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SOVIET STAFF STUDY

SOVIET VIEWS ON CAPITALISM
(Reference title: CAESAR V-A-56)

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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Office of Current Intelligence

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SOVIET STAFF STUDY

Soviet Views on Capitalism

This study is a working paper. It attempts to identify major trends in Soviet views on capitalism since World War II. It is circulated to analysts of Soviet affairs as a contribution to current interpretation of Soviet policy. This particular study is part of a series prepared under the general title "Project CAESAR", designed to insure the systematic examination of information on the leading members of the Soviet hierarchy, their political associations, and the policies with which they have been identified.

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Changes in the capitalist world economy have confronted Socialists everywhere (Reformists, Revisionists, Marxist-Leninists) with certain basic questions: Can capitalism be regulated and stabilized? Can the transition to Socialism be peaceful? Can the capitalist system be organized to prevent war? The different answers to these questions, both before and during the Soviet period, have provoked bitter controversies and have played an important part in determining political strategy and tactics. In the early postwar period the leading Soviet student of capitalism, Eugene Varga, and his professional associates presented the Kremlin with generally affirmative answers to these basic questions, echoing the ideas of the early neo-Marxists, Kautsky and Hilferding.

The controversy during 1947-1948 which was provoked by the ideas of Varga and his colleagues probably reflected controversy, or at least uncertainty, within the Soviet leadership over the stability of the capitalist world and the choice of tactics by the regime. Varga's interpretation of the trends in world capitalism would have supported the continuation of the tactics of the wartime coalition, by placing more reliance upon the traditional instruments of diplomacy and exploiting the national interests of the capitalist powers rather than upon the subversive actions of foreign Communist parties and the "cold war" tactics of expansionism and revolution. The Varga controversy illustrated the existence of deep strains and fissures beneath the monolithic facade of Soviet totalitarianism.

Although events in the form of the united Western reaction to Soviet power and the worsening of East-West relations led to the defeat of Varga and his high-level backers, the vanquished raised questions about the economic stability and political unity of the West that have continued to plague the Soviet leadership up to the present time. Varga's defiant challenge to the Kremlin on the validity of Lenin's thesis that the capitalist powers would fight among themselves instead of uniting against the USSR carried such authority that it was

left to Stalin alone among the Soviet leaders to answer Varga. Stalin's official reply in 1952 was designed to allay fears about the destructive implications of modern warfare and doubts about the dangerous course of postwar Soviet policy. The bankruptcy of Stalin's orthodox answer was clearly illustrated by Malenkov's statement in 1954 about the "destruction of civilization" and by subsequent revisions of Soviet doctrine in this field.

After 1949 Stalin almost certainly never seriously believed in the imminence of a major capitalist depression. After 1951 the increasing propaganda emphasis on the "disunity" theme (disunity between the governments of the major capitalist powers) and the signs of awakening Soviet interest in foreign trade indicated the beginning of a new phase in Soviet tactics arising from Soviet recognition of the armed power, economic strength, and political cohesion of the Western coalition led by the US. Although Stalin recognized the realities of capitalist stabilization, he refused to accept its permanency. Stalin's call to foreign Communist parties to play up "democratic rights" and "national interests" and his concentration on problems of the world market indicated the direction of Soviet efforts to destroy the Western coalition.

Stalin's campaign to impose ideological conformity on Soviet intellectuals almost destroyed the research /intelligence base of Soviet analysis of foreign economic trends. Nothing serious was published in the USSR after the Varga controversy, only straight propaganda. In view of the extreme political pressures and ideological compulsions operating within Soviet society under Stalin, it is highly doubtful that Soviet foreign economic intelligence analyses could have differed in any significant way from the published writings of professional economists. Hence, it is extremely unlikely that Stalin could have gotten an accurate objective appraisal of foreign economic trends even if he had really desired one. The damage to professional activity under Stalin has remained a troublesome legacy of his successors.

The Current Situation

The center of current Soviet interest in capitalism is the question of the effects of rearmament on the capitalist economy, especially the US economy. The present Soviet leadership appears still to adhere to the long-held belief that only rearmament prevented the outbreak of major depressions in the United States in 1945 and 1949. Professional

writings since Stalin's death clearly reflect Soviet recognition of the beneficial economic effects of rearmament on the US economy, particularly as the primary stimulus to modernization and capital expansion. The writings of the leading Soviet economists indicate high regard for the capabilities of the US economy and provide no basis whatsoever for the view that the US will spend itself into ultimate economic collapse.

The post-Stalin leadership has been demanding from its economic specialists on capitalism precise, quantitative answers on the economic implications of a high level of capitalist arms production, instead of the academic propaganda that passed for research under Stalin. In the absence of such scholarly studies, the current view of Soviet specialists on capitalism appears to have posed a central problem for Soviet diplomacy: how to force a reduction in Western arms production (leading to anticipated adverse consequences on the capitalist economies) without sacrificing vital Soviet interests.

There is very fragile evidence that the present Soviet "collective leadership" may not be unanimous in the belief that a US depression leading to a world economic crisis is imminent. Whatever the differences within the Kremlin over the economic stability of the capitalist world, their policy implications under conditions of continued atomic stalemate would appear to lead to the same practical conclusion: the use of political and economic power to strengthen the Soviet state, destroy the Western coalition, and remove Western influence in the uncommitted areas of the East-West struggle. The prevention or outbreak of a major economic crisis in the West would not only affect the world balance of power but also condition the choice of tactics by the Kremlin. Signs of economic weakness in the West could lead to a major miscalculation in Soviet tactics, as well as to high-level differences over the tactics to be pursued. Continued unity, stability, and strength in the West might be a source of controversy within the Soviet leadership, now and in the future, and possibly even of changes in its composition and policies.

The recent prediction by a Soviet economist, who is believed to have contacts with influential elements in the hierarchy, of a depression in the US "in the next few months" represents the most clear-cut Soviet prediction of recent times. It is clearly premised upon an anticipation of a decline in future US defense outlays and a belief that the

international market will in the future become the critical arena determining the development of the anticipated world economic crisis. It is possible that recent Soviet tactics of peddling discontent in the uncommitted areas of the Near and Middle East may be predicated in part on an assumption of an imminent depression in the US leading to a world economic crisis. Elements within the Soviet leadership may calculate that in such an event election-year politics, economic nationalism, and early New Deal precedents might lead the US to reduce its commitments abroad, thus leaving the USSR with a freer hand.

Every serious professional analysis of the capitalist economy has been made at the expense of ideological orthodoxy, both before, during, and after Stalin's lifetime. Since Stalin's death some Soviet economists, led by Varga, have advanced certain heretical propositions on capitalism, and despite professional criticism these men have not backed down, nor have they been silenced yet officially. The post-Stalin regime appears to be attempting to escape the dilemma posed by the conflict between ideological orthodoxy and creative activity by tolerating reasonable heresies in the hope of obtaining accurate estimates of foreign economic trends. Continued economic stability in the West has been, is now, and will continue to be both a headache for the regime and a recurrent source of heresy among Soviet professionals. Toleration of such heresy, while it will almost certainly lead to marked improvements in professional activity, could over the long run undermine the ethos imposed over Soviet society and even debase the ideological appeal of Communism to disaffected foreign intellectuals. Over the long run, the intellectual crisis of Soviet Marxism may be resolved by the official acceptance of current heresies as established orthodoxy.

Developments in the field of Soviet economic research on capitalism in the postwar period demonstrate the adverse effects of ideological conformity and excessive secrecy on Soviet professional activity. If events in this field are viewed, as we believe they should be, as a microcosm of the larger arena of Soviet professional life, then they suggest that the interplay of modern totalitarian and traditional Byzantine influences did immeasurable harm to all fields of postwar Soviet scientific activity. The significant, spectacular advances of Soviet science in the militarily-oriented fields were probably achieved at great expense in terms of

total resources. The present regime's heavy emphasis on raising over-all productivity and creating a more favorable atmosphere for professional activity in all fields probably indicates that it can no longer sustain such inefficient use of its natural and human resources.

SOVIET VIEWS OF CAPITALISM

I. FOREWORD

The purpose of the present study is to examine the elements of continuity and change and the indications of uncertainty and conflict in postwar Soviet views of capitalism, and to attempt to determine the implications of those views on Soviet policies. As a major component of the over-all Soviet appraisal of the international situation, the Soviet views of capitalist economic developments undoubtedly play an important role in the decisions that determine Soviet policies at home and abroad. What is the economic strength and stability of the capitalist world? Will the capitalist world be able to avoid depression? Will it attempt to escape depression by resorting to war? Will such wars break out within the capitalist world or will they be directed against the Soviet Union? The answers to these and similiar questions about the capitalist world have been a major concern for the Soviet leaders and a major target for Soviet experts since World War II.

In arriving at their estimates of the international situation the Soviet leaders, by virtue of the immense importance they attach to the economic aspects of Marxist doctrine, have always paid considerable attention to foreign economic developments. Steadfastly adhering to the basic Marxist tenet that capitalism faces inevitable doom, Soviet spokesmen have repeatedly predicted that the capitalist world is approaching a major economic depression, with disastrous consequences for its political unity and power position relative to the Communist world. In the face of such prospects Moscow has obviously kept a watchful eye on foreign economic developments, ever searching for symptoms indicating the timing, intensity, and duration of the anticipated crisis.

The task of ascertaining the views of the Soviet leadership on capitalist economic developments is confronted by formidable difficulties, not the least of which are the monolithic uniformity and propagandistic character of Soviet pronouncements. How can one be certain that the allegations of Soviet spokesmen necessarily reflect the actual thinking of the leadership? Although no definitive solution to this problem is possible, there are certain tendencies in the behavior of Soviet totalitarianism which do offer some clues for analysis. In the first place, Soviet pronouncements can be analyzed with consistency and clarity, because they are

dominated by centralized, known purposes that have been defined by the leadership and that have a constancy absent in nonauthoritarian states. Thus Soviet spokesmen are bound to cling to the orthodox line, until it is modified from above. Moreover, since the Soviet leadership professes allegiance to a purportedly rational system of ideas, it is obliged to explain every course of action rationally in terms of orthodox ideological formulae. Traditionally conservative about its ideological legacy, the Soviet leadership does not tamper with it in the absence of a pressing motive. Hence, analysis of the modifications, readjustments, and contradictions in these ideological formulae may not only provide a means of measuring the depth and importance of actual policy trends, but may also, when viewed against the background of those trends, illuminate some of the underlying realities governing Soviet thought and action.

Since there is no direct source material that tells us specifically how the Soviet leaders view the course of capitalist economic development or what effect their views have on policy decisions, it is necessary to rely primarily upon inferences drawn from their public pronouncements and from the writings of professional Soviet economists. During the prewar period a special sector of Varga's Institute of World Economy and World Politics of the USSR Academy of Sciences was reportedly responsible for basic economic intelligence research and reporting in the USSR. It was the particular mission of this unit to provide evaluated reports and estimates to the Soviet leadership on trends in the capitalist economies.

Whether the postwar channels are the same is not known. In October 1947 the Economics Institute of the USSR Academy of Sciences took over the function of the Institute of World Economy and World Politics, and continued to supervise research on foreign economies until August 1955, when a new organization, The Institute of the Economy of Modern Capitalism, was formed in the USSR Academy of Sciences. It is, of course, possible that because of the continuous criticism to which the Economics Institute was exposed during the postwar period it was no longer entrusted with an intelligence and evaluation function. However, in view of the complexity of the data on capitalist economic developments, as well as the fact that the Economics Institute and its successor contain the foremost collection of economic theoreticians and technicians in the USSR, it seems plausible that the Kremlin continued to rely upon professional economists for intelligence analysis and reporting. The publications of professional

Soviet economists constitute a primary source for many of the observations of the present study, and they are believed to provide a reasonable point of departure for hypothesizing on the actual views likely to be held by the Kremlin.

Given the extreme political pressures and ideological compulsions operating within the Soviet totalitarian polity, it seems highly doubtful that Soviet intelligence reports (as distinct from publications of professional economists) could have provided the Kremlin with accurate, objective analyses of foreign economic trends during Stalin's lifetime. In the prewar period Stalin himself is reported to have complained about the propagandistic character of the economic intelligence reaching him, with the result that the special sector of Varga's Institute reportedly resolved the dilemma by collecting quotations from capitalist publications and introducing them with the caveat that they represented "bourgeois propaganda"! It is also instructive that even in their overt activities Soviet economists were unable in Stalin's lifetime to prepare the general textbook on political economy that had been demanded by the politicos since at least 1948. Memories of the blood purges of the thirties and the general deterioration of the domestic political atmosphere under Stalin were almost certainly unlikely to promote any heroic searches for objective truth by Soviet professionals in or out of the government.

It is necessary to distinguish between analyses of foreign economic trends and factual reporting on the physical growth of national power. Thanks to the easy access to information in free societies and the efficiency of its own covert intelligence services, the Kremlin unquestionably enjoyed unparalleled success in obtaining factual data on trends in foreign industrial and military production. The rapid growth of Western industrial-military power after Korea was obvious to even the most confirmed Soviet Marxist. However, the problem of determining whether this growth in physical power was "healthy" in an economic sense, whether it would complicate the course of future economic development and lead to crises and collapse, was an analytical task for technicians familiar with the peculiarities of foreign economic and political life. The present study is concerned with the Soviet analyses of foreign economic trends and not with Soviet factual reporting of physical data on Western production.

The problem of determining the influence of Marxist doctrine on Soviet views of capitalism is, of course, of no little importance. There is, however, a danger in treating Marxist

doctrine, or rather the official Soviet versions of it, as an inflexible and integrated system of ideas, valid for all historical periods. In fact, various elements of Marxism in the Soviet Union have undergone erosion and change under the impact of inexorable circumstance. Therefore, from an intelligence standpoint, it is perhaps more useful to attempt to identify the social realities underlying the changing Soviet doctrinal formulae than to attempt to determine the degree of intellectual conviction or ideological zeal entertained by the Soviet leaders at any particular time.

Although the Kremlin has endeavored to cloak its actions behind a facade of monolithic unity, the occasional eruptions of disorder in polemics and policy have provided a glimpse of the conflict of forces and movement of ideas operating within the Soviet hierarchy. Even in the absence of precise knowledge of the inner workings of the Soviet leadership, such major landmarks of postwar Soviet history as the Varga heresy and Stalin's last article, to mention a few, have served to highlight the basic issues and disputes that confronted the leadership when it attempted to assay postwar developments in the capitalist world. Given the high stakes of Soviet policy, the complexity of the basic problems, and the diversity of the contending personal and group interests, it is not surprising that conflicting conceptions of international realities and their implications for Soviet policy continually plague the Soviet leadership.

In addition to examining the content of Soviet thinking on capitalism, the present study is focused on the problem of the position of the intellectual in Soviet society. As the individual upon whom the Kremlin relies for technical guidance, the professional is perpetually badgered by conflicting demands of technical accuracy, professional honesty, political expediency, and doctrinal orthodoxy. The changes in the postwar intellectual climate and the resulting deformation of professional activity into political propaganda are both an interesting sidelight of Soviet history and a troublesome legacy of the present Soviet leadership. It is believed that trends in Soviet policy toward intellectuals, particularly those individuals following developments in the non-Soviet world, will provide one of the best indicators of changes in Soviet society and, more important, the permanency of changes in Soviet state policies. Developments in the intellectual field constitute a rich, though relatively untopped, source of intelligence on the USSR.

In a certain sense, the present study is intended as an investment in the future, insofar as it is successful in laying

the base for anticipating future developments. It purports to contain not an exhaustive record of the events relating to Soviet views of capitalism, but rather an analysis of those leading events which are thought to have molded the main lines of development. Attention has been directed very generally to certain selected events and controversies which, though they took place well before the period under investigation, are believed to be helpful in appraising the significance of much of later-day Soviet thinking. It is also hoped that the present study will demonstrate that certain areas of research on Soviet thought can, in terms of time and results, be more efficiently and successfully pursued within the intelligence community itself rather than by external research.

II. MARXIST VIEWS OF CAPITALISM: THE HISTORICAL SETTING

1. Since its appearance as a revolutionary force in Europe, Marxism has been the center of endless intellectual controversy and bitter factional discord between Marxists and reformists within each national party and within the socialist movement at large. The emergence of new conditions in late nineteenth century capitalism--the stablization and expansion of production at home and overseas, the general rise in living standards, the growth of the middle class in industry and government, the increase in labor's political influence, and the broadening base of parliamentary democracy--registered a profound effect on the revolutionary traditions and political programs of socialists everywhere. In response to these social changes, the intellectual and political leaders of European socialism sought new perspectives upon which to base their social philosophies and shape their political programs.

2. The effects of the changes in capitalism were to strike at the very foundations of Marxism and to challenge many of its basic concepts. Could capitalism be regulated and stabilized? Could the proletariat gain power peacefully within the framework of the capitalist state? Could the capitalist states enter into a new phase of combining to share in the division of world resources? The divergent answers given to these basic questions by Marxists and reformists marked the turbulent history of the socialist movement and produced interminable debate and irreconcilable differences over both the original substance of Marxist theory and the pressing questions of strategy and tactics. The changes in capitalism in the period before World War I generated an intellectual ferment which was expressed politically in the formation of discordant groupings within the Second International, the principal wings of which were headed by Edward Bernstein on the Right, Karl Kautsky in the Center, and Lenin on the extreme Left.

3. Bernstein, whose doctrines became known as revisionism and whose supporters included a motley grouping of social reformers, believed that the fundamental tenets of Marxism had been generally invalidated by the later developments in capitalism. He observed that the prospects for great political catastrophes had been diminished by the democratization of the modern capitalist nations, and held that the collapse of capitalism was not imminent. Hence, he argued against the adoption of tactics that assumed the immediate outbreak of a great social revolution, and he preached evolution and

collaboration rather than revolution and class conflict. He pointed to the gradual improvement of the workers' lot though such measures as factory legislation, trade union action, and democratization, and maintained that the gradual movement forward of the working class was everything, the final aim of socialism nothing. In defense of the national state and the peaceful transition to socialism, Bernstein insisted that the interests of the workers tended to become identical with those of the highly developed democratic state. In general, he doubted the inevitability of socialism and instead argued in favor of its desirability.

4. Kautsky, whose supporters considered themselves "orthodox Marxists" and formed the largest group in the Second International, was during the period of the prewar International its leading theorist, who in later life was to become a severe critic of the Soviet regime. Although Kautsky, like his Russian Menshevik adherents, was addicted to "revolutionary phraseology" and subscribed to the orthodox Marxist concepts of class, crisis, and revolution, he stressed in The Road to Power (1909) that the proletariat could "well afford to try as long as possible to progress through strictly legal methods alone." Unlike Bernstein, he accepted Marx's laws of the decay of capitalism, but he tended to interpret them in terms of peaceful development, placing emphasis on the inevitability of socialism as the climax of a very lengthy process of development in which the contradictions of capitalism would become increasingly evident. Although regarded by Lenin in the period before World War I as a revolutionary Marxist, Kautsky in practice advocated a program of gradualism and reform. Abhorring violence, Kautsky believed that the proletariat, by utilizing the instruments of liberal democracy, could increase its strength within the framework of the capitalist state and obtain fundamental concessions from the capitalists.

5. During World War I Kautsky developed the concept of "ultra-imperialism," which was bitterly attacked by Lenin in Imperialism, The Highest Stage of Capitalism (1916). Following in the footsteps of Rudolf Hilferding, the German neo-Marxist, Kautsky advanced the thesis that peaceful exploitation of world resources by allied capitalists was possible. He argued that economic monopolies were compatible with nonmonopolistic, nonviolent, nonexpansionist methods in politics, and maintained that imperialism was not the only or even the final stage of modern capitalism, as Lenin was later to assert, but only one of the forms of the policy of modern capitalism against which the proletariat should struggle.

By suggesting the possibility that the capitalist world could be organized either by agreement between the great monopolies or by the domination of their most powerful representatives, Kautsky raised doubts that were to continue to trouble Marxists everywhere.

6. The first of the reformists to direct a well-organized, scholarly attack against Marx's theory of the inevitable collapse of capitalism for economic reasons was Rudolf Hilferding, the theoretical spokesman of the German Independent Socialist Party and author of Finance Capital (1910). Hilferding directed his attention to the growth of monopolies under capitalism and arrived at a conclusion different from Marx's, namely, that through concentration capitalism might gain internal stability. In international relations, he foresaw the development of a general cartel through which the capitalist monopolies could jointly exploit world resources. In his later years Hilferding became a main advocate of the concept of "organized" or "planned" capitalism. He argued that as the result of financial and industrial concentration, the fluctuations in the business cycle would tend to become milder as time went on, and that instead of inevitable collapse the cycle might take the shape of mere continuous rises and falls in production and profits. Hence, Hilferding laid the theoretical basis for the transition of monopoly capitalism into a planned economy susceptible to ever-increasing pressure and control by the working class.

7. Against these reformist interpretations of capitalism, Lenin stood as the uncompromising exponent of all the revolutionary aspects of Marxism. He stressed the irreconcilability of the class conflict and advocated the militant struggle of the proletariat against all the institutions of the bourgeois state. In his Imperialism and later in State and Revolution (1917), Lenin waged a relentless theoretical struggle against the so-called "Kautskian perversions" of Marx. He denied the possibility of capitalism overcoming the anarchy of production by monopoly-capitalist planning and of a non-expansionist capitalism. In reply to Kautsky's concept of "ultra-imperialism," Lenin stated that the general law of the uneven development of capitalism would render any interimperialist agreement ephemeral and a mere prelude to new conflicts for the redivision of the world. According to Lenin, the capitalist states were destined to suffer from crises of overproduction which they would seek to overcome by attempting to secure foreign markets. In the resultant competition they would clash in imperialist wars which would weaken the capitalist front and pave the way for the ultimate

victory of the proletariat. For Lenin and his Soviet successors, imperialism was the ultimate final stage of capitalism in which the decisive struggle for its overthrow was to be fought.

8. These theoretical divergencies between Marxists and reformists over trends in capitalism lay at the root of the actual differences in their behavior during and after World War I. In Western Europe, where reformism had taken firm hold and had sapped the roots of revolutionary fervor, the socialist parties were to yield to the demands of national interest and to formulate programs of social democracy within the framework of the capitalist system. In Russia the Marxist-Leninist concepts of capitalism, which had played such a vital part in the shaping of Bolshevik strategy and tactics, were to find a concrete proving ground for revolutionary action. To the Soviet leaders confronted with the dual task of governing a national state and carrying out a world revolution, the very question of survival and success depended upon the accuracy of their appraisal of the forces at work within the capitalist world.

9. Since examination of the divergent intellectual and political trends in Soviet and Western Marxism in the interwar period is beyond the scope of the present study, it may be useful to assess the relevance of the early controversies to later-day thinking. First, these early controversies illuminate the critical importance of theory in Marxist thought. To Marxists adhering to a universal philosophy seeking to explain scientifically the process of social development, theory was the anvil on which the practical problems of strategy and tactics were hammered out. Second, even after the monolith of Stalinist totalitarianism had enveloped Soviet society and had pulverized opposition, theory remained the vehicle in which controversy was expressed, discipline enforced, and policy rationalized. Because theoretical certitude was required to ensure ideological appeal and to sanctify political action, theoretical error was to be regarded as of the most serious consequence. Lastly, the fundamental questions of theory and policy that had been argued over in the early controversies were, despite the existence of national boundaries and iron curtains, to remain the legacy of Soviet Marxism during the interwar period and afterward. The changes in capitalism which had provoked the early disputes over Marxism were to continue to affect the base of Soviet attitude and policy.

III. THE VARGA HERESY AND ITS AFTERMATH

The Varga Heresy

10. It is clear from the major speeches of the Soviet leaders immediately after World War II that they believed the international situation presented both improved opportunities for expanding Soviet power and increased dangers to the USSR emanating from the capitalist world, primarily the US. On the one hand, the desperately weakened condition of Western Europe and large parts of Asia, the convulsions in the US economy attending the conversion from war to peace, and the prospects for a devastating economic depression in the capitalist world--all these provided grounds for optimism. On the other hand, the tremendous increase in the power and influence of the US in world affairs gave cause for grave concern. In view of these perspectives, the Soviet leaders required an assessment of the forces at work in the capitalist world upon which to base the broad guide lines of postwar policy. In this assessment of the world situation, great importance was unquestionably attached to foreign economic developments, which the Kremlin had traditionally regarded as determinants of political action.

11. The Kremlin's efforts to come to grips with postwar international realities faced great difficulties arising from the domestic campaign to ensure political control and restore ideological orthodoxy. Concerned over the general wartime relaxation of political controls and the widespread hopes of the Soviet people for change, the Kremlin had begun a small-scale campaign, even before the war had ended, to wipe out the effects of Western influence and to impose a rigid strait jacket of ideological orthodoxy on Soviet society.* Stalin's speech of February 1946 had fixed the rationale for such an ideological housecleaning by highlighting the continued dangers facing the USSR from the capitalist world. In contrast with the previous treatment of the war as a "fighting alliance of democratic states against fascism," Stalin scrapped the wartime coalition ideology and placed the conflict squarely in the

*For an excellent summary of the early stages of this development, see John S. Curtiss and Alex Inkeles, "Marxism in the USSR--the Recent Revival", Political Science Quarterly, September 1946.

context of the struggle of the two systems of capitalism and socialism. Following this speech, the pace of the ideological campaign was stepped up, and its scope was widened to cover all the professional groups in the USSR.

12. Although the Soviet economists were among those to feel the full weight of the ideological campaign, they were initially treated less harshly and more perfunctorily than the other professions in the USSR. It is possible that the regime, acutely aware of the disruptive consequences of previous purges, did not wish to demoralize the cadres upon which it relied for analyses of foreign economic developments. In June 1946 the first issue of Culture and Life, the organ of the department of propaganda and agitation of the central committee, contained an attack on Soviet economists for their failure to produce any monographs on foreign economic developments. The October issue of the journal criticized the "theoretical backwardness" of the principal Soviet organization responsible for the study of capitalism, the Institute of World Economy and World Politics, headed by the foremost Soviet economist, Eugene Varga. With the exception of these routine barbs, however, the economists studying capitalism were spared sharp Party criticism until mid-1947 and 1948.

13. The publication of Varga's book, Changes in the Economy of Capitalism as a Result of the Second World War, in September 1946 touched off a controversy which spanned a period of over two years and which reflected the conflicting currents of ideology and reality underlying postwar Soviet views of capitalism. Varga had been commissioned by the central committee during the war to produce an analysis of the impact of the war on the capitalist economy. Varga's book and the controversy it provoked were focused on the central problem of whether the war had produced changes in the essential structure of capitalism. In many respects, the issues raised in the course of this controversy echoed those that had been debated by Marxists and reformists before World War I, and, just as in the earlier period, the divergent views of the changes in capitalism contained important ideological and political implications. In addition, this early postwar controversy has special significance because it represented one of those rare, fleeting moments in Soviet history when men spoke their minds freely and expressed their real thoughts about the outside world.

14. Varga's book is significant not only because it was the first Soviet assessment of the over-all consequences of the war, but also because Varga occupied a position of professional pre-eminence and great political influence among Soviet economists. Varga was the leading Soviet expert on the economy of capitalism and the author of many theoretical works on the capitalist business cycle. His ability to bring his statistical analyses into precise correspondence with the Party line had once led Trotsky to call him the "theoretical Polonius of the Comintern" who was "always ready to prove statistically that the clouds in the sky look like a camel's back, but if you prefer, they resemble a fish, and if the Prince desires it, they bear witness to 'socialism in one country.'" An old-time Hungarian Bolshevik who had emigrated to the USSR after the failure of the Bela Kun revolution, Varga had access to the highest Party circles. He was known to have personally advised Stalin on economic matters in the prewar period, and his Institute reportedly had a direct channel to the Politburo, informing the leadership on foreign economic developments. In view of this background, Varga's views were bound to carry great weight among professional economists and high Party officials. In fact, ideas in many ways similar to Varga's had been circulating among the articulate elements of Soviet society for at least a year before the publication of Varga's book.

15. While generally adhering to the gloomy tenets of Marxism on the long-run course of developments in the capitalist economy, Varga advanced certain propositions in his book that not only ran counter to official Soviet doctrine, but also challenged the very foundations of the policies then being developed by the Soviet leaders. The most important and controversial of the ideas developed by Varga may be summarized as follows:

a. Role of the State. The crux of Varga's argument was that the wartime intervention by the capitalist state in the operation of the economy had tended to offset the action of the fundamental laws determining the development of capitalism, and that such intervention would remain more important in the postwar period than before the war. He insisted that the wartime capitalist state represented the interests of the entire bourgeoisie as a whole, and not only the interests of the large monopolies. (He later admitted in the debate over his book that the capitalist state was also increasingly sensitive to the interests of the working class and consumers.) Varga argued that the

capitalist state had been forced by the exigencies of the war to intervene increasingly in the operation of the economy and to subordinate the private interests of the powerful monopolies to the common interest of waging the war.

b. Planning under Capitalism. Varga maintained that the wartime economic intervention by the capitalist state had reduced the anarchy prevailing in capitalism in times of peace. While carefully pointing out that such state intervention was not "planning" in the Soviet sense, he continued to stress its importance during periods of emergency. He predicted that the scope of state regulation would diminish after the end of the war, but that the issue of planning would become urgent once more with the advance of a new economic crisis.

c. The Class Struggle. Varga predicted that the class struggle in postwar capitalism would take the form of a struggle between the bourgeoisie and the proletariat for a greater share in the administration of the state. This proposition, with its clear overtones of gradualism and reformism, implied that the class struggle would be waged within the framework of the captialist state and that the working class would not be progressively excluded from political power, as Soviet propaganda and Marxist doctrine maintained. This view, coupled with Varga's concepts of state intervention and regulation under capitalism, suggested that there might be a peaceful transition from capitalism to socialism.

d. The Status of Colonies and Empires. After studying Britain's imperial relations during the war, Varga concluded that the relationships between the colonial powers and the colonies had altered to the benefit of the colonies. He observed a tendency of the colonies to become less economically dependent upon the colonial powers and to approach the status of ordinary capitalist countries. Pointing to the increased power of the colonies arising from their emergence as a creditor nations after the war, Varga foresaw a period of concessions by the colonial powers to the colonial aspirations for national independence.

e. The Eastern European Satellites. Varga discounted the economic importance of the Satellites in the world balance of power. He asserted that the relative importance of the Satellite economies was too small to affect the general perspectives for the over-all development of

capitalism in the postwar period. Even worse from an ideological standpoint, Varga characterized the Satellite economies as a form of state capitalism, situated midway between capitalism and socialism.

16. Following his analysis of the wartