the industrial cycle under the influence of the general crisis of capitalism' (Varga 1935b: 73–4). The ascending line of the economy had snapped in the summer of 1934. Hence, he predicted that the condition of the world economy 'as a whole' would be worse than in the previous years and that the 'contradiction between the productive forces and the production relationships' was so acute that 'increased production prematurely' would hit a snag 'in the market's limited absorption capacity' (Varga 1935b: 74) before the boom phase could be reached. The 'inner mechanism of capitalism' was effective enough to overcome the lowest point of the crisis and to bring about the transition to a depression, but no real boom or prosperity phase. Inspired by Hilferding and Luxemburg, Varga explained this time why the rise in production had been prematurely blocked by identifying seven 'decisive factors': (1) a chronic failure in the process of real accumulation with a chronic surplus of industrial capital; (2) the formation of monopolies putting a brake on technical progress and on investment in fixed capital; (3) the rise in turnover taxes and the formation of monopolies lessened the fall in prices of monopoly

goods; (4) the chronic agrarian crisis was one of the main obstacles in the path of a new boom; (5) in the former cycles the capitalist market was enlarged by drawing new regions into the capitalist mode of production, but in the actual world no more regions were left to conquer, while in the colonies new industries were developing; (6) the export of capital had almost completely ceased; (7) the income of the working class had declined as a result of mass unemployment (Varga 1935b: 75–8).

Varga preferred returning to his famous 'law' when arguing that during the transition period to the depression the number of exploited workers had increased, but the total purchasing power of wages had scarcely risen. Reduced output in thoroughly rationalised and mechanised plants had increased production costs per unit product more than in less modern factories. In the period of the general crisis of capitalism there were thus 'very narrow limits to the expansion of the capitalist market' (Varga 1935b: 78). Varga focused also on plants running at far below capacity and forms of rationalisation enabling monopoly capital to increase the workers' productivity and to make the proletariat bearing the burden of the crisis. Meanwhile, 'the economic prerequisites for the revolutionary collapse of capitalism' were developing 'by leaps and bounds' so far as the bourgeoisie was 'incapable of utilising the productive forces' (Varga 1935b: 79–80). The financial oligarchy tried to improve its position at the cost of everybody and to plunder the population with the help of the state apparatus. By restricting the consuming power of society the monopolists were intensifying the general crisis of capitalism. The end of temporarily stabilisation would be followed by a 'new, deeper and more devastating economic crisis' (Varga 1935b: 80). Therefore, the bourgeoisie was looking forward to a new war to improve the return on capital in the present 'depression of a special kind' (Varga 1935b: 80).

Varga gave an extensive description of the social consequences of the economic crisis, including the impairment of the condition of the urban petty bourgeoisie, the so-called 'new middle classes', the various sections of the peasantry, and the impoverishment of the proletariat. Mass unemployment, increased labour output, a reduction of real wages, longer working hours combined with periodical reductions of working hours, increased intensity of labour, and forced labour in the colonies reflected the worsening social conditions of the proletariat during the economic crisis. Varga did not however connect these deteriorating living conditions of the toiling masses and the working classes to a rather hypothetical rising tide of class struggle and revolutionary movements (Varga 1935b: 111–12). The truth was that 'bourgeois individuals' and also 'Social Democrats of all kinds' were changing their mind because they had discovered the successes of the Soviet Union. In addition, the birth of the Soviet Union had been the first breach in the capitalist world system. The rise of Soviet China was a second breach in the imperialist front. The Chinese agrarian revolution had made of the 'middle peasant the central figure of the village in Soviet China'. The condition of the 'entire working peasantry, especially the former village poor and the agricultural labourers', had 'considerably improved' (Varga 1935b: 118). An attack on the Soviet Union was improbable, because of (1) the increased military

strength of the Soviet Union; (2) the Soviet Union's entrance into the League of Nations; (3) imperialist antagonisms; (4) accentuated internal class antagonisms (Varga 1935b: 124–6).

However, a new round of wars and revolutions had come nearer after the collapse of the Versailles system with its reparations, disarmament and territorial provisions. Again, Varga (Varga 1933) predicted increased inter-imperialist rivalries outside Europe and the outbreak of a war between Great Britain and the USA. However, the threatening of a possible proletarian revolution had forestalled that human disaster, although a new round in the redivision of the world market had nonetheless started, this time with Japan as a poor country in the imperialist frontline. Why Japan? Japan's per capita income of the population was equal to that of the poorest European countries. Limited domestic consumption power had forced Japanese industry 'to seek foreign markets for a large part of its production' (Varga 1935b: 129), which could explain Japan's expansion abroad.

The proletariat was placed by history before the alternative either to be sacrificed once again or 'to turn its weapons against its own bourgeoisie under the leadership of the Communist Party, turning the imperialist war into a civil war for the overthrow of the rule of the bourgeoisie!' (Varga 1935b: 138). The 'democratic-parliamentary disguise of the bourgeoisie's dictatorship' had already fulfilled 'its historical mission of developing the forces of production'. In the period of the general crisis of capitalism, 'bourgeois democracy should be undermined and abolished' since the capitalist mode of production had become an 'obstacle to the further development of social productive forces' (Varga 1935b: 139). Meanwhile, the struggle among the various factions of the bourgeoisie for a share in the decreasing social profit was growing. That issue had in the meantime split the bourgeois parties while governments were becoming more and more authoritarian and independent from parliament. In Germany the bourgeoisie had established 'the fascist form of its dictatorship' against the 'revolutionary proletariat' (Varga 1935b: 140).

After having lost Social Democracy as its main political support, the bourgeoisie had turned all attention to Fascism for support. Not the definition of Social Democracy's fundamental character, but its reformist role after the decay of the labour aristocracy had now become Varga's main target. He addressed that problem by differentiating Social Democracy according to groups of countries where Social-Democratic parties usually participated in government or where they were marginalised or persecuted. Varga focused also on illusions the working class had with regard to bourgeois democracy for improving living conditions under capitalism. He noticed that in the 'defeated countries' all 'traditional demands of the Social-Democratic workers were met' and that participation in the government had enabled German and Austrian Social Democrats to expand their electoral base within the state bureaucracy. With the great crisis 'the privileged position of the labour aristocracy' had however been reduced (Varga 1935b: 142–3). The levelling out tendency of the condition of the working class during the crisis

was thus entirely to the disadvantage of the labour aristocracy now that the possibility of advance within the framework of capitalism had evaporated. The political essence of the crisis of Social Democracy was 'the conflict between its function as the main social support of the bourgeoisie and its proletarian and petty-bourgeois mass base' (Varga 1935b: 144). Therefore, the Social-Democratic leaders demanded an alliance with the Communists against the bourgeoisie. The political crisis of Social Democracy was less acute in those countries where Communist influence was weaker and Social Democrats participated in government.

The ideological crisis of Social Democracy was thus interlinked with its political crisis and its theory of the state: 'the state is above classes; parliamentary democracy is the only road to socialism'. The ideological crisis had meanwhile grown 'ever greater after the victory of fascism in Germany and Austria', because the 'ideology of peaceful parliamentary democracy had to be sacrificed for the time being' (Varga 1935b: 150). The most successful Social Democratic attempt was Henri de Man's Labour Plan that had mixed 'a "Left" phraseology with a semi-fascist content' (Varga 1935b: 151).

Although the peasantry had been misled, peasant dissatisfaction now imperilled the reliability of the repressive forces of the state. The victory of the proletarian revolution would nonetheless be 'extremely difficult in most of the countries (and in many countries impossible) so long as the ruling classes succeed in keeping the "peasantry" (in the wider sense of the word) under their moral and political influence, with the help of the rich peasants' (Varga 1935b: 155). Only in a very few countries the Communists had yet succeeded in winning the support of the peasantry. In Germany the Fascists had absorbed the revolt of the peasantry by using 'demagogy' (Varga 1935b: 156). Varga thought that the Fascist movement had nowhere succeeded in penetrating the working class of the main economic sectors. At most, it had won over the rural proletariat, the domestic workers and the unemployed. Fascism's weakness was, Varga repeated (Varga 1935d), its petty-bourgeois base, thus this vacillating mass would never be able to replace Social Democracy as the main pillar of bourgeois rule.

Varga's analysis of fascism as a mass movement did not go beyond an enumeration of well-known causes and characteristics such as unemployment, nationalism, anti-capitalist demagogy, financial support from the ruling class, or the 'split of the working class by the Social Democracy' having paved the road for Fascism (Varga 1935b: 159). Varga did not clearly plead in favour of a Popular Front either. He focused instead on a struggle 'on two fronts': against Fascism and against those Social-Democratic leaders sabotaging the revolutionary struggle against the bourgeoisie! With a 'good Bolshevik' organisation and leadership that struggle must be victorious. 'Finance capital's fascist rule of force' must be replaced by the 'dictatorship of the proletariat' (Varga 1935b: 162). Curiously enough, Varga recalled that remnants of Social-Democratic ideology were 'still very strong within the Communist Parties themselves. Many former leaders of Social Democracy had

come over to Communism only under the masses' pressure, against their inner conviction' (Varga 1935b: 163). Unity demanded by the Social Democrats was usually accompanied by the condition of refraining from all criticism. The Communists could not possibly accept such a condition. Due to 'tactical errors' and a 'sectarian attitude toward the masses of workers' the Communists had established 'special revolutionary trade unions, which for the most part did not attain a mass character and made struggle for trade union unity more difficult'. The Social-Democratic leaders had succeeded in strengthening their hold on the workers because Communists had been calling them social-fascists (Varga 1935b: 164). Varga pleaded now for an organisational merger of all trade unions, but in the meantime he refrained from analysing the strained relationship between KPD and SPD. Instead, he preferred concentrating on the evolution in France, where the charge of fascist groups on 6 February 1934 had caused the fall of the Daladier Government, which had resulted in the forming of 'a united front of the working masses from below in the struggle against fascism'. Obviously, the slogan 'Class against Class' had compelled the Socialist leaders to constitute a united front with the Communists (Varga 1935b: 168–9). The unity of the working class was thus not merely the premise for successful defence against fascism, 'but also for the victory of the proletarian revolution as a whole!' (Varga 1935b: 169–70).

Varga concluded that the most important task of the Communists was to overcome the split in the working class, to establish the united front against the bourgeoisie. 'If this succeeds, the victory of the proletariat during the coming second round of revolutions and wars seems assured in a number of countries!' (Varga 1935b: 174). He predicted a 'second round of revolutions' maturing 'before the second round of wars'. He enumerated the decisive factors for the victory of such a series of glorious proletarian revolutions: (1) the revolutionising influence of the Soviet Union; (2) the crisis of Social Democracy; (3) the revolutionary struggles in the colonies; (4) the revolt of the peasantry in the capitalist countries; (5) 'the progress of the subjective factor of the revolution' (Varga 1935b: 172).

New insights were absent in Varga's report. His pleading for a united front with the Social Democrats was half-hearted and also heavily tainted by sectarian views on the forming of a Popular Front. Though Varga criticised the use of the concept 'Social Fascism', this coarse term had nonetheless appeared in a footnote in his report (Varga 1935b: Ch. 8).

The advance to the Popular Front had been so slow that during the summer of 1934 many ambiguities had subsisted about cooperation with the Social Democrats (Firsov 1989: 40). Varga's report to the Seventh Congress of the Comintern had been finalised in the beginning of September 1934 at a moment when nothing had been yet decided on Popular Front tactics. In the preparatory commissions to the Seventh Congress of the Comintern, controversies between those who connected the struggle against Fascism directly with the overthrowing of bourgeois power, and those who held the general democratic struggle as

a normal phase in the road to socialism, had not yet been entirely settled. These internal divisions obliged the Presidium of the ECCI to further postpone the Seventh Congress till the end of July 1935. Hesitations persisted. ECCI's traditional message for 1 May 1935 called only for a united front of workers, not for a Popular Front. Dimitrov pleaded for a united proletarian front. Béla Kun argued that the united front should be a class front of the workers against capital. In the Comintern leadership, Wilhelm Knorin and Ossip Pyatnitskiy (Pyatnitsky 1934) were still backing the faction of the German sectarians against Wilhelm Pieck and Walter Ulbricht (Carr 1982: 149–50). Béla Kun still argued that only a proletarian revolution, not a broad anti-Fascist front for democratic reforms, could smash the Horthy regime in Hungary. Varga had remained a convinced protagonist of the Social-Fascism thesis (Duda 1994: 112). He had predicted an implosion of the Nazi economy, increasing Communist influence in the working class, a growing opposition of the bourgeoisie and the military to the Nazi rulers and therefore a return to normal bourgeois rule with social-democratic help (*Mirovoe khozyaistvo i mirovaya politika* 1934/8–9: 159–175; *Varga* 1935a: 57–77).

The final decision on the Popular Front arrived on 25 October 1934 when Stalin agreed with the Dimitrov circular to all parties of the Comintern in which the united front against Fascism and war was defined as 'the central link in a genuinely mass policy'. Dimitrov could now speak out with authority against the opponents of the united front (*Pravda*, 8 November 1934). In November 1934, a Politburo meeting of the KPD, called for the struggle for unity of action. Attacks on the SPD and Leftist Socialists continued however. Béla Kun's revolutionary dogmatism surfaced once again when he vividly opposed the transformation of the united front into a popular front (Carr 1982: 140). In France, Thorez's united front with the SFIO had already become an anti-Fascist front of the working class parties (PCF and SFIO) with the Radical Party for the defence of civil liberties. On 15 January 1935, the political secretariat of the ECCI passed a resolution praising the PCF for this tactical achievement.

When on the evening of 25 July 1935 the Seventh Congress met in Moscow, the more than 500 delegates could congratulate themselves. The announced new course would redefine the character of communist politics by seeking anti-fascist alliances with other classes and parties and by integrating themselves into the parliamentary traditions of the nation. Dimitrov's report on the struggle for the unity of the working class against Fascism was the most attended major congress event. Dimitrov's forceful synthetic text constituted a hallmark in the Comintern's strategy against the fascist danger.

However, the Comintern's analysis of Fascism had not fundamentally changed. In Dimitrov's report, the ruling bourgeoisie was still 'trying to shift the whole burden of the crisis onto the shoulders of the working people' with the help of Fascism. Fascism remained in Dimitrov's analysis an 'open terrorist dictatorship of the most reactionary, most chauvinistic and most imperialist elements of finance capital'. However, Dimitrov adhered this time also to the idea that the 'accession to power of fascism' was not 'an ordinary succession of one

bourgeoisie government by another, but a substitution of one state form of class domination of the bourgeoisie – bourgeois democracy – by another form – open terrorist dictatorship'. It was thus not a matter of indifference whether the bourgeoisie dictatorship would take a democratic or a Fascist form. Success of fascism had to be explained by its ability to attract the masses by appealing 'to their most urgent needs and demands' (Dimitrov 1951: 39–43).

According to Dimitrov, the German working class could have prevented the Nazi victory, provide there had been a 'united anti-fascist proletarian front'. Dimitrov argued that 'fascism attained power for the reason that the proletariat had found itself isolated from its natural allies'. Fascism had attained power because it was able to win over large masses of the peasantry and the youth. Dimitrov criticised the mistakes of the Communists having underestimated the fascist danger. They had mistakenly regarded the Brüning government as already fascist. Dimitrov's answer to fascism was the united front of Communist, Socialist and bourgeois parties (Dimitrov 1951: 63–5). The question of whether Communists would take part in a coalition government was not clearly answered, but to be determined 'by the actual situation prevailing at the time' (Dimitrov 1951: 128).

Dimitrov corrected Varga's previously formulated criticism of Henri de Man's Labour Plan for having overlooked the fact that it nonetheless had promised 'a number of good things', such as the shortening of the working day, standardisation of wages, a minimum wage, a comprehensive system of social insurance, etc. Therefore, the Communists should back those kinds of demands in the future. On the other hand, Communist criticism of Social Democracy was still necessary, but it 'must become more concrete and systematic, and must be based on the experience of the Social Democratic masses themselves' (Dimitrov 1951: 125). Hence, he advised the Belgian Communists to go to the labour organisations of Belgium and to ask the Social-Democratic ministers to carry out the promises they had made to the workers. 'Let us get together in a united front for the successful defence of our interests' (Dimitrov 1951: 83).

Large parts of Dimitrov's address to the Seventh Congress of the Comintern had nonetheless been drawn from Varga's report. The report contained the same hesitations with regard to the aims of the Popular Front. The reason was that the latter strategy also postponed the action for the proletarian revolution by defending the bourgeois democratic institutions. By admitting 'national forms' of proletarian class struggle, Dimitrov weakened the role of proletarian internationalism and political centralism. For Stalin, this was a minor argument. The Popular Front could forge an anti-fascist front against the warmongers and Hitler. This was consistent with Stalin foreign policy after the recently signed Franco-Soviet pact in May 1935. Much was nonetheless unclearly defined. Whether Communists should take part in a Popular Front government was to be determined entirely 'by the actual situation prevailing at the time' (Dimitrov 1951: 128). The radicals had not yet disarmed. In their speeches, Kun, Pyatnitskiy and Gopner limited Popular Front tactics to a united front with proletarians – especially the jobless – being ready to smash the capitalist system. In his

address to the Congress, Varga warned for 'plan reformism'. Only nationalisation without financial compensations could lead to rupture with capitalism, but plan reformism was meanwhile creating dangerous illusions in the working class, it hollowed out parliamentary institutions and it resembled Mussolini's fascism as well (*Protokoll des VII. Weltkongresses* 1972/2: 667–71).

Conclusions

In the early 1930s the general crisis of capitalism had become chronic and capitalism had entered a new phase: a depression of a special kind. With Hitler and Roosevelt a period of unprecedented state intervention had been inaugurated. Varga believed that improvements were due to capitalism's internal mechanisms as explained by Marx. Meanwhile, Hilferding and Luxemburg had remained his main sources of inspiration. In 1931 he still believed that monopoly capital could postpone a credit crunch or avoid monetary crises. Forms of capitalist planning designed by Socialist reformists and bourgeois politicians could, however, lead to Fascism.

9 Surviving the Stalinist purges

> And by the law of the revolution
> They have taken everyone prisoner.
> Sergey Esenin

The Great Purges of the mid-1930s swept away the older Bolshevik generation, decapitated the Comintern of its old cadres and gave birth to a generation of convinced Stalinist bureaucrats and police officers. Meanwhile, most Polish and Hungarian Communists living in Moscow were murdered. With a little bit of luck and with Stalin's protection, Varga survived the Stalinist purges.

The Béla Kun Affair

Purges of the Comintern personnel and foreign Communists were conducted during and after the great show trials decreed after the killing of Sergey Kirov on 1 December 1934. An emergency decree enabled the conviction and execution of terrorists. But soon NKVD-chief Nikolay Ezhov would initiate a campaign (*ezhovshchina*) against foreign spies as well. Ezhov rounded up more 'terrorist groups', all linked to Trotsky, Zinoviev and Kamenev. A verification operation of all party members was carried out to unmask all enemies having crept into the Party. Special attention was paid to foreigners who had infiltrated the VKP(b) as spies or Trotskyite agents. By 1 December 1935 about 177,000 members and candidates had been expelled. Of them 15,218 had been arrested (Jansen and Petrov 2002: 37). In August 1936 the first of the Moscow show trials was organised. Confessions, convictions and executions intensified the vigilance campaign.

After the Seventh Congress of the Comintern in 1935, Kun had refused to change his basic attitude to Social Democracy and the Popular Front. On 20 November 1935 Otto Kuusinen informed the Hungarian leaders that they had not aligned their tactics to the guidelines of the Seventh Congress. Meanwhile, the situation of the Hungarian Party became subject of heated debates within the ECCI. These discussions compelled Kun to exercise self-criticism. A resolution was passed acknowledging that the party had been dilatory in adopting the new

tactics. Kun's methods of leadership were described as sectarian and bureaucratic. Factional struggles and nepotism were dividing the MKP's Central Committee. Dimitrov and Manuilskiy investigated the case. In May 1936, a provisional Secretariat led by Zoltán Szántó (RGASPI f. 45, op. 74, d. 101,ll. 38–42) was formed. The Hungarian section operating within the Comintern was dissolved.

On 6 June 1936, Kun stood as the accused before the International Control Commission of the Comintern. After deposing on 29 June 1936 several charges against Kun, the International Control Commission dismissed the Hungarian officials. There was no decision with respect to Kun. Finally, a special commission was set up to examine his case. The conclusions were that Kun had tolerated the contamination of the Party by provocateurs. Another charge against Kun was his intervention at the party meeting regarding the expulsion of Lajos Magyar. Moreover, he had contributed, along with other members, to the sabotage of the new line of the Seventh Congress of the Comintern. He had later continued his own sectarian line and fomented antagonisms (Borsányi 1993: 424–5).

Meanwhile, the MKP had already been purged of so-called Zinoviev people. Varga's friend from his youth, Lajos Magyar (alias Milgdorf), was among them. The latter had been identified as a go-between between the followers of Zinoviev and Kamenev and the *Versöhnler* (reconcilers) faction in the KPD (Unfried 2002: 167). Magyar was arrested on 29 December 1934. As the purge gathered momentum in 1936 and 1937, more Hungarian Communists disappeared. Among them were Kun, Ede Chlepko, Resző Fiedler, Ferenc Jancsik, Ernő Pór, József Rabinovics, Béla Vágó, Ferenc Bajáki, István Biermann, Desző Bokányi, Jenő Hamburger, József Haubrich, Frigyes Karikás, Gyula Lengyel, József Madszar, István Vági, Ferenc Huszti (alias Grosz) and Imre Komor. The fate of Kun is interesting because he was the exponent of the Hungarian Republic of Councils. Kun was removed from the Comintern leadership at a meeting of the ECCI on 5 September 1936. Barred from the Hungarian Party, the unemployed Kun was looking for a new function. Finally, he was put in charge of the Social and Economic Publishing House. One day in early June 1937, Kun told his wife about a chance encounter with Varga. To Kun's greeting 'How are you?', Varga had replied apprehensively: 'For the moment, free'. Kun commented: 'To think that even an intelligent man like Varga can say stupid things!' (Kun 1969: 419). Kun was arrested in the night of 29 June 1937. Kun avowed that the basic tasks of his conspiracy were the creation of an extended anti-Comintern underground undermining the line of the ECCI. Knorin and Pyatnitskiy had been his Trotskyist associates. On 29 August 1937 he was judged and shot (Borsányi 1993: 435).

Varga's role in the Kun affair was unclear. Kun had been brought to trial before the Comintern Executive Committee composed of Dimitrov, Pieck, Togliatti and Varga. About Kun, rumours had circulated in Moscow. Together with Béla Vágó and August Kreichi, Kun would have denounced Varga as the leader of a counterrevolutionary organisation (Chase 2001: 401–3). Varga was not the only one wanting to get rid of him. Fogarasi (1988: 225–6) would call

him a 'morally negative person' and a revolutionary uniting 'many defects' in his person, such as […] ambition, striving for power, vanity, fame addiction'.

Kun's public rehabilitation would occur in 1956 at the time of the Twentieth Congress of the CPSU. In *Pravda* of 21 February 1956, Varga published an article in which Kun was rehabilitated as a 'born revolutionary well versed in Marxist teaching, he had no liking for […] reformist policy […]'. That Kun was a 'born revolutionary' and an 'íntellectual' is certainly true. He used to read novels and he spoke several foreign languages in which he used to give his interviews to foreign journalists.

The Volodya Affair

In the meantime, the NKVD had inquired into Varga's private life and activities. It was known that Nikolay Bukharin, Karl Radek and Henryk Walecki (Maximilian Horwitz) had been regular guests at Varga's dinner table in Hotel Lux were he was residing until 1935 (interview with Mária Varga, November 2000). Varga's two brothers-in-law, Arnold and Willi Grün, had been arrested and executed during the purges of 1937. At that time neither were working for the Comintern. Arnold Grün was employed at a railroad factory in Moscow. Willi Grün, who was also known as Willi Fenyő, worked for the firm Exportkhleb in Moscow.

As a prominent Hungarian Communist, Varga was acquainted with many compatriots who had already been interrogated and arrested by the NKVD. Not all of them were, however, shot by the NKVD. Among them was Varga's friend Gyula Hevesi (1959: 357–64), who had been working during the NEP period for the German Siemens factories in Russia and who would be later also employed by the Soviet film industry (Szapor 2005: 88). Hevesi was also a friend of Eva Striker [Stricker]. The latter was arrested in 1938, but she would survive the labour camps. Béla Szántó, then director at the Heavy Industry's Scientific Library, was arrested on 24 February 1938 and imprisoned, but released on 29 April 1940 and readmitted to the VKP(b) (RGASPI, f. 495, op. 199, d. 184 (II), l. 93).

Already in March 1935, Ezhov had summoned Varga to unmask all anti-party elements and enemies of the people in his institute. In September 1935, Ezhov asked Varga information about each staff member at his institute (Jansen and Petrov 2002: 38). In Ezhov's opinion, Varga had underestimated the counter-revolutionary danger in his institute where many foreigners were employed. Hence, Varga was instructed to produce a special list of those people having been in close contact with Zinoviev, Kamenev, Radek, Bukharin, and other conspirators and spies. When Varga failed to comply, Stalin personally interfered, explaining that Varga was completely trustworthy, but that he insufficiently understood the complexity of the political situation (Jansen and Petrov 2002: 82–3). In a letter from K. F. Kurshner to Dimitrov it is nonetheless stated that the NKVD had made a file, case number 1444, on Varga. However, the charge that Varga was a member of a counter-revolutionary organisation was only dropped in March 1940.

Varga's problems were certainly caused by the activities of 'Agent Volodya'. Volodya was Imre Nagy's alias. After his arrival in Moscow in 1930, Nagy was employed at the International Agrarian Institute led by Bulgarian Comintern agent Kolarov. Nagy served as an NKVD agent through the whole 1930s. Historian Johanna Granville (2002: 672) would later report that 'of the total number of people upon whom Nagy is reported to have informed, fifteen were "liquidated" (shot) or died in prison, according to KGB archivists' calculations'.

The Volodya Affair is also narrated in an article KGB Chief Kryuchkov published in *Rodina* (1993/2: 55–7). According to documents produced by Kryuchkov, Nagy had been arrested on 10 March 1938 (Report signed by Altman, 10 March 1938. TsKhSD, f. 89, per 45, dok 80, 2.), but four days later he had been liberated. In the meantime, he had helped in the arrest of several traitors at his International Agrarian Institute. Furthermore, he had discovered several groups of 'complotters'. A group of 'incorrigibles' was formed by Sári Mánuel, V. Baros, Lajos Magyar, Tegdas and [Pál] Krammer (or Kéri). A group of 'restorers' was formed by E. Varga, S. E. Varga (Varga's wife), F. I. Gábor, K. Slosser (the latter had married Dudi, a daughter of Bertha Grün), Elek Bolgár, Gerel and the philosopher G. Lukács (Reports on agent 'Volodya', Documents provided and translated by Johanna Granville – KGB Chief Kryuchkov's Report, 16 June 1989, Chairman of the KGB V. Kryuchkov. Source: TsKhSD, f. 89, per. 45, dok. 82.).

During the purges the workings of the scientific institutes were closely observed. On 6 January 1938 Molotov ordered Vladimir A. Komarov (president of the Academy of Sciences of the USSR) to obtain the research results the country needed. Varga was instructed to call for a general meeting to discuss that subject at his institute (Hedeler 2003: 350). Meanwhile Varga must have been worried by the many arrests of his colleagues who had belonged to the United Opposition in the 1920s. Sergey A. Dalin was arrested and disappeared to the Norilsk zinc mines in Yakutia. He was freed in 1956. Milgram M. Yuelson and A. G. Gertsenshteyn were also victims of Ezhov's purges. Pavel Lapinski and Esfi I. Gurvich were arrested as well. E. L. Khmelnitskaya, who was working at Varga's institute and as a professor at the Frunze Academy of the Red Army was rounded up (Duda 1994: 134). About one-tenth of Varga's personnel had been arrested during the Great Purges. That must have explained why Varga's institute had been unable to fulfil its 1937 research plan.

At a meeting of the *partkom* of his institute on 28 September 1937 Varga stated: 'The fact alone, not in the Soviet Union to be born, cannot be a reason referred to by the institute' (quoted in Studer and Unfried 2001: 83). On 7 October 1937 he wrote a letter to Stalin in which he complained that many good and honest foreign colleagues – because they were foreigners – and Soviet citizens working in enterprises and institutes had been purged and dismissed (Dehl *et al.* 2000: 61. Source: TsKhSD: Fond 495, Per 73, Dok. 60, p. 9). Varga called these practices the creation of a 'pogrom atmosphere against foreign comrades'.

Varga's letter to Stalin must have been of little practical help. On 26 March 1938, a Hungarian exile told Varga that the 'best part' of the Hungarian emigration

had already been arrested. 'The reason why is unknown, but it is typical that I heard from the Russians that "all foreigners had been arrested" ' (quoted in Studer and Unfried 2001: 83).

On 28 March 1938, Varga wrote a second letter to Stalin (with a copy to Dimitrov and Ezhov) in which he complained at length about arrests among cadres of illegal parties from the fascist countries (Duda 1994: 137; McDermott and Agnew: 1997: 244–6). He complained that 'foreigners are indiscriminately viewed as spies; foreign children in school are cursed as Fascists, etc'. He attributed these incidents to remnants of the past and also to effects of capitalist encirclement. Arrests of innocent people would lead to 'demoralisation' of the cadres of the Communist Parties of fascist countries. Meanwhile demoralisation had gripped the majority of Comintern workers and was extending to specific members of the ECCI Secretariat. Varga thought that many NKVD workers were ill informed about the 'history of fraternal parties' and that false denunciations had led to the arrest of 'honest revolutionaries from outlawed parties'. Confronted with increasing numbers of arrests, foreigners did not know whom to trust anymore or what to believe in. Fear of arrest was constant. 'Each evening many foreigners gathered their things in anticipation of possible arrest' (Chase 2001: 298–300).

Varga's letter of a 'true Bolshevik' was written in a submissive style. Obviously, Varga tried to operate as Stalin's confidante, informing the dictator about the iniquities he had been confronted with. In the second part of his letter, Varga enumerated some appropriate measures enabling the NKVD to unmask the traitors and the enemies more efficiently. Varga did not ask for a specific favour or intervention. He simply informed Stalin that xenophobia was developing in Soviet society as a result of the ongoing repression against foreigners.

Finally, Stalin must have been pleased by Varga's act of submission. In December 1938, he trusted Varga with the supervision of the German translation of his *History of the All-Union Communist Party (Bolsheviks) – Short Course* (Brandenberger 1999).

The Hungarian Party never recovered from the Great Purge. In 1937, all party life had already come to a standstill. Party journal *Sarló és kalapács* disappeared and was replaced in January 1938 by *Új hang*, a cultural journal specialising in philosophical, historical and literary subjects. Together with other survivors like Gyula Háy, Ernst Fischer, Imre Nagy, Béla Fogarasi, Lajos Péteri and Gyula Alpári, Varga became its regular contributor. Poems of György Faludy and Attila József added to the journal's literary prestige by depoliticising its contents as much as possible. *Új hang* served in those days as a sort of Hungarian magazine for the survivors of the Great Purges.

Conclusions

After the purges, life had thus become 'normalised' for the surviving Hungarian Communists in the Soviet Union. Varga, who had become in 1939 a corresponding member of the Academy of Sciences of the USSR, could obtain some more

comfort. Since 1935 he lived in a small apartment at the Sivtsev-Vrashev 15/45 near the Arbat in Moscow. A spacious apartment at the Leninskiy Prospekt 13 (formerly known as Kalushkaya Ulitsa) would soon become available to the Varga family. In the summer of 1939, Varga's wife spent a long holiday at sanatorium 'Zafira' at the Crimea. Meanwhile, Varga went to spend his summer holidays at his dacha – still under construction – in the environs of Moscow. Meanwhile, his son Bandi had married his Natasha. Both were now raising a family of their own. After the purges, everything seemed to have become as normal as could be in Varga's life.

10 Two world systems

> The dictatorship of the proletariat can be endangered […] also if our economic basis develops more slowly than the shoots of capitalism in our economy develop on the basis of commodity economy.
>
> Evgeniy Preobrazhenskiy

During the second half of the 1930s Varga had become Stalin's preferred economist and his faithful propagandist continually praising the achievements of the Soviet regime. His institute studied recent changes in the main capitalist countries. Roosevelt's New Deal especially attracted Varga's attention. Meanwhile, Varga increased his fame as Soviet propagandist with his book *Two Systems*, translated into many languages, in which socialism as a system was praised. In a period of 20 years the Soviet Union under the leadership of Stalin had grown into a developed industrial nation, while capitalism was stagnating and dying.

Capitalism's decay

Fascinated by American capitalism, Varga reported now on the growing importance and decadence of monopoly capital in the USA. In the USA, monopoly capital was dominating all other sectors of the economy and even occupying the levers of state power. However, US monopoly capital had nonetheless been unable to prevent the stock-market crash of 1929. Since then, no automatic economic recovery had occurred. Although finance capital could still mobilise the petty bourgeoisie against the working class with slogans against predatory capital, it was unable to continue in its old way. In 1933 and 1934 only a slight economic recovery had been observed. Was that cyclical upswing due to internal mechanisms? Was monopoly capitalism thus still creating its own markets? Or had the breakdown of capitalism been halted thanks to governmental intervention creating outlets on the American domestic market? Varga's opinion was that the slight economic upswing in 1933 and 1934 should be attributed to 'internal forces' of capitalism, not to US state interventionism. Varga interpreted thus Roosevelt's NRA (National Recovery Act) as a simple astute measure permitting the redistribution of 'reasonable profits' to monopoly capital. He

identified the US Agricultural Adjustment Act even as a twin of Hitler's Hereditary Farm Act, thus as a kind of 'disguised Fascism'.

However, disagreement with regard to Varga's recently observed cyclical movements in the main capitalist countries was growing. His colleague V. I. Lan (Kaplan) pointed to the close collaboration between industrialists and trade unions, a phenomenon he nonetheless defined as a 'form of fascism' (Day 1981: 260), but which could also be interpreted as a new form of public regulation of wages and income. Lajos Magyar pointed out that replacement of fixed capital always occurred at the end of a depression. In the meantime, US state subsidies were discouraging any 'normal' recovery process but nonetheless supporting production. Magyar claimed that recent signs of economic recovery had been propelled by a 'military-inflationary boom' (Day 1981: 261). M. Yuelson adhered to that idea as well. That reasoning came, of course, very near to Hilferding's theory of 'organised capitalism' which Soviet economists tried to avoid for their own sakes.

The theory of the 'military-inflationary boom' had nonetheless been at the very heart of Kuusinen's report presented at the Thirteenth Plenum of the ECCI in November–December 1933. In his speech to that Thirteenth Plenum Varga had rejected the idea of a real economic recovery as long as the internal mechanisms working in accordance with the laws of capitalism were not strong enough to overcome the cyclical crisis. Owing to the pressure of the general crisis of capitalism no automatic recovery could be possible. Hence, bourgeois optimism about an economic upswing was unfounded. Profits were only rising again because of low wages paid, diminishing earnings of the peasants, plundering of the state budget, subsidies, war production, etc. Excess productive capacity constituted still an unsurmountable obstacle to new investments. The latter depended on higher consumption, thus on the volume of purchasing power. Expansion of the market was impossible because there were in the colonies no additional groups of peasants to be exploited (*Rundschau* 1933: 1132).

In these years, Varga thought that excess capacity was an insuperable obstacle to renewed investment. Hence, the capitalist had to accomplish the impossible. Finally, Varga returned to Rosa Luxemburg's imperialism theory and the underconsumptionist thesis of his 'law'. When referring to the devastating effects of 'crisis rationalisation' on employment, he argued that artificial state initiatives could not reverse this tendency. They could only induce a 'sudden relapse', which was illustrated by the recent economic setback at the end of 1933 in the USA (*Rundschau* 1934: 665). The current crisis was thus not a 'normal depression', but one of a 'special kind' (Varga 1935b: 73). Artificial state initiatives could only ensure that the normal improvement did not proceed more or less normally, but in the form of 'leaps and relapses'.

In January 1934, Varga had advised Stalin on that problem of 'leaps and relapses'. He had traced back to 1932 the first phase of slight recovery, but in the meantime he did not believe that this slight recovery should be attributed to any form of state intervention. The chronic excess of fixed capital would have prevented such a 'normal' recovery in advance. Stalin must have been so charmed

by this idea of capitalism's inability to recover with the help of the state and increased military expenditures, that he banned the concept of the 'military-inflationary boom'. At the Seventeenth Congress of the VKP(b) in January 1934, Stalin rejected thus the idea of a 'military-inflationary boom' having recently occurred. 'Such an explanation would be incorrect', Stalin claimed, 'if only for the reason that the changes in industry which I have described are observed, both in separate and chance districts, but in all, or nearly all, the industrial countries, including the countries with a stable currency. Apparently, in addition to the war and inflation boom, the internal economic forces of capitalism are also operating there' (Stalin 1947: 459). Although Stalin had adopted Varga's definition of the 'depression of a special kind' in which real recovery was impossible, he nonetheless was faced by the rapid recovery of the German economy under Nazi rule.

Already a few months after the Seventeenth Congress of the VKP(b) of January 1934, Varga admitted that the Nazi's had been able to expand production by deficit financing of idle production facilities. Expenditures could be prefinanced by floating loans through credits of Hjalmar Schacht's Reichsbank instead of levying taxes. Artificial stimuli thus had increased production and stimulated investments as well. Meanwhile, industrial investment was concentrated in the sector of war production, which had already created a 'war boom' (*Rundschau*, 28 May 1934: 1240–3). In March 1936, Hitler had reoccupied the Rhineland. Hence, Varga believed that the German war economy would be soon caught in growing domestic problems and that Hitler would be forced to look for external diversion (*Rundschau*, 13 May 1936: 885–91). Under Hermann Göring's leadership the German economy had been put on a war footing (*Rundschau*, 6 November 1936: 2032–6). The principle problem of the German war economy was free access to raw materials. Varga predicted therefore an imminent economic breakdown of the German economy (Varga 1938: 283–8).

In this period, Varga's Institute of World Economy and World Politics started analysing Roosevelt's New Deal and the development of American monopoly capitalism attentively. In line with Stalin and Varga, Sergey A. Dalin (1936) and Esfir I. Gurvich (1937) denied that capitalism could grow by using planning techniques. According to Gurvich – she was a former companion to Bukharin with whom she had a child – capitalism was unable to create its own markets as well. However, these ideas were met with defiance by leading American Communists now backing Roosevelt's popular coalition of industrial workers, farmers, industrialists and ethnic minorities. They protested loudly against Dalin's and Gurvich's writings. In November 1937, Party leader Earl Browder claimed that the economic recession could not be interpreted as a 'necessary development'; its roots were 'political', not 'economic'. He got Dmitriy Manuilskiy's Comintern endorsement of his pro-Roosevelt stance on purely pragmatic grounds. Varga was now obliged to do an about-face. Hence, the recession was from now on also 'largely due to political factors' such as 'the deliberate sabotage of the most reactionary sections of the United States bourgeoisie' (Klehr 1984: 218). Varga's dilemma became even clearer when Franklin Roosevelt's Planning Board expanded its scope to include a variety of investigations into

public works, natural resources conservation and the structure of the American economy (Reagan 1999: 198). Although he was impressed by America's recovering capacities, Varga remained however critical to Roosevelt's planning activities.

Propagandism

Although Molotov had been one of Varga's critics, he nonetheless estimated his scientific skills and ability to produce reports and policy papers. For his report to the All-Union Soviet Congress of January–February 1935 Molotov asked Varga to send him a research paper on the actual economic situation and the 'depression of a special kind'. Varga immediately executed his wish ('Depressiya osobogoroda', PIL, 783.f.8). Molotov had parts of Varga's paper included in his report to the Soviet Congress (Molotov 1935; Maclean 1935) in which was stated that compared to the capitalist world 'no one can deny that during the last four years the country had followed an upward path along the road of improvement in the living conditions of the wide masses of the people' (Maclean 1935: 9).

In the meantime, Varga contributed to selling Stalin's regime to a foreign non-communist public. Hence, Varga co-authored with Stalin's private secretary Colonel-General Lev Z. Mekhlis and with V. Karpinskiy *The U.S.S.R. and the Capitalist Countries* (Mekhlis *et al.* 1938) in which the Soviet Union was portrayed as an economic power. Once more, Varga asserted that under capitalism planning was impossible. Monopoly capitalism was responsible for low agricultural prices (Mekhlis *et al.* 1938: 8). Varga explained the unprecedented duration of the US economic crisis of 1929–33 by referring to the 'mechanisms of the general crisis of capitalism'. The new crisis of 1937 had revealed the existence of a structural problem for capitalism, which had forced American monopolists to conclude collective agreements with the workers in all major industries. Varga returned nonetheless to his underconsumptionist thesis. The latter was, without any doubt, contrary to the collective wage agreements concluded by the trade unions which promised higher wages to the workers. However, Varga nonetheless ascertained that the 'average amount' of commodities per capita in the USA produced was now lower than it was before the First World War. In the meantime an enormous portion of the means of production had remained unutilised, because people had no money to buy more goods. Thus capitalism had become a hindrance to the development of mankind (Mekhlis *et al.* 1938: 10). The hard lot of the peasantry in capitalist countries was mentioned as well, because middlemen, merchants and big capitalists were taking all the profit, 'ruining the peasant and robbing the urban consumer' (Mekhlis *et al.* 1938: 25).

Varga's book *Two Systems* (Varga 1939) (its original title was *20 Years of Capitalism and Socialism*) was originally written for the commemoration of the twentieth anniversary of the Great October Revolution. Its English translation received a rather good press in the USA, but the book was nonetheless disqualified as a 'propagandistic textbook' (Sibley 1940: 351). In Varga's 'textbook'

Marx, Lenin and Stalin quotations are completed by crude attacks on Trotsky. In reality, *Two Systems* reads also as an updated edition of Varga's report to the Seventh Congress of the Comintern. This time the central thesis of the book is that capitalism was no longer in a position to develop productive forces or to give the proletariat work. Meanwhile, the Soviet Union had grown under 'the great leader of the peoples, Joseph Stalin' to the status of an industrial and military power (Varga 1939: 236).

In this book, Varga's analysis of stagnating capitalism is nonetheless largely inspired by Hilferding's theory of 'organised capitalism'. Under monopoly capitalism, 'technical advance was restricted' because low wages were making 'technical innovations less profitable' (Varga 1939: 29–30). Enormous sums of 'saved' money could not be converted into 'productive capital' (Varga 1939: 22). Though Varga had already published on the role of military production in the accumulation process – whole branches of industry with military importance were depending on state subsidies – he omitted the possibility of a 'military boom'. He nonetheless admitted a further development of separate industrial branches. Production was thus only stagnating in 'old industries', but rapidly rising in new branches of industry. Hence, capitalist stagnation under monopoly rule was not completely absolute, but could also give way to a process of 'creative destruction' or 'innovations' giving birth to new investment cycles. However, these possibilities were denied by Varga, because they were invalidated by his (and Stalin's) crisis theory.

In the Soviet Union, the utilisation of the existing productive plants and the output of labour were incomparably better than under capitalism, which proved the 'tremendous superiority of the Soviet over capitalism' (Varga 1939: 57). According to Varga, Lenin's fundamental concept was that imperialism was a 'superstructure on capitalism' and that there was no 'pure imperialism'. Varga argued that Lenin had rejected as anti-Marxist 'both the all-embracing "general cartel" of Hilferding, as well as the Bukharinite idea of "organised capitalism" ' (Varga 1939: 29). A slip of the pen? Kautsky, not Hilferding had been the father of the theory of the 'general cartel'. Hilferding, not Bukharin had coined the concept of 'organised capitalism'.

In his book *Two Systems*, Varga returned to his underconsumption thesis when explaining the economic crisis. With the decay of free-market capitalism, the peaceful path of solution of the market problem had been closed. Accumulation problems of monopoly capitalism had increased. The theory of Tugan-Baranovskiy, according to which the expansion of the sale of the means of production is unlimited in capitalism, was thus untenable (Varga 1939: 89). He pointed out that chronic mass unemployment under capitalism with the creation of an industrial reserve army is a necessary product of accumulation and at the same time a condition of existence of the capitalist mode of production, and that in 'the period of the general crisis this quantitative increase of the industrial reserve army turned into a qualitative change' (Varga 1939: 71). This chronic mass army of the unemployed had become superfluous 'not only for the usual but also for the greatest self-expansion of capital' (Varga 1939: 72). From now

on, an important part of the labour force would remain permanently unemployed. Varga reintroduced here once more his 'law'. Limited consumer power of the proletariat had put limits to the sale of the means of production: there was 'a tendency towards an absolute reduction in the number of productive workers, i.e., workers who directly create value and surplus value' (Varga 1939: 72).

Due to the 'parasitic nature' of capitalism in the period of the general crisis of capitalism, human labour power was only partly used, although in the meantime the number of people employed in the 'unproductive' occupations (trade, banks, domestic services) had increased. Under capitalism workers could only find opportunity to work when the goods produced by them could be sold as commodities at their price of production. However, this was now far from being always the case, since there existed a 'standing contradiction between the drive of capital to extend production and the narrow limits of the consuming power of society' (Varga 1939: 72–3). In the period of the general crisis of capitalism, capital was not able to guarantee its workers a decent existence. That was the best proof that the capitalist system would succumb in the fight with socialism.

Why the problem of the market – i.e. 'underconsumption' – had become particularly acute in the period of the general crisis remained nonetheless unclear in Varga's argumentation. Like Rosa Luxemburg, Varga referred to the acute narrowness of the market in the period of the general crisis. First, capitalism had to draw independent producers of the world into the capitalist market to expand its market. This usually occurred by transforming the peasantry into a rural proletariat. But in the period of the general crisis this process had as good as stopped, he argued, because the conquest of colonies had come to an end, the time of great railway construction was past and the export of capital had greatly diminished. Secondly, monopolies restricted consumption by imposing wage reductions and by keeping selling prices high. Varga believed that the consumption power of society 'taken as a whole' should shrink under monopoly capitalism. The concentration of enormous sums of surplus value in the hands of the financial oligarchy, would therefore lead 'to a diminution of the power of society to consume, because the financial oligarchy – in spite of the wild luxury they go in for – can only use for private consumption a small portion of the enormous profits they acquire' (Varga 1939: 93).

Varga thought thus that monopoly capitalists was looking for markets, but could not develop them themselves, because they deprived themselves of demand through which to realise the surplus value – a condition for continued accumulation of capital. The inevitable collapse of capitalism would follow because of the contradiction inherent in the laws governing accumulation. Underinvestment was thus causing the long economic crisis. The monopolies owned enormous masses of accumulated money for which they could hardly find profitable investment opportunities. Whereas in an early stage of capitalism the problem of the market was only acute in the phases of crisis, in the period of the general crisis of capitalism it had the tendency to be chronically acute. The chronic agrarian crisis could be catalogued as a component of the general crisis of capitalism. Because of the severe restriction of demand by the

urban population, this chronic agrarian crisis had meanwhile led to a reduction of agricultural productive forces, to a degradation of agriculture, thus 'to the mass ruin of the working peasantry' (Varga 1939: 102).

In the meantime, state regulation had increased in order to relief the big enterprises in difficulties. The bourgeoisie tried also to monopolise – 'to the fullest extent' – the home market by imposing bureaucratic controls on foreign trade transactions and by imposing autarchy. This growing tendency to protectionism was reflected in a reduction in the volume of world trade and accompanied by industrialisation in some Latin American countries. Measures for temporary alleviation of the dissatisfaction of the masses were taken simultaneously with measures advantaging monopoly capital. According to Varga, the aim of the New Deal consisted 'first and foremost' in holding, under the 'cover of social demagogy', the farmers and workers off from 'revolutionary mass action'. The New Deal gave the big bourgeoisie billions for the relief of bankrupt enterprises, 'not only getting rid of existing legal obstacles to the formation of trusts, but positive advantages for the formation of monopoly by forced *trustification* laid down in the codes, prohibition of the construction of new works, minimum prices laid down by the state, etc' (Varga 1939: 135).

Although the sudden increase in expenditures on armaments coincided with the transition from depression to revival, Varga denied that capitalism could ever eliminate crises by simply multiplying armament expenditures. If armaments were financed by an equally large increase in taxes affecting the masses, Varga argued, then there would be no extension of the market. A real expansion of the market could nonetheless be obtained by borrowing capital lying fallow. In addition, the agitation for a planned economy in capitalism aimed at making the workers believe that a capitalist planned economy was possible. The agitation for planned economy in capitalism was seeking 'to dampen the revolutionising effect of the crisis-less, successful construction of the Soviet economy'. The indispensable condition of a successful planned economy was the elimination of profit as the moving force of production. The discoverer of this demagogy was de Man, who with his plan succeeded in 'blurring the antagonism between the right- and left-wings of the Belgian Labour Party for a time, and diverting the dissatisfaction of the workers into a reformist channel by the "fight for the Plan" ' (Varga 1939: 140).

The laws of capitalist reproduction led to a relative and absolute impoverishment of the proletariat, because the worker received due to increased productivity an ever-decreasing share of the values produced. Absolute impoverishment of the proletariat occurred, because capital strived to force wages below the value of labour power. Absolute impoverishment of the proletariat went with 'interruptions, in continual struggle between capital and proletariat' (Varga 1939: 143), thus to wage increases. But in the period of the general crisis of capitalism with its chronic mass unemployment, supply of labour power gave capital the possibility of a drive against wages. However, 'bourgeois statistics' were completely useless for resolving the question whether and how far an absolute impoverishment of the proletariat was taking place (Varga 1939: 146). In

the fascist countries state power prevented any legal defence against capital, whilst in the USA and France the political and legal conditions were nonetheless more favourable.

National freedom and equal rights were impossible in bourgeois society, Varga argued when discussing oppression of the intellectuals. The latter had 'to deny their nationality or renounce any state post' and in many cases national oppression went over into the sphere of religion, hindering the cultural development of peasants and workers. The Germans of Jewish faith were subjected to the bitterest persecution as a foreign 'race' in order to get rid of them as competitors (Varga 1939: 203). In contrast, Soviet power had united the nations in nationally united territories after the October Revolution. The privileged position of the Russian language was abolished and 'full right of separation' for the Union Republics and the Autonomous Republics existed. However, the 'results of centuries of national oppression could not be set aside at one blow' (Varga 1939: 216). The new Soviet Constitution of 1936 was the crown of the equal rights of nations. Although remnants of Great-Russian chauvinism and anti-Semitism existed, young people growing up in the Soviet Union were now all free from chauvinism, anti-Semitism and fascism (Varga 1939: 220–1).

Varga focused on the 'scissors' (the difference between industrial and farm prices). The rich peasants in the developed capitalist nations had various possibilities of partially transferring the burden of the crisis to the poor strata of the village dwellers, while the poor peasants, 'who constantly depend on extra-earnings from wages', could not find any work because of the chronic mass unemployment (Varga 1939: 178). In Hungary, just as in Italy, unemployment among agricultural workers was so great that the government had forbidden the use of harvesters, while in the Soviet Union, 'a happy peasantry, living in peace and joy, shedding its private economic peasant skin and merging with the working class', had emerged (Varga 1939: 202). The general crisis of capitalism had brought about a further worsening of the living conditions of the colonial population. The colonies had to get their manufactured goods to an even greater extent from the mother country, while the big monopolies were forcing down the prices of raw materials. Imperialism had thus succeeded in easing the position of its industry at the expense of the peasants in the colonies. In the colonies, an alliance of the local landlords with the imperialists against the peasantry was a fact. The 'big bourgeoisie' had meanwhile become 'altogether reactionary', supporting the conservative elements in the colonies in order to perpetuate pre-capitalist forms of exploitation. Varga also pointed to the nascent native bourgeoisie in the colonies being involved in certain branches of the consumption industry and gradually bringing with it the development of 'native capital, of a native bourgeoisie' (Varga 1939: 210–1). The native bourgeoisie had a direct interest in changing the feudal agrarian economy and in restricting foreign access to the domestic market. With the development of domestic industry, an industrial proletariat developed. This development was, however, hampered by the narrowness of the local market and the poverty of the colonial peasantry.

Finally, Varga discussed the problem of bourgeois democracy, an item that was at the centre of the Popular Front strategy. On the one hand, Varga valued bourgeois democracy positively in comparison with all 'reactionary forms of domination of the exploiting classes', but on the other hand it was an evil in comparison with the 'dictatorship of the working class', which was – in Lenin's words – 'many times more democratic than the most progressive forms of bourgeois democracy' (Varga 1939: 223). Varga warned against the illusion that 'reformism' could lead to a 'peaceful transition to socialism', or that the entry of Social-Democratic leaders into the state apparatus would mean the beginning of socialism.

In the period of the general crisis of capitalism the financial oligarchy wanted to abolish bourgeois democracy and to erect an openly violent form of its dictatorship. Because of the unequal development in the different countries, some countries were now experiencing fascism, while elsewhere a struggle between fascism and democracy was fought out, taking 'the character of a world battle between the forces of fascist reaction and of progress' (Varga 1939: 225–6). Although in the USA and England the bourgeoisie was defending in words democracy against fascism, the 'undermining of bourgeois democracy' was in play. In the victorious countries, at the outcome of the World War, the apparatus of force had remained intact. In the defeated countries, the authority of the ruling classes had been shattered while the petty bourgeoisie had been embittered. The accession to power of fascism was by no means inevitable, Varga argued.

Stalin

However, fascism had already obtained a mass following in all European countries. While arming their countries, Mussolini and Hitler were financing fascist parties abroad. In March 1936, Hitler reoccupied the Rhineland. The Spanish Civil War broke out a few months later. Hitler's annexation of Austria in March 1938 was alarming. For Stalin, the big change came in September 1938 with the Munich Conference where France and Great Britain handed over Czechoslovakia to Hitler. Stalin had to made his mind up after Munich. He now understood that 'the unwritten maxim of Munich was to keep Russia out of Europe' (Deutscher 1949: 427). On 15 March 1939, during the Eighteenth Congress of the VKP(b), Hitler's Wehrmacht marched into Prague. Five days earlier, on 10 March 1939, Stalin had revealed that the Soviet Union was not willing 'to pull chestnuts out of the fire for anyone else' (Reitlinger 1960: 40) and that 'one might think that the districts of Czechoslovakia were yielded to Germany as the price of an undertaking to launch a war on the Soviet Union, but that now the Germans are refusing to meet their bills and are sending them to Hades' (Stalin 1947: 604). Stalin recalled that the Soviet Union pursued its foreign policy of upholding the 'cause of peace', but on the other hand he wanted to strengthen its business relations 'with all countries' as long as they 'make no attempt to trespass on the interest of our country' (Stalin 1947: 605).

Largely trusting on Varga's reports and publications, Stalin's report drew an 'alarming' picture of international development (Fleischhauer 1990: 108–20). A new economic crisis was developing in the aftermath of a certain revival. Hence, Stalin concluded that capitalism now possessed few reserves to combat the effects of the crisis. The fascist states had delayed the outbreak of a crisis by putting their economies on a war footing but for that reason the new crisis would be much worse than the previous one. Stalin produced a table showing that in Italy and Japan the downward course of industry had begun in 1938. In Germany, which had reorganised its economy on a war footing much later, industry was still experiencing a small upward trend. German industry would, however, enter the same downward path as Japan and Italy, but only later (Stalin 1947: 599).

For Stalin, an economy on a war footing had an industry developing in 'a one-sided, war direction', producing 'to the utmost' goods necessary 'for war and not for consumption by the population; restricting to the utmost the production and, especially, the sale of articles of general consumption – and, consequently, reducing consumption by the population and confronting the country with an economic crisis' (Stalin 1947: 599). Such an unfavourable turn of economic affairs could not but aggravate relations among the great powers. The preceding crisis had already shuffled the cards and sharpened the struggle for markets and sources of raw materials. The seizure of Manchuria and North China by Japan, the seizure of Abyssinia by Italy – all this reflected the acuteness of the struggle among the powers. The new economic crisis was bound to lead to a further sharpening of the imperialist struggle. It was no longer a question of competition in the markets, of a commercial war, of dumping. These methods of struggle had long been recognised as inadequate. It was now a question of a new re-division of the world, of spheres of influence and colonies, by military action.

Finally, Stalin identified three aggressive states: Japan, Germany and Italy. 'But war is inexorable', he exclaimed. It was a distinguishing feature of the new imperialist war that it had 'not yet become a universal, a world war' (Stalin 1947: 601). Stalin predicted an open re-division of the world and spheres of influence at the expense of the non-aggressive states, without the least attempt at resistance. Stalin's strategic problem was how it had happened that the non-aggressive countries, which possessed such vast opportunities, had so easily and without resistance abandoned their positions in order to please their aggressors.

Stalin attributed the weakness of the non-aggressive states to the fear that a revolution might break out if the non-aggressive states were to go to war. In addition, they had rejected the policy of collective security, the policy of collective resistance to aggressors, and had taken up a position of non-intervention, a position of neutrality. The policy of non-intervention had revealed 'an eagerness, a desire, not to hinder the aggressors in their nefarious work'. Stalin also remarked that Japan was free to embroil itself in a war with China, 'or better still, with the Soviet Union'. Germany was not hindered from enmeshing itself in European affairs, 'from embroiling itself in a war with the Soviet Union'

(Stalin 1947: 602). On the second day of the Eighteenth Party Congress, Manuilskiy explained what had changed since the previous congress. He asserted that between 1929 and 1933 capitalism had lived through a depression of a special kind with a sharpening of imperialist antagonisms that were announcing a new imperialist war (*Rundschau* 1939: 357). At Munich, the British bourgeoisie had delivered Czechoslovakia to Fascism and meanwhile the English-French imperialists were diverting German Fascism into eastern direction (*Rundschau*: 361).

Conclusions

After the Seventh Congress of the Comintern in 1935, Varga concentrated on defending Stalin's domestic and foreign policy. The general crisis of capitalism had brought a further worsening of the living conditions of the working class, the peasantry and the toiling masses in the colonies. Reactionary forms of capitalist domination had succeeded bourgeois democracy in many countries, while even in the United States and Great Britain the bourgeoisie was defending only in words democracy against fascism. Stalin's speech at the Eighteenth Party Congress in March 1939 was largely inspired by Varga's analysis of the international world economy and the thesis that the rearming fascist countries were already impoverished and nearby bankrupt.

11 Reparation payments and Marshall Plan (1941–7)

> Nobody asked that victory be guaranteed.
>
> Vladimir Mayakovskiy

The outbreak of the Second World War would bring profound changes in Varga's life. At the outbreak of the war in 1939, he became a corresponding member of the Academy of Sciences of Soviet Union. Meanwhile he was already Stalin's war economist studying and advising the dictator on the militarisation process of the imperialist economies. He mistakenly had already predicted the breakdown of the Nazi war economy. During the first two years of the war he would persist in that opinion. After the disappearance of the Comintern in 1943, he became an adviser to the Soviet Ministry of Foreign Affairs on the question of German post-war reparation payments and international economic problems. As such he belonged to Molotov's advisers at the Conference of Potsdam in 1945 and later, in 1947, in Paris where Molotov talked with the French and the British about Marshall Aid.

The war

In the beginning of 1939, Varga signed several articles in *Pravda* and other journals on growing Soviet economic and military strength and the fact that the Soviet Union was surpassing capitalism, thus laying the material basis for the transition from socialism to communism (*Vestnik AN SSR* 1939/6: 1–10). Meanwhile, a new world war was in preparation. On the occasion of the fourteenth anniversary of Lenin's death in January 1939, he actualised Lenin's imperialism theory (*Pravda* 24 January 1939; *Vestnik AN SSR* 1939/1: 54–63). Stalin, who wanted to present the Soviet Union as a major military power, meanwhile, had not yet decided to approach Hitler for an alliance.

In July 1939, Varga predicted nonetheless the inevitable outbreak of a new world war in *Bolshevik* (1939/13: 11–22) because armaments had become a decisive factor in the economic life of the capitalist world. The industrial cycle had become so deeply influenced by increasing military expenditures that a new economic downturn could be expected at the moment when capital, means of

production and raw materials would not be available anymore. In Germany, the outlay for armaments had led to a liquidation of unemployment, but the costs of these excessive armaments were already surpassing the country's economic power and preparing for a profound crisis of the entire economic and social system. In Brazil a million bags of coffee were destroyed yearly, while in Germany and Italy the population was denied its customary cup of coffee (Varga 1939: 239).

The German–Soviet Non-Aggression Pact (also called the Molotov–Ribbentrop Agreement or Hitler–Stalin Pact) of 23 August 1939 and the outbreak of the war had a devastating effect on the Communist movement. In many countries, Communist parties were persecuted as anti-patriotic organisations and some of their leaders arrested. The Comintern leadership had to revise its anti-fascist strategy (Sirkov 1995). On 9 September 1939, the Comintern called the war 'unjustified'. As a consequence, none of the belligerent countries could be supported. The war was thus redefined in a Leninist sense as a clash between two competing imperialist blocs for world domination (Kinner 2009: 15–51). Meanwhile, activities organised by the Comintern were reorganised. Publication of the Comintern journal *Rundschau über Politik, Wirtschaft und Arbeiterbewegung* in Basel (Switzerland) was halted and replaced by *Die Kommunistische Internationale* published in Paris and later in Stockholm (Sweden) (with a Russian edition in Moscow). Two new weeklies, *Die Welt* (Stockholm) and *Le Monde* (Brussels, later in Paris) had to popularise Moscow's views on world events.

The defence of the Soviet Union remained the main objective of the Comintern. The Communists switched now to anti-war politics. Varga's task consisted in legitimising the occupation and Sovietisation of the invaded Polish territories. In the meantime he unmasked the plans of the French–British imperialists (*Mirovoe khozyaistvo i mirovaya politika* 1940/3: 53–83). He reviewed Winston Churchill's book *Step by Step* (1939) (*Mirovoe khozyastvo i mirovaya politika* 1939/9: 249–50). He discovered Keynes's pamphlet *How to Pay for the War?* (*Mirovoe khozyaistvo i mirovaya politika* 1940/6: 200–2002). He pointed to growing contradictions between British and US imperialism as well (*Mirovoe khozyaistvo i mirovaya politika* 1940/1: 81–9; *KI* 1940/1: 64–72). He returned to his preferred subject of how the belligerent countries were financing their war economies and how shortages were hampering Germany's further economic growth. He also predicted food shortages (*KI* 1940/9: 606–13). In order to inform the Soviet rulers about Hitler's real intentions, he immediately ordered a Russian translation of Hermann Rauschning's book *Gespräche mit Hitler* (1939) (Fogarasi 1988: 227).

Hitler's overwhelming victory over France in June 1940 must have stupefied Varga and his scientific staff. In Moscow, one had expected that French military power could have held Germany in check.

Immediately, Stalin dropped all further pretence of respect for the sovereignty of the three Baltic States. He also annexed Bessarabia. However, doubts subsisted about Germany's total victory. *Bolshevik* of 5 July 1940 concluded its editorial by saying that Britain was far from finished. In his speech of 1 August

1940 to the Supreme Soviet Molotov commented not only on all the spectacular events of the last few months, but also on the fact that Great Britain was not yet giving up. The British Empire had 'decided to continue the war, relying on the assistance of the United States', Molotov argued. The British Government was 'unwilling to surrender the colonies' and was thus 'prepared to continue the war for world supremacy' (Degras 1953: 461–9). Varga had already taken a similar line in *Mirovoe khozyaistvo i mirovaya politika* (1940/6: 11–18).

But who was to blame for this disaster at the Western front? Of course, not the Communists who had opposed the imperialist war efforts. Hungarian party leader József Révai argued that the Social-Democratic leaders had been responsible for the bloodshed and the suffering of the toiling masses (Révai 1940: 626–34). Varga returned to his 'Leninist' analysis of the inter-imperialist war in an article he published in *Labour Monthly* (1940/11: 578–88). Britain's economic and military strength in the colonial world had even increased after the defeat of France, he argued, because during the general crisis of capitalism 'the contradiction between the tendency of capital to extend production', on the one hand, and the 'relative restriction of the markets', on the other, had 'grown more acute' (*Labour Monthly* 1940/11: 585). Increased trade with the colonial territories was achieved by the abandonment of the principle of most favoured nation and the introduction of custom walls. Social democracy in the 'rich' countries was represented in the bourgeois coalition governments and continued to be 'the main social buttress of the bourgeoisie' (*Labour Monthly* 1940/11: 587). With Lenin, Varga situated the origins of the world war in the struggle of monopoly capital to bring foreign markets under its political sway. A second reason had to be sought in the fact that as the high super-profits, accumulated in the hands of the monopolists, cannot find a fruitful field of investment in one or another branch of production in the home country, the tendency to export capital to countries capitalistically still undeveloped would increase (*Labour Monthly* 1940/11: 580). Great Britain had meanwhile been industrially surpassed by Germany and the USA in important 'new' industrial branches, which had exacerbated inter-imperialist rivalries. However, 'this war was similarly paved by all the imperialist countries. The financial oligarchies of all the imperialist countries bear an equal responsibility for it', Varga concluded (*Labour Monthly* 1940/11: 588).

Varga explained that the 'inherent laws of capitalism' had driven the imperialist powers to a struggle for a new redivision of the world. Fortunately, the Soviet Union and the strength of the Red Army, combined with Stalin's 'wise peace policy', had frustrated their 'Munich policy of a united front of imperialist powers against the Soviet Union'. The antagonisms among the imperialist powers over the redivision of the world had temporarily proved to be stronger than the fundamental antagonism between capitalism and socialism. Meanwhile, capitalism had also changed during the war (Varga 1941: 3–11), because the war was also weakening the 'entire capitalist system' and preparing the conditions for successful proletarian and anti-colonial upheavals (*Labour Monthly* 1940/11: 588).

From now on, Stalin would fear a German attack on the Soviet Union as well, but as long as the British Empire resisted he could try to stay neutral in this imperialist conflict. When Churchill signed the Lend–Lease Plan with Roosevelt (Stettinius 1944), Stalin called immediately Varga for advice (Cherkasov 2004: 33). Obviously, Churchill was decidedly prepared to continue the war against Hitler's. Could Hitler be stopped? On 6 April 1941, he attacked Yugoslavia and within a few weeks he brought Balkans under his rule as well. When giving a lecture at the Military Academy on 17 April 1941, Varga stated that a German victory on Great Britain could not be for the advantage of the Soviet Union and that military strength would be the best peacekeeping method (Laufer 2009: 39–40).

On 22 June 1941, Germany attacked the Soviet Union. Varga's son András (28), who was at that moment a postgraduate at the Mendeleyev Institute of Chemical Technology in Moscow, joined the Red Army. He was reported as having disappeared during the battle of Smolensk (*Moscow News* 1985/15). When in October 1941, German troops were approaching Moscow, the Soviet Government decided to evacuate the ministries and other governmental services to Kuibyshev, 600 miles away. There, after having left their apartment at the Leninskiy Prospekt 13, the Varga's settled down with their daughter Mária.

In Kuibyshev, Varga joined the Soviet propaganda services, writing pamphlets and reports. He reiterated that Germany's war economy had rapidly exhausted all available resources. Notwithstanding an intensive plundering of the occupied countries, the German war economy stood now on the verge of a total collapse. Varga's thesis was particularly attractive in this period of military defeats and hardship. In his speech of 7 November 1941 Stalin made Varga's thesis his when taking the military parade of the Red Army at the top of the Lenin Mausoleum. Having returned to Moscow in March 1942, he edited a pamphlet – *Victory will be ours* (1942) – for a foreign public and a pamphlet against the Fascist 'New Order' in Europe (Varga 1942). Varga's thesis of an imminent collapse of the German war economy had meanwhile gained some fame after having been published in, among others, *Pravda* (20 December 1941) and *Bolshevik* (1941/24: 25–33). In the meantime, Varga resumed his propagandistic activities in favour of Stalin's war efforts and Hitler's bankruptcy. In *Pravda* of 24 January 1942, he pointed to widespread hunger and inflation in Germany. In *Pravda* of 24 April 1942, he predicted an exhaustion of Germany's human resources. On 12 May 1942, he revealed that Germany was running out of its raw materials' stock. On 11 June 1942, he returned to Germany's plundering. On 10 July 1942, he reported that Germany's harvest had failed. In *Pravda* of 29 July 1942, he remarked that in 1918 the collapse of German war economy had given birth to a revolution. In *Pravda* of 22 September 1942, he predicted a severe crisis in Germany's heavy industry and in *Pravda* of 24 October 1942 also the breakdown of the German railroad system. Until 1943, Varga would reiterate his wrong economic and military forecasts (*Pravda* 28 June, 22 July, 19 November 1943; *Agitator* 1943/13: 16–22). Meanwhile German arms output increased (Tooze 2007: 552–624), without any doubt proving that Varga had

exaggerated the impact of capital consumption in his simplified linear analyses (Day 1995: 103).

Varga's expectations had been built on the false assumption that Hitler had launched his *Blitzkrieg* because of a lack of oil, manpower and raw materials. Meanwhile, Germany's 'impoverishment' and falling labour productivity was under way. Stalin would soon revise his own forecasts and then press the Allies for opening a second front in Europe as soon as possible. In an edited book in 1943, Varga (Varga 1943: 56–63) and collaborators admitted that the exhaustion of the economic resources of Germany would not automatically lead to Germany's economic breakdown (Varga ed. 1943; Day 1995: 34). Varga's wrong forecasts would have consequences for his position as well. Deputy Commissar for Foreign Affairs Andrey Vyshinskiy and political chief of the Red Army Aleksandr Shcherbakov attacked Varga savagely for his 'criminal' miscalculations having caused heavy losses to the Red Army. His sympathy for the Germans was mentioned as well (Rubenstein and Naumov 2001). On the advice of Dimitrov, Varga contacted Stalin in order to stop these attacks (Duda 1994: 408–9). Stalin recognised the 'Marxist character' of the apology on the history of German imperialism that Varga should pronounce in the presence of his enemies (his text was published in *Bolshevik*, 1943/11–12: 39–52). For Stalin, Varga was a too useful an agent to be dismissed and executed. After the official dissolution of the Comintern on 10 June 1943, a National Committee Free Germany led by Walter Ulbricht was formed to lay the foundations of a German government in exile. Meanwhile a friendly society of imprisoned German officers was established (Scheurig 1965: 94–100). Such activities also required diplomatic tact and human integrity. Varga was the person who could play that role of intermediary. His perfect knowledge of German history and language made *Herr* Professor Doctor Varga even acceptable to higher German army officers attending his lectures on Germany's post-war future. On such an occasion he established friendly relations with general Otto Korfes (Wegner-Korfes 1994: 123).

Reparation payments

After the battle of Stalingrad in January 1943, it became clear that the moment of Hitler's defeat was approaching, but that the opening of a second front in the West would also necessitate negotiations with Roosevelt and Churchill on the fate of Germany. In August 1943, Stalin called back ambassador Ivan Maiskiy from London to chair the Reparations Commission at the Ministry of Foreign Affairs in Moscow. Maisky approached Varga, who was then residing at Hotel Lux, to become his adviser (Maisky 1967: 380). Varga would become one of the Soviet Union's leading experts in these matters (Schroeder 1998: 48).

Why did Maiskiy pick up Varga? The reason must have been that Varga published an article in *Trud* of 24 July 1943 on reparations in which he had argued that Germany should pay for war destructions by having production facilities and workers transferred to the Soviet Union. After Maiskiy had contacted him, Varga would lecture on 31 August 1943 on this problem. Many foreign observers

commenting in the foreign media thought now that he had spoken in Stalin's name as well. Nazi propaganda tried to present him as Stalin's executioner of a plan for the enslavement of six million German workers.

In late 1943, three post-war political commissions headed by K. Voroshilov (on armistice problems), Maiskiy (on reparations) and Maxim Litvinov (on post-war construction) were created in Moscow (Gori and Pons 1996: 3–36; Filitov 1999: 147–62). Differences appeared in the reports of the three commissions. The Voroshilov Commission, comprising mainly military experts, presented a cooperative approach with the Western allies. Litvinov's counterpart seemed to favour a traditional balance-of-powers approach, i.e. 'territorial security' for Soviet Russia and 'organisation of rivalries' in the outside world. After the Moscow Conference of Foreign Ministers in October 1943, it had nonetheless been decided that Germany should be completely disarmed and pay reparations for the physical damage the Nazis had inflicted on the Soviet Union and other Allied countries. A Tripartite European Advisory Commission was set up in London to recommend the terms of surrender and the means of enforcing Allied policy in occupied Germany.

At Teheran (28 November–1 December 1943), the question of the partitioning of Germany was debated, but no conclusions were reached. The Soviet view was that Germany be deprived of 80 per cent of her heavy industry and pay reparations in kind to the value of 20 billion dollars, half of which should go to the Soviet Union. Meanwhile, Maiskiy's reparations commission meeting in Moscow was made up of Maiskiy, G. P. Arkadiev from the Ministry of Foreign Affairs, and representatives of the Gosplan, first V. V. Kuznetsov, then M. Z. Saburov and N. M. Siluyanov, E. I. Babarin of the Ministry of Foreign Trade and Varga. Experts held discussions with Varga during 37 meetings on war damages and reparations. Varga, who still believed in a revolutionary crisis in the defeated countries, influenced the debates into the direction of making of Germany an agrarian country (Laufer n.d.). In his first memorandum completed on 10 November 1943, Maiskiy wrote that it was precisely that 'Germany and its satellites must give the USSR a definite quantity of labour units of particular skills (including the highest) which, in the form of something like labour armies, will carry out tasks assigned to them under the command of the NKVD' (quoted in Filitov 1996: 7).

For Churchill, Germany's economic demise was not Britain's preferred war aim. Hence, his war economist Nicholas (Miklós) Káldor preferred working out reconstruction scenarios (Kaldor and Joseph 1943) based on Germany's industrial capacities. Even Lord Keynes, who was favourable to the Hans Morgenthau Plan (Peter 1997; Markwell 2006: 221–63) criticised Varga's ideas as being 'very dangerous' (Keynes to Nigel Ronald, 2 December 1943, Archives FO 371–35309). Free French politician Pierre Cot reported from Moscow that negotiations on reparation payments would lead to annual payments in kind (industrial equipment) worth between US$1 and US$2 billion. In addition, the Soviet Union hoped obtaining between four and five million German workers (Cot 1974: 260). All these negative reactions must have inspired Molotov to drop any overemphasis on labour (Filitov 1996: 17).

At the Yalta Conference (4–11 February 1945), the Soviets formulated a more precise policy with regard to reparation demands than either Great Britain or the USA. Maiskiy explained that two kinds of reparations were envisaged: at least ten billion dollars out of capital goods and current production reparations. A part of German property was to be withdrawn (consisting of territory, factories, machines, railways, and foreign assets). For the next ten years a certain quantity of goods must be delivered. By withdrawal Maiskiy meant to 'confiscate and carry away physically' for reparation payment (Nettl 1975: 39). It was later proposed by Maiskiy that 80 per cent of the German industrial potential was to be handed over, chiefly from the iron and steel industries, the building industry, and the chemical industry and removed in a period of two years after the surrender. The production capacity for synthetic oil and petrol, planes, and all armaments works were to be dismantled and handed over completely. From now on, reparations from German labour were deliberately left out of the discussion. The chief objection to the proposed reparations came from Churchill, who doubted Germany's ability to pay. The effect was that the Soviet and American delegations agreed that the total sum should be 20 billion dollars and that 50 per cent if it should go to the USSR. An Allied Reparations Commission was now set up in Moscow.

At the Conference of Potsdam in July and August 1945, the Allies had to decide on Germany's fate. A few weeks before the Conference of Potsdam met, Molotov prepared his agenda. Dismantling of Germany's heavy industry and denazification were urgent questions. Until 3 July 1945, the Soviet leadership was not intending to discuss reparation question at Potsdam. On 10 July 1945, Molotov asked Varga to prepare him a programme for an Allied economic policy for Germany (Laufer 2009: 578). This time Varga was thinking of dismantling Germany's industrial production capacities in order to prevent the country's rearmament. He situated the solution in state capitalism controlled by the four occupying powers, but with forms of private ownership (AON, Varga, f. 1513, d. 37). It is not sure that Molotov or Stalin ever discussed Varga's paper (Laufer 2009: 579). In the night of 13 July Stalin held his last discussion in the Kremlin on these matters. Then, Molotov travelled with a delegation of 74 persons to Potsdam. Among them were Maiskiy and Varga. At the last moment they had been added to the Soviet delegation as well.

Though Varga was present at the Potsdam Conference (Kuczynski 1987: 114), he did not play a public role there (Göncöl 1977: 6). As expected, Maiskiy and Molotov led the discussions with the American and British negotiators. Varga's presence was necessary. On 23 July 1945, he objected to a plan defended by James Byrnes for reparations levied per occupation zone (Laufer 2009: 592). On 24 July 1945, Maiskiy argued that Varga had estimated that about 30 per cent of total German capital was located in the Soviet Zone of Germany (Laufer 2009: 593). According to US President Truman, Churchill would have argued that Maiskiy had 'defined war booty as to include the German fleet and Merchant Marine' as well (Ferrell 1982: 56). On 30 July, Maiskiy submitted a proposal he had drafted together with Varga, M. Z. Saburov

and G. P. Arkadiev for collecting reparations in kind in the western occupation zones (Laufer 2009: 596). The Allied leaders decided to approach the question more from the point of view 'What can Germany pay?' (Bohlen 1973: 232). Instead of this it was nonetheless decided that no figure should be announced until the technical experts had declared the maximum. The Soviet Union expected nonetheless to receive 50 per cent of all reparations, which should include two billion dollars' worth taken from the British and American zones of occupation as well. Stalin wanted 500 million dollars, one-third of the stock of German foreign assets, and one-third of the gold captured by the Anglo-American armies. All this was disapproved. The final agreement on percentages of reparations to be taken from all western zones for Russia was 15 per cent. Equipment to be removed was to be determined within six months. Meanwhile, Soviet functionaries had already started with industrial dismantling in their own occupation zone. Finally, the Council of Foreign Ministers would also draw up peace treaties for Italy, Rumania, Bulgaria, Hungary and Finland.

Preparing for the Cold War

The Potsdam Conference revealed several contradictions and uncertainties in Stalin's foreign policy. In his famous 'election speech' of February 1946, Stalin (1950: 19–44) declared a belief in capitalism's instability and inter-imperialist rivalries. He was impressed by America's role in post-war capitalism. His representatives attended the July 1944 conference at Bretton Woods that set the principles of price stability through fixed exchange rates, reductions of trade barriers and market integration. Soviet trade and foreign ministers were recommending ratification on the grounds that this might yield reconstruction credits as well (Gaddis 1997: 187–220).

Well before the Bretton Woods Conference met, Varga declared being impressed by the plans for an international bank or stabilisation fund proposed by Lord Keynes and Harry Dexter White (*Commercial and Financial Chronicle*, 2 March 1944). He rejected a proposed dismantling of tariffs and other trade restrictions and he preferred returning to the gold standard. In a commentary published in *The Economist* of 11 December 1943, he already argued that the rouble had 'at no time maintained a close relation to its internal purchasing power. The problem of maintaining equilibrium with international cost and price structures hardly arises in a wholly planned a socialised economy, where the State undertakes the whole of foreign trade'. The Soviet Union was thus never really interested in backing the project of a post-war currency plan as long as the country's gold reserves were fed by gold mines maintaining a fund out of which temporary disequilibria in the balance of external payments could be paid. From the perspective of the Soviet Union, the continuation of Lend-Lease was of higher importance than all these projects concocted at Washington (James 1996: 69).

On 12 March 1947, President Harry Truman solicited in a dramatic speech to a joint session of Congress support for Greece and Turkey while at the same

time announcing American readiness to defend principles of freedom. It meant Washington's commitment to confront Communism everywhere (Diner 2007: 203). Varga reacted with an article in *New Times* (16 May 1947) in which he loudly criticised 'the premeditated pessimism of […] reactionary Anglo-Saxon circles, who are disposed to talk of success only when they succeeded in dictating their will to their partners in negotiations'. Then, Varga called for a 'more realistic approach' to the settlement of the German question in the interests and views of the European countries 'that are most concerned in the prevention of fresh German aggression'. Varga referred to the recently published record of the conversation between Stalin and Harold Stassen on 9 April 1947 in which Stalin had expressed his conviction that cooperation between the two economic systems could be possible. After having referred to American 'assistance' to Greece and Turkey and to American 'advisers' operating in Paris and Rome, Varga declared that 'sincere international co-operation precludes interference in the internal affairs of other countries'. The Second World War had sufficiently demonstrated how strong and invincible the desire of the nations for liberty and independence was and that the growth of the forces of democracy all over the world constituted 'a supreme pledge of the ultimate triumph of the principles of sincere international co-operation over the machinations of its foes'. Meanwhile the Soviet Union had refused to participate in the Geneva trade talks on international free trade issues.

Later, Varga ascertained that international economic conferences never had led to any practical results because of persisting Anglo-American rivalries (*New Times*, 16 May 1947). Therefore, the Geneva talks on tariff reductions were making little headway. American monopolists were now taking advantage of their monopoly position by penetrating into all capitalist countries. 'They are prepared to sell abroad at dumping prices, even at a loss'. The same applied to Britain that did not renounce her system of imperial preferences. The Soviet Union was not taking part in the Geneva Conference because of 'its government monopoly of foreign trade, which is one of the immutable elements of its economic systems'.

In an article on 'Anglo-American Rivalry and Partnership' he published in the July 1947 issue of *Foreign Affairs*, Varga defended the same point of view (Varga 1947a). That issue of *Foreign Affairs* contained also the famous X-article 'The Sources of Soviet Conduct' in which its author – George F. Kennan – had argued that the Soviet Union was pursuing a policy of economic autarchy (Kennan 1967: 271–97, 354–67). Probably Varga's article had been solicited by the editorial board of *Foreign Affairs* in consultation with the State Department in Washington. A 'moderate' Varga – Stalin and Lenin quotes were missing – defended the thesis that high American tariffs were impeding the import of British manufactures, and that the British imperial preferences established at the Ottawa Conference in 1931 were hampering free trade. Hence, the USA tried to break up the institutions of the British Empire. Assuming a leading position in the world economy, the USA was thus pursuing 'a world policy of imperialism in the fullest sense of the term'.

Varga called Roosevelt 'a great statesman' who had understood that it was 'in the interests of the American bourgeoisie itself to blunt the edge of the class struggle between the bourgeoisie and the proletariat by timely concessions which did not imperil the existing system'. But after Roosevelt's death, 'the forces of social reaction' had gained the upper hand. The danger of Fascism was even growing because the Republicans had won the last Congress elections. Truman had ordered the removal of 'all persons suspected of Communist sympathies' from the civil services. Fortunately, the British Labour Government was moving in the opposite direction with its programme of nationalisations and 'peaceful transition to Socialism', while the British bourgeoisie was displaying 'flexibility in avoiding a showdown fight with the working class'. The USA and Great Britain were nonetheless forming a bloc, because they had a common interest in countering 'the influence of the Soviet Union in world affairs'. The Truman doctrine meant 'a turning point in American foreign policy' and thus 'a clear departure from Roosevelt's policies'. The Labour Party rebels were now contesting Bevin's foreign policy, while Henry Wallace was opposing Truman's in the USA. Varga's thesis on American-British inter-imperialist rivalry was clearly rooted in Lenin's imperialism theory. However, Anglo-American rivalries would soon belong to Lenin's romantic past (Trachtenberg 2005).

The Marshall Plan

On 5 June 1947, American Secretary of State George Marshall announced at Harvard University the offer of cheap credits to any European country to speed up economic recovery. The European Recovery Programme (ERP), or Marshall Plan, promised to give some US$13 billion in aid. The Plan was crafted by George F. Kennan and his Planning Staff to restabilise the European economy (Cox and Pipe 2005: 97–134). Soviet Ambassador to the USA, Nikolay V. Novikov suggested on 9 June 1947 in a telegram to Moscow that Marshall's speech was aimed at forming a Western European bloc. On 15 June 1947, *Pravda* denounced this plan. Ministers of Foreign Affairs Ernest Bevin and Georges Bidault met in Paris on 17–18 June 1947 and a day later they invited the Soviet Union to an Anglo-French-Soviet conference to discuss the elaboration of an ERP.

Stalin's Politburo was clearly divided on the ERP. Molotov was mainly interested in American willingness to provide much needed reconstruction credits (Roberts 1994). However, the British, French, and American leaders were already planning a unified approach to the aid programme and they were not interested in including the Soviet Union in their project. These suspicions were not baseless (Narinski 1993: 119–23; Zubok and Pleshakov 1996: 102–3; Chubaryan and Pechatnov 2000: 129–40). Against this background and looking forward to an agreement with the USA on a new system of international economic cooperation, Molotov asked Varga to assess America's intentions. Varga submitted a confidential report to Molotov (Report, 24 June 1947, in Narinski

1993: 121). His thesis was that the primary purpose of the Plan was to forestall, or at least mitigate, the worst effects of the coming overproduction crisis by seeking new markets in Europe – a classic restatement of his standard theory of capitalist crises. Economic self-interest, rather than enlightenment, lay thus at the heart of the Plan, he argued.

However, Varga also contended that the Plan had multiple political purposes along with its economic rationale. The three most significant political aims, in his view, were to demonstrate US hegemony over Europe, to induce the West Europeans to form an anti-Soviet bloc if the USSR refused to participate, and to hold the Soviet Union responsible if the Plan did not achieve its specified objectives. He noted that the Plan had a fairly obvious subversive purpose – to place maximum pressure on the East-European governments and thereby draw them away from Moscow back into the larger capitalist fold. But he claimed that there was no reason to be alarmed at this stage.

After all, if the Plan was driven largely by economic necessity, as Varga and others assumed (Molotov quoted in Parrish 1994: 19), it would also be possible for Moscow to exploit this need for its own ends. Varga adhered to the latter view. Thus the Plan was an opportunity as much as a threat. The aim of Soviet diplomacy should be to disconnect the issue of aid from the political conditions the USA would inevitably seek to attach to it. In this way the Soviet Union could derive maximum advantage from the ERP. Though Varga's analysis contained 'a strong degree of caution and suspicion', it was nonetheless possible to 'gain from participation in [the Plan]' (Narinski 1994: 105–10).

On 21 June 1947, the Soviet Politburo with Stalin, Andrey Zhdanov, Lavrenti Beria, Anastas Mikoyan, Georgiy Malenkov, Nikolay Voznesenskiy and Vice-Ministers Andrey Vyshinskiy and Jakov Malik endorsed Molotov's idea of at least discussing the aid programme with the British and the French (Narinski 1993: 121). The assembled officials hoped that the Marshall Plan might offer a useful opportunity to establish a framework for receiving substantial credits from Washington. Accordingly, Molotov suggested to the British and the French that they should meet in Paris to discuss the programme. The Soviet authorities also transmitted instructions to the other East European states to ensure their participation in the Plan (Molotov to Bodrov, 22 June 1947, in Takhnenko 1992: 113–27). At this stage, the Soviet leaders wanted to ensure that the countries which had suffered most from German aggression, would be given priority for the receipt of US credits. This stance, though self-serving, was in line with Moscow's long-standing position that any economic aid should be distributed according to efforts made in defeating Nazi Germany.

For the time being, Soviet leaders remained serious in pursuing the aid initiative. In a cable on 22 June 1947, the Politburo instructed the Soviet ambassadors in Warsaw, Prague and Belgrade to tell the leaders of those countries – Bolesław Bierut, Klement Gottwald and Josip Broz Tito respectively – to 'take the initiative in securing their participation in working out the economic measures in question, and ensure that they lodge their claims' (Takhnenko 1992). Soviet leaders did not discount the need for vigilance, as reflected in the 24 June

memorandum from Soviet Ambassador Nikolay Novikov (Novikov to Molotov, 24 June 1947, cited in Narinski 1993).

Highlighting three key issues in the official instructions, Stalin handed his instructions to the Soviet officials travelling to Paris for the meeting. The first issue was Germany, the resolution of which Stalin hoped to keep separate from the issue of economic aid. Molotov's delegation for the Paris Conference was thus instructed not to discuss the German question during the meeting. The second issue was economic aid. Stalin instructed the delegates to ensure that this question would be discussed in terms of specific country needs rather than on an all-European basis enabling US officials to design their own programme of reform. The third issue was the status of Eastern Europe. Once again, the instructions were clear, and the Soviet delegates were left in no doubt that they should 'object' – and presumably object strongly – to any 'aid terms' that 'threatened interference in the internal affairs' of the 'recipient' countries. As Stalin envisaged it, the USA could provide aid, but it would have to be aid without any conditions, especially conditions that might infringe on the European countries' sovereignty or encroach on their economic independence (Di Biagio 1990: 131).

Molotov travelled with a delegation of more than 100 advisers, including Varga, on 26 June 1947 to Paris. Anglo-French proposals calling for economic modernisation programmes comprised a central European organisation that would oversee the distribution of US aid. The French proposed an audit of the resources of participating members. Molotov attacked both ideas on the grounds that they infringed on the sovereignty of the European states. As an alternative, he proposed that individual countries should make their own assessments of national needs and that these analyses would determine the amount of total credit required from the USA. Bevin and Bidault insisted, however, that disclosure of resources was a prerequisite for participation in the aid programme. Molotov realised that if these proposals were adopted, the Eastern European governments would have to alter their internal policies in a way that would make them dependent on Western Europe, and thus ultimately on the USA. On 2 July 1947, after having consulted Stalin, Molotov refused to accept the terms of the Marshall Plan. At a meeting on 3 July 1947, Molotov predicted that Western actions would not result in the unification or reconstruction, but in the division of Europe. Then, Bevin and Bidault issued a joint communiqué inviting the 22 other European countries to send representatives to Paris to consider the ERP. Immediately, Molotov left with his delegation for Moscow. The Eastern European governments were forbidden to start negotiations on the Marshall Plan and encouraged to trust in their own strength. 'Their experience can well serve as an example to all nations which cherish their freedom and independence and which are not inclined to come under the yoke of foreign economic and political domination' (unsigned editorial in *New Times* of 23 July 1947).

Back in Moscow, Molotov must have felt deceived. A new international situation had been created in Europe. In the future, US aid would be reserved to the Western European countries complying with the guidelines formulated in Washington in full accord with London and Paris. No signs of increasing

inter-imperialist rivalries could be signalled. Instead, the Western nations were now forming a bloc around the American ally. In a lecture given on 27 August 1947 in Moscow (Varga 1947c) and in two articles published in *New Times* (24 September and 15 October 1947), Varga argued that the Marshall Plan had met its first reversal 'when the countries of Eastern Europe refused to be drawn by the dollar bait into the orbit of American influence' (*New Times* 1947/39: 5). Thereupon, the sponsors of the Marshall Plan had decided the creation of a 'Western bloc, this time under the aegis not of Great Britain but under the United States' with Western Germany as its backbone. Germany's heavy industry would thus be restored at the expense of the other European countries.

Varga predicted the outbreak of periodic crises of overproduction arising from the internal laws of capitalism, in combination with an economic crisis in the USA where until recently 'an unlimited demand' for war goods had determined the country's economic course. At the end of the war, a very considerable 'unsatisfied demand' for consumer goods had subsisted. A large part of the saving bank deposits and accumulated war profits was however in the hands of the middle classes. Inflation had hollowed out the workers' purchasing power. Hence, the pent-up demand of the war years had not had the expected influence on the market. Varga predicted that the American crisis would break out at the very moment that 'a sharp price decline' would set in. The monopolies preferred now selling 'American goods on government credits' (*New Times* 1947/39: 7).

Varga explored the consequences of the Marshall Plan for the British economy as well. The economic crisis in Britain was of a 'distinct' character. In Britain there would be no crisis of overproduction because there was still 'a lack of goods' (*New Times* 1947/42: 3). The British crisis was not an underproduction crisis, as was the case in Germany, Italy and Japan, but a crisis of national finances. 'It is mainly and fundamentally a crisis of balance of payments, a reflection of the fact that Britain is unable to secure from her export trade sufficient funds to purchase abroad the food and raw materials she needs' (*New Times* 1947/42: 3). A problem was that British imports were mostly paid out of invisible exports which had suffered a severe blow during the war. This had created the balance of payments crisis. However, the Labour Government was determined to continue the old imperialist policy and to play the part of junior partner of the American claimants to world domination. The Lend-Lease agreement having been stopped, the British Government was condemned to apply for the Marshall Plan.

Meanwhile, Varga was still Molotov's expert in moderation. On 13 January 1948, he held a speech to international relations specialists in which he even predicted a temporary ebb tide of the revolutionary movement in Europe. The situation in Germany was still undecided, he judged (AON, Varga, f. 1513.1.54). These views contradicted, however, Zhdanov's plans with the Cominform he had created in September 1947. Molotov's task was now to reach an agreement on a united but neutralised Germany paying US$10 billion in reparations out of current industrial production (Smyser 1999: 58–61; Adibekov 2002). However, Molotov miserably failed in his German project. No agreement was reached.

Western Germany would enter into the US orbit and become the German Federal Republic. This would soon signify Molotov's end at the Ministry of Foreign Affairs.

Conclusions

During the war years Varga had emerged as one of Molotov's main economic experts. He had worked on the German reparation problems and later on the Marshall Plan. Varga's soft approach to the Marshall Plan would damage his reputation. Meanwhile, hardliners like Andrey Zhdanov had already gained ideological ascendance on Stalin. They controlled the Central Committee (Ra'anan 1983) and had led in September 1947 the ground for the Cominform. At that moment Stalin had already lost confidence in Varga's expertise.

12 The Varga Controversy

> If I am judged as a writer on outward criteria, I scarcely deserve to be publicly accused of lacking principle in that instance, either
>
> Anton Chekhov

In 1947 Varga was unmasked as a reformist. His book on recent changes resulting from the Second World War was considered as too accommodating to capitalism and the capabilities of the bourgeois state to prevent a new economic crisis. Only a socialist economy could plan in function of the needs of the people. Varga's Institute of World Economy and World Politics was closed down as well. Finally, in 1949, after two years of tergiversations, Varga would nonetheless confess his reformist sins.

The *Zhdanovshchina*

Having not yet adopted a clear-cut plan for post-war reconstruction, Stalin had already moved into Andrey Zhdanov's more radical position, thus weakening the more moderate course followed by the Malenkov–Beria–Molotov troika (Boterbloem 2004: 273; Knight 1993: 132–50). Though G. F. Aleksandrov was the official head of Agitprop, Zhdanov had received the supervision of a wide range of its activities such as publishing, film, radio, the news agencies, art, as well as oral agitation and propaganda (Boterbloem 2004: 268–9). Second in rank just after Stalin, Zhdanov would control the Academy of Science of the USSR (*Izvestiya*, 3 July 1946). Obviously, Zhdanov was also preparing for Stalin's succession. He used his power in the shadow of Stalin to control the Party tightly. With Nikolay A. Voznesenskiy heading the State Planning Commission (Gosplan), he now formed a formidable span that was entrusted with streamlining post-war economic planning and reconstruction (Hahn 1982).

On 15 March 1946, when presenting the new five-year plan (1946–50) before the Supreme Soviet of the USSR, Voznesenskiy made it clear that economic reconstruction would be financed out of the Soviet Union's own funds (Voznessensky 1946). His aim was to surpass pre-war level of industrial production by 50 per cent. Investment in heavy industry and the railroad system, together with

the military sector, had to be favoured. Voznesenskiy's new role as 'economic boss' was throwing a shadow on Malenkov's hitherto prominent position. In May 1946, Malenkov was relegated to the function of Deputy-Minister. Zhdanov also became impatient with national diversities in the Communist parties. Hence, building up an international Communist Information Organisation (Cominform) controlling foreign parties would be the logical outcome of his policy favouring the constitution of a Soviet bloc in Eastern Europe (Zubok and Pleshakov 1996: 123–31).

As so many other intellectuals and scientists, Varga would suffer from a campaign that would be known as the *Zhdanovshchina*. Everything had started at an Orgburo meeting on 13 April 1946, where Stalin ordered measures against the writers Anna Akhmatova and Mikhail Zoshchenko, the journal *Leningrad* and its editor B. M. Likharev for 'fawning before the West' (Boterbloem 2004: 279). Then, Zhdanov conducted a campaign to reinforce adherence to socialist realism and against ideological laxity when attacking 'decadent' Western bourgeois cosmopolitanism.

Meanwhile, an ideological storm was brewing against the economic scientists as well. In order to domesticate them, the Academy of the Social Sciences of the USSR (Akademiya Obshchestvennych Nauk, AON) was founded in August 1946 by decree of the Department of Agitation and Propaganda of the VKP(b) (Field 1950: 137–41). In an unsigned article in *Bolshevik* of August 1946, Soviet economists were criticised because they did not praise the exceptional achievements of the Soviet Union and underestimated the danger of war. Another unsigned editorial in *Pravda* of 12 August 1946 confirmed these critics. They could be interpreted as a warning at the address of the research institutes and their directors. Ilya P. Traynin of the Institute of Law and Konstantin V. Ostrovityanov of the Institute of Economics promised to correct these shortcomings.

At the moment of this attack, Varga was staying in Budapest at the behest of Rákosi. That must be the reason Varga did not react. On 30 October 1946, an unsigned article in *Kultura i zhizn* criticised Varga's institute of neglecting the study of 'actual' imperialism and 'actual' tendencies in the development of state-monopoly capitalism. According to the anonymous author, Varga's institute was compiling statistics and specialising in describing economic facts. An unsigned editorial published in the information journal of the Academy of Sciences of the Soviet Union stated that research carried out at Varga's institute showed important shortcomings with respect to the analysis of capitalism and the monopolies forming with the state a reactionary bulwark. Varga's name was not mentioned in this. Finally, the editorial board of the Academy of Sciences promised a stricter quality control on manuscripts submitted for publication. In his New Year's speech at his Institute in December 1946, Varga agreed on the principle of exercising stricter 'quality control', but without referring to underlying ideological orthodoxy (Tikos 1965b: 71–4).

In the meantime, important shifts in the power structure had already become visible. Zhdanov would live his finest hour on 7 November 1946 when he was watching in absence of Stalin the commemorative parade in honour of the Great

October Revolution from the top of the Lenin Mausoleum in Red Square. Politburo members L. Beria, V. Molotov, L. Kaganovich, N. Khrushchev and G. Malenkov were absent as well; they were replaced by A. Zhdanov's associates N. Voznesenskiy, A. Kosygin and A. A. Kuznetsov. Voznesenskiy had meanwhile drafted a scientific master plan subordinating some institutes to the Gosplan (Duda 1994: 246–7). All these changes coincided with a public discussion of a seemingly innocent textbook on the *History of Western-European Philosophy* published by G. F. Aleksandrov. Stalin had expressed in December 1946 his dismay with this book that had neglected the watershed separating Hegel from Marx. Aleksandrov's textbook was then examined by the Secretariat of the Central Committee. On 22 April 1947 the Politburo criticised it incisively. On 24 June 1947, Zhdanov attacked it in a speech the western orientation of Aleksandrov's textbook and qualified it as unfitted for party educational work (*Bolshevik* 1947/16: 7–23; Zhdanov quoted in J. and M. Miller 1949; Boterbloem 2004: 292–307).

At a meeting of the Academy of the Social Sciences in January 1947, K. V. Ostrovityanov of the Institute of Economics pleaded for organising a debate on Varga's recently published book *Changes in the Economy of Capitalism Resulting from the Second World War* (1946a) and the functioning of the Institute of World Economy and World Politics. According to Ostrovityanov, Varga's journal *Mirovoe khozyaistvo i mirovaya politika* did not treat the complicated and actual problems in an adequate way. Especially V. I. Lan's work on US capitalism (Lan 1964) was vigorously criticised for having focused on American national 'defence' without mentioning that US foreign policy was influenced by the most reactionary factions of monopoly capitalism. Ostrovityanov criticised L. Roytburt for having written that American steel factories had made technological progress. That was a clear example of praising American superiority now that the Soviet Union was making an enormous leap forward and preparing for surpassing the USA economically.

In the beginning of February 1947, the Board of the Department Economy and Law of the Soviet Academy of Sciences charged a commission with the study of the scientific reports of the member institutes. Varga, who was suffering from tuberculosis at that time, had meanwhile left the Board (Sári Varga to Rákosi, 12 December 1946, PIL 274, fond, 101/122, lap 67). A. I. Shneyerson (he was Voznesenskiy's deputy), now charged with writing a report on the workings of Varga's institute, submitted an evaluation report that received a good press in the media. However, soon criticism would focus on the alleged *empericist* nature of Varga's research projects. The use of 'bourgeois statistics' was severely criticised by A. Boyarski and L. Tsyrlin in Voznesenskiy's journal *Planovoe khozyaistvo* (1947/6: 62–75). Within this context, Varga's recently published book was quoted as an example of the many insufficiencies discovered in the institute's scientific output. In the May–June 1947 issue of *Planovoe khozyaistvo* Shneyerson (1947/3: 83–9) published a lengthy review article of that book. He enumerated several serious ideological shortcomings he had found. Especially Varga's thesis that the state was playing a dominant economic role in

capitalism could not be accepted. Finally, the Board of the Department Economy and Law decided to organise a public debate on the shortcomings of Varga's book.

In his book *Changes in the Economy of Capitalism Resulting from the Second World War* (1946a) (25,000 copies issued; price: 8 roubles), Varga had compiled much information about economic changes in the different belligerent countries, especially in Great Britain and the USA. Some chapters had been published in *Mirovoe khozyaistvo i mirovaya politika*. Although he had finished his manuscript in December 1945, publishing authorisation was only obtained on 26 September 1946. This may indicate that in the meantime some problems had occurred.

Varga repeated in this book many well-known theses on the general crisis of capitalism. An important thesis was that during the first decade after the war, the impoverished countries of Europe would have to face an underproduction crisis. With regard to the USA, Canada and other countries having developed their productive forces during the Second World War, he predicted, after a short-term period of prosperity during the first post-war years, a sharp crisis of overproduction – probably more prolonged than that of 1921. Varga analysed the capitalist post-war business cycle in terms of Marx's capital accumulation theory. In the USA, *Department I* (capital goods) had much expanded during the war while *Department II* (consumer goods) was producing for the war effort. Reconversion would prove to be very difficult. In the case consumption goods produced in *Department II* would not find consumers, demand for production goods (building materials, machinery) would fall as well, thus giving birth to a profound recession. According to Varga, capitalism concealed within itself thus all elements of the coming post-war economic crisis.

However, the role of the state had changed during the war. In an attempt to subordinate forcefully the private interests of separate establishments and of individuals to conduct the war, the state had become an instrument of the bourgeoisie as a whole. The question of greater or smaller participation in the management of the state had thus become the main content of the political struggle between the two fundamental classes of capitalist society: bourgeoisie and proletariat.

New democracies

In Varga's economic and political writings, the state acquired now a more prominent role. To a certain extent the capitalist state could manage the economy and plan demand and investment. Political changes had led to widespread nationalisations of enterprises and financial institutions. Democratic and labour parties were occupying governmental functions as well. Many questions remained, however, unsolved. Was a 'democratic' or 'parliamentary' road to socialism available now? Until 1947 Communist parties were participating in several coalition governments in Western Europe and playing a leading role in the countries of Central Europe recently liberated by the Red

Army. In those countries the landowning class had been expropriated and anti-democratic and fascist forces had been eliminated as well. For the time being, much remained unclear about the character of these new regimes. Varga would now argue that in Eastern Europe a new type of regimes had been established under Soviet military control. In his book *Changes in the Economy of Capitalism Resulting from the Second World War* (Varga 1946a: 33) he had already used the concept of 'democracies of a new type' with regard to these regimes. What was a 'democracy of a new type' really? Was it a transitory regime leading to the dictatorship of the proletariat and the installation of a Soviet-type regime? In his book Varga had only mentioned that term and that nationalisations in these countries had led to a change in income distribution and property relations to the advantage of the state. Did this mean that a form of 'state capitalism' had been developed? Trying to define the character of these regimes, Varga published in March 1947 an article about this problem in *Mirovoe khozyaistvo i mirovaya politika* (1947/3: 3–14).

In Varga's words 'democracy of a new type' referred to the new state of affairs in countries 'where feudal remnants – large-scale landownership – had been eliminated, where the system of private ownership of the means of production still exists but large enterprises in the spheres of industry, transport and credit are in state hands, while the State itself and its apparatus of coercion serve not the interests of a monopolistic bourgeoisie but the interests of the working people in town and countryside' (*Labour Monthly* 1947/8: 235). In his list of democratic states of a new type Varga only listed Yugoslavia, Bulgaria, Poland, Czechoslovakia and Albania. Hungary and Rumania – two of Hitler's former allies – were omitted. These new states were 'neither a bourgeois dictatorship nor a proletarian dictatorship', he added. The old state apparatus had not been smashed, but reorganised by means of 'an inclusion in it of the supporters of the new regime'. The basis for a transition to socialism was nonetheless 'given' by the nationalisation of basic industries (*Labour Monthly* 1947/8: 235). Hence, the emergence of these democracies of a new type was due to 'the general crisis of capitalism' having intensified in consequence of the Second World War. He pointed to the 'historical conditions specific to these countries' (*Labour Monthly* 1947/8: 235): (1) the discrediting of the ruling classes and their political parties as a result of their collaboration with Hitler; (2) the leading role of the Communists in the resistance movement; (3) the support of the Soviet Union. But 'without this support' the states of democracy of a new type would be hardly withstand the attacks of reaction, 'both external and internal' (*Labour Monthly* 1947/8: 235). Though in these countries appropriation of surplus value still existed because of peasant-ownership of the land and the existence of small enterprises and artisans, its volume was relatively small after nationalisation of industrial enterprises and banks.

Nationalisations without compensations signified a special kind of economic revolution that was contrasting with nationalisations in bourgeois-democratic countries. The change of the character of the state from a weapon of domination in the hands of the propertied classes into the state of the working people had led

to a redistribution of the national revenue. The bourgeoisie dominated nonetheless trade and services and enjoyed the support of bourgeois officials in the state apparatus. In capitalist countries nationalisations did not serve the interests of the working people, but attempted only to solve the contradictions between the social character of production and the private character of appropriation 'within the framework of the bourgeois social system' (*Labour Monthly* 1947/8: 237).

A second important feature of the countries of a democracy of a new type was the complete elimination of large-scale landlordism. Division of the lands among the landless peasants had created a mass support to the new regimes. Varga reminded readers of the mistake made by the Hungarian Communists in 1919, 'when they wanted to leap over an essential stage by converting the confiscated large landed properties into state farms, instead of dividing them up among the peasants and so satisfying the land hunger', had nowhere been repeated after the Second World War (*Labour Monthly* 1947/8: 238). Cultivation of the land by the peasants using their own resources and the opportunity of selling their produce had nonetheless made possible the re-emergence of capitalist relations in the economy. Thus, the social order in the new states of democracy of a new type was 'not a socialist order, but a peculiar, new, transitional form'. The contradiction between the productive forces and relations of production had become 'mitigated in proportion as the relative weight of the socialist sector increases' (*Labour Monthly* 1947/8: 238).

Varga's opinion about the counterrevolutionary forces and their activities was rather simple. The big landowners were by no means disposed at accepting these changes. Therefore they were penetrating the state apparatus, organising plots against the government, arming bandits, etc. and finding support in reactionary circles abroad. The representatives of the big bourgeoisie tried to cause inflation or increase the existing inflation, thereby provoking dissatisfaction among the working people and turning them against the new regime. Together with the factory owners, many of them had fled abroad, rapidly becoming American citizens and demanding the support of their new country full compensation or the return of their properties. State influence on economic life differed in these new democracies from that in the old bourgeois countries, where the state was serving the interests of monopoly capital. In the new democracies, a 'new type economic policy' was directed to developing the socialised sector and to raise the standard of living of all people 'in a planned way'. But there could be 'no planned economy, as understood in the USSR', because a 'genuine planned economy' was possible only under socialism 'with all the means of production nationalised' (*Labour Monthly* 1947/8: 241).

Varga paid some attention to the nationality questions in the new democracies. He mentioned that all Germans had been expelled from Poland and Czechoslovakia because they had openly betrayed the country where they had been living. He noted that Czechoslovakia, Poland and Bulgaria were 'parliamentary republics with universal, equal and secret electoral rights'. The governments in these countries were made up of coalition parties forming a majority and they were responsible to parliament. The fascist parties were forbidden. However,

Yugoslavia was a different case with its federative republic and 'its Constitution being similar in many ways to that of the Soviet Union' (*Labour Monthly* 1947/9: 277). Varga answered the theoretical question about the idea 'widely held in the Communist parties that the political domination of the working people, as is the case in the Soviet Union, could only be realised in the form of Soviet power. This is not correct, nor is it an expression of Lenin's opinion' (*Labour Monthly* 1947/9: 277). The USA and Britain were doing everything to hinder the progressive social development of these countries and to convert them into ordinary capitalist states. In Czechoslovakia, the 'democratic character' of the regime could not be disputed, but in Poland the Peasant Party was serving as the chief 'legal centre of reactionary forces'. Hungary and Romania were, 'at the present time', not belonging to the category of the countries of democracy of a new type, but they were clearly 'developing in this direction' (*Labour Monthly* 1947/9: 278). Fortunately, the Soviet Union was guaranteeing the further development of these countries in a progressive direction, which signified that the states of democracy of a new type were the junction of the post-war struggle of two systems. Varga remarked that during the Second World War Churchill had intended to open a second front in the Balkans in order to preserve the old order there, but 'his proposals had been rejected by Roosevelt and Stalin as being incorrect from the military viewpoint' (*Labour Monthly* 1947/9: 279). The struggle between the two systems had thus not entirely been frozen during the Second World War.

Varga's article was reproduced in translation in many foreign theoretical journals, which indicates that it was thought that its author was also speaking in name of Stalin or Molotov. That was not exactly the case. Obviously, Varga had acted on his own initiative. Had he infringed some unwritten rules? Normally, in matters of doctrine only Stalin and Zhdanov were competent to give their opinion. In a letter dated 8 March 1947, Varga submitted the question of the new democracies to Stalin (text in Cherkasov 2002: 98 and 2004: 47–8). The doctrinaire in the Kremlin did not answer this request.

A public debate in May 1947

Meanwhile, a public discussion on the shortcomings of Varga's book *Changes in the Economy of Capitalism as a Result of the Second World War* was scheduled for 7, 14 and 21 May 1947. It appeared to be a major society event in Moscow. A stenographic transcript of the discussions was published as supplement to the November 1947 issue of *Mirovoe khozyaistvo i mirovaya politika*. It was only approved for publication on 8 December 1947, and reportedly it had a circulation of 35,000 copies, which was exceptional for such a kind of journal. This was, of course, exceptional for such a report only interesting scientists and journalists.

Opening the debates, Ostrovityanov called Varga's book a stimulating piece of work providing 'much material for serious scientific discussion'. However, objections were raised by the treatment of the state's role in the war economy

and the problem of impoverishment. Varga had made 'it appear that in peace time the bourgeois state in capitalist countries serves the interests of monopoly capital, but in the war period the bourgeois state represents the interest of the entire bourgeoisie as a whole, and, to a certain degree, enters into conflict with monopoly capital, confines it, etc.' (*Soviet Views* 1948: 112).

In his reply, Varga argued that his book had been written approximately a year and a half ago when no other statistical materials were available. Some of his predictions on price formation had been not altogether correct. Varga stood nonetheless firm in his defence. After a year and a half – except the treatment of the question concerning the character of popular democracy – he did not change his theoretical positions. 'Of course, comrades may say that there is little self-criticism in this, but there's nothing you can do about that' (*Soviet Views* 1948: 2–3). About the role of the state in general opinions might differ, Varga said. But the capitalist state had nonetheless a decisive significance in the war economy and played after the war even a greater role by comparison with pre-war times. In England, in France and not to mention the countries of the new democracy, nationalisation had been carried through, which likewise signified strengthening of the role of the state. Formerly it was commonly believed that under monopoly capitalism the state was a state of the monopolies serving them in time of war and peace, but now, he argued, in a modern war economy the state had become the organisation of the bourgeoisie as a whole, obliged to carry out measures of regulation not infrequently running counter to the interests of individual monopolies. 'Of course there can be no such planned economy under existence of private ownership of the means of production, but it is also wrong to say there are no planned elements in the economy of capitalist countries' (*Soviet Views* 1948: 8).

Nineteen academic speakers had been enlisted for the debates: Maria N. Smit (Leningrad), V. V. Reikhardt (Leningrad), A. N. Shneyerson, A. I. Katz, V. E. Motylev, M. I. Rubinshtein, Esfir I. Gurvich, M. A. Arzhanov, Sh. B. Lif, P. A. Khromov, V. A. Maslennikov, Ya. A. Kronrod, I. N. Dvorkin, L. Ya. Eventov, S. G. Strumilin, P. K. Figurnov, L. A. Mendelson and Z. V. Atlas. Varga's outspoken enemies Shneyerson, Reikhardt, Smit, Gurvich, Arzhanov, Kronrod and Dvorkin would concentrate their criticism on Varga's analysis of (1) the role of the state in a capitalist economy dominated by monopoly capital, (2) the changing relations between Great-Britain and the colonies in Asia, (3) the character of the 'new democracies', (4) the unscientific character of Varga's book, and (5) Varga's impoverishment thesis.

1 An overvalued role of the capitalist state

Though the state played a 'deeply reactionary role', retarding the 'development of productive forces', Figurnov admitted that in a definite, special situation, the state could play a 'progressive' role 'to a certain extent' (*Soviet Views* 1948: 95), but he rejected Varga's affirmation that the problem of realisation had completely disappeared during the war. At best, the bourgeois state could regulate

individual sectors for a quite limited time on a limited scale, but was incapable of planning the forms of the economy or playing a decisive economic role. There existed thus an 'irreconcilable contradiction' (*Soviet Views* 1948: 88) between the state and private entrepreneurs. Because a war economy did not annul the profit stimulus, Eventov argued, the 'class essence of the war economy' had to be situated in the fact that the volume of surplus value received in the USA and England equalled 'the general total of all sums of military expenditures of each country'. Of course, 'from time to time', the state could enter into conflict with private interests (*Soviet Views* 1948: 88). Meanwhile, the state expended enormous sums upon increasing the profits of the monopolies. Anarchy of production did not disappear during wartime planning. It was not the state directing the economic process, but the powerful monopolies, said Reikhardt (*Soviet Views* 1948: 18). Smit argued that Varga diverged from Lenin's theory of state-monopoly capitalism dominating the state (*Soviet Views* 1948: 9–10). Varga's book contained sufficient 'factual material', said Gurvich, to discuss also post-war developments or the question whether capitalism would be able to develop in general as the state remained in the hands of the controlling monopolists (*Soviet Views* 1948: 52). Motylev argued that 'monopolies strive for omnipotence, strive to utilise the state as a weapon of economic expansion'. Varga's institute was impregnated by the same 'techno-economic' approach as his book (*Soviet Views* 1948: 41–2). Kronrod disagreed with Varga's assertion that during the war the problems of the market and realisation had been removed. The 'spontaneous laws of capitalism' (*Soviet Views* 1948: 76) were still working during the war. The capitalist economy could not adapt to the demands of the war by a bourgeois state representing the class interests of the bourgeoisie 'as a whole'. How should one define the present period in the development of the general crisis of capitalism, asked Arzhanov? (*Soviet Views* 1948: 59). To say that the state was playing 'a decisive role in the war economy' (*Soviet Views* 1948: 61) was wrong. Only in the Soviet Union could the state play a decisive economic role. Planning was only possible 'when there is social ownership of the means of production', said Dvorkin, not with 'millions of petty proprietors' (*Soviet Views* 1948: 84). In capitalism, regulation of production was carried out by allocation of profits, not by planning. In England, bourgeois nationalisation of the coal industry was a fact, 'but this does not at all represent planning, and does not remove the anarchy of production' (*Soviet Views* 1948: 85). Varga's 'petty-bourgeois reformism' standing for planned capitalism and full employment under capitalism was thus in contradiction with Lenin's statement that a war economy was by no means 'pure' capitalism, but a 'special form of national economy', L. Ya. Eventov said (*Soviet Views* 1948: 86).

2 A misinterpretation of the decolonisation process

According to V. V. Reikhardt, the chief basis of the dependence of the colonies was capital investment. Hence, the colonies could not liberate themselves by a 'purely economic process', but only by the revolutionary path (*Soviet Views*

1948: 20). A. N. Shneyerson said that only the forms of exploitation had changed in the colonies. The fact that India might export capital to some measure or that a part of the shares of the English enterprises in India had been transferred into the hands of Indians did not change this fundamental position. Eventov admitted that England's position vis-à-vis colonies like India and Egypt had been weakened, but Varga's expectation of a possible 'regulation of the question of freezing sterling credits' (*Soviet Views* 1948: 91) was exaggerated.

3 An incorrect evaluation of the transitional economies

Esfir I. Gurvich contested Varga's view on the new democracies now seeking new paths for their development. V. E. Motylev observed that Varga had made an attempt to bypass the problem of the countries of the new democracies by including them in capitalist Europe. A first fundamental organic change had occurred with the formation of a group of new democracies ceasing to be under the power of imperialism. Hence, Varga's dismissing of the new democracies as relatively unimportant for capitalism was thus inopportune (*Soviet Views* 1948: 40). Dvorkin referred to a number of European states having broken with capitalism, but Varga had disqualified them as economies with 'state capitalism'. Bulgaria, Yugoslavia, Poland and possibly Czechoslovakia had meanwhile left the capitalist world system. This signified that the general crisis of capitalism had entered a new stage. Dvorkin preferred calling these states 'neither capitalist, nor state capitalist'. He blamed Varga for having failed to analyse these characteristics of 'the countries of the new democracy' (*Soviet Views* 1948: 83). Figurnov had discerned 'erroneous theoretical propositions' related to 'the characterisation of state capitalism' (*Soviet Views* 1948: 93). He criticised Varga for having defined state monopoly capitalism as war-state monopoly capitalism and for having asserted that state capitalism was prevailing in the countries of the new democracy. State capitalism was connected with imperialism as a 'socio-economic problem, a class problem'. Thus it was not 'an organisational, techno-economic problem' standing above imperialism or arising after imperialism. Hence, state-monopoly capitalism was 'a qualitative particularity of imperialism itself, one of the essential forms of the development' of imperialism (*Soviet Views* 1948: 94–5). Eventov did not want to speak about state capitalism's 'higher form' without indicating the 'class character of the state'. An abstract approach to this question could go too far, because there existed 'various forms of state capitalism' (*Soviet Views* 1948: 90).

4 A lack of theoretical consistency

Varga's assertion that the state in contemporary war entered the market in the capacity of a purchaser possessing unlimited purchasing power, seemed debatable to Strumilin (*Soviet Views* 1948: 92). According to Zakhariy V. Atlas, Varga had mistakenly identified inflation with currency depreciation. Shneyerson characterised Varga's book as 'an addition of new facts to old propositions' and as a

compilation of 'assertions that have been circulated […] in the bourgeois press' on the agrarian situation in these countries (*Soviet Views* 1948: 22–3). He criticised Varga for having omitted political problems and employed unscientific methods. In the new democracies, the tempo of economic reconstruction was speeded up, but Varga adopted the point of view of economic automatisms. 'In particular, take your ill-fated predictions concerning the reconstruction of agriculture; I think they came about because you accidentally gave those figures by virtue of purely quantitative juxtaposition' (*Soviet Views* 1948: 26). Shneyerson concluded that it would be 'incorrect to encourage our economists to substitute conjuncture prognoses for genuine theoretical investigation' (*Soviet Views* 1948: 27). Varga made prognosis in an incorrect way by using quantitative analogies with what had taken place after the First World War. Varga's prognoses had thus been incorrect. 'You reproach your opponents with being quoters, uncritically minded, etc., who think only of their tranquillity, etc. I think that with these remarks of mine, as with many others, I am demonstrating precisely that the last thing I think of is my tranquillity' (*Soviet Views* 1948: 26). According to Katz, Varga had failed to explain further perspectives. Katz discovered a 'fear of theory' in recently published books on questions of world economy. Though Varga always predicted an inevitable crisis after a complete industrial cycle, he had given no 'theoretical conclusion in support of his affirmation that the industrial cycle after the war will resemble the cycle of the 1930s' (*Soviet Views* 1948: 34). Katz asked for a theoretical explanation of these phenomena proceeding from an analysis of the deepening of the general crisis of capitalism (*Soviet Views* 1948: 35). V. E. Motylev found that academicians were obliged 'to deal with theory in their books'. Criticising both Varga's 'methodological blunders' and 'blunders of principle', he was upset that Varga was predicting a ten-year reconstruction boom in Europe with the help of American credits (*Soviet Views* 1948: 37–9).

5 An incorrect impoverishment thesis

Eventov sharply criticised Varga's treatment of the class role and the character of the state in the war economy, the process of impoverishment, the excess of demand over supply, the disappearance of the realisation problem, state regulation, in which the state was in constant conflict with the private interests, and the dominant influence of the monopolies in the planning offices of the state (*Soviet Views* 1948: 88). According to Shneyerson, Varga had unduly defended during the war the thesis that Germany's economic resources were exhausted. After the war, a considerable part of the war enterprises had nonetheless hoarded substantial stocks of raw materials. In the case of the USA, no impoverishment had taken place. Moreover, Varga had not been able to cite data showing a reduction of production, equipment and raw materials stocks (*Soviet Views* 1948: 25). Figurnov said that Varga had omitted to expose how destruction due to the war had led to an enrichment of the bourgeoisie and an impoverishment of the toiling masses. Gurvich criticised Varga's 'impoverishment' theory as inaccurate. In

many countries the situation was such that, despite serious difficulties, the productive base was sufficiently developed to use it as 'a foundation for the movement toward socialism, for forward advance to a new social formation' (*Soviet Views* 1948: 57–8). Kronrod contested Varga's analysis of the process of impoverishment from a theoretical point of view. Therefore, he preferred making a distinction between impoverishment and pauperisation, while Varga had mixed up both phenomena. In matters of the realisation problem of surplus value and social reproduction, he accused Varga of Luxemburgism. Kronrod saw in the problem of 'postponed demand' nothing but a problem of 'money demand'. He wanted details of the 'peculiarities in the contemporary cycle' in the USA. Because of the forward leap American production had made during the war, capitalists had not carried out replacement of capital in their enterprises. He referred to the fact that the index of production prices were going upward and that the replacement of capital could flow on the basis of somewhat different financial flows than before the war (*Soviet Views* 1948: 78). Dvorkin pointed to the colonies where wars of national liberation and revolutionary movements were taking place. Contrary to Varga's analysis, he argued that 'the law of unevenness will operate […] with particular force […] and is a determining factor in the period of imperialism' (*Soviet Views* 1948: 84). According to Figurnov the 'Marxist-Leninist economist must not fall under the thumb of bourgeois economists'. He pinpointed that bourgeois economists had used the fact of 'impoverishment' to impose a hard labour regime during the war (*Soviet Views* 1948: 97).

The Varga supporters (Trakhtenberg, Rubinshtein, Lif, Maslennikov) praised the merits of his work, but they nonetheless discerned misinterpretations concerning the role of the planning capacities of the capitalist state. I. A. Trakhtenberg – author of a book on inflation (Trakhtenberg 1946) and an edited book on post-war economic development of capitalism (Trakhtenberg 1947) – saw in Varga's book a 'great theoretical work' of exceptional importance that 'reinforces theory with facts' (*Soviet Views* 1948: 28). Furthermore, Varga had not analysed the limits of capitalist state regulation. Varga had also wrongly predicted in 1942 Germany's economic breakdown, although a total war had nonetheless impoverished that country.

M. I. Rubinshtein rejected the entire tone in Motylev's remarks (*Soviet Views* 1948: 45) and Shneyersons's criticism concerning the absence of any theoretical investigation and its substitution by 'conjunctive prognoses'. He dismissed the remarks of Katz on the general crisis of capitalism with the remark – followed by a reference to Stalin's *Problems of Leninism* – that Varga's whole book was definitively 'an analysis of the contemporary development of the general crisis of capitalism'. Though some positions in Varga's book were nonetheless 'debatable and inaccurate', Rubinshtein appreciated it because it did not 'chew the cud of memorised conclusions and propositions suitable for any situation' (*Soviet Views* 1948: 46–7). Varga was however drawing conclusions that were 'theoretically incorrect' and 'doubly untrue' in their concrete application, in particular to the USA, where during the war a violent intensification of the concentration of capital had occurred. He refuted Varga's conception that a maximal and rational

utilisation of resources for war had been reached in the USA. Varga's mistakes, however, were due to the fact that the book 'was written too early', in a period when the 'international situation […] required us to lay aside temporarily […] what divided us'. There was also 'the inertia of the old text' and 'the inertia of wartime concepts' (*Soviet Views* 1948: 49).

Though calling Varga's book a 'deep theoretical analysis of a whole range of propositions and by concrete demonstration of facts, which is so characteristic of Comrade Varga's works', Lif had nonetheless discovered that Varga had misinterpreted the state as a defender of 'the general interests of capitalism' (*Soviet Views* 1948: 64). Maslennikov defended Varga's use of the concept of 'state capitalism' or the role of the agrarian reforms in the new democracies (*Soviet Views* 1948: 72–3). L. A. Mendelson thought that the book would have gained in consistency if the author had not made a division between the development of the economy during and after the war years, and if there had been an analysis of political problems. Varga had however revealed specific characteristics of the contemporary stage of the general crisis of capitalism. Unfortunately, he had not given a characterisation of the changes begun with the Second World War. Hence, Varga's presentation of the question of state capitalism could not satisfy him, but he denied that Varga had attributed a decisive role of the state in the conditions of the war economy (*Soviet Views* 1948: 99–100). Mendelson recalled that some colleagues had rejected the Hilferding thesis of banks taking the upper hand over industry, because they believed that industry had taken the upper hand. Rockefeller the banker was, however, not fighting with Rockefeller the industrialist. Leninist was Varga's theory of coalescence, because state-monopoly capitalism was not simply a certain system of regulation, it was a system of mutual relations of the state and the monopolies as well.

In his closing speech, Ostrovityanov pedagogically summarised that Varga had not tried to approach the analysis of the phenomenon of contemporary capitalism from the point of view of the problem of the general crisis of capitalism, and that he had abstracted himself from politics when analysing economic phenomena. Varga had omitted to touch upon political questions in his book. In the journal of his institute he had published an article asserting that the struggle of the two systems had been halted during the war, which was incorrect. Varga's analysis of the role of the bourgeois state's in developing the economy had met 'unanimous criticism from almost all the comrades' and it had been disqualified as being alien to Stalinism. Varga had taken a wrong position on the question of state capitalism in the countries of the news democracy and the relatively small weight of these countries in the capitalist world economy. Ostrovityanov repeated that the countries of the new democracy were following 'special paths of transition from capitalism to socialism' and that their significance could not be determined by 'statistical data on their relative weight' in the world economy (*Soviet Views* 1948: 110–12). Planning activities were also possible in a transition period to socialism if the basic means of production were nationalised and agrarian reform were carried out. Fortunately, Varga was undergoing an evolution on these questions.

In his reply, Varga rejected the incrimination that his book did not speak of the general crisis of capitalism. The entire book had been devoted to the general crisis of capitalism. However, the problem had not been completely worked out. The thesis that 'state capitalism' was prevailing in the 'new democracies' was wrong. Shortcomings in the composition and structure of the chapters existed, but he rejected the 'either-or' schemes many of his comrades adhered to. He disagreed with Shneyerson who had said that a powerful group of the bourgeoisie determined the entire policy of the state. According to Varga, the farmers in the USA had some influence upon policy and in Great Britain the working classes and the Labour Party were influencing the country's policy. Varga believed that in time of war the state, as the organisation of the entire bourgeoisie, could force individual monopolies to subordinate their interests to the interests of the war. Manufacturers received orders, but this was not a 'planned economy as it exists among us, but this is also not the anarchy that existed in peace time'. Concerning the problem of impoverishment, Varga trusted both Marx and Stalin that a war meant eating up 'all the resources of the country' (*Soviet Views* 1948: 119–20). Had Stalin not underwritten Varga's impoverishment thesis and the fact that during the war no realisation problem could have existed? Varga upheld furthermore the view that the economy of the colonial countries had remained basically colonial, although some could have over-estimated the industrial development in India.

Varga also replied to Ostrovityanov's concluding speech. He agreed on the fact that a planned economy could only be realised in a socialised economy, not in a country of the new democracies, where the 'relative weight of simple producers and capitalists and speculators and all sorts of reactionary elements in the state apparatus' was still too great to enable a planned economy there (*Soviet Views* 1948: 124). Finally, Varga refused to admit all his reformist sins: 'I regret very much if the comrades who have expressed criticism here are of the opinion that I have insufficiently recognised my mistakes. There is nothing to do about it. It would be dishonest if I were to admit this or that accusation while inwardly not admitting it. Where I consider the comrades right, I have admitted it and said so. If, on further revision, I see that they were right, I shall say it in some form or other' (*Soviet Views* 1948: 125).

The anti-Varga campaign

Everything seemed normal again after this debate. The *Izvestiya Akademii Nauk SSR* (Bulletin of the Academy of Sciences of the USSR, Department of Economics and Law, August 1947/4: 279–90) gave a condensed report on it. In *Bolshevik* (1947/23: 57–64) of 15 September 1947, I. A. Gladkov even called the debates on Varga's book 'fruitful'. Apparently, nothing had been decided on Varga's fate. That already changed at the very moment of publication of Gladkov's account in *Bolshevik*. The Central Committee of the VKP(b) decided on 18 September 1947, following a decision prepared by Aleksandrov and made by the Politburo, that Varga's institute be closed and merged with the Institute of Economics led by Ostrovityanov before the end of the year (Lebedeva 2004: 265).

Varga reacted by drafting a personnel letter to 'Very Honoured Comrade Stalin' in which he protested against this already decided merger. Varga used purely scientific and practical arguments against such a merger with an institute having no affinity with international political and economic problems. 'Although such a reorganisation would give me an opportunity to resign from my function as a director, a measure I already have asked for many times, I regard it nonetheless as my obligation to oppose such a plan'. Varga argued that it would be theoretically un-Leninist and practically impossible to separate the study of the politics of capitalist countries from their economies, and vice-versa. He rejected Aleksandrov's argument that the economy of the Soviet Union was intimately connected to economies of the foreign countries. Therefore Varga asked 'to reject that merger plan of the two institutes' (undated draft of a letter to Stalin. AON Moscow, Varga f. 1513/1/198). *Pravda* reported on 7 October 1947 that the Presidium of the Academy of Sciences had decided on the unification of the Academy's Institute of World Economy and World Politics and the Academy's Institute of Economics.

A campaign started now against Varga. First of all, the stenographic transcripts of the Varga debate were published in the November 1947 issue of *Mirovoe khozyaistvo i mirovaya politika*. Then I. Laptev reported on the discussion in *Pravda* of 26 January 1948, while Lev M. Gatovskiy criticised those who were fascinated by 'bourgeois methodology' (*Bolshevik* 1948/5: 74–80) and also those who had dismissed 'socialist state-planning ideas' (*Planovoe kozyaistvo* 1948/2: 50–69). Meanwhile, about 50 members of Varga's former institute were dismissed. Some of them were arrested and sent to labour camps (Pollock 2006: 178). Among them were Isaak I. Goldshteyn (Vaksberg 1994: 154–6) and Rebekka S. Levina (Vaksberg 1994: 193) who had authored a book on German imperialism Varga had prefaced some months before (Goldshteyn and Levina 1947). Both were now suspected of having formed a Jewish-national group at Varga's institute. Levina was only released after Stalin's death (Duda 1994: 250–1).

In his address at the opening session of the merged institutes Ostrovityanov criticised Varga, but without making new points. He reminded that everybody should help fulfilling the new five-year academic research plan sanctioned by the Soviet Government. In the editorial preface of the first issue of the Institute's new journal *Voprosy ekonomiki* it was stressed that the 'successful treatment of problems of socialist economics and of economics of foreign countries could be only possible on the basis of consistent application and further development of the theory of Marx-Engels-Lenin-Stalin', though only on condition of 'the application of the principle of Bolshevik partisanship, of irreconcilability toward all manifestations of objectivism, toward political indifference, toward servility before bourgeois science'. Accordingly, an effort should be made in favour of an ideological realignment on the Leninist-Stalinist theories of imperialism, of the general crisis of capitalism and of the conflict of the two systems. From now on concrete description predominated over Marxist theoretical analysis and there was a narrowly technical approach to the clarification of the economies of

foreign countries. Other mistakes were his neutrality in the conflict against 'bourgeois' theory; an underestimation of the importance and role of the countries of the new democracy; the presence of a non-political and objectivist approach to the problems under study; an uncritical attitude towards bourgeois statistics; and deference to the achievements of bourgeois science and technology. Finally, he attacked Varga for not having confessed his mistakes and for having reaffirmed his thesis on the role of the state in capitalism (*Voprosy ekonomiki* 1948/1: 1–4).

These repeated attacks on Varga announced a full-scale attack on all 'moderates' in the academic institutes now being accused of scholasticism, lack of self-criticism, nepotism, and mutual flattery. Their estrangement from 'Soviet reality' was seen as the consequence of their lack of understanding of Marxist-Leninist theory.

The most serious attack on Varga (Miller 1949: 69) was made in Voznesenskiy's book, *The War Economy of the USSR in the Period of the Patriotic War*. With evident reference to Varga and associates, Voznesenskiy wrote that 'the talk of naïve people, and more frequently of malicious liars, about the "popular" capitalism in the USA is a fairy tale of fools' (Voznesensky 1948: 15). The 'discussions of certain theoreticians' about 'the decisive role' of the capitalist state were nonsense, 'not worthy of attention'. These 'Marxists' thought naively that the utilisation of the US state apparatus by the robbers of monopoly capitalism for the earning of profits in wartime demonstrated 'the decisive role of the state in the economy'. But the US state was characterised by the merging of the state apparatus, and 'primarily of its leadership, with the rulers and agents of capitalist monopolies and finance capital' (Voznesensky 1948: 16). The 'heroic Soviet Army' was the cause and the basic force which had annihilated the enemy's economic base. Without naming Varga, he rejected the assertion that the collapse of *Hitlerite* Germany during the Second World War had been primarily a result of a continuous economic attrition of Germany, as was 'demonstrated' by certain economists. 'This assertion is incompatible with the law of uneven development of capitalism, which does not rule out a temporary rise and enrichment of Hitlerite Germany at the expense of the impoverishment of the working class and the plundering of the enslaved countries of Europe against the background of the general crisis and depression' (Voznesensky 1948: 93). Voznesenskiy did not believe in post-war stabilisation in the West at the end of wartime regulation of production. Crisis, depression and increased unemployment would thus be the fate of millions of workers.

The campaign against the 'bourgeois economists' intensified in this period. 'Bourgeois ideology of cosmopolitanism' stood for a reactionary ideology preaching renunciation of national traditions, disdain for the distinguishing features in the national development of each people, and renunciation of the feelings of national dignity and national pride. Some recently published textbooks did not meet these criteria. The June 1948 issue of *Voprosy ekonomiki* (1948/6: 106–19) published a report on a conference held on 29 and 30 March 1948 at the Institute of Economics on 'The Post-War Shaping Crisis of Capitalism'. On

2–5 October 1948, a discussion on the 'Tasks of Scientific Investigative Work in the Field of Economics' at the Learned Council of the Institute of Economics dealt with the institute's plan of work for 1949. In his speech Ostrovityanov repeated the charges of 'bourgeois objectivism', 'uncritical approach to bourgeois statistics' and 'subservience to bourgeois science' not only against Varga, but also against L. Ya. Eventov, M. L. Bokshitskiy, A. Shpirt, I. A. Trakhtenberg, I. M. Lemin (1951), V. I. Lan, V. V. Lyubimova and S. M. Vishnev (1947, 1952) (the latter was a specialist of war economies and monopoly capital) of Varga's former institute of World Economy and World Politics who had not confessed their errors.

In his defence, Varga referred to Lenin's thesis that as a result of the unevenly developing capitalist world economy rivalry among imperialist powers would inevitably lead to war. A war against the Soviet Union was highly improbable, he argued, because of the strengthening of the socialist bloc and an inter-imperialist war could be excluded because of America's domination. Again, Varga apologised that since the publication of his book the situation had changed so much. Indeed, he had made several mistakes, such as having not made a difference between economy and politics or having characterised the 'people's democracies' as a kind of 'state capitalistic' instead of typifying them as 'transitory economies' moving into socialist direction (Shilling 1951, 1961). Mistakenly, he had predicted the moment of a new economic crisis in the USA, or used the word 'planning' for state-intervention in capitalism.

During this debate Varga had lost the support of all his former colleagues. They all made their self-criticism. V. A. Maslennikov criticised him for having defended the thesis that planning was possible under capitalism and forgetting to incorporate in his writings important aspects such as the general crisis of capitalism, the problems of the working class movement, the national liberation movements and the peasants' movements. F. I. Mikhalevskiy reasoned that despite the changes Varga had noted, only the forms of exploitation of the colonies had changed. I. M. Lemin argued that Varga had not included dialectics and the party approach on a number of questions. M. I. Rubinshtein thought that Varga had broken with Marxism-Leninism by nearing Hilferding's concept of organised capitalism and by accepting the role of the state in capitalist society. Varga's 'radical mistake' was the use of the 'reformist notion' of the 'peaceful' development of capitalism after the war (*Current Digest* 1949/12: 4) and the utilisation of the 'absurd notion' of the allegedly peaceful development of imperialism he had borrowed from the American bourgeois press.

Esfir I. Gurvich attacked Varga for having repeated as his own invention 'bold new theoretical generalisations' of the bourgeois press and for not having 'renounced his errors but even multiplied them'. Because of Varga, Marxist works had not seen the light of day at his institute. Gurvich argued that Varga had sabotaged her work and that therefore new people 'must be advanced'; […] 'it is necessary to put an end to the idea that Comrades Varga and Ostrovityanov are hallowed figures in the science of economics' (*Current Digest* 1949/12: 6). Although L. Ya. Eventov accepted that his works were 'studded with un-Marxist

tendencies', his main error had nonetheless been that he had not used 'the struggle of the two systems as the starting point'. Hence, he considered all criticism on his book on British capitalism (Eventov 1946) 'correct' and his former defence in *Bolshevik* 'incorrect' (*Current Digest* 1949/12: 6). I. N. Dvorkin criticised Varga for not having grasped that he must progress further 'in a Party spirit' (*Current Digest* 1949/12: 9). Varga had also provided arguments in favour of the Marshall Plan when claiming that the Western European countries had impoverished and denied the enslavement of India and Pakistan. In reality, England still ruled in India, 'because she holds the economic reins of this country' (*Current Digest* 1949/12: 10). In the name of his chief, Voznesenskiy, I. M. Faingar unmasked the anti-Marxist character of 'many works' of Varga's former institute and one 'should not repeat the sad experience' of the former Institute of World Economy and World Politics, which 'began to study Germany only during the war and published the harmful works of Comrade Varga and other staff members who wrote of "the exhaustion of Hitlerite Germany", as if Hitlerite Germany had entered the war with already exhausted manpower and exhausted basic capital' (*Current Digest* 1949/12: 11).

Finally, Ostrovityanov could be satisfied with the outcome of this debate. All participants had frantically attacked Varga. Referring in his closing speech to Comrade Zhdanov, who had spoken of those who 'fear self-criticism as contemptible cowards, unworthy of people's respect' (*Current Digest* 1949/12: 16), he remarked that Varga had forgotten to deliver his self-criticism. Varga continued stubbornly to deny his 'gross errors of principle which were characterised in our Party press as mistakes of a reformist nature'. Varga had said that 'he is a very daring person; he does not await directives, but bravely presents new questions; that he does not wish to be hypocritical toward the party and says only what he thinks. Nevertheless, the sense of this statement is that Comrade Varga does not wish to admit his errors in the honest fashion characteristic of Bolsheviks' (*Current Digest* 194/12: 16). Demanding that Varga confess his errors and abandon the 'part of an injured dignitary of science', Ostrovityanov added that 'from the history of our party you should know to what sad consequences stubborn insistence on one's errors leads. You are trying to reduce your errors to unsuccessful formulations' (*Current Digest* 1949/12: 16). Ostrovityanov guessed that Varga, who still dwelled on secondary questions, had not been sincere. Therefore, he listed once more Varga's errors: (1) an erroneous characterisation of the economy of the people's democracies as state capitalist; (2) an incorrect evaluation of the significance of agrarian reforms in the people's democracies; (3) an error in determining the period of the outbreak of crisis in the USA; (4) an incorrect treatment of questions of economics and politics.

Ostrovityanov observed that Varga had multiplied 'crude errors of a reformist character' (*Current Digest* 1949/12: 18) in each new article and speech after his book publication. Harmful was Varga's notion of the impoverishment of Western Europe that was adding grist to the mill of the Right socialists, the bourgeoisie and the American imperialists. Varga had stated that the European bourgeoisie admitted that the capitalist social system was in need of basic reforms

and economic planning combined with nationalisation of the important industries and that 'the struggle in Europe in its historical development is more and more becoming a struggle for tempos and forms of transition from capitalism to socialism' (*Current Digest* 1949/12: 18). Hence, Ostrovityanov concluded that nothing useful would emerge from Varga's future works, 'if he continues obstinately to defend his reformist errors' (*Current Digest* 1949/12: 19).

After this exercise, attacks on Varga would continue in the Party press. Kuzminov criticised Varga on 15 December 1948 in *Bolshevik* (1948/23: 42–53) for his 'false' theory concerning the possibility of 'rapid and crisisless growth' in the US economy. He attacked Varga's 'so-called theory' of 'delayed demand', a theory 'energetically preached by the diplomed lackeys of the bourgeoisie' which had 'nothing in common with Marxism'. Kuzminov referred to a paper Varga had given at the journal of his Institute of World Economy and World Politics at the beginning of 1945 (Varga 1945c) in which he had asserted that 'in the countries where the machinery of production was preserved or had expanded during the war, one can expect a rise in the conjuncture for three or four years after the war'. Referring to Zhdanov's speech on the 29th anniversary of the October Revolution and to Lenin's law of uneven development of capitalism, Kuzminov argued that the war had led to an upward surge of production, thus also to a further sharpening of the contradictions between production and consumption, between reduced purchasing power of the masses and production capacity.

In *Planovoe khozyaistvo* (1948/6), M. Myznikov signed a similar violent denunciation of the 'Distortions of Marxism–Leninism in the Works of Academician E. Varga'. This attack was probably meant to put Varga right outside the Party's orbit. Once again, criticism focused on Varga's 'reformist thesis' about the 'decisive role' of the state in capitalism and the picture Varga had drawn of the planning capacities of the capitalist state. According to Myznikov, monopoly capital was taking all the strategic decisions because the financial oligarchy was present in the state organs. Therefore, Varga's ideas did not differ from bourgeois economists or old Menshevik views. Varga had substituted the problem of the impoverishment of the working classes and the peasantry by his impoverishment theory or the exhaustion of the capitalist war economies. In 1941, he had made the same mistake when claiming that Germany was on the brink of disaster as a result of exhaustion from military expenditure. Now Varga did not see that monopoly capitalism was able to increase its profits at the expense of the workers and the toiling masses. Myznikov referred to an article of June 1946 in which Varga had stated that the struggle between the two systems had been toned down. Finally, Myznikov focused on Varga's bourgeois views on American capital export to Europe for surmounting the underproduction crisis.

Varga's repentance

Varga repented publicly on 15 March 1949. That day he published a letter to the editor in *Pravda*. He did it in style by referring to 'the organs of black reaction,

the radio and the magazines of the instigators of a new world war' having published slanders about him published in an editorial in *The Times* (London) of 16 February 1949. These slanders comprised inventions about Varga's alleged 'Western orientation', his defence of the Marshall Plan, his denying of the possibility of a crisis of overproduction in the USA. Varga argued that he never had been in favour of the Marshall Plan. Moreover, he had been the 'first scientist in the Soviet Union to oppose the Marshall Plan publicly'. In addition, he never had said that there would be no crisis of overproduction in the USA in 1949 or in general. He recalled that in an article already published in *Pravda* on 27 November 1946, he had prophesied that the crisis of overproduction in the USA would begin not later than in 1948. He remarked that he was not a man of 'Western orientation', because, 'today, in the present historical circumstances, that would mean being a counter-revolutionary, an anti-Soviet traitor to the working class' (Cherkasov 2002: 104; 2004: 48–9). The style and tone of this letter were adapted to circumstances. A close reading of this letter reveals, however, that Varga was making only some general concessions to his critics. On the whole, he was defending himself strongly against the more extreme and indirect charges made in the Soviet press. Thus, because of slander in foreign media he had sent this letter to the editor of *Pravda* so that the 'workers and all honest people abroad' would not doubt about where he stood 'in relation to the slanderous propaganda conducted by the enemies of the working class, by the instigators of a new war' (*Pravda*, 15 March 1949).

In March 1949, Varga wrote also a more or less 'reasoned' article (Schlesinger 1949, 1949/1950) in *Voprosy ekonomiki* 'against the reformist tendency in works on imperialism' (Varga 1949). It was 'self-evident that mistakes of a reformist tendency involved mistakes of a cosmopolitan tendency' because they put 'capitalism in a better light'. His book *Changes in the Economy of Capitalism as a Result of the Second World War* (1946a) and a large number of other works of his institute published after the war contained that kind of mistake. Varga underlined that these errors constituted a whole chain of errors of a reformist tendency, *in toto* signifying a departure from a Leninist-Stalinist evaluation of modern imperialism. It was without saying that mistakes of a reformist tendency also signified mistakes of a cosmopolitan tendency, because they painted capitalism in a very rosy colour. Meanwhile, the bourgeoisie was relying more and more upon the reformists in this struggle. The fundamental reason why such a mistake could have slipped into his book was due to a methodologically erroneous separation of economics from politics. Varga cautiously enumerated some Marxist–Leninist prescriptions, such as 'economics consists of class relationships' or 'politics is concentrated economics', he had omitted, which in his case had inevitably led – thus 'unintentionally' – to mistakes of a reformist tendency. He had wrongly asserted that the state played a 'decisive role' in the war economy and that the ruling oligarchy did not play the decisive role in the bourgeois state. On the basis of such a superficial, 'purely economic', investigation, replacing a Marxist–Leninist class analysis, one arrives inevitably at the erroneous conclusion that in the interests of conducting war the state comes out against

the interests of individual monopolies. When the Communists participated in the governments of bourgeois states, they had always attempted to defend the proletariat's interests and to change the 'class character of the state' before they were forced out by the bourgeoisie. In the countries of the people's democracy, however, the representatives of the propertied classes could be excluded from the government 'with the help of the Soviet Union' (*Current Digest* 1949/19: 4–5). It had been groundless and wrong to call these states 'capitalist' now that they were rapidly moving to socialism. The 'people's democracies' were thus 'states of the working people' fulfilling the functions of the dictatorship of the proletariat in the interests of all working people' (*Current Digest* 1949/19: 7). Varga admitted that his inconsistent application of the Marxist–Leninist theory of the state had led to an incorrect analysis of the changing relations between India and England. India had turned thus from a colony into a semi-colony. 'At the time, an undialectical, purely "economic" approach to the study, a neglect of Comrade Stalin's instructions on the need to orientate oneself on what is new and developing, blocked my path toward correct evaluation of the character and significance of the countries of people's democracy' (*Current Digest* 1949/19: 9). Varga's plan for writing a second volume dealing with post-war political problems was already publicly known. But this time he promised to take Lenin's advice at heart that separating the politics of imperialism from its economic basis would be theoretically wrong.

Meanwhile, the confusion with the concepts 'new democracies' and 'people's democracies' had already been settled by 1948. From now on, the further development of the 'people democracies' was based solely on the principles of Soviet experiences and Marxism–Leninism. 'People's democracy' had become a transitional type of system leading to the construction of socialism with Soviet help (Rosa 1949: 489–510).

Varga's self-criticism had been well prepared in advance and integrated in Ostrovityanov's and D. T. Shepilov's ideological action against the 'cosmopolitans'. An augmented meeting of the Learned Council was already scheduled for the end of March 1949 at the Institute of Economics. On the agenda were debates on 'cosmopolitan' mistakes, manifestations of bourgeois objectivism and apoliticism in the works of individual Soviet economists. A. I. Pashkov, who opened the session, reported on the shortcomings in their publications: mistakes of a 'cosmopolitan' character, bourgeois objectivism, slavishness and servility before the foreign, glossing over the contradictions of American imperialism and the 'ulcers' of modern capitalism. He enumerated harmful ideas in the works of S. S. Bernshtein-Kogan, A. G. Kolesnev, Uranilis, E. V. Maslov, A. S. Boyarskiy, V. S. Nemchinov, N. N. Baranskiy, R. M. Kabo, G. Shtein, I. G. Blyumin and D. I. Rozenberg. His report mentioned the works of Varga, Trakhtenberg and others who had already admitted their errors. A number of comrades had called their move a positive fact, but Pashkov pointed to the inadequacy and halfway character of these admissions. Now he demanded that they come out with a criticism of their mistakes in the press and that they provide scientific works imbued with the spirit of Soviet patriotism. According to

Ostrovityanov, the 'disease of cosmopolitanism had infected only an insignificant handful of Soviet economists […] one ought to distinguish between homeless cosmopolitans and people who made individual errors in their works' (*Voprosy ekonomiki* 1949/3: 116–7).

Varga could in this period certainly trust on Shepilov's protection. Shepilov had already taken a moderate stance before the debates at the Institute of Economics were convened. He had communicated to Ostrovityanov his decision that there was 'no need to alienate' Varga on condition that he 'voluntarily' admit his mistakes. Varga should therefore be 'helped' (Shepilov to Ostrovityanov, quoted in Pollock 2006: 178).

Having repented in March 1949, Varga tried now to be rehabilitated as well. He wrote on 29 April 1949 a letter to Molotov pledging the latter's help for having an article inserted in the London *Times* correcting the incriminated editorial of 16 February 1949 in which he was depicted as an opponent of Stalin's foreign policy (Cherkasov 2002: 105). On 4 March 1949, Molotov had already been dismissed as Minister of Foreign Affairs, but he had remained as a deputy chairman of the Council of Ministers. Molotov could be of little help in this case (Watson 2005: 238–40).

The general conclusion one may draw is that Soviet economic personnel were now convinced of the fact that the purity of Marxist-Leninist economic science had to be defended against any attempt on the part of the homeless cosmopolitans and other preachers of bourgeois ideology. The 'cosmopolitans', the 'bourgeois reformists' and the Varga adepts would thus be ostracised and purged. At the Institute of Economics, Ostrovityanov drafted a 'black list' of 'cosmopolitans' (Pollock 2006: 178). In March 1949, around 50 people had been fired at the Institute of Economics. A better coordination of the workings of the research programmes of all economists and lawyers of the Academy of Science was prepared. On 12–17 October 1949, a conference brought some 50 scientists to Moscow in order to discuss their research projects (*Izvestiya Akademii Nauk SSSR* 1949/6: 448–53).

The campaign against the bourgeois economists continued. In *Pravda* of 29 September 1950, the economists A. M. Alekseyev, I. Y. Kozodoyev and E. S. Lazutkin denounced the serious ideological defects detected in L. A. Mendelson's and P. K. Figurnov's recent publications. At that time, Mendelson was working on the history of economic crises and on the capitalist cycle (Mendelsohn 1949). He had published in *Mirovoe khozyaistvo i mirovaya politika* an article on the industrial crises in pre-monopolist capitalism as well (Mendelsohn 1948). In 1949, he had a book published on the same subject, but this time from an aleged 'bourgeois perspective' (Mendelson 1949). In his 'abstract and scholastic' works, Figurnov (1948, 1949) had passed over in silence that after the Second World War the general crisis of capitalism had escalated.

In October 1950, a debate on Mendelson's and P. K. Figurnov books was organised at the Institute of Economics. V. P. Dyachenko delivered a lengthy opening speech in which he attacked Mendelson. A. F. Yakovlev, A. P. Shneyerson, A. P. Shapiro, V. S. Volodin, B. I. Chulok, V. P. Flushkov, M. N. Smit, P.

P. Maslov, M. I. Rubinshtein, I. A. Trakhtenberg, E. S. Lazutkin, L. N. Ivanov, A. M. Gurevich, I. N. Dvorkin, V. F. Vasyutin, A. M. Alekseyev and F. V. Samokhvalov got the floor (*Voprosy ekonomiki* 1950/11: 85–110). During the debates Varga was not further attacked, but everybody understood that criticism of Mendelson and Figurnov also touched on Varga's reputation. A. F. Yakovlev indicated that Mendelson had been inspired by Tugan-Baranovkiy's study on the economic crises in Great Britain and that the writings of Mendelson and Figurnov (the latter had been the editor of Mendelson's book) could be characterised as non-Marxist (*Voprosy ekonomiki* 1950/10: 90–2). Finally, the Learned Council of the Institute of Economics adopted a resolution in which Mendelson's book was condemned as a product of 'bourgeois objectivism' and 'abstract scholasticism' (*Voprosy ekonomiki* 1950/11: 110–11).

Western reactions

Western scholars, journalists and diplomatic services commented on the Varga controversy. Alfred Zauberman (1949/1950) of the London School of Economics situated the 'Varga-heresy' against the background of Zhdanov's campaign against Western influences in science and art. Evsey D. Domar (1950: 143) of the Johns Hopkins University argued that Varga had been punished because of his understanding of economic phenomena and his scientific attitude. Harry Schwartz (1949: 83) of the *Journal of Political Economy* sympathised with Varga whose arguments 'shine through this welter of confusion like a million-candle searchlight through pitch blackness'. Frederick C. Barghoorn reported on the Varga controversy in *The American Slavic and East European Review* (1948: 214–16). According to Varga's former Comintern colleague Rudolf Schlesinger (1949: 29–30; 1949/1950: 172–5), Varga had not broken with Lenin although he had admitted his reformist mistakes. Manfred P. Wahl (1953) wrote a Ph.D. on Varga's recent criticism on capitalism. Later, Philip J. Jaffe would refer to the 'Varga controversy' as an illustration of how ideological conflicts were settled in Soviet science (Jaffe 1972: 138–60). Manfred Kerner (1981), who studied the Varga controversy from the paramount importance of state and military expenditures for the capitalist investment cycle, pointed to the fact that post-war state-monopoly capitalism could not be directly associated with war and crisis, a fact Soviet scientists and policy makers had not immediately understood (Kerner 1981: 17–20).

The view of the British Embassy in Moscow was that Varga had been muzzled, but not liquidated. Councillor Elbridge Durbrow at the US Embassy in Moscow sent on 1 December 1947 a telegram to the Secretary of State in Washington (*Foreign Relations* 1974: 624–6), in which he explained that 'Varga's recent chastisement was more tactical or correctional nature than prelude to his removal from scene'. A confidential note dated on 11 February 1948 reported on the D. Shostakovich, S. Prokofiev, Aleksandrov and Varga cases. On 26 May 1948 a missive mentioned that 'the continued presence of Varga […] is indicative of his importance in the field of Soviet economics. It appears that he must

enjoy the support of a very influential segment of the government to have maintained any official status in the face of such strong criticism and attack' (*Foreign Relations* 1974: 875). A confidential missive dated on 6 December 1948 stated that members of the Institute of Economics 'appear to have split into two groups – orthodox Marxist who postulate that capitalism is dying force entering last stages of its general crisis and Varga group who more realistically admit possibility of change within capitalist system which might prevent "intensification of general crisis of capitalism," particularly in form new American depression or wars within capitalist world' (*Foreign Relations* 1974: 875–6). On 27 December 1948, US Ambassador Walter Bedell Smith reported from Moscow that Varga had not yet been liquidated. Significant was that Stalin himself had not made 'any post-war pronouncement that would upspeed Varga controversy' (*Foreign Relations* 1974: 947–8). Later on, he reported in his memoirs that Varga was humiliated because 'he gave too realistic an appraisal of developments abroad […] he should have stated categorically that the state is under the complete control of the financiers-Wall street. He also, of course, made the other mistake of predicting a serious depression in the United States in 1948, and then he made the heretical statement that an inter-imperialist struggle was not inevitable, as Lenin and Stalin had asserted' (Smith 1950: 298–9).

The Western press helped by the services of the State Department paid some attention to the Varga Controversy as well. In 1949, the American Services in Berlin distributed a pamphlet on this topic (*Varga Controversy* n.d.). Economist Gert von Eynern (1949) wrote a comment on the Varga discussion in *Das Sozialistische Jahrhundert* (Berlin) in which he qualified the debate as a 'Schauprozeß' (show trial). Dr. Walter Meder (1948) did the same in *Europa-Archiv*. In the meantime, *Sowjetwissenschaft*, a scientific journal published in the Soviet Zone, came in 1948 with a special issue containing a German translation of the May 1947 debates. Leo Gruliow, who translated G. F. Aleksandrov's book *The Pattern of Soviet Democracy* and Nikolay A. Voznesenskiy's *The War Economy of the USSR in the Period of the Patriotic War*, also published a translation of Varga's May 1947 debates (*Soviet Views on the Post-War World Economy* 1948). Western press agencies (i.e. Associated Press and United Press) dispatched news items on the Varga affair. Will Lissner in the *New York Times* (25 January 1948) and Moscow-based journalist Joseph Newman of the *International Herald Tribune* (26 January 1948) commented on the Varga controversy. *Fortune* (11 March 1948), *The Economist* (20 March 1948) and *Time* (2 February 1948) reported on Varga's heresy as well. For them, Varga's downfall was interpreted as a fact of some political significance.

Conclusions

The Varga controversy was a typical incident having occurred in the aftermath of the Second World War and the beginning of the Cold War. It was a harbinger of internal political and ideological shift marking a retreat from Soviet cooperation with the West. A set of stereotypical arguments and theses on the general

crisis of capitalism and the immanent antagonisms of capitalism were used to discipline Varga and other economists studying changes in post-war capitalism. In particular Varga's book had been chosen because it had treated the stabilising and integrating role of the capitalist state and undermined Lenin's theory that imperialist contradictions would necessarily lead to conflicts and wars. The overall effect was that Soviet economic science would become entangled in an asphyxiating dogmatism and formalism.

13 Adviser to Rákosi

> Power is the basic question of every revolution.
> János Kádár

Apart from Béla Kun and Mátyás Rákosi, Jenő Varga was perhaps the best-known Hungarian Communist. For having been People's Commissar in 1919 and the Comintern's leading economist, his reputation was firmly established. In 1945, he decided to stay in Moscow, while his Hungarian comrades went back to Budapest. As a close friend and adviser to Mátyás Rákosi, he returned sometimes to his home country. Rákosi's problem was that no blueprints existed and that the small Hungarian Party had little expertise in economic and social policy making.

Post-war problems

When in October 1944, the Red Army freed the eastern town of Debrecen, a provisional anti-Fascist coalition government and a National Assembly were installed. Budapest was only liberated in the middle of February 1945. About 75 per cent of the capital was destroyed. Of the 825,000 Jews living in Hungary in 1941, 630,000 had fallen victims to the Nazi persecutions. The Hungarian Army had been destroyed on Russian territory. War damage paralysed the communication system as well. About 70 per cent of rolling stock had been destroyed or had disappeared to Germany. Heavy industry was reduced to 35 per cent of its pre-war levels. Destructions during the war were estimated at five times the country's annual GDP. The Soviet Union claimed 400 industrial enterprises on Hungarian territory belonging to German financial groups. The creation of mixed joint stock companies, which could enable the Russians to control essential parts of the Hungarian economy, was proposed. Cut off from raw materials and machinery supplies from Western Europe, Hungary became nonetheless depending on Soviet trade (Berend and Ránki 1985: 181). Now that Hungary was cut off from Western Europe, economic recovery was heavily dependent on the import of Soviet raw materials. Already in August 1945, Hungarian newspapers reported on a Hungarian delegation headed by Antal Bán (Minister of Industry)

and prominent member of Szociáldemokrata Párt (SZDP, Social-Democratic Party) and Ernő Gerő (Minister of Trade) and prominent member of the Magyar Kommunista Párt (MKP, Hungarian Communist Party) having arrived in Moscow to sign a US$30 million trade agreement with the Soviet Union to regulate the purchase of iron, coke and other raw materials imports (Bohri 2004).

In March 1945, a radical land reform had swept away the landowning aristocracy and the gentry as a social class (Kenez 2006: 107–8). Heavy industry, mines, commercial banks were nationalised as well, which annihilated the influence of the urban bourgeoisie. The Communists were albeit able to readjust their workings to the new political reality. As expected, Rákosi became their all-powerful party secretary. Rákosi was quick-witted, multilingual and could maintain at least an appearance of affability. All this made a forceful impression on the Anglo-American diplomats.

In the beginning, Rákosi must have felt terribly alone when arriving in an almost destroyed Budapest. He found himself surrounded by his Moscow comrades Ernő Gerő, Mihály Farkas and József Révai with whom he was certainly no friend. How to tackle all the economic and social problems? Varga would advise him. Already on 7 February 1945, Varga urged him to organise a comprehensive medical insurance system (PIL, 274 f. 122/5). More letters were exchanged. On 5 May 1945, Rákosi asked Varga to come over for a couple of weeks in order to discuss some urgent economic problems. Then, Varga sent Rákosi a short note on transportation problems, inflation, reconstruction, agriculture and labour discipline. He thought that Hungary needed for the moment some 500 new locomotives and many more wagons (PIL, 274 f. 9).

Varga was unexpectedly added to Stalin's delegation attending the Postdam Conference from 17 July until 2 August 1945. It seems, however, that he did not stay all the time in Potsdam, but that he paid a short visit to Budapest as well. On 22 July 1945, Antal Éber already had an introductory note on Varga's life in *Magyar nemzet*, which indicated that the Communist leadership expected him. There exists a memorandum on Hungary's financial and monetary problems that Varga had addressed on 28 July 1945 at the Hungarian Communist leadership in Budapest (PIL, 274 f. 12/73).

At any rate, in September 1945, Varga travelled back to Budapest to work out a recovery plan. On 23 September 1945, he revealed that his plan would help restructure the whole economy on a new base. He pleaded in a pamphlet for carrying out thoroughgoing agrarian reforms in combination with a further democratisation of public life (Varga 1945a). At that moment, the MKP was already firmly established with its 500,000 freshly recruited members. Before the municipal elections of 7 October 1945, the MKP formed an electoral coalition with the SZDP in Budapest. On pre-election day, Varga spoke in the building of the Ferenc Liszt Academy in Budapest on the impact of the war on a capitalist economy (Varga 1945b). On 11 October 1945, Varga also lectured on the characteristics of the Soviet foreign policy (PIL, 274 f. 27/26, 27/38). Then he returned to Moscow.

The municipal elections of 7 October 1945 were a defeat for the common list of both working-class parties. The list obtained only 42.8 per cent of the votes,

with 50.5 per cent going to the Független Kisgazda-és Polgári Párt (FKPP) representing the peasants and the rural bourgeoisie. It was clear that the middle classes and all conservative forces in Budapest had this time backed the 'smallholders' against the 'red workers'. Thereupon, the SZDP ran independently in the parliamentary elections of 4 November 1945. The Smallholders – transcending their rural origins to emerge as a real catch-all party – won 57.03 per cent of the national vote; the SZDP gained 17.41 per cent and the MKP only 16.95 per cent. After that new defeat, Rákosi was summoned to Moscow. The MKP was obliged to keep the National Front, constituted in 1945 with the democratic parties, alive to reconstruct the coalition government. The electoral weight of the FKPP was nonetheless a problem. After some hesitations, the MKP formed on 5 March 1946 a Left Bloc with the SZDP and the small National Peasants Party to secure a progressive majority inside the governmental coalition. From now on, the MKP could counterbalance the Smallholders and demand the expelsion of the right-wingers in the FKPP, while isolating the right-wingers in the SZDP.

Though Rákosi's ultimate goal was a transition to socialism, no clear plan in that direction existed. All the time, Rákosi behaved as a responsible and skilful politician trying to obtain small advantages from the victors. The MKP defended the vague, but defensive slogan of national unity and independence, while the right-wing of the SZDP was looking for support coming from the British Labour Party for a Western-oriented strategy. Without a peace treaty, Hungary's international situation would remain unstable. In June 1946, Rákosi travelled together with his ministers to Washington where President Truman received them at the White House.

Combating inflation

At the end of 1944 there were some 24 billion pengő in circulation. That mass of money increased everyday because of monetary financing of government expenditures. In May 1945, Varga had already warned Rákosi about the inflation threat (Varga to Rákosi, Moscow, 18 May 1945. PIL, 274 f. 10/122: 110). By December 1945, about 95 per cent of the budget was already financed by the printing press. As a result, 765 billion pengő were by then in circulation. In January 1946, the quantity of paper money in circulation gave birth to hyperinflation, and thus to a final breakdown of the living conditions of most people. On 7 February 1946, Varga urged Rákosi to balance the budget (Varga to Rákosi, 7 February 1945, PIL, 274 f. 10/122: 39–40). Afraid of taking drastic measures, Rákosi nevertheless knew that the situation was untenable (PIL 274 f. 10/122: 41). On 13 April 1946, Varga addressed to Rákosi a general outline for implementing a monetary stabilisation plan (E. Varga. 'A végleges valutastabilizálás fő irányelvei' [13 April 1946]. PIL, 274 f. 10/122: 45–48). A cut in state expenditures and an increase of tax incomes should be envisaged as soon as possible (Varga to Rákosi, Moscow, 13 April 1946. PIL, 274 f. 10/122: 43–4).

Finally, a monetary stabilisation plan was worked out. In order to stabilise the exchange rate of the pengő with the US dollar, an overall agreement with the US

government was welcomed. As long as wages were too low to be taxed heavily, state incomes should be increased by means of indirect taxation. Therefore, a turnover tax would be introduced. In May 1946, on a budget of 790 million gold pengő, a deficit of 120 gold pengő had to be covered (see memorandum, 10 May 1946. 'Feljegyzés a valuta stabilizáció targyában'. PIL, 274 f. 12/76). The combined gold and hard currency reserves of the Nemzeti Bank (National Bank) did not exceed the total sum of 210 million gold pengő equivalents: American gold deposit: 140 million gold pengő; Swiss currency and gold deposit: 20 million; Soviet loan: 50 million gold pengő. (In another memorandum, different figures are given: American gold deposits: 180 million; hard currency deposits: 20 million. See untitled memorandum, 13 May 1946. PIL, 274 f. 12/76.). This stabilisation plan was carried out on 1 August 1946 together with the introduction of a new currency, the forint. The exchange rate was one forint for four trillion paper pengős. Fixed prices were combined with a strict deflationary monetary policy (see memorandum 'Politikai és gazdaság információ allampolitikai osztályon 1946 augusztus 13.-án'. PIL, 274 f. 12/69; 'A belpolitikai helyzet és a pénzügyi szanálás', ibid.). The whole operation was eased by the previous American declaration that the booty taken from Hungary by German and Hungarian Nazis, including the gold reserves of the Hungarian Nemzeti Bank with a value of US$32 million, was going to be returned.

During these crucial weeks in the summer of 1946, Varga stayed as a monetary expert in Budapest. In the July 1946 issue of *Társadalmi szemle* (Varga 1946b: 481–8) his arguments for combating inflation were published. He commented on the peasantry and the agrarian scissors, a free economy, a lowering of prices of industrial products and monetary problems in the party press as well (*Szabad nép*, 3, 8, 11 and 15 August 1946). The introduction of a new currency (the so-called *jó forint*) in combination with a monetary stabilisation programme was the theme of a speech he gave to a party audience on 22 august 1946 in a Budapest sport stadium ('Varga Jenő elvtárs előadasa 1946. aug. 22. én a Sportcsarnokban'. Typoscript, 7 pages. PIL, 274 f. 10/122: 50–6). Here, Varga revealed that the Hungarian bourgeoisie had opposed a high devaluation rate of the national currency.

Varga's advisory work must have displeased a man like Gerő whose hold on monetary and financial reforms was growing. Gerő was assisted by a team of trustworthy people like István Kóssa (head of the Nemzeti Bank), István Friss, László Háy and Zoltán Vas (Weinberger) (See memorandum 'A stabilizáció eddigi mérlege és a legközelebbi tennivolók'. PIL, 274 f. 12/71). He visibly aspired at becoming Hungary's economic and monetary policy maker. In Moscow, Varga's role as adviser to Rákosi was at that moment questioned as well. When coming back to Moscow at the end of august 1946, Varga gave an interview to TASS news agency in which he declared that in Hungary the population was refusing 'capitalism as well as the dictatorship of the proletariat'! This highly controversial statement would provoke Zhdanov's ire. Zhdanov asked for an explanation (see copy of Varga's report to Zhdanov, with a copy to Aleksandrov. PIL, 274 f. 10/122: 61–4). From now on, Varga had to report to Zhdanov

and G. F. Aleksandrov on his Hungarian activities. At any rate, Varga kept on advising Rákosi on monetary problems (Varga to Rákosi, 28 October [1946?]. PIL, 274 f. 10/122, 67). Probably Stalin did not know that Varga had been the ghost writer of a report on monetary reforms in Hungary he received from Rákosi's (Rákosi to Stalin, Varga Russian translation and draft. PIL, 783 f. 6/8)

During the winter of 1946–7 Varga could not travel to Budapest because of severe health problems (tuberculosis and as well as surgery) (Sári Varga to Rákosi, 12 December 1946. PIL, f. 274, 10/122, 66). He would, however, be back in Budapest in the summer of 1947 when the problem of economic planning appeared on the political agenda.

Economic reforms

Radical economic and agrarian reforms had already been introduced after liberation. Workers' committees sprang up in all factories. Deserted large estates had been occupied and spontaneously parcelled out by peasant committees or by county land reform councils with the help of a land agency. During this stormy period, a class of smallholders comprising 1.3 million families was created, while about half of the total area in private hands belonged to middle-peasants and well-to-do peasants. The remaining part of the confiscated land was destined to the creation of state farms.

Economic reconstruction in other areas of the economy was conducted by the government and combined with a deliberate anti-capitalist drive pushed by the Communists. State intervention continued methods of war-economy through awarding of contracts and allocating of raw materials. The reconstruction and reparation activities created an insatiable need for state finance as long as the private banks could not mobilise enough savings. From the summer of 1945 on, the state furnished 1.5 billion pengő to restart industrial production and reconstruct the transportation and communication networks. Soon Hungary would embark on a state-planned economy as the National Bank began establishing control of industry, foreign trade, and savings and loan institutions. In December 1946, the Central Committee of the MKP announced an overall Three-Year Plan for the development of the national economy. Capital formation remained all the time depressed. Hence, foreign loans were more than welcome (Berend and Ránki 1985: 182–5). Meanwhile, there were many talks on an American loan worth US$420,000 (see memorandum 'A stabilizáció eddigi mérlege és a legközelebbi tennivolók'. PIL, 274 f. 12/71).

Institutional reforms accompanied these national and international economic constraints as well. A centrally organised command economy was established – at least partially – to meet heavy Soviet reparation demands (US$320 million, while Yugoslavia and Czechoslovakia would receive US$80 million). In January 1946, the Supreme Economic Council (Gazdasági Főtanács) was instituted with the task of securing efficiency in economic management by allocating raw materials and bank credits. This Council was presided over by Prime Minister Zoltán Tildy of the Smallholders Party, but Communist Zoltán Vas headed its

secretariat. Ernő Gerő, who was not only the Party's chief economist, but also the second in command in the party hierarchy, pleaded already in 1946 for a controlled economy. In the summer of 1946 special bureaus for the administration of textiles, timber and wood, iron, etc. were created in order to organise the production, purchasing and allocation of raw materials, finished and semi-finished products and turnover of the various enterprises. In coalmining all free market operations were forbidden. The big firms were operating as trusts fulfilling production targets set by the government. About two-thirds of their output was sold to the state, while the share sold on the free market dropped continuously. As a result of their indebtedness to the state, the country's most important industrial firms could be expropriated without any legal problem. In November 1946, the four largest firms in heavy industry were brought under state supervision. Meanwhile, all mines had already been nationalised. The major banks would follow the next year. It was only after the founding of the Cominform in September 1947 that this gradualist strategy was abandoned by Zhdanov for a policy of radical expropriations and central planning.

Both working class parties had opted for a centrally planned recovery plan. On 15 October 1946, a three-year reconstruction plan drafted by a commission in which Jenő Varga had participated, was accepted by the MKP (*3 éves terv* 1947). Within six weeks, a team of 30 Social Democrats assisted by Nicholas (Miklós) Káldor drafted a similar recovery plan. Both development plans were ambitious. During the last three months of 1946 the Communists tried to refine their planning proposals per sector of economic activity. Commissions were installed for industry, agriculture, foreign trade, finance, transport and communication, cooperative associations, social policy, culture (see memorandum signed by Friss, 15 October 1946. PIL, 274 f. 12/100). Gerő called a commission into existence in which specialists of the different coalition parties were working out a definitive draft. Andor Berei, having stayed during the war in Brussels as a Comintern undercover liaison officer, returned to Budapest in the beginning of 1946. He would become in charge of planning tasks (memorandum signed by Berei, 9 May 1947. PIL, 271 f. 12/107). Soon, dissensions between the representatives of the left and the right appeared. In a speech given by Gerő at the

Table 13.1 The three-year reconstruction plan

	1938	*1946/7*	*1947/8*	*1948/9*	*1949/50*
Million forint					
Social Democrats	23,376	14,806	17,755	21,383	24,823
Communists	23,376	12,000	15,200	18,000	21,200
Index					
Social Democrats	–	100	119.9	144.4	167.7
Communists	–	100	126.7	150.0	177.5

Source: adapted from József Judik, 'A hároméves gazdasági terv', *Közgazdasági szemle*, 1947, 70 (1–2): 7.

Central Committee on 11 January 1947, he called Committee-member Jenő Rácz of the Smallholders 'a Horthy bourgeois economist' (see 'Gerő Ernő referátuma a Központi Vezető ülésen a 3 éves tervről'. PIL, 274 f.12/102).

Together with the founding of a new central planning body, a three-year plan was launched. The ambition was to achieve an increase of the national income of 17 per cent exceeding the 1938 level. However, several Hungarian economists conceded that without external financial assistance economic recovery would take up several decades. Therefore, the SZDP immediately welcomed the Marshall Plan as a positive step forward. The Communists announced their intention to take part on condition that national independence would not be questioned. In July 1947, after Molotov's unsuccessful return from the Paris Conference, where the Marshall Plan was discussed, the Hungarian Government joined its neighbours in declining to participate in the American-sponsored Marshall Plan.

On 1 August 1947, a three-year plan providing for a state-directed economy (but not yet for steep Stalin-type capital investments) went nevertheless into effect (Kemény 1952). In 1948, the reconstruction plan was changed into a more ambitious scheme exceeding all the other Communist countries in the extraordinarily high investment rates devoted to heavy industry. By March 1948, nationalisations embracing all companies with more than 100 employees, as well as the utilities and banks, were completed. By May 1948, 20 industrial directorates of the various branch ministries were set up to administer the nationalised industries. By this time, the civil bureaucracy had been purged and politicised to the point where the staffs of governmental agencies and offices headed by non-Communist ministers, were no longer responsive to their nominal chiefs without Communist assent. Visibly, the point of no return had already been reached when in early 1948 the Communists demanded the Social Democrats to merge. A unification congress of both parties was held on 12–13 June 1948. On 1 February 1949 a Hungarian Independence–Popular Front was created which won 96 per cent of the popular vote in the elections of 15 May 1949. The pace of economic reforms was speeded up. In June 1949, the Council of National Economy took over the role of the Supreme Council of Economy. On 20 August 1949, the Constitution of the People's Republic was promulgated.

From New Democracy to People's Democracy

Hungary adopted a republican state form after its liberation from Fascism. For the first time in history, political democracy was introduced and democratic elections held. But how could one cover the new reality? At the MKP's Third Congress of 29 September – 1 October 1946, the term 'new democracy' was adopted as the Party's road 'to the flowering of the Fatherland, to the happiness of the nation' (Mevius 2005: 171–1). Obviously, that 'new democracy' was intimately related to the existence of an independent Hungary living in peace with its neighbours. The problem was the definition of the concept 'new democracy'. Confusion still reigned. Jenő Varga threw some light on the

darkness by publishing an article on 'democracy of a new type'. For Varga, 'democracy of a new type' was a state of affairs 'in a country where feudal remnants – large-scale landownership – have been eliminated, where the system of private ownership of the means of production still exists but large enterprises in the spheres of industry, transport and credit are in state hands, while the State itself and its apparatus of coercion serve not the interests of a monopolistic bourgeoisie but the interests of the working people in town and countryside' (*Labour Monthly* 1927: 235) between countries where the 'bourgeois-democratic' state (Great Britain) was controlled by the monopolies, and countries where the 'democratic states of a new type' existed, was obvious, because nationalisations in the new democratic States signified a 'special sort of economic revolution'. Traitors and fascist capitalists were expropriated without compensation. Other big capitalists had received compensation, but their income after compensation was only 'a small part of the surplus value which they previously appropriated'. Although appropriation of surplus value existed, but was restricted to 'a relatively narrow sphere' (*Labour Monthly* 1947: 236). Varga remarked that these new democratic states (Poland, Yugoslavia, Czechoslovakia and Bulgaria) maintained the closest friendly relations among themselves and rendered each other economic and political aid. 'Although at the present time', Hungary and Rumania did not belong to this category of states, they were 'clearly developing in this direction' (*Labour Monthly* 1947: 278). Though economic plans over several years were drafted in the 'new democracies', it was 'obvious that there can be no planned economy, as understood in the U.S.S.R. in these countries' (*Labour Monthly* 1947: 241).

Varga's definition of 'new democracy' did not constitute in itself a problem. The term only referred to a social and political reality. In Hungary, where the propertied classes had been swept away after 1945, democratic institutions were challenged by increasing tensions between conservative and revolutionary tendencies. A new general election was held on 31 August 1947, in which the position of the Communists was considerably reinforced. They had succeeded in marginalising the Smallholders Party and to keep in check the Right-wingers in the SZDP. With 22.5 per cent of the total vote, the MKP was now the majority party in the governmental coalition. The Smallholders of the 'left' received only 15.4 per cent of the vote, primarily because of a previous break-away of their right wing. As a result, the left coalition parties received 61 per cent of the votes, against only 39 per cent for the other parties. All the time, the centre-right tendency, forming a majority within the SZDP itself, had no interest in sharpening differences with the MKP on economic policies. That would change with the launching of the Marshall Plan, which revived the hope for a strengthening of the social-democratic current with the help of the British Labour Party.

A twilight situation was created in which visitors from the West could think that no fundamental decisions concerning Hungary's future had been taken. When Belgian Communist Pierre Joye came to Budapest and interviewed several

leading Hungarian politicians (Budapest Mayor József Bognár of the Smallholders Party, Lajos Dinnyes of the same party, Árpád Szakasits of the SZDP and Gerő of the MKP), he thought that the 'popular and democratic regimes of a new type' were 'neither socialist like the Soviet Union, nor capitalist in the ordinary sense of the word' (Joye 1947: 243–4).

Meanwhile, Varga's concept of 'new democracy' was already under attack from the Zhdanov faction in the Kremlin. Finally, Rákosi (1997: 751–92) and Révai (1949: 143–52) were obliged to express an explicit self-criticism about the concept. They admitted having made a mistake by considering the 'new democracy' as something durable, thus as a form of state and society fundamentally different from that of the Soviet Union. In reality, it was nothing more than a relatively peaceful passage to socialism. People's democracy would descend from the people's democratic revolution as a special form of the dictatorship of the proletariat. According to Rákosi in *Szabad nép* (16 January 1949) the Hungarian people's democracy represented the dictatorship of the proletariat and resembled the regime of the USSR.

In 1951, Aleksandr I. Solovev asserted in an article in *Bolshevik* that the people's democratic revolutions had begun as bourgeois-democratic, but had 'grown over' into socialist revolutions (Valdez 1993: 33–4). By 1948, the era of the 'new democracy' was definitely over. The SZDP was purged of its Right. A unification congress of the MKP and SZDP was held on 12 and 13 June 1948, creating the Magyar Dolgózok Pártja (MDP, Hungarian Workers Party). In 1949, Rákosi started purging the MDP of its former leftist Socialists and those Communists he judged dangerous or cumbersome.

About Varga's role in post-1949 Hungarian politics little is known. However, one may presume that his influence faded away after Rákosi gained full control over the country. Varga's influence may have been reduced to private talks when incidentally visiting his family and friends in Budapest. Sometimes, he published an article in *Szabad nép* which was already was published in the Soviet Union, like '"A tőke"- Marx halhatatlan műve – Magyar forditásban' (Capital – that unperishable work of Marx – in Hungarian translation), in *Szabad nép*, 6 June 1948; 'Nyugatnémet pénzreform – a tőkések érdekében' (West Germany's monetary reform – in the interest of capitalist), in *Szabad nép*, 23 June 1948; 'A Marshall-terv: a nyomor és véradó terve' (Marshall Plan: Plan of misery in the capitalist countries), in *Szabad nép*, 8 June 1950; 'Anglia gazdaság élete az amerikai "barátság" harapófogójában' (England under constraint of American 'friendship'), in *Szabad nép*, 3 December 1952 (the latter article was a translation of Varga's article in *Pravda*, 25 November 1952). Although ostracised in the Moscow academic world, Varga was able to keep an entrée in Budapest. On 20 March 1949 he received a high Hungarian cross. When visiting in 1950 the newly established Karl Marx University in Budapest, he reported to Rákosi that the students 'were insufficiently prepared for their study' and that 'the professors were for the greater part afraid to give bad marks at the examinations' (quoted in Ladányi 1986: 63). Typically enough, he accused the workers of 'consumption fever' and 'wage fraud' (*Szabad nép*, 18 June 1950).

In 1951, a price reform was decided in order to adjust prices to the need of the central planning policy. Rákosi asked Varga for further advice. Without referring to the working of the famous 'scissors', Varga was in favour of low industrial wages and keeping in check agrarian prices in order to finance Rákosi's ambitious industrialisation plan. The economic reforms must thus be accompanied with increased compulsory surrender obligations, which nonetheless would jeopardise not only the material interest of the peasantry, but also the possibility of agricultural development. The production plans were also used by the departments of material control in the ministries. Then the branches of the Országos Tervhivatal (National Planning Office) ordered the yearly and quarterly distribution of materials. The enterprises were, for the most part, left with but a formal independence. The aim was to minimise risks and to exclude market disorder. To this end, trade, money and the market were, as far as possible, forced out of the economic arena. The basic principle of the 1951 price reforms was that the cost price of the goods produced by the state sector had to be covered from the sale price of the consumer products. The means of production, however, were to be sold at cost price. Many primary industrial materials were thus sold far below costs, with substantial state subsidies (Berend and Ránki 1985: 209–11).

When in June 1953 Rákosi lost his pre-eminent position to Imre Nagy and his 'new course', Varga's accumulation strategy favouring labour discipline, low wages and ambitious industrialisation schemes had been discredited by growing economic disorder. After the 1956 upheaval, the newly formed Magyar Szocialista Munkáspárt (MSZMP, Hungarian Socialist Workers' Party) led by János Kádár drafted plans for thoroughgoing reforms. As the new leadership gained a better foothold, several party officials who had shown penitence – among them Varga's nephew József Köböl (a son of his brother Emil Varga) – reappeared on the political scene. Apparently, the old guard had succeeded in preventing attempts to dissolve the centrally planned economy.

Already on 12 February 1957 – that day the Provisional Executive Committee had met as well – Károly Kiss (a former Minister of Foreign Affairs in 1951–2 who belonged to the so-called Rákosi faction who had rallied to Kádár) contacted Varga in the name of the Central Committee of the MSZMP for advice (PIL, 783 f.2: 23). On 21 March 1957 and 7 and 8 April 1957, Dezső Szilágyi, who belonged to the Moscow faction, invited Varga for a visit to Budapest (PIL, 783 f. 2: 24; 783 f. 2: 25; 783 f. 2: 26). Meanwhile Varga had become cautious. The invitation was sent to the Central Committee of the CPSU for consent. At the end of April 1957, Varga was expected to arrive in Budapest (PIL, 783 f.2).

Meanwhile Varga's opinions on the events in Budapest were published. In *Népszabadság* of 26 April 1957 he castigated 'revisionist opportunism in the labour movement'. Then, he called the Hungarian uprising of 1956 a 'putsch' and a counter-revolutionary complot as well (*New Times* 1957/45: 4). Sometimes Rákosi, now exiled with his wife in the Soviet Union, would visit the Vargas in Moscow or send them postcards from the different places where they were living.

Conclusions

For unknown reasons, Varga decided to stay in Moscow instead of moving back to Budapest in 1945. However, he would nonetheless regularly return to his native country to advise Rákosi on economic and monetary several policy issues. When after 1948 a full-fledged socialist economy was established, Varga's influence on the Hungarian decision makers would diminish considerably. He became an irregular visitor to Rákosi and his own family in Budapest.

14 Writing a textbook

I have crucified myself.
Vladimir Mayakovskiy

After the October Revolution, the study of Marxism-Leninism had become of crucial importance to all Communists. New textbooks were published to improve the ideological level of party members. With Stalin's rise to power, the process of writing and editing political textbooks was streamlined. Especially, the inception of an economy textbook was very painful. Being directly involved in its writing process, Stalin organised between 1941 and 1952 five meetings with his top economists to elucidate some theoretical problems. Stalin's essays in *Economic Problems of Socialism in the USSR* (Stalin 1952) were made directly instrumental for the inception of the foundations of the political economy of socialism. The textbook *Politicheskaya ekonomiya uchebnik* (*Political Economic Manual*) was finally authored by K. V. Ostrovityanov, D. T. Shepilov, L. A. Leontiev, I. D. Laptev, I. I. Kuzminov, L. M. Gatovski and A. I. Pashkov and published in 1954. Before his death, Varga decided to criticise Stalin's economic theory extensively. It was Varga's revenge on the dictator and his followers who had humiliated him several times.

The inception of a Stalinist manual

After the October Revolution, several economy manuals circulated in the Soviet Union. Well known was the manual authored by I. Lapidus and K. V. Ostrovityanov, *An Outline of Political Economy* (1929). On the decision of the Central Committee of the VKP(b) in April 1931 both authors were invited to write a new theoretical chapter on the Soviet economy. In April 1936 the Central Committee arranged for the drafting of a new manual (AON, f. 352, op. 1, Ed Khr. 165, l., 1–4). In April and July 1937, the Central Committee decided that the textbook had to be based on A. A. Bogdanov's 'short course' that, incidentally, had been highly praised by Lenin (AON, f. 352, op. 1, Ed. Khr. 23, l. 5). Between 1938 and 1941, several model manuals were written. In 1938, a first version of A. Leontiev's book *Political Economy* (n.d.) was published, followed a year later

by a second expanded edition. At the end of 1940, Leontiev made a new draft. Stalin organised meetings of economists and planners to discuss the draft texts of the manual. Finally, Stalin was not really satisfied by the result. The law of value, economic planning and wages in the Soviet Union were not clearly analysed. At a meeting on 29 January 1941 in presence of Zhdanov, Molotov, Voznesenskiy and Aleksandrov, Stalin summoned project managers Leontiev and Ostrovityanov team to give a broader 'political significance' to the textbook (Kaser 2008: 142–3).

Many years after Andrey Preobrazhenskiy's (Preobrazhensky 1965) research on the law of value, Stalin was convinced of the possibility of permitting the concept of 'value' to be applicable to socialism as well (Kaser 2008: 143). However, according to Leontiev, in capitalist society production was decided by the law of value, which made itself felt through the fluctuation of prices so that through this the market production of particular commodities would then fluctuate spontaneously. In a socialist economy planning determined the distribution of labour and the means of production, and also commodity circulation. Thus, there was no place for the law of value in a socialist economy, because the state established prices which were not derived from the cost of production of the products, as well as the tasks of economic construction which were oriented towards the necessity of continually improving the material welfare of the working classes. According to Stalin, Leontiev had falsely interpreted the role of planning as a tactic allowing the Soviet Union to overcome the working of the law of value and market anarchy. Thus planning was simply needed to ensure the country's economic survival, to bypass questions of profitability in heavy industry, and to overcome problems of desequilibrium (Pollock 2006: 172–3). The existence of illegal markets and *kolkhoz* markets proved that the law of value was still working and that the Soviet Government was not totally controlling prices. Hence, distribution according to needs was impossible. Under socialism products were sold for money, thus they had prices. Only under the higher phase of communism products would be distributed according to needs. In the USSR the law of value had thus not been overcome. Goods manufactured by the socialist factories were not 'products', but 'commodities' on the logic that once a monetarised economy was in existence, then commodities also existed. Finally, the Central Committee rejected Leontiev's formulations on the sphere of operation of commodity-money relations and the activity of the law of value in the Soviet economy as well. The text was subsequently altered on the base of the directives from the Central Committee. The outbreak of the war on 22 June 1941 would interrupt the further editing process.

The debates about the content of the textbook were reopened after the war at meetings at Ostrovityanov's Institute of Economics and elsewhere. This time the debate focused again on the role of the law of value in a socialist economy, the process of distribution of commodities, and also the relation of the Soviet Union with other nations. In 1946, a limited edition of Leontiev's textbook was nonetheless circulating. In April 1947, a commission headed by Zhdanov, Voznesenskiy and Leontiev was created to edit a final draft of Leontiev's book. This time

drafted by Ostrovityanov, the next version contained new information on pre-capitalist societies. In April 1948, Zhdanov, Voznesenskiy and Leontiev reported to Stalin that both texts could be united into one textbook. Because Zhdanov had died suddenly at the end of August 1948, Ostrovityanov had become in charge of the unfinished book project. In October 1948, at the enlarged meeting of the Scientific Council of the Institute of Economics he was the principal speaker reporting on the textbook question.

This time the task of drafting a textbook was complicated by post-war economic reforms, such as the 1947 monetary reform in the Soviet Union or the emergence of 'new democracies' in Central Europe. All these new experiences necessitated a thoroughgoing analysis. At the end of 1947 Voznesenskiy (Voznesensky 1948) published with Stalin's consent a book on *The War Economy of the USSR during the Period of the Patriotic War* in which he argued that thanks to careful planning in combination with the use of a 'transformed' law of value the Party had been able to develop the economic potentials of the country successfully, thus to contribute to a complete victory on Germany. Meanwhile, Stalin had lost confidence in Voznesenskiy who was at that moment the ambitious director of the Gosplan and probably striving for Stalin's succession. In March 1949, Voznesenskiy, who had been mentioned in the so-called 'Leningrad affair' (an alleged conspiracy of high-ranking party bosses in Leningrad), was arrested and executed. Voznesenskiy's disgrace would delay the project of the economy textbook considerably. New draft texts were discussed between Stalin and the economists during meetings held on 22 and 24 April and 30 May 1950 at the Kremlin. Finally, on 1 November 1950 all leading economists from the whole Soviet Union, about 400 in total, were invited for a debate in Moscow.

Varga had become, notwithstanding his disgrace, a member of the commission responding to the following dangerous question touching Stalin's foreign policy: 'Does Lenin's theory on the inevitability of wars between imperialist countries apply in modern conditions, when the world is split into two camps – the socialist and the capitalist – when the cold war is at its height and there is an ever present threat of thermonuclear extinction?' (Varga 1968: 75).

Varga had prepared well in advance a memorandum in which he gave six arguments why there were no indications of impending serious conflicts between the capitalist nations. Everything pointed toward a possible fight between the capitalist West and the socialist world. First, the bourgeoisie had earned from previous experiences that a new world war would lead to revolutions. Second, notwithstanding all intra-imperialist contradictions, the imperialist countries had been cemented into a military alliance under American leadership. Third, the common interests of bourgeoisie had been reinforced as a consequence of the expanding socialist world system. Fourth, he saw no concrete indication of a coming war between the different imperialist powers now that the USA was exercising an overwhelming economic and military superiority (Wohlfort 1993: 84; see also Varga, 'Spornye prosy dlya rassmotreniya TsK', AON, f. 1513/1/61). Varga prepared also a paper of some 27 pages in which he criticised the handbook as well (AON, f. 1513/1/237).

At the conference in Moscow, fellow-economists did not appreciate Varga's critical remarks on the Leninist dogma of the 'inevitability' of inter-imperialist wars, because his point of view was in flagrant opposition to Stalin's opinion (Varga 1968: 75). Only M. I. Rubinshtein supported him (Duda 1994: 272–3).

More than ten years later, in an essay on the problem of inter-imperialist contradictions and war, Varga reported that, 'like all other controversial issues, this question was referred to Stalin, the chief arbiter of the conference, whose answer was categorically affirmative. Stalin said that those who were denying the inevitability of wars between imperialist countries saw only the external phenomena and failed to see the abysmal forces which, operating almost unnoticeably, would decide the course of future events' (Varga 1968: 75). The final resolutions of the conference were sent to the Central Committee.

Three documents circulated now: (1) proposals for the improvement of the draft textbook on political economy, (2) proposals for the elimination of mistakes and inaccuracies, and a (3) memorandum on disputed issues. Stalin replied to all discussants. In 1952, D. T. Shepilov was summoned to a discussion with Stalin on the textbook. Stalin requested him to devote himself wholly to the drafting of the manual and to head a steering group comprising Ostrovityanov, L. A. Leontiev, L. M. Gatovskiy, A. I. Pashkov and the philosopher P. F. Yudin. Stalin circulated his responses for a final discussion with the economists on 15 February 1952. The remaining portions of Stalin's manuscript were drafted after that discussion (replies to A. Notkin, L.D. Yaroshenko, A.V. Sanina and V. G. Venzher), and then published under the title *Economic Problems of Socialism in the USSR* (Stalin 1952)

Economic problems of Socialism

On 2 Augustus 1952, the Nineteenth Congress of the VKP(b) (to become the CPSU) was convened by Stalin. The delegates were to be asked to approve the directives of the Fifth Five-Year Plan, which had already been in operation for nearly two years, and to pass the revision of the Communist Party Statutes. This routine preparation for the congress was suddenly pushed into the background by the completely unexpected publication of Stalin's *Economic Problems of Socialism in the USSR* in *Bolshevik* three days before the Nineteenth Party Congress met on 5 October 1952 (Surányi-Unger 1956: 937–46; Van Ree 2002: 96–113). *Bolshevik* printed an additional 300,000 copies above its normal press run of 500,000. It was serialised in full in *Pravda* on 3 and 4 October 1952. A special pamphlet edition of 1,500,000 copies was issued. In Moscow alone, 200,000 party members discussed Stalin's publication in factories and offices during the month of October.

Stalin touched in his *Economic Problems* on the transition of a socialist economy to full Communism and the gap between theory and practice. He rewrote those principles, including some of his own, of which he said they were no longer suitable 'amid the new state of affairs in our socialist country' (Embree 1959: 6). The means of production could not be considered as 'commodities' as

they were allocated, and not 'sold' to the enterprises. The means of production produced by socialist enterprises lost the properties of commodities and passed out of the sphere of operation of the law of value, retaining only the outward form of commodities. Commodities and money were not abruptly abolished in the Soviet Union, but gradually changed their nature in adaptation to the new, and retaining only its form; while the new does not simply destroy the old, but infiltrates into it, changes its nature and its functions, without smashing its form, but utilising it for the development of the new. Stalin argued that the law of value exercised its influence in the production of consumer goods in connection with cost accounting, profitableness, products and pricing in socialist enterprises. Business executives and planners in general did not take the operation of the law of value into account. Stalin postulated the theory that the world was divided into two camps in which the Communist countries had the distinct advantage of living in complete harmony, while the capitalist nations were in fierce economic competition with each other. The pressure of finding new international markets would drive the latter to war against the Communist world.

Stalin's booklet contained a chapter (Stalin 1952: 32–7) on the inevitability of wars between capitalist countries in which he criticised 'some comrades' he did not name (i.e. Varga and Rubinshtein), holding that, 'owing to the development of new international conditions since the Second World War, wars between capitalist countries have ceased to be inevitable'. Stalin opined that 'the contradictions between the socialist camp and the capitalist camp are more acute than the contradictions among the capitalist countries; that the USA has brought the other capitalist countries sufficiently under its sway to be able to prevent them going to war among themselves and weakening one another; […] and that, because of all this, wars between capitalist countries are no longer inevitable'. Stalin asserted that these comrades were mistaken. 'They see the outward phenomena that come and go on the surface, but they do not see those profound forces which, although they are so far operating imperceptibly, will nevertheless determine the course of developments' (Stalin 1952: 33).

Stalin explained that 'outwardly, everything would seem to be "going well": the U.S.A. had put Western Europe, Japan and other capitalist countries on rations; Germany (Western), Britain, France, Italy and Japan had fallen "into the clutches of the U.S.A. and are meekly obeying its commands"', but that 'it would be mistaken to think that things can continue to "go well" for "all eternity"'. For Britain and France cheap raw materials and secure markets were of 'paramount importance to them'. Therefore, Stalin expected that both imperialist countries would resist American capitalism penetrating into their economies and their colonies. Germany and Japan were now languishing in misery under the jackboot of American imperialism, but some day they would recover. Stalin: 'To think that these countries will not try to get on their feet again, will not try to smash the U.S. "regime", and force their way to independent development, is to believe in miracles' (Stalin 1952: 34).

An imperialist war against the Soviet Union had become more dangerous to capitalism than war between capitalist countries. Thus, Stalin had discovered

that in the Second World Germany had directed her forces in the first place against the Anglo-French-American bloc. When Germany had declared war on the Soviet Union, the Anglo-French-American bloc was compelled to enter into a coalition with the USSR against Hitler. Stalin: 'Consequently, the struggle of the capitalist countries for markets and their desire to crush their competitors proved in practice to be stronger than the contradictions between the capitalist camp and the socialist camp' (Stalin 1952: 35). But on the other hand, Stalin believed that the inevitability of wars between capitalist countries would remain in force. 'It is said that Lenin's thesis that imperialism inevitably generates war must now be regarded as obsolete, since powerful popular forces have come forward today in defence of peace and against another world war. That is not true' (Stalin 1952: 36).

Stalin's book should not only serve as a base for the party's road to a communist society, but also as a source of inspiration for the new party programme in preparation. In *Pravda* it was announced that the Nineteenth Party Congress had noted that in the period since the Eighth Party Congress (1919), when the existing party programme had been adopted, fundamental changes had taken place in the sphere of the construction of socialism in the USSR (*Pravda*, 14 October 1952). On this basis, the Congress decided on a revision of the existing party programme and the revision of the programme to be guided by the fundamental theses of Stalin's work *Economic Problems of Socialism in the USSR*.

On 4 and 5 November 1952, a debate was organised at the Institute of Economics on Stalin's book. During the debates Varga admitted that he was mistaken in assuming that under the present conditions, in connection with the extreme aggravation of the contradictions between imperialism and Socialism and the extreme preponderance of the USA over other capitalist countries, Lenin's thesis of the inevitable wars between capitalist countries becomes obsolete. 'I admit', Varga stated, 'that I was wrong in this question. Comrade Stalin gave sufficiently exhaustive proofs of the inevitability of wars between capitalist countries at the present stage' (*Voprosy ekonomiki* 1952/12: 109; Dallin 1955: 311–13).

Meanwhile several themes Stalin had mentioned, notably the necessity of gradual introducing products-exchange between socialist industry and the collective farms as part of the projected gradual transition to communism, had to be included in the projected textbook on economics. The textbook was only published in 1954, a year after Stalin's death. Over six million copies of it were sold in the Soviet Union. However, the need for a revised edition of the textbook was growing since the system of centralised directive planning was ended in 1955 and replaced by coordinated planning conducted by Gosplan and the All-Union Republic Ministries. The same editorial team authored then in 1955 a revised second edition of it.

At the Twentieth Congress of the CPSU in February 1956, Anastas Mikoyan criticised extensively Stalin's booklet *Economic Problems of Socialism in the USSR*, making in the meantime a thoroughgoing revision of the economic textbook necessary. Already in May 1956 a joint discussion on the second edition was organised

between the staff of the Faculty of Political Economy of the Moscow State University and other institutes (*Sowjetwissenschaft. Gesellschaftswissenschaftliche Beiträge* 1957/7: 836–56; summary in *Political Affairs*, 1957/11: 40–5). At the conference, V. P. Glushkov pointed out that much was unclear in the textbook, especially in relation to how the laws discovered by Marx in capitalism's pre-monopoly stage were operating in modern capitalism. The textbook failed to show that with the increase in the organic composition of capital in monopoly capitalism, the degree of exploitation was most strikingly increased. Sh. B. Lif had discovered a number of incorrect formulations with regard to wages. N. V. Chessin argued that Stalin had invented the category 'basic economic law', but that 'Marx, Engels and Lenin, the classical exponents of Marxism–Leninism, did not venture to deduce a basic law from a series of other laws' (*Political Affairs* 1957/11: 42).

Criticising Stalin

In 1962, Varga submitted an article to the editorial board of *Kommunist* in which he attacked Stalin's basic economic law of capitalism. His article was, however, rejected after a long and heated debate in the editorial board (E. Varga, 'Marksizm i ekonomicheskiy zakon, chto takoe zakon?', 29 typed pages. PIL, 783. f. 9. A typeset text: E. Varga, 'Marksizm i vopros ob osnovnykh ekonomicheskikh zakonakh kapitalizma', *Kommunist*, no. 24, pp. 61–72. Protocol of the editorial meeting is added.).

Varga's article would nonetheless resurface in 1964 in Hungarian translation in *Társadalmi szemle* (Varga 1964b: 15–31) in Budapest and in the same year in Moscow in a collection of Varga's unpublished essays (Varga 1968: 3–10). The first edition of his collected Russian essays was immediately sold out.

The English edition of Varga's collection of essays published in 1968 contains a preface in which V. A. Cheprakov (an economist belonging to Ostrovityanov's Institute of Economics) recalls that Varga was 'an outstanding Marxist economist' and a 'genuine scholar' who had 'no ready-made answers' to new problems. Cheprakov refers to the debate held in 1947 on the role of the state in capitalism and the problem of absolute impoverishment under capitalism. Nothing is however said about the reason why Varga's article on the basic economic law of capitalism had been rejected by the *Kommunist* editorial board in 1962.

In that article Varga referred to Engels having declared in his *Dialectics of Nature* that 'laws are a reflection of the objective processes at work in nature and society' (Varga 1968: 13). Thus laws were objective because they reflected real processes independently of man's will. 'Economic laws are [. . .] independent of whether they are understood by people or not. The laws of the appropriation of surplus value, its transformation into profit and rent, existed long before they were studied and formulated by Marx' (Varga 1968: 14). Engels had given two important qualifications to his initial definition of law as a reflection of the objective processes in nature and society. First, only a

reflection of the processes at work in the intrinsic essence of things can become a law. Second, a mere reflection of individual processes is not a law, only an adequate reflection of regular recurrence. A law was thus 'not the reflection of a movement per se, but of the essence of a process at work in nature and society', because the 'phenomenon and its essence coincide neither in nature nor in capitalist society' (Varga 1968: 14–15).

Varga thought that in political economy, as distinct from the natural science, hypotheses played only a minor role. The transition of free-competition capitalism to imperialism had modified the economic laws of capitalism. No hypotheses were needed to discover modifications to capitalist laws, because the facts of the capitalist economy were known. Here, Varga relied on Engels when defining dialectics as the most general basic law. Criticising Stalin's vagueness in his article *On Dialectical and Historical Materialism* (Stalin 1947: 540–68), he referred to the 'classics of Marxism' which had always proceeded from the assumption 'that we are able to reason dialectically only because we are part of an objective dialectical world'. According to Varga, Stalin did not only pay far too little attention to this aspect, but, in addition, he now 'overemphasised the subjective aspect, the dialectical approach of man to natural and social phenomena' (Varga 1968: 17). Stalin left the fact that dialectics are a part of nature and society, completely in the shade. According to Stalin, dialectical materialism was the world view of the communist party. Because of its approach to the phenomena of nature and its method of studying them, Varga called this correct. Stalin had however omitted the objective aspect Lenin always had stressed. This was the 'one-sided subjective explanation' opening the door to 'ideological mistakes and misunderstandings' (Varga 1968: 18).

Varga contested Stalin's assertion that social laws were for the most part short-lived and only operating during the existence of one social formation, while the economic laws of production were as long-lived as mankind itself. Natural laws differed from social laws because the former can be observed in their pure form in scientific experiments, which is not true of economic laws operating in a constantly changing environment. 'Social laws are therefore no more than tendencies' (Varga 1968: 19), modified by counter-tendencies, Varga concluded. Marx had singled out counter-tendencies when speaking in *Capital* about capitalist laws, especially about the 'absolute law' of capitalist accumulation. Hence, one cannot formulate social laws as accurately as natural laws. Varga criticised Stalin's formulation that the relations of production must necessarily conform with the character of the productive forces having long been forcing their way to the forefront in capitalist countries. Varga argued that it was the 'fighting proletariat that breaks its way through' and that 'it will be able to win only in the presence of the essential historical prerequisites' (Varga 1968: 23). One of these prerequisites was the existence of a revolutionary Marxist-Leninist party.

Varga made a clear distinction between the general laws common to all modes of production; the law of the revolutionary transition from one social system to the other; laws common to several social formations; and laws

effective during the existence of only one social formation. The first concerning production in general are unable to explain any concrete historical stage. Varga enumerated these general laws: (1) labour as an essential condition for the existence of the human race; (2) the product of labour is always a use-value; (3) the law of the division of labour; (4) the fund providing the necessaries of life is always produced by the workers; (5) production must be directed; (6) the law of the more rapid growth of production of means of production as compared with that of articles of consumption; (7) the law according to which the volume of consumption can never exceed the volume of production for any length of time. The dictatorship of the proletariat takes the necessary steps to a radical redistribution of the national wealth, but 'it is unable to give all the workers all the articles they need immediately'. Drawing on his former experience as a People's Commissar in Hungary (1919), Varga remembered that during this period of revolutionary reforms a general drop in the output of existing enterprises had occurred, because the best workers had joined the army and 'other organs of the socialist state', while the old labour discipline in production, 'founded on the class domination of the bourgeoisie, had fallen to pieces' (Varga 1968: 26).

Referring to Stalin's formulation of the Marxist law that the 'relations of production must necessarily conform with the character of the productive forces' (Stalin 1952: 10), Varga noted that 'some flatterers' had even called it a 'major theoretical contribution' to Marxist theory. 'In our opinion, Stalin's formula is nothing but a poorer version of Marx's original formula, for it slurs over the historical and revolutionary content of the law formulated by Marx' (Varga 1967: 27). The law of the free appropriation of surplus labour created by the exploited classes was thus common to all class-antagonistic societies, Varga recalled. Capital did not invent surplus labour and the fact was that surplus labour existed in slave-owning societies and under feudalism. From objective, natural laws Varga distinguished social laws. 'When Stalin declared that the basic economic law "demands" certain things, he committed a strange error for a Marxist. An objective law is a reflection of events comprising the essence of things: a reflection cannot "demand"! Objective laws exist, operate, and are valid independently of the will of people, and by their very nature have no need to demand' (Varga 1968: 30).

Varga attacked both Stalin and Soviet economists who had worked out basic laws for all social formations and attempted to deduce from the 'basic' laws other less important laws. No basic law could embrace all the processes and phenomena of a mode of production or even the most important laws of capitalism. It was impossible to generalise all the laws analysed in *Capital*. 'Stalin's statement that this fundamental law determines all the principal aspects and processes of capitalism's is completely without foundation. Any attempt to deduce less general laws from a basic law as has been done by some of our economists, contradicts Marxism. These attempts are contrary to the spirit of Marxism, which demands that an analysis of concrete historical facts be made and that laws be established only through a generalisation of these facts'. Varga went further and, basing himself on Marx's *Capital*, he argued that any attempt to deduce 'more concrete laws from the basic law is anti-Marxist' (Varga 1968: 31–2).

Then Varga tried to establish whether the law Stalin formulated as the basic law of modern capitalism expressed the most important processes of that social system and whether the processes were symptomatic only of that system. Varga concluded that Stalin's basic economic law did not satisfy these demands for making no mention of the ultimate result of all the processes under capitalism: the creation of the prerequisites for the inevitable overthrow of the capitalist system by the proletarian revolution. According to Varga, Stalin's basic economic law of capitalism only dealt with the exploitation, ruin and impoverishment of the population, not with the 'revolutionisation of the masses by capitalism', which had always been 'the essence of all statements of Marxist-Leninist classics on this subject' (Varga 1968: 32). Varga could agree with Stalin on the exploitation, ruin and impoverishment of the majority of the population in the capitalist countries, 'but the works of Marx and Engels convincingly prove that this occurred commonly even a hundred or more years ago, and hence is not a feature typical of modern capitalism' (Varga 1968: 33). Stalin's proposition that war and militarisation are a special method of profit appropriation in the epoch of modern capitalism was also incorrect. Even far back as the Roman Empire entrepreneurs made huge war profits as well. According to Varga, the basic economic law formulated by Stalin did not refer to the specific laws of modern monopoly capitalism by Lenin – the law of progressive concentration, the law of uneven development, etc. The basic economic law of modern capitalism as formulated by Stalin did not meet the inherent requirements of such a law. Hence, he also considered as incorrect the definition of the basic law of capitalism given in the textbook *Political Economy* (Ostrovityanov *et al.* 1957) namely, that 'the production of surplus value is the basic economic law of capitalism' (Varga 1968: 34). Varga could agree that the production of surplus value was one of the most important processes under capitalism, but Marx did not call this the basic law of capitalism. Surplus value was not only produced, but also appropriated by the bourgeoisie, which was no less important than the production of surplus value. By only mentioning the production of surplus value, 'it may be taken to imply that the production of surplus value (capitalism) can exist indefinitely'. Varga missed the 'essence of the aggregate of Marxist economic laws', namely that 'the operation of the economic laws of capitalism inevitably leads to the downfall of capitalism, creates the prerequisites for the revolutionary overthrow of bourgeois rule' (Varga 1968: 34).

In his polemic with Stalin and the authors of the textbook, Varga tried to reconnect the basic economic law of capitalism to the 'revolutionary spirit of Marxism' and the 'inevitable downfall' of capitalism. Therefore he proposed his own definition of the basic economic law of capitalism describing the most important processes operating under all stages of capitalism:

> In appropriating the surplus value produced by the workers, capital concentrates and socialises production through accumulation and centralisation, creates the material prerequisites for socialism, exacerbates the contradiction between the social character of production and private appropriation.

> This contradiction, which is only temporarily resolved by the periodic crises of overproduction, makes the rule of capital ever more unbearable for working people throughout the world and, by means of a proletarian revolution, steers capitalism towards its inevitable downfall.
>
> (Varga 1968: 35)

The difference between his basic law and Stalin's was that the latter was 'static' and failed 'to express the dynamics of capitalism' while the former was 'dynamic' and showed that capitalism was 'doomed'. Finally, Varga also formulated a 'special law' for imperialism based on Lenin's analysis that called for the proletarian revolution: 'By abolishing free competition, dividing up markets and coalescing with the state, monopoly capital secures super-profits, subjects the whole capitalist world to its power and deepens the rift between the rich imperialist and the economically underdeveloped countries, between the finance oligarchy and the working masses, transforms an ever greater slice of the population into hired workers and capitalism into moribund capitalism, pushing it inevitably towards a proletarian revolution' (Varga 1968: 36).

Conclusions

Varga's attack on Stalin's 'basic law' was intended to demonstrate that the theoretical expertise of the former dictator was rather limited. Stalin had also been wrong when predicting a shrinking of the capitalist market or the inevitability of new inter-imperialist wars. By criticising Stalin, Varga could take revenge on all his enemies having obliged him to confess his 'reformist sins'. Varga died in 1964 when this collection of essays containing an attack on Stalin was published.

15 Problems of monopoly capitalism

It isn't easy to clean out the bureaucratic swarm.
Vladimir Mayakovskiy

With the closure of his Institute of World Economy and World Politics in 1947, Jenő Varga had lost a good part of his scientific prestige. Stalinist dogmatism was now spreading over all Soviet research institutions and curtailing research programmes. Just after Stalin's death in 1953, Varga's book on imperialism was finally published. Party workers and students of international relations would study it. After destalinisation in 1956, Varga immediately revised and updated this book he once had to fill with many Stalin quotations. In the meantime he tried to participate in debates on problems of inter-imperialist rivalries, the capitalist business cycle, Keynesianism, state-monopoly capitalism, etc. He defended Marx's *Capital* against bourgeois economists and reformists reproaching Marx for not having developed a definite theory of crisis. For Varga capitalism was moribund because it was unable to plan investment in the real sense of the word.

Imperialist contradictions

Varga's book *Basic Economic and Political Problems of Imperialism* was published in 1953 in Moscow. Translations (Hungarian, 1954; German, 1955) in many languages followed. Since 1947 he had worked on the manuscript. Before finishing the book, he was obliged to complete it with Stalin's findings published in *Economic Problems of Socialism in the USSR*. This book would earn him a Stalin Prize in 1954. Later, he would nonetheless recall to his friend Jürgen Kuczynski that this book was 'the 'thickest and most stupid one' he ever had published (Kuczynski 1992: 51). It contained neither new theoretical insights nor new facts, but only the thesis that the general crisis of capitalism was announcing the end of capitalism and colonialism. Meanwhile, the realisation problem and the uneven development of capitalism were causing growing mass unemployment, which would ultimately lead to a 'catastrophic' class conflict. Capitalism's decay had however been postponed by America's military expenditures and a military boom during the Korean War absorbing the overproduction crisis of 1949.

Varga's underconsumptionist thesis helped him explaining how the post-war economic crisis was developing. The average living standard of the American working population was constantly deteriorating as a result of rising income taxes levied to finance military expenditures. Meanwhile, working conditions worsened as well. Misery developed on a large scale, which Varga tried to illustrate by pointing to decreasing meat consumption below the average pre-war level in Great Britain. Meanwhile, American monopolies were solving their own domestic overproduction problem at the cost of the local population and foreign countries. On the international level, the Marshall Plan had created new markets for American monopolies looking for additional outlets abroad. The capitalist state was operating like a pump station siphoning taxes out of the workers and transmitting these moneys to the monopolies. The capitalist state was thus nothing more than a 'mighty instrument for the enrichment of the financial oligarchy to the cost of other classes' (Varga 1955: 83).

In order to make his analysis less static, Varga referred to counter-tendencies favouring peaceful development in the world. Notwithstanding the Cold War and the lasting Korean War, an International Economic Conference had been held in Moscow on 3–12 April 1952 at the initiative of the World Peace Council. Varga attended this conference together with Western industrialists, journalists and economists (Cairncross 1952; Fleischer 1952). Varga believed that increased international trade could serve the economic interests of all nations. But the most important countertendency was the decolonisation process undermining the foundations of imperialism itself. Decolonisation also gave rise to domestic problems in colonial countries like France and Great Britain now losing their colonial markets. Hence, the British and French bourgeoisie were preparing for a further lowering of wages and for an alliance with the USA against the Soviet Union (Varga 1955: 240).

Imperialism had kept so many different faces, that Varga could detect on the one hand growing contradictions between the main imperialist powers in their struggle for raw materials, and on the other hand a military coalition against the Soviet Union. With Stalin, he argued now that new inter-imperialist wars should not be excluded beforehand (Varga 1955: 335–6). Meanwhile, the formation of a socialist world system had reinforced the trend towards a narrowing of the capitalist world market. In the meantime, the USA tried to prohibit trade with the socialist countries, which amplified the tendency to a deepening of the ongoing general crisis of capitalism in a time of an expanding socialist world. As a matter of fact, no real prosperity phase in the cyclical process of capitalist accumulation could be expected in the near future. For the time being, increased arms production was solving the problem of capitalism's acute realisation problem, which would inevitably cause inflationary pressures and rising unemployment rates. Both phenomena would sharpen the internal contradictions of capitalism, thus lead to a deepening of the general crisis of capitalism and to a severe overproduction crisis with throwing back of total production under its pre-war level (Varga 1955: 728).

That Varga still believed that a fast and fatal decay of capitalism was completely in line with Stalinist orthodoxy. He had already ventilated these ideas in

newspaper articles, probably in the conviction that the readers of *Pravda* would be very pleased to be confirmed in their opinion. In *Pravda* of 10 May and 22 October 1950, Varga wrote about capitalism's parasitical nature, on 22 October 1951 and 25 November 1952 on decaying British imperialism, and on 19 March 1950 on rising mass unemployment. Again, Varga based his unemployment thesis on Marx's inner motivated laws of the capitalist means of production leading to the creation and expansion of an ever-expanding reserve army of unemployed workers. But where was the so long awaited downturn? In *Pravda* of 18 October 1953, he argued that the sudden recession of 1953 had been caused by falling demand on the American market, which had compelled monopolies to lower their prices and contract their production. That had incited the US monopolies to a reactionary drive against all progressive forces (*New Times* 1954/23: 8–12). American capital was not only seizing British colonial markets, but also intruding in British industry. Dollar shortages had meanwhile wrested from Britain many export markets and dislodged the pound sterling as a world currency (*Pravda*, 25 November 1952).

People's capitalism, the living standard and Keynesianism

Meanwhile, young scholars rebelled against scientific sclerosis. In the aftermath of the Twentieth Congress of the CPSU in February 1956, four leading scholars, E. A. Korovin, A. Gruber, N. N. Lyubimov and A. Z. Manfred signed a letter to the editor of the newly founded journal *International Affairs* in which they opined that 'new and original scholarly works of research into the most important current international problems' (*International Affairs*, 1956/12: 98) were not published. Then the editorial board of *International Affairs* organised on 18–19 April 1957 a conference on 'the whys and wherefores' of 'people's capitalism' (*International Affairs* 1957/5: 61–107).

Having emerged as a leading economist after publication of a book on state-monopoly capitalism, Kuzminov (Kuzminov 1955) confirmed in his keynote speech to the conference that 'people's capitalism' had been invented by American propaganda, but he admitted that wages were higher in the United States than in other capitalist countries. The US rate of growth was however lower than in Japan and Western Europe and US share in world output had been falling during the post-war years, which was all in line with Lenin's thesis of uneven development of capitalism. I. G. Blyumin argued that the theory of 'people's capitalism' was based on several illusions about the distribution of ownership, management and income distribution. In bourgeois economic theory the domination of monopoly capital was minimised with the help of the presumed existence of 'countervailing powers'. Quoting C. Wright Mills, Y. A. Shvedkov argued that the American state machine was directly dominated by monopoly capital. M. N. Smit tried to deconstruct the myth of the welfare state by referring to the huge numbers of workers living in poverty and official statistics – 'though the latter are deliberately falsified' – attesting to the working of the 'law of mass unemployment'. V. P. Glushkov saw in the theory of 'people's capitalism' and

the welfare state an instrument of imperialist reaction, but after having debunked 'people's capitalism' he focused on the role played by technical progress under capitalism. Glushkov rejected apologies of capitalism that were making 'a fetish of technology and its role in the development of society'. According to Y. Y. Kotkovskiy, the bourgeois state was unable to regulate and plan the economy. Reforms 'do not touch the foundations of capitalism', he argued, and under capitalism ' "adjustment" is designed to ensure increased profits for the big monopolies' (*International Affairs* 1957/5: 84). I. N. Dvorkin focused on Germany where the steel and coal monopolists had to accept, under pressure of the masses, trade union representatives in the boards. Apparently, new ideas on the functioning of monopoly capitalism had been oozing through at the top of the Soviet Academy of Sciences.

Though he had not been listed as a speaker at the Conference on People's Capitalism, Varga reacted nonetheless with an article in *New Times* (1957/20: 6–9) that the legend of 'people's capitalism' had become the official theory of American imperialism in the richest capitalist country on earth where the workers were still living in poverty. Varga still adhered to his underconsumptionist thesis when arguing that income differences between workers and capitalists were widening. After the Second World War, when the ideas of socialism were blossoming, the American public was again submerged by panegyrics promoting 'people's capitalism'. Against this propaganda, Varga argued that only 3 per cent of the skilled and semi-skilled workers owned any shares at all, and of these 1 per cent were holding shares to a value of less than 500 dollars, and another 1 per cent to a value ranging between 500 and 1,000 dollars, but 65 per cent of all the dividends flew into the pockets of 1 per cent of the population. Furthermore, indebtedness of the population was steadily increasing. Summing up, Varga thought that under the regime of 'people's capitalism' of the United States, the worker had remained what he was – a slave of capitalism (*New Times* 1956/26: 6–9). Varga rejected the idea of the 'welfare state superseding class antagonisms'. The activities of the capitalist state in the advantage of the workers were serving only the interests of the big bourgeoisie. State policies in the areas of social welfare and health were intended to tie them politically to the existing system. The demands of modern techniques had made universal and compulsory education unavoidable (*Kommunist* 1961/17: 34).

Against *The Voice of America*'s assertions with regard to the high living standard of the American worker, Varga postulated that an American industrial worker could not have an annual purchasing power equivalent to that of 80,000 roubles. In America, rent absorbed from 15 to 25 per cent of the worker's income (*New Times* 1956/26: 8). In an article published in *Kommunist* (1959/17: 36–52), Varga stressed that the theory of 'popular capitalism' had gained a considerable spread in the United States, but at the end he remarked that some categories of workers having saved a 'capital' of not more than 10,000 to 15,000 dollars were nonetheless obliged to sell their labour to the capitalists.

Though Varga could appear as a leading economist having his word to say, he was de facto excluded from the most important scientific conferences and

debates where Kuzminov was the controlling figure. Some examples may show that. On 21 and 22 January 1957, a conference was held in Moscow to discuss the foreign policy of the USA and the 'Eisenhower Doctrine'. Professor E. M. Zhukov was its acting president. V. Ya Vacileva, A. A. Kononenko, V. P. Glushkov, E. A. Korovin, V. V. Maevskiy, Ya. Z Viktorov, P. V. Milogradov, E. M. Primakov, V. B. Lutskiy, A. F. Sultanov, L. Vatolina and many other scientists took the floor. On 15 April 1958, the journals *Mezhdunarodnaya zhizn* and *International Affairs* organised a conference on the situation in the capitalist countries. I. I. Kuzminov, S. L. Vigodskiy, B. M. Pichugin, A. M. Zharkov, M. N. Smit, V. V. Pymalov, A. I. Shneyrson, Ya. Ya. Kotkovskiy, A. M. Alekseyev and many others were speaking. Nobody mentioned Varga's publications in the papers (*Mezhdunarodnaya zhizn* 1958/5: 98–107; *International Affairs* 1958/5: 76–102). On 4 October 1958, an international conference on the international economic crisis was held at the Berlin Humboldt University where L. A. Mendelson and I. I. Kuzminov were playing a leading role. Varga's name was not listed.

Khrushchev´s decision to break with Stalinism in its crudest form brought a wind of change in the academic world. From 1956 on, the thesis of the emergence of socialism from the boundaries of one country into a world system was formulated. Optimism reigned now that the socialist system was developing economically at a rate that was unknown in history. The living conditions of the working class in the West were believed to be bad. Workers suffered from relative impoverishment, that is, their share in the overall national income becomes smaller, while the share of the exploiter classes steadily increases. In 1956, German economic historian J. Kuczynski stated that a higher level of production had been achieved chiefly as a result of a 'pronounced worsening in the conditions of the popular masses'. Kuczynski had even discovered that the British working person had consumed in 1953 only 13.1 pounds of butter while average consumption in the period 1934–8 had been 24.7 pounds a year (*International Affairs* 1956/5: 72–9). On 11 and 12 May 1959, the editorial board of the journal *International Affairs* and the Chair of Political Economy of the USSR Academy of Social Sciences dedicated a joint session to the contemporary conditions of the working class in the capitalist countries. Keynote speaker was I. I. Kuzminov followed by M. Gutzeit, A. M. Alekseyev, A. M. Zharkov, A. Galkin, O. Nazarenko, A. Baranov and others, while a delegation from the German Democratic Republic (GDR) participated in the discussion. Kuzminov repeated that the living standard of the working class was deteriorating while unemployment was rising and intensification of labour was increasing, facts all the other speakers confirmed in their lectures (*International Affairs* 1959/6: 65–98).

The Stalinist economists were still holding onto a dogmatic interpretation of assumption that labour power was always sold at value. A decrease in labour time as a result of growing labour productivity would thus inevitably lead to a decrease in labour time per consumer goods unit, which would decrease the total share of the national income going to the working class, thus increase the part being appropriated by the bourgeoisie. Marx's analysis could not be

corroborated by statistical evidence, because prices of consumer goods were constantly rising due to inflation and currency devaluations, high prices fixed by the monopolies, taxes and duties. Katz and Kuzminov nonetheless calculated the decrease of the factory and office workers' share in the US national income. Katz could even 'prove' that the share of the proletariat in the national income over 1900–56 had constantly decreased.

Varga did not adhere to the Stalinist thesis – defended by Kuzminov (Kusminov 1958, 1960) and Adolf I. Katz (1962) – of a constantly impoverishing proletariat. According to Varga, Katz had failed to demonstrate a considerable impoverishment of the working class in the post-war years. Since 1940, the share of workers' income had stabilised. Varga found the solution in the simple statistical method for pricing the relative impoverishment of the proletariat by calculating the growth in the rate of its exploitation. 'Basically the two processes are identical: the appropriation of the surplus value forms the basis for the distribution of the national income among the classes' (Varga 1968: 107). Varga's own calculations for the period 1899–1931 proved that the rate of exploitation drops in crisis years and rises in the boom years. When the business climate improves, the profits and the rate of exploitation rise to a peak, which is in keeping with the true nature of capitalism. Hence, the degree of exploitation had substantially increased after the Second World War, thus the relative impoverishment of the working class had continued.

This exercise allowed Varga to compare his own approximations with Katz's 'extremely complicated calculations' and to refute earlier criticism he had received from several Soviet economists (V. E. Motylev, M. Smit-Falkner, Katz) declaring that his calculations minimised the rate of exploitation. Katz's mistake was that he regarded not only the profits of trading capital, but also the wages of commercial workers as deductions from the wages of the workers in the manufacturing industry and that he added the resulting sum to the surplus value. Varga found that unjustified: 'They are not deductions from wages, but a payment made by the buyer out of his income from trade services rendered' (Varga 1968: 110).

The problem of absolute impoverishment was, however, much more complicated than that of relative impoverishment. A wide divergence of views on this problem among Marxists then existed. Varga believed now that the per capita income per head of the population was falling in the developed countries. But he was also interested in the question of whether absolute impoverishment was a constant, irreversible process similar to that of relative impoverishment, or whether it was neither constant nor irreversible. Varga noticed that in the programme of the CPSU it was said that crises and stagnation led to a 'relative, and sometimes an absolute, deterioration of the condition of the working class' (*The Road to Communism* 1961: 452–3). He castigated the 'dogmatists', especially Kuzminov, for having defended the point of view that the position of the working class worsened all the time and not at intervals. Varga attacked Kuzminov for having ignored the warnings of Marx against the dogmatic, mechanical reiteration of the law on the polarisation of capitalist society and the growth of

poverty as a result of the accumulation of capital. The Soviet dogmatists at the Economics Institute had adopted the view 'that the absolute impoverishment of the working class was constant throughout the capitalist world'. Varga added that at that time he had written that even a 'very small progressive decrease in real wages would in a comparatively short historical period reduce wages to zero (as can be seen from a very simple mathematical calculation), but my objection went unnoticed' (Varga 1968: 114). Marx and Engels had thus adopted a very 'flexible approach' to this problem.

Varga admitted now that technological progress could have a positive effect on a worker's family consumption. Many American workers purchased cars, radio and television sets, etc. and they spent their money on ready-to-cook foods. They ate more beef and chicken, and less potatoes. However, many American and British workers were also living in slums and were undernourished. This did not mean that the bulk of the workers were now worse off than in the nineteenth century or that working conditions in capitalist factories had not improved. According to Varga, 'our dogmatists' had divorced 'economics from politics' by stressing the constant and inevitable absolute impoverishment of the working class. They had forgotten Lenin's definition of politics as 'a concentrated expression of the economy' and ignored 'the new political conditions in the fight between labour and capital' (Varga 1968: 120).

Many Marxist scholars abroad had made in the meantime thoroughgoing studies of the workers' position by combining statistical methods of research that contradicted the views of the Soviet dogmatists. A growth in real wages did not mean a growth in workers' welfare. In all highly developed capitalist countries workers were striving 'to obtain jobs in large enterprises'. In highly monopolised branches wages were higher than in non-monopolised branches. In spite of all management techniques, American monopolies paid often twice as much as non-monopolised enterprises. Returning to his discussion with Henryk Grossmann in the early 1930s (see Chapter 7), Varga argued that in a pure capitalist society monopoly superprofits could evolve only as a 'result of an irregular distribution of the aggregate surplus value or aggregate profit, i.e., a distribution according to which profit does not correspond to the amount of capital invested' (Varga 1968: 157). In his defence of Marx's *Capital*, Varga had already argued that Marx had examined a 'pure' capitalist society made up of only two classes (proletarians and capitalists), although he knew that a large part of the working people was made up of small commodity producers. In Varga's days the majority of the population in the developed capitalist countries were workers (*Kommunist* 1961/17: 24–37).

The redistribution of the aggregate profit in favour of the monopolies was effected through the mechanism of prices. Unequal exchange existed. Millions of small producers were playing a part in the formation of monopoly profits. About 90 per cent of industrial production was concentrated in Western Europe, North America and Japan. The unequal exchange was thus a means by which the rich capitalist countries extracted superprofits from the less developed countries where nobody was protecting the small commodity producers against the high

monopoly prices charged by the monopoly capitalists. Though the price of labour power fluctuated around its value, the 'tribute exacted by the monopolies from small commodity producers through unequivalent exchange flows first and foremost from the less developed countries to monopoly capitalist countries' (Varga 1968: 58). In countries in which the agrarian overpopulation was creating an enormous surplus for the supply of labour power and where no trade unions were to fight the capitalists, the price of labour power was squeezed to a level below its value.

Referring to his debate with Henryk Grossman (see Chapter 7) on the fact that in capitalism the rates of different branches tend to equalise and form an average profit, Varga argued that the monopolies were also making additional profits. Hence, it was difficult to draw a line between the monopoly and average rates of profit. This redistribution of the realised surplus value among the different interest groups was a key problem to be researched. It is noticeable that Varga admitted the fact that the trade-union movement had established in the 1950s a nation-wide collective bargaining system, raising wages considerably. Varga's failure to understand the rise of unionism in the USA in combination with Keynesian policies falsified his assumption that monopoly capital could only pay higher wages by squeezing profits of non-monopolistic sectors. His focus on the problem of unequal exchange between the less developed and the monopoly capitalist countries was then still rather new, but was also connected to Rosa Luxemburg's imperialism theory.

After Stalin's death in 1953, Varga returned to the old problem of the role of the state in capitalism. In conformity with Marxist-Leninist theory he regarded monopoly capital as 'single force' and the monopoly bourgeoisie as the layer of the capitalist class 'with common class interest'. Thus, the coalescence of these two forces, the monopolies and the state, were forming the basis of state-monopoly capitalism. State-monopoly capitalism enriched through state aid the monopolies by a redistribution of the national income as well. In their efforts to preserve the capitalist social system, the monopoly bourgeoisie made use of the support of strata whose incomes were derived from exploitation (*Kommunist* 1961/17: 34). Varga stressed nonetheless the fact that monopoly capital and the state were forming 'independent forces'. There could not be no unilateral subordination of the state to monopoly capital, 'as asserted by Stalin' and some Soviet economists (Varga 1968: 51–2). Varga thought that the monopolies and the state made joint decisions on important economic issues, such as fixing prices on the home market. Hence, state-monopoly capitalism was extremely reactionary, because it defended a social system doomed to collapse.

Varga was proud to mention that his former colleagues and friends S. A. Dalin (1961), Y. A. Pevzner (1961), and E. L. Khmelnitskaya (1959) had already contributed to the theory of state-monopoly capitalism. Khmelnitskaya edited a book on state ownership and another one on changes in economic structures in Western Europe (Khmelnitskaya 1961, 1965). The technological dynamism of the monopolies could no longer be in doubt. Monopolies financed research programmes, because it was profitable to them to make use of inventions and

improvements. Since Stalin was criticised in the Soviet Union for having abandoned the role of the state in monopoly capitalism, nationalisations were no longer dismissed as being in the interests of the financial bourgeoisie. In nationalised firms the workers were able to obtain wage increases because the management had no direct material interest in the outcome of the class struggle (Varga 1968: 67).

The theory of state-monopoly capitalism had appeared after Stalin's death in 1953 in several writings. Kuzminov had already addressed the problem in 1955 in a major book (Kuzminov 1955). In this book, the personal union between the state apparatus and the monopoly agents assured the big firms and banks super profits. The general crisis of capitalism was, however, aggravating the contradictions inherent to imperialism. Kuzminov regarded state regulation of the capitalist economy not only as a logical result of the aggravation of the contradictions of the capitalist system, but also as a source of capitalist decay. The arms drive and economic militarisation and external economic expansion were sharply stepping up the exploitation of the workforce. Technological progress was financed by state projects in several industrial branches. He criticised the viewpoints of Keynes as the chief apologist of state regulation of the capitalist economy. Unfortunately for Kuzminov, his book had been published on the eve of the Twentieth Congress of the CPSU. In a book review published immediately after the Twentieth Congress, V. Glushkov remarked that Kuzminov's book contained several shortcomings. One of them was that the author had failed to analyse the mechanisms in which the monopolies were influencing political decisions and how pressure groups were operating. A concrete analysis of the economic cycle was missing too (*International Affairs* 1956/11: 148–53).

A more refined definition of state-monopoly capitalism had thus become necessary. In *Kommunist* (1960/7: 19–30), A. Arzumanyan expressed the view that one could encounter in Soviet writings the tenet declaring that in every monopoly-capitalist country there exists a centre representing the interests of the monopoly bourgeoisie and giving directives to the state apparatus. At the Moscow Conference of Representatives of Communist and Workers Parties in November 1960 the phenomenon of state-monopoly capitalism was redefined as a mechanism to save the survival of the capitalist regime, to increase profits of the imperialist bourgeoisie by the exploitation of the working class and the robbery of broad layers of the population (Boccara 1966b: 5–22; 1973: 28–30).

In the meantime, Varga singled out that there were also constant contradictions among the different factions of the various monopolies in a single branch. First, Lenin had emphasised that competition remained under monopoly capitalism, which excluded a complete community of interests among the bourgeoisie. Second, Marx had pointed out that the bourgeoisie was united in its attempts to squeeze out the working class surplus value as much as possible, but that the bourgeoisie's unanimity disappeared when it came to the distribution of the surplus value. However, the monopoly bourgeoisie as a whole had several interests in common such as the safeguard of the capitalist system, keeping wages at a low level, obtaining government orders and tax breaks. These conflicts

explained the fact that under state-monopoly capitalism the state represented the common interests of monopoly capital, which sometimes were contradicting the particular interests of the monopoly bourgeoisie. 'This shows that the definition of state-monopoly capitalism based on Stalin's conception ("state-monopoly capitalism implies the subordination of the state apparatus to the capitalist monopolies") is wrong' (Varga 1968: 55). Hence, there was 'no "one-sided subordination", but a joining of forces, which, in spite of this merger, still maintained a certain autonomy'. He rejected any one-sided 'subordination' in the name of Marxist philosophy. His dogmatist opponents had forgotten that all capitalist laws were no more than 'tendencies always opposed by counter-tendencies' (Varga 1968: 55). He admitted that the parliamentary system complicated the problem. The contradictions between the monopolies created meanwhile conditions for the formation 'of a broad anti-monopoly-capital front embracing the working people and those layers of the bourgeoisie whose interests have been harmed by the monopoly bourgeoisie' (Varga 1968: 57). Thus, the fusion of state power and monopoly capital proceeded 'dialectically' and could not be reduced according to Stalin's formula of a 'subordination' of the state to monopoly capital.

Varga's strong belief in a growing opposition to the monopolies and in a final collapse of capitalism was albeit in full accord with the new programme of the CPSU of 1961 stating that in the interests of the financial oligarchy the bourgeois state had instituted various types of regulation and accelerated the development of monopoly capitalism into state-monopoly capitalism (*The Road to Communism* 1961: 471). Nationalisations could weaken monopoly capital and attract the support of the factory, the office workers, the peasantry and the urban petty bourgeoisie.

Like all Soviet economists (Turner 1969), Varga saw in Keynes a 'false prophet'. He guessed that the reformist leaders had valued Keynes because he never had attempted 'to refute Marx or argue with him' (Varga 1968: 319). Varga would never link the Marshall Plan to Keynesianism or any other form of macro-economic management, but he recognised that the Marshall aid had enabled countries to rebuild their industries and to boost production (*New Times* 1964/8: 4–7). Varga commented extensively on Keynes's *The General Theory* (1936) when I. A. Trakhtenberg (1954a, 1954b, 1956a, 1956b) published on Keynes' theory of full employment and the role of credit in capitalism. Varga saw in Keynes a 'typical eclectic' economist only dealing 'with the superficial phenomena of capitalist economy', because his theory was a 'confused rag-bag' for not having created an economic theory of his own or having refuted the teachings of the 'founders of bourgeois political economy' (Varga 1968: 305–6). Varga's main charge against Keynes was the latter's 'muddled thinking' (Varga 1968: 320) and that any class analysis or historical approach was absent in his writings. In his 'pseudo-psychology', Keynes had forgotten that competition forced 'the individual capitalist to make a profit or perish'. Keynes's abstract economic man and psychological laws had no validity in the 'real capitalist world' in which there were at least 'a thousand million people whose incomes

are so low that they are forced to live in perpetual hunger', or people whose incomes 'are so large that it would be simply impossible to spend them on consumer goods'. Hence, Keynes's policy of overcoming the narrowness of the market by increasing 'unproductive consumption' among the non-working classes was 'not as absurd as it would seem at first glance' (Varga 1968: 307–9). Deficit spending was also intended to justify the expenditure on arms. In the theory of Keynes, unemployment was caused by the fact that the more workers an employer hired, the less profit he could expect of them (the working of the law of diminishing returns) and by the fact that not all people wanted to spend their whole income on consumption or on investment. But the principal cause of unemployment was the capitalist system itself. According to Varga, Keynes's popularity was mainly due to his recommendation that state intervention in the economy could avoid crises of overproduction and mass unemployment. That was albeit in 'complete harmony with the interests of the monopolies' and the wishes of the reformist union leaders and politicians (Varga 1968: 316).

Varga recalled that 'the laws of capitalism are tendencies which are always opposed by counter-tendencies' and that social formations or modes of production do not exist in a 'pure', 'static' form. There was thus no such thing as an immutable 'thing in itself', he reasoned. Meanwhile meanings were modified by circumstances depending on 'the vantage point from which it is observed'. The debate on the state had since 1947 centred round the question whether 'under monopoly capitalism the state is a state of the whole bourgeoisie, […] or a state solely of the monopoly bourgeoisie (financial oligarchy), as asserted by my opponents'. However, 'depending on the concrete historical situation either thesis may be correct or incorrect', but under 'normal conditions' the capitalist state was serving the interests of the monopoly bourgeoisie to continue the exploitation of the working class (Varga 1968: 45). The state could thus only act on behalf of the interests of the 'whole bourgeoisie at times when the existence of the capitalist system is in direct danger' (Varga 1968: 45–6). Due to an aggravation of the general crisis of capitalism, the safeguarding of the capitalist system had become a more important function of the capitalist state. As all classes and strata of the population were receiving a direct and indirect income from the exploitation of the working class, the state was much contributing to capitalism's survival as well.

Varga on cyclical crises

After Stalin's death Varga would return to the problem of the industrial post-war cycle and the problem of overproduction too. In 1954, Varga (*New Times* 1954/23: 8–12) was waiting – in vain – for a new economic slump in the USA. He enumerated all the elements announcing a sharp crisis. Output of consumer goods had begun to decline, while stocks were growing. In addition, there were big surpluses of basic production facilities in the war industries. A vast surplus of loanable money should cause an outburst of inflation. For the moment, high monopoly profits had kept the purchasing power of the population low. The

claim that there was no crisis, but only a slight recession stemmed from the fact that the monopolies had not yet felt the impact of the crisis as long as they can maintain high prices. The lesser monopolies had already been forced to cut down their investments. As a result of mass unemployment the purchasing power of the working class had declined. Meanwhile, most farmers and office workers had seen their income declining.

Varga identified the 1958 cyclical dip in the USA not as a short-term transient crisis similar to those of 1949 and 1954, but only as a cyclical crisis of overproduction. Because there were no signs of improvement judging by all the available evidence, he predicted the crisis to be long and deep. US monopolies, he argued, knew only two methods of combating the crisis: more spending and less taxes. This policy could only prolong the crisis, render it more severe and impair the interests of the country and the whole business community. He identified General Motors as the leader of an anti-labour offensive of monopoly capitalists to undermine, or, at least, weaken the American labour movement. But already in 1959, Varga recanted. The monopolies had only lost some of their profits, but there had been practically no decline in prices and only a temporary drop in share prices, followed by a pickup. Manufactures were selling at 10 per cent above 1955 price levels. Varga concluded that intensive re-equipment had caused higher productivity, so that the labour costs could drop. Steel prices were nonetheless 15 per cent higher than before the crisis. Even automobiles, notwithstanding cutthroat competition, were higher priced than before the crisis. The population of the economically backward areas had been hard hit. There, in the former colonies and semi-colonies, the crisis had begun earlier than in the developed industrial nations, because the latter had immediately reduced raw material imports. The drop in primary goods prices meant extra revenues for the capitalist economies, but also less export revenues that accentuated the economic crisis in the developed capitalist world. The biggest sufferers were the old industries (coal, steel, cotton textiles and leather), while the new industries had suffered only slight damage (*New Times* 1959/5: 10–12).

Varga argued that the export of all capital to the former colonial and semi-colonial countries had stopped now that the latter had embarked on the socialist road. Thus capital export was limited to a few numbers of politically and economically stabile countries. However, this tendency was not at all hastening the process of imperialist breakdown as long as large-scale export of capital could continue in the form of economic-military aid (*New Times* 1964/8: 4–7). This new tendency had only brought ‘a temporary expansion of the market and, all other conditions being equal, a lengthening of the trade cycle’ (Varga 1968: 220). For the time being, no predictable breakdown of imperialism could be expected as modern technology was helping the capitalist countries to open up many new deposits or develop sources of raw materials. The long post-war boom in the USA was a result of ‘postponed consumer demand for durables’ and ‘a tremendous unsatisfied demand for means of production for the “peaceful” branches and for consumer goods’ (Varga 1968: 222). The well-to-do people and even some categories of industrial workers had to wait to spend their savings

because of the shortage of consumer goods. The three factors being responsible for the lengthening of the post-war cycle were (1) an expansion of fixed capital until 1957; (2) large commodity stocks accumulated during the war; (3) an artificial expansion of consumer credits. Increased additional demand (or 'future purchasing power') had now been used 'to save the present situation' (Varga 1968: 226).

Varga's commentaries on the economic cycle have to be situated in the ongoing debate on the post-war capitalist cycle and the role of the state in which many Soviet economists tried to make points. Already in 1956, I. A. Trakhtenberg had pointed out that the course of different crises and cycles was marked by peculiarities determined by temporary operative factors in the given country and in a given cycle. The continued militarisation of the economy and military expenditures had not prevented the outbreak of the crisis in 1953, but this crisis was not followed by a credit crunch or a slump or a downturn in the European capitalist countries. It was noted that the increase of American automobile production was playing an important role in the boom. 'This is because sharp competition compelled the production of a greater quantity of 1955 models in a shorter time. This brought about in its turn a rise in steel smelting which is reflected in the general index of industrial production.' However, Trakhtenberg retracted when adding that such 'a temporary factor' could not by any means be 'a prolonged stimulant' for general industrial growth (Trakhtenberg 1956b: 27)

In 1957 Varga observed in a second edition of his *Basic Questions of Economics and Politics of Imperialism* that industrial production in the capitalist world had already grown by 80 per cent. Meanwhile, cycles had become more frequent, but they were also more moderate than before. Employment and wages had increased as a consequence of a high rate of capital accumulation. Military consumption contributed to a certain market expansion as well, which indicated that in the post-war period no depression of a special kind existed anymore. How to interpret all these changes? Would there come a deepening crisis and a further breakdown of US economic power in the world? Varga published his views on the problems of the post-war industrial cycle and the new crisis of overproduction in *Kommunist* (1958/8: 140–57) and in *Mirovaya ekonomika i mezhdunarodnye otnosheniya* (1958/6: 18–35). He attacked some Soviet economists having expressed the opinion that the war itself created the conditions for a crisis of overproduction because of the excessive development of the war industry and its associated branches and the lagging behind of industries producing consumer goods. That theory, he argued, echoed the 'bourgeois and revisionist view that it is not capitalism itself that is responsible for the crisis of overproduction, nor it is the contradiction between the social character of production and the private capitalist form of appropriation with the ensuing poverty of the proletarian masses, but a disproportion between the various branches of production' (*Kommunist* 1958/8; 18–19). Varga thought that disproportions may explain a partial crisis in separate branches, but an explanation of the business cycle as a whole had to begin with aggregate demand and supply. The beginning of the post-war cycle had started in 1947. Several factors had contributed to postponing the

attended slump. Lengthened phases of recovery were mainly due to increased military orders during and after the Korea boom and to expanding consumers' credit. The decaying colonial system had influenced the cycle as well, while increased capital exports from the USA were influenced by US military expenditures. But all these factors could only have postponed the crisis to a later date. Varga predicted now that the US downturn in 1957–8 would spread to other capitalist countries as well. For the moment, he already diagnosed a fast decrease of the prices of raw materials, a crisis in shipbuilding and shipping and a decline in investments. Although it was at that moment too early for giving an analysis of the world economic crisis, Varga sustained that 'without any doubt the crisis in the USA was the beginning of a worldwide economic crisis' (*Kommunist* 1958/8: 157).

Varga's prediction of a worldwide economic crisis was met with disbelief by his colleagues and party officials. On 29 April 1958, a meeting was organised at Institut Mirovoy Ekonomiki i Mezhadunarodnykh Otnoshcheniy (Institute of World Economy and International Affairs, IMEMO) in order to discuss Varga's thesis. The meeting presided over by V. P. Dyachenko ended in confusion with discussants vehemently rejecting Varga's prognosis and accusing him of 'catastrophism'. I. Shmidt's opinion was that Varga's prognosis was wrong. I. M. Lemin predicted a new investment boom as a result of technological progress. Ya. A. Kronrod could not discern the signals of a coming financial and stock market crisis. N. V. Orlov rejected the idea that investment in Europe would slow down because of a recession in the USA. V. D. Kazakevich criticised Varga's belief in a coming of a recession like that in 1929 (*Mirovaya ekonomika i mezhdunarodnye otnosheniya* 1958/7: 148–51). Unfortunately for Varga, no profound economic crisis would spread from the USA over the rest of capitalist world. The publication of his announced book on the politico-economic problems of capitalism was delayed until 1964. His incriminating article published in both *Kommunist* and *Mirovaya ekonomika i mezhdunarodnye otnosheniya* was rewritten (Varga 1968: 207–39).

Varga's arguments concerning the 'postponed' crisis and the working of the capitalist cycle had meanwhile become common knowledge. By 1960, all Soviet economists could agree on the role of the planning capacities of the state with regard to the investment cycle. The state could hence serve the general interests of the whole bourgeoisie by redistributing income to many sectors and branches of the economy.

Leading conservative economists like I. I. Kuzminov, A. I. Katz and S. L. Vygodskiy thought that the permanent militarisation of the US economy had distorted the business cycle. Different opinions among Soviet economists still persisted in the early 1960s. Kuzminov argued that militarisation, like war, could not have a great influence upon the process of reproduction, the capitalist cycle and the course of the crisis phase. Unevenness of the development of the crisis together with short-term upward trends had concealed the development of the crisis in Britain and elsewhere. A main reason for the special features for the developing crisis in 1957 and 1958 was the disruption of the synchronism of

the world capitalist cycles as a result of the Second World War (*International Affairs* 1959/3: 29–37).

Kuzminov and Varga were still at odds. In 1961, when attacking Kuzminov, Varga called for a better understanding of the working of the capitalist production cycle (*Mirovaya ekonomika i mezhdunarodnye otnosheniya* 1961/3: 93–103; Varga 1968: 207–39). Varga's position was clear. He preferred focusing on all distinguishing features of the post-1945 economic cycle. US economic supremacy over all other capitalist countries had decreased and American goods were not dominating the world market anymore. A constant drain of gold reserves undermined its monetary system. In spite of high labour productivity based on up-to-date equipment, the US economy could not play the role of the sole defender of world capitalism. Even complaints about American dumping practices were heard. Structural unemployment was growing in a period when economic growth rates were slowing down. It would be illogical that two different cycles exist in the future. 'Sooner or later a cycle of a single type will be established throughout the capitalist world. In our opinion this cycle will resemble the post-war development of the USA' (Varga 1968: 232). During the post-war boom this renewal and expansion of capital was characterised by new factors, such as the speedy methods of factory construction, the rapid technological progress making equipment obsolete sooner than before, the rapid replacement of equipment, capital investment in the modernisation of operating factories, etc. All these factors would accelerate the break-out of an overproduction crisis and shorten the capitalist cycle.

Varga foresaw a period of economic stagnation in the USA with available equipment constantly underemployed and thus also a general intensification of the class struggles. A general aggravation of the contradictions of capitalism would follow as the laws of competition operating under monopoly capitalism were forcing capitalists to renew and expand their fixed capital. The 'reproduction cycle is determined', Varga argued, 'by the fixed capital, or [...] every crisis is the starting point for a mass renewal and expansion of fixed capital undertaken for the purpose of lowering production costs'. Extra-economic factors could be invoked in order to explain the long post-war cycle with growing prosperity. On the one hand, Varga noticed that the capitalists 'now have a far deeper knowledge of the overproduction following a boom and also of world market conditions than they had in Marx's time or even 30 years ago'. He thought that efficient 'projected statistics' existed in combination with market-research reports enabling capitalists 'to pre-gauge consumer demand and thus avoid an overproduction of commodities'. Even the state could increase 'effective social demand'. But on the other hand Varga refused to believe in demand management under capitalism. 'Under capitalism there can be no state planning, no crisis-free capitalist reproduction', he recalled. In the future the long and powerful growth in output would thus come to a standstill. 'The deepening of the general crisis of the capitalist system is expressed by the growth in the number of industries which are in a state of perpetual crisis, such as coal, textile and ship-building industries, and those being gradually drawn into this state – the iron and steel and motor industries' (Varga 1968: 238–9).

However, the reproduction cycle after the Second World War differed from that of the interwar period because of (1) contraction of the capitalist world as a result of the appearance of new socialist states; (2) sharpening of the contradictions in some of the capitalist countries; strengthening of the Communist parties and weakening of the Social-Democratic parties of these countries; (3) disintegration of the colonial system of imperialism. As a result, striking differences existed between the business cycle in Britain and the continental European countries, where no crises of overproduction had occurred. Fortunately, the laws of the reproduction cycle, 'like all laws', were no more than 'scientific abstractions', and they were determined by 'the different tendencies and countertendencies at work in capitalist economy' (Varga 1968: 207). Meanwhile, cyclical economic upsurges had not led to a full-fledged boom in the USA. The dialectic of the general crisis of capitalism was such that its effect was 'greater in the richest capitalist country' (*New Times* 1962/32: 4–7). In the meantime, the American economy was caught in a 'vicious circle' of undercapacity caused by low purchasing power, low investment and increased competition compelling the entrepreneurs to automate their factories.

In hindsight, Varga regarded the year 1947 as the beginning of a post-war cycle lasting some ten or 11 years. The cyclical movement of world capitalist production was all the time feeble and its main function was the creation of 'the conditions for a crisis of overproduction' (Varga 1968: 212). The disintegration of the colonial system had a telling influence on the course of the cycle. 'The war weakened all the imperialist powers with the exception of the United States. They could no longer hold all the colonial nations in subjection by armed force.' The crisis of 1958 had not been the beginning of a depression either as in 1959. The 1959 output level was considerably above the preceding peak. Post-war production growth had been almost entirely due to economic growth in the developed capitalist world. How to explain the fast recovery of the Japanese, German, Italian and French economies and slow economic growth in the USA and Great Britain? Economic recovery in Japan and West Germany should be attributed to their comparatively low military expenditures and to a rapid expansion of their fixed capital. Due to the Cold War, the USA could take up large-scale arms production soon after the end of the Second World War. Thus, even in peacetime, the US monopolies could get new and highly profitable orders. Meanwhile, no idle production reserves existed; the result was 'an overstrained and unbalanced economy similar to that in times of war' (Varga 1968: 218). Varga concluded that 'war production' was able to 'lengthen the upward and overstrain phases, and hence the whole cycle, but cannot avert a crisis of overproduction, as has been conclusively proved by the 1957–58 crisis' (Varga 1968: 219). Regarding the business circle, Varga's views were the following: (1) the period of the Second World War should be excluded from the cycle; (2) 1947 should be considered the beginning of the post-war cycle; (3) the first post-war cycle continued to the 1957–8 crisis of overproduction; (4) the second post-war cycle began after that crisis. In the long run, a single cycle would establish itself for capitalism as a whole and it would be similar to the

post-war cycle in the USA and Britain, i.e. would be shorter than it had been before the Second World War.

In his reply, Kuzminov asked for a better analysis of the specific features of cyclical development in post-war capitalism and for a correct conception of the post-war cycle 'which conforms to reality' (*International Affairs* 1961/8: 61). Kuzminov distinguished four groupings of countries with a different capitalist cycle which should be assigned to the influence of the Second World War on the economies of those countries. The USA, Canada, Mexico and Australia had taken advantage of the favourable war boom, which had led to substantial economic growth. A second group of countries – the European countries having been occupied by Germany – had suffered from destruction and pillage. A third group included the impoverished countries of the former Hitler coalition. A fourth group was formed by the underdeveloped colonies and semi-colonies where industry had expanded after the war as well. The problem was that after the war one group of countries was confronted with overproduction, while other groups faced the need to restore their economies.

Kuzminov attacked 'some economists' proceeding from a 'schematic conception' who could not explain the origins of the 1948–9 and 1953–4 crises in the USA. He hit the nail on the head when putting that the Second World War had 'upset' the synchrony of the investment cycle and aggravated all the contradictions of capitalist reproduction as well. As the USA could export capital to Europe, the American economic crisis of 1957–8 did not develop to the full in the USA and affected most European countries only to a small extent. This was confirmed by the new economic crisis which had begun in 1960 in the USA. He attacked Varga for having said that this crisis could not be called local or intermediary. It was thus a world crisis. Kuzminov referred to the fact that the recent US crisis had an intermediary character exerting a marginal effect on the other capitalist economies. Though the modification of the post-war capitalist cycle had led to intermediary crises, 'some economists' (i.e. Varga) had unduly defined an intermediary crisis 'as a crisis of a separate branch of production in contrast to a general crisis of overproduction'. Kuzminov referred to Marx and Engels who regarded intermediary crises as specific, but specific not in one (a branch), but in two senses. Crises could occur in a branch, but also locally. Intermediary crises in the USA after the war were thus of the second type and were a consequence of the desynchronisation of the world circle. He reminded Varga that the US economy was an integral part of the world economy. Thus the first post-war cycle had started in 1945–6 in the USA and ended in the world crisis of 1957–8. The cycle had thus lasted for 11 or 12 years. Could local crises acquire a more or less regular character? Did intermediary crises affect the cycle? According to Kuzminov, Varga's assertion that an intermediary crisis was not followed by a phase of depression was painting a one-sided picture as well. For Kuzminov the US economy was in a phase of chronic crisis: chronic crisis in some branches of production, chronic unemployment of industrial capacity and chronic mass unemployment. War preparations might therefore prevent the deepening of the crisis or cause a temporary upswing of production, 'but on the

whole militarisation of the economy can bring about only secondary changes in the main picture of the cycle', Kuzminov concluded (*International Affairs* 1961/8: 68).

Commenting on Varga's analysis of the cyclical course of reproduction in *Politico-Economic Problems of Capitalism*, V. A. Cheprakov (1968: 3–10) argued that 'many views among Marxists' existed on the post-war cycle. Cheprakov agreed with Varga's warning against 'an overestimation of the "anti-crisis" measures taken by the capitalist state', but he added that 'it is undeniable that state activities can influence the factors determining the intensity and duration of the upward phase and the depth and duration of the crisis phase in future cycles'.

The European Common Market

New developments in capitalism could be observed with the European Common Market aiming at overcoming economic rivalries between the German Federal Republic and France. Could inter-imperialist contradictions be superseded or postponed by monopoly capital? On 15 April 1957, the Department of Political Economy of the Academy of Social Sciences of the Central Committee of the CPSU organised a debate on the recently established European Common Market. The meeting, which was attended by economists, publishers, journalists, post-graduates and lecturers on international problems, discussed the present situation in the capitalist world. I. I. Kuzminov, S. L. Vygodskiy, B. M. Pichugin, A. M. Sharkov, M. N. Smit, V. V. Rymalov, A. I. Shneyerson, Y. Y. Kotkovskiy and A. M. Alekseyev gave lectures. Obviously, Varga had been 'forgotten' when organising the debates (*International Affairs* 1958/5: 76–102).

In March 1957, Varga had nonetheless published an article on the European Common Market. 'If the ruling element in these six countries wanted to establish a real common market, and were in the position to do so, it would be enough to set out in a few pages the basic provisions for abolition of customs tariffs and other trade impediments, unification of taxes, repeal of export subsidies, etc.' (*New Times* 1957/10: 11). Increasing military, financial and economic dependence on the part of France and Britain vis-à-vis America had been the result. The costs of the presence of American troops amounted to nearly US$2,000 million a year. A Common Market might help to increase trade between the six founding states, Varga argued, but it would change nothing in their economic relations with the rest of the world. A radical change in their foreign and economic policy would require a genuine peaceful coexistence, an expansion of foreign trade with the socialist countries and an all-European collective security system embracing both capitalist and socialist countries (*New Times* 1957/10: 12). Varga saw the Common Market as a 'return to the conditions existing before the First World War', thus as 'an attempt to overcome the dividedness of the world market by uniting the markets of six countries' (Varga 1968: 71). The Common Market was also 'an attempt on the part of the West European imperialist powers to consolidate their position following the political liberation of the colonial countries,

to enable them to conduct a vigorous policy of neo-colonialism and to compete with the United States'. Equal conditions for competition, however, served 'primarily the interests of the big monopolies'. For him, the Common Market was nothing but a politically 'desperate attempt to resolve imperialism's inevitable internal contradictions and to oppose the socialist world system by a single imperialist front' (Varga 1968: 71–2).

By 1962, a debate on the new phenomenon of regional economic integration and supra-nationalism could no longer be avoided. In the GDR a congress debating on 'imperialist integration or self-determination?' was held on 7 and 8 June 1962. In his keynote speech Professor K.-H. Domdey (University of Rostock) argued that European integration had been concocted by American imperialist interests and German monopolists (*Wirtschaftswissenschaft* 1962: 1726–31). Between 27 August and 3 September 1962, an international conference of Soviet and foreign communist economists met in Moscow at the invitation of IMEMO and the Prague-based *World Marxist Review*. Varga was allowed to contribute to the lengthy debates on the European economic integration process. In his contribution, he (1964a: 324–32; 1968: 286–301) argued that the Common Market was a plan of capitalist integration, thus an attempt to perpetuate the economic exploitation of the former African colonies and to unite monopoly capital against US supremacy. Not the market, but only an increase in demand could expand production in the future. However, the laws of capitalism and imperialism would lead to increased centralisation of capital in combination with a lowering of the wage level, thus to a shrinking market of consumer products. Regional integration would not provide a solution to the realisation problems of capitalism (Varga 1964a: 332). Italian Communist journalist Emilio Sereni repudiated Varga's thesis as 'abstract' and 'wrong', because market integration would also mean a change in the international division of labour and a lowering of production costs. The accumulation process of capital would not only create a larger market, but also growing production in other sectors of the economy.

Later, Varga reformulated the question of European integration as follows: 'can such an association lead to a constant, or enduring non-cycle expansion of the population's consumption capacity?' (Varga 1968: 290). His answer was negative. Market expansion for *Department I* goods would not ensure 'an enduring upswing of production as a whole'. If the demand for goods produced by *Department II* was not high enough, the production of *Department I* goods was bound to decrease. 'Only adherents of Tugan-Baranovskiy's theory can believe that a constant expansion of fixed capital can ensure a steady crisis-free upswing of capitalist production' (Varga 1968: 290). The economic consequences of a Common Market would be insignificant as long as there were no changes in the operation of the objective laws of capitalism, thus capitalism's realisation problem would not be solved. No constant or even 'protracted expansion of the market for consumer goods' (Varga 1968: 291) could be expected for a more or less enduring period. Varga predicted a contradictory development with the largest monopolies attempting to corner the newly acquired markets. Social labour productivity would grow and the socially necessary labour time embodied

in a commodity unit would decrease, but, all other conditions being equal, less workers would also mean a decrease of the total wage sum. Even if the size of real wages of every individual worker remained unchanged, the market for commodities produced by *Department II* would shrink. Increase in the demand for consumer goods would thus be essential, which ultimately would depend on a redistribution of the national income in favour of the working class. However, the outcome of the predicted intensified competitive struggle would be the ousting of all weaker competitors combined with a rapid centralisation of capital and a concentration of industrial production would tend to a decrease of real wages, with a resulting drop in the demand for consumer goods, and hence an aggravation of the market problem.

Varga considered the European Common Market primarily as influenced by a 'mercantilist' spirit. As the key to a stable economy, exports were favoured with credits and subsidies. If the European Common Market was able to increase its exports by 50 per cent, its general market capacity would only be expanded by even less than 7.5 per cent. A country exporting commodities received reimbursements for their value from abroad, but these reimbursements would take the form of other commodities, since no country was able to pay for all its imports in gold. These imports often consisted of commodities also produced in the country in question, which naturally would result 'in a narrowing of the market for domestic goods.' Finally, Varga warned that his analysis was 'abstract and theoretical', because it did not touch on the concrete historical conditions, but referred to the theoretical assumption that if full economic integration could be realised, the problems capitalism was facing would not be solved. A complete economic union would also mean 'a single currency, a single budget, a single state, i.e., complete political integration, the rejection of all individual sovereignty by the countries in question' (Varga 1968: 302). He prophesied that the chances of this happening were so slight as to be negligible.

Capitalism's decay

On 26 November 1959, a meeting was scheduled at the conference hall of the Department of Economics, Philosophy and Law of the USSR Academy of Sciences on the occasion of Varga's 80th birthday (Arzumanyan *et al*. 1959). Some 1,500 invitations had been distributed. K. V. Ostrovityanov delivered the usual keynote address in which he praised Varga's contribution to the development of economic science and his selfless devotion to the cause of the working class. The text of Varga's lecture was published in *Kommunist* (Varga 1959) and many other journals as well (Varga 1962a). In 1961, Varga published a 'little book' entitled *Twentieth Century Capitalism* (Varga 1962a) in which he broadened the subject of his lecture.

In his lecture, Varga put forward that the capitalist system had outlived itself, because imperialism did not determine the course of society's historical development anymore now that socialist system was expanding over the world. During the Second World War, he argued, the struggle between both systems had not ceased, which explained why 'the cold war in the post-war period' could develop (Varga

1962a: 49). However, radical changes in the relation of forces of socialism and capitalism had meanwhile occurred to the disadvantage of capitalism. Western Europe's economic recovery during the post-war period should be explained by the influx of American capital in the form of direct investment, loans, the purchasing of shares, state aid, etc. That period of extraordinary but temporarily expansion ended, however, in the economic downturn of 1957–8, when the dominant trade position of the USA on the world market had deteriorated. Although the USA dominated all other capitalist countries, 'the difference in the level of economic development may become smaller' (Varga 1962a: 64). Varga enumerated several relevant phenomena having contributed to this slowdown, such as the ever-growing organic composition of capital and the concentration of wealth and income in the hands of the propertied classes. As a result an increasing number of people had become employed in unproductive jobs in the services sector.

Varga's seized this unique chance to criticise the dogmatists who were always reiterating that inter-imperialist wars were unavoidable because Stalin, the 'chief arbiter', had said that those 'who were denying the inevitability of wars between imperialist countries saw only the external phenomena and failed to see the abysmal forces which, operating almost unnoticeably, would decide the course of future events' (Varga 1968: 75). Stalin had however completely forgotten Lenin's law of uneven development under imperialism when arguing that the USA would always conserve its economic supremacy over the other countries. The law of capitalist development was nonetheless leading to a growing exploitation of the underdeveloped world. Monopoly capital still exploited the ex-colonies by neo-colonialist methods and economic aid. The countries in the underdeveloped world had yet an opportunity to decide on 'the choice of two paths of development – the capitalist and the socialist paths' (Varga 1962a: 10). Varga pointed out that unequal exchange mechanisms and trade monopolies were at the disadvantage of the developing countries. This was one of the reasons why the economy of the imperialist countries had suffered 'so little from the loss of political power over the colonies' (Varga 1962a: 102–3). No real changes in the price levels in favour of the underdeveloped world should be expected. In the developed capitalist world, technical progress had led to the production of substitutes such as synthetic rubber, plastics or artificial diamonds, and mechanisation had profoundly transformed agriculture.

As usual, Varga limited his analysis of economic changes in capitalism to a long enumeration of phenomena and facts, such as increased state regulation, state-owned enterprises or the appropriation and redistribution of the greater part of the national income by the state. The big monopolies could not go bankrupt as long as they were not obliged to reduce their prices, but in case of necessity the state would always float them. In a period of economic crisis, the entire burden was borne almost exclusively by the working classes, the population of the underdeveloped countries and the weaker sections of the national bourgeoisie. All state spending was to the advantage of monopoly capital. Even the schools training the work force or the medical services keeping the workers healthy were working at the service of monopoly capital. In Varga's analysis, state-monopoly

capitalism appeared as 'extremely reactionary because it exists in order to defend a capitalist system that is doomed to collapse' (Varga 1962a: 116). The financial oligarchy was now employing complicated ways and means to make use of the savings of the people for their own enrichment. The relations between banks and industrialists had thus changed since 'the burden of the crises of overproduction was distributed in society in a different way' (Varga 1962a: 109).

The 'capitalist cycle' was showing a tendency 'to become shorter' as rapid technological changes were making machinery and equipment earlier obsolete. The economic crises would become more profound than they had been during the first 15 years after the Second World War. Again Varga's analysis comprised a mixture of Hilferding's finance capital and Luxemburg's underconsumption thesis. The social character of production and the private character of appropriation created a chronically narrow market compelling the capitalists to sell their consumer goods on credit. Inflation and unstable currencies were the effect of monopoly power, while armament spending had become a technique to overcome the effects of the narrowness of the domestic market. As before, superfluous capital was exported. The volume of state loans had meanwhile increased in importance as a weapon in the struggle against the socialist system. The independent entrepreneurial class had disappeared, while hired managers were leading the enterprises, and a growing section of the bourgeoisie had become 'parasitic' (Varga 1962a: 129). The monopolies were taking advantage of inflation. High monopoly prices were set in order to meet the demands of the workers in part. Meanwhile, growing numbers of unskilled workers were replacing skilled personnel and at the same time levelling out workers' wages. As technical progress had brought about a rapid increase in labour productivity, a reduction of the working week in combination with the creation of more office jobs was nonetheless possible. Productivity growth was meanwhile five times greater than the reduction of the working week. That meant, in turn, that the bourgeoisie was receiving constantly growing profits while at the same time buying over a growing section of the working class, with a relative impoverishment of the working classes as result.

Conclusions

During the last years of his life, Varga's analysis of decaying capitalism was still built on his pre-war underconsumption thesis completed with an optimistic belief in an expanding socialist world system. Changes in the capitalist system were dictated by the needs of monopoly capital using the state to increase its profits and redistribute income. Meanwhile, the Soviet Union was forging ahead in all branches of science and technology, overtaking the USA economically in the predictable near future. China would become very soon an economic giant. Hence, the twentieth century would be the last century of capitalism and all attempts to postpone the final breakdown of capitalism would fail. After having been marginalised by his Stalinist enemies, Varga got finally the opportunity to strike back. Destalinisation allowed him to denounce Stalin's theoretical mistakes and above all to be put in the right.

Epilogue

He went out into the dusk. The last
Ray of the sun glowed in the clouds,
Like a funeral torch lighting his path.
Yakov Polonskiy

Eugen Varga died of a stomach cancer on 7 October 1964 in a Moscow hospital. His official obituary in *Pravda* (9 October 1964) and in *Izvestya* (10 October 1964) stated that Yevgeny Samuilovich Varga was an outstanding representative of Marxist–Leninist economic thought, a veteran of the international labour movement and Lenin Prize (1963) winner. He received three Orders of Lenin (1944, 1953 and 1959), the order of the Red Banner of Labour (1954) and medals. His works were characterised by 'party spirit' (*partiynost*) and intolerance toward any manifestations of dogmatism, revisionism, vulgarisation and pedantry imposed on science in the years of the cult of the individual. This obituary was signed by N. S. Khrushchev, A. I. Mikoyan, B. N. Ponomarev, M. V. Keldysh, V. A. Kirillin, M. D. Millionshchikov, P. N. Fedoseyev, A. A. Arzumanyan, P. N. Pospelov, Ye. M. Zhukov, S. G. Strumilin, K. V. Ostrovityanov, V. S. Nemchinov, N. P. Federenko, V. N. Starovskiy, N. N. Inozemtsev, L. A. Leontiev, M. A. Rubinshtein, I. M. Lemin and others.

By 1964, the year of his death, Varga had thus become an icon of Marxism-Leninism. His books and articles were translated in many languages. His name was listed in encyclopaedias. He was a member of the Presidium of the Society for the Dissemination of Political and Scientific Knowledge as well. In several socialist countries he was celebrated as an older Marxist with an outstanding career. He had been close to powerful and influential person like Molotov and Ivan M. Maiskiy (Varga 1964c: 84–8). His articles had been published in *Pravda* and *Kommunist*. Foreign secret services paid attention to his statements and publications.

In his native Hungary, the Academy of Sciences awarded him in 1955 with a Ph.D. *honoris causa*. In the GDR, Jürgen Kuczynski (Mária Varga Archive, Moscow. Kuczynski to Varga, 31 October 1959) rumoured about the existence of a 'Varga School' of economic thought in Moscow. When the Humboldt

University in Berlin (GDR) celebrated its 150th anniversary on 12 November 1960, Varga obtained at the behest of Kuczynski a Ph.D. *honoris causa* for his 'exceptional merits' as a theoretician of state-monopoly capitalism (PIL, 783. f. 13).

As a member of the Academy of Sciences, he could be placed on the level of a minister of the government of the USSR. As an academician he should have received a salary of 5,000 roubles a month in 1949 (Moore 1954: 125). At the end of the war, Varga left Hotel Lux for a three-room apartment at the Serafimovicha Ulitsa 2/110. In 1954, he obtained a spacious apartment on Leninskiy Prospekt 11 in Moscow. Several honorific functions should be added to these material advantages. Kremlin medical specialists treated his family. In 1954, he was awarded the Stalin Prize. In 1954 and in 1959, he received the Order of Lenin. In 1963, he was awarded the Lenin Prize for his scientific treatment of the problems of modern capitalism. After his death, a commemorative plaque was placed on the apartment bloc on Leninskiy Prospekt.

On 19 October 1964, a week after Varga's death, the Soviet Academy of Sciences organized a meeting in the building of the Academy in Moscow. In 1969, Varga's 90th birthday was commemorated with some academic pomp and circumstance (*Mirovaya ekonomika i mezhdunarodnye otnosheniya* 1969/11: 14–20; 1970/1: 123–31). In *Pravda* of 5 November 1969, IMEMO director N. N. Inozemtsev published a long article in which he praised 'teacher-internationalist' Varga. In 1979, Varga's centenary was a good reason for publishing in three volumes selected chapters of Varga's most important writings. That year commemorative sessions were organised at the behest of academic authorities. The Academy of Sciences of the USSR (*Tvorcheskoe* 1981), the University of Leipzig (Weber 1980), the Institut für Internationale Politik und Wirtschaft (IPW) ('Zum 100' 1979) and the Hungarian Academy of Sciences (Szigeti and Solt 1979: 1380–90; *Népszabadság*, 6 November 1979) commemorated Varga's centenary.

Though Varga had been a high-ranking functionary during the Republic of Councils of 1919, no statue was erected at his honour after 1945 in Budapest. The Karl Marx University in Budapest named a *dormitorium* after him. A technical school at the Vörösmarty Utca in Budapest also received his name. A square in the XXII district (his birthplace) of Budapest was named after him, but after the fall of Communism it was renamed Városház Tér. A commemorative plaque still embellishes the entrance hall of the school for girls at Vas Utca where Varga was teaching in the 1910s. Another commemorative plaque was affixed to the house where he was born in Nagytétény. Today, the plaque has disappeared.

At the end of Varga's life, economists, statisticians and mathematicians rejecting rigid planning were already occupying academic strongholds (Zauberman 1976). New institutes of the Soviet Academy of Sciences were founded. At the Twentieth Party Congress in February 1956, A. I. Mikoyan complained that modern capitalism was not studied closely enough. He criticized the fact that Varga's Institute of World economy and World Politics had been closed in 1947.

In April 1956, the government established a new institute of Western studies under the name of IMEMO (Lebedeva 2004). Anastas Mikoyan's brother-in-law, A. A. Arzumanyan became its first director (in 1966 he was replaced by N. N. Inosemtsev).

The international media sometimes paid attention to Varga's economic forecasts. When he predicted a new economic slump in *Pravda* (28 January 1954), the *New York Times* (9 February 1954) reacted. A Varga article in *Kommunist* (1957/10: 100–12) on America's alleged economic decay earned him a publication in *Fortune* (July 1957: 119, 218–22, 224, 227–8). *Der aktuelle Osten* published by the Volksbund für Frieden und Freiheit in Bonn published a report ('Ein Professor zwischen zwei Welten' 1957) on him.

Western scholars sometimes commented negatively on Varga's scientific work. Evsey D. Domar blamed Varga for not giving a precise analysis of the problem of economic growth (Domar 1950: 132–51) and for producing general statements coming close to the underconsumption theory. In the 1960s, French Communist Paul Boccara (1966a) criticized Varga's 'unilaterally insisting on the negative aspects of the rotten process and by mixing up positivism with dogmatism'. Eric Hobsbawm (2007: 74) opined that Varga had excluded any return to peaceful capitalism as well. Henryk Grossmann argued that Varga described appearances without making any 'attempt to build these into Marx' overall system' (Grossmann 1992: 180). Judging from Ernesto Galli Della Loggia (1979), Varga's contribution to Marxist theory was rather insignificant. According to Maurice Andreu (2003), Varga had been working in the tradition of the Second International (Kautsky, Hilferding, Bauer). Richard Day discovered that Varga avoided any theoretical innovations when fitting recent developments into the established Marxist categories (Day 1981: 57–8). Elmar Altvater (1969: xiii) pointed to the fact that one can reconstruct the 'Stalinisation process' by counting the quantity of Stalin quotes and denunciations contained in Varga's publications.

Economic historian Jürgen Kuczynski was an enthusiastic adept of Varga (Kuczynski 1980: 6–8). He called Varga 'the most outstanding Marxist economist of the century' and 'my teacher' (Kuczynski 1992: 31; 1987: 114). He admired Varga because of the latter's open-mindedness 'for new developments in the world, vigorous in his thinking and courageous in his utterances' (Kuczynski 1992: 51). However, notwithstanding Kuczynski's support, Varga's popularity in the GDR was not accompanied by a thoroughgoing study of his works. Petra Gansauge (1989) of the Karl Marx University in Leipzig was the first, but also the last, scholar in the GDR who studied Varga's monopoly theory. Gerhard Duda's (1994) Ph.D. on the history of Varga's Institute of World Economy and World Politics was published five years after the fall of the Wall.

Varga's political and scientific enemies used crude language when commenting on his works. Lucien Laurat (1935: 12) saw in him a 'vulgar demagogue' falsifying statistics. Karl Korsch (1972: 185) called Varga *expressis verbis* a 'vulgar economist'. According to Arturo Spriano, the Stalinists had needed this 'emblematic figure' and 'scapegoat' (Spriano 1985: 281) in one person to

exercise full control on the Communist world movement. Bukharin had little esteem for Varga's scientific work and person. Trotsky called him with Béla Kun and John Pepper (Pogány) 'the worst elements in the Comintern leadership' for 'having made many mistakes during the short period of time of the Councils' Republic in Hungary. Kun was 'an adventurer', Pogány was 'the prototype of a political client', who 'after the victorious revolution was sitting like a fly on the sugar', and Varga was the 'polished type of a scientific Polonius at the service of any leadership of the Comintern', an opportunist missing a 'revolutionary will' (Trotsky Archives, Houghton Library, Harvard, T 3129, p. 5). Karl Volk (alias Ypsilon) identified Varga as 'the weather prophet of the Comintern' who was 'always ready to prove theoretically, that the clouds in the sky look like a camel's back, but if you prefer they resemble a fish' (Ypsilon 1947: 159). Max Faragó (1921: 135) saw in Varga 'an author of several compilations with little scientific value'. Former graduate student at the Moscow Institute of Red Professors – and after the Second World War working for the American services – Aleksandr Uralov (A. Avtorkhanov) (Uralov 1951 [1953]: 93) argued that Varga combined opportunism with a typical form of German pedantry and the suppleness of an Indian fakir. László Tikos depicted Varga as a 'reluctant conformist' being not 'at ease with his comrades' (Tikos 1965b: 71–4; 1965c: 113–31). Ruth Fischer remembered him as 'an angry little man, a living database' belonging to the Comintern's Right, but always changing his mind (1949: 47). Varga was certainly more than an angry Indian fakir. Maurice Andreu was smart enough to conclude his study of the early Comintern years with this remark: 'Varga is an amazing synthesis of reasoned audacity and luck; he instantly mixes all forms of political and military actions in a wide variety of articulations related to their economic base. One can find here simultaneously the military coup and mass actions, sectarianism and the broadest class alliances' (Andreu 2003: 172). In reality, Varga was a moralist. Often, moralists are hypocrites as well. Varga publicly denounced depravation and moral decay in the capitalist world. Especially the 'depraved' character of the American detective novel with its 'gangsters, murderers and speculators on a grand scale are more and more often becoming the heroes of the literature, the cinema and the theatre of the bourgeoisie countries' (Varga 1962a: 131), displeased him. Varga: 'a 200-page detective novel, packed with sordid incidents and low passions which poison the minds of the youth and incite them to crime, sells in the United States for 25 cents. Such corrupting literature is not published in our country at all' (*New Times* 1956–26: 7).

Ruth von Mayenburg (1978: 129) remembered Varga as a 'fervent reader of detectives'. He kept that preference for 'morally depraved' books until the end of his life. While in a Moscow hospital in June 1957, Varga asked Jürgen Kuczynski for detective novels (Archives Berlin-Brandenburgische Akademie der Wissenschaften, Varga's letter of 10 July 1957, Kuczynski 140). It appears that Kuczynski had been his regular provider of detective novels (Archives Berlin/Brandenburgische Akademie, Varga's letter of 6 June 1961). But he was not the only one. When staying in hospital in the beginning of 1961, Hungarian party leader János Kádár sent Varga 20 detective stories by diplomatic courier (Huszár

2002: 178; PIL, S. Varga to Kádár, 11 February 1961, and Kádár to S. Varga, 17 February 1961, f. 274, 10–122.).

In the late 1960s, a document known as 'Varga's Testament' circulated as a *samizdat* in Moscow. This paper ('Rossiyskiy put perekhoda k socializmu i ego rezultaty') had made its first appearance in 1967 in Yuri Galanskov's samizdat publication *Feniks-66* circulating among local 'dissidents'. In 1970, the same text was published in France as *Le testament de Varga* (1970) with a foreword by Roger Garaudy. Some pages of it were published in January–February in *New Left Review* (1970, 59) with an introduction by Tamara Deutscher. An abstract was simultaneously published in May 1970 in Paris *Politique aujourd'hui* and in Vienna in the *Wiener Tagebuch*. This document transmitted the message that the working class was no longer ruling the Soviet Union, that democracy was absent and that the bureaucracy had taken over all power because of the backward economic level of Soviet society inherited from the Tsarist period. This forged article would cause serious problems to the Varga family in Moscow. Sári Varga and her daughter Mária Varga signed a letter in the *Literaturnaya gazeta* (26 August 1970) in which they protested against this grave concoction and V. Ya. Aboltin, S. A. Dalin, V. I. Lan, A. A. Manukyan, E. A. Gromov, Ya. A. Pevzner and V. A. Cheprakov denounced it as a falsification. G. G. Pospelov revealed in a letter to *Russkaya mysl* that his father, a certain G. Pospelov, was the real author of the forged *samizdat* (*Russkaya mysl*, 6–12 January 1994).

Varga's unpublished memoirs existed nonetheless. At the end of his life, Varga dictated his memoirs to his former secretary Rózsi Lóránd, but he died before finishing his manuscript. In Varga's will was stipulated that 25 years after his death his memoirs could be published. They were however first published in Hungarian translation in the journal *Világosság* (1988: 749–65). Following the suggestion of Mikhael Gefter, a highly esteemed historian, the manuscript was translated into Russian and excerpts of it were published in *Polis* (1990/2, 3: 175–83 and 148–64). The original German text was later published in Gerhard Duda's book on the history of Varga's institute (Duda 1994: 359–447). Rózsi Lóránd, who had come back to Moscow only for that task of noting and typing Varga's memoirs, was one of the latter's confidents. She had been working for him as a secretary before returning to Budapest in 1947. Her husband Ferenc Csillag (a typographer who had participated in the Hungarian revolution of 1919) was murdered during Stalin's Great Purge. Her son was killed by the mob during the 1956 upheavals in Budapest.

That we are missing now the full version of Varga's memoirs is a pity. Soviet and Comintern functionaries seldom published themselves their memoirs or collections of private papers.

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Printed sources

Preliminary note: the present bibliography does not include many of Varga's occasional publications cited in the text. To complete a bibliography even on the principal source material for Varga's intellectual and political biography would be an immense undertaking, especially

as many of his writings have appeared in several languages, editions and translations in many countries. The most complete bibliography of Varga's works was compiled at the occasion of the publication of Varga's *Selected Works* (*Ausgewählte Schriften*) in three volumes in 1979.

No systematic attempt was made here to compare Varga's texts of different editions and translations. If possible, official English editions were used, but always compared to the German original if available. This was especially the case with *Internationale Presse-Korrespondenz* (1 September 1921–33) in which Varga published important articles on international economic and political issues. The English edition *International Press Correspondence* is, however, less full than the German edition.

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Izvestiya Akademii Nauk SSSR (Bulletin of the Academy of Sciences of the USSR),
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Kommunist (Moscow) (1952–65)
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Apart from obituaries and articles in reference works, only a few biographies on Varga's life and works were published. Though László Tikos (1965a) had no access to party archives or all Varga's publications, his pioneering *E. Vargas Tätigkeit als Wirtschatsanalytiker und Publizist in der ungarischen Sozialdemokratie, in der Komintern, in der Akademie der Wissenschaften der UdSSR*, is still a valuable introduction to Varga's life and thinking. Gerhard Duda's (1994) *Jenö Varga und die Geschichte des Instituts für Weltwirtschaft und Weltpolitik in Moskau 1921–1970. Zu den Möglichkeiten und Grenzen wissenschaftlicher Auslandsanalyse in der Sowjetunion* covers Varga's activity at the head of the Institute for World Economy and Wold Politics in Moscow. In *Eens komt de grote crisis van het kapitalisme, leven en werk van Jenő Varga*, André Mommen (2002) gives a short introduction to Varga's life and economic writings. Ya. Pevzner wrote down some recollections in his article 'Zhizn i trudy E. S. Vargi v svete sovremennosty (k 110-letiyu so dnya rozhdeniya i 25-letiyu smerti)', in *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, vol. 32, no. 10, pp. 16–33. Varga's nephew Georg Göncöl (1977) tried to give an overview of his uncle's work in 'Lebensweg und Lebenswerk von Eugen Varga (1878–1964)', in E. Varga. *Wirtschaft und Wirtsschaftspolitik. Vierteljahresberichte 1922–1939*, Herausgegeben von Jörg Goldberg, vol. 1, Berlin: Das europäische Buch, pp. 7–34. Manfred Kerner made an exhaustive analysis of the Varga Controversy in his *Staat, Krieg und Krise. Die Varga-Diskussion und die Rolle des Zweiten Weltkrieges in der kapitalistischen Entwicklung*, Cologne: Pahl-Rugenstein Verlag, 1981. On Varga's Hungarian period, one should consult André Mommen, 'Jenő Varga and the economic policy of the Hungarian Soviet Republic', in Tamás Krausz and Judit Vertés (eds) *1919. A Magyarországi tanácsköztársaság és a kelet-európai forradalmak*, Budapest: L'Harmattan-ELTE, 2010, pp. 46–139, and András Várnai, 'Varga Jenő pályakezdése', in *A magyar filozófiai gondolkodás a századelőn*, Budapest: Kossuth Kőnyvkiadó, 1977, pp. 237–98, and András Várnai, 'Világforradalom – Világválság (Varga Jenő munkásságának magyar vonatkozásai a tanácsköztársaságtól a szovetunióbeli vitákig', in

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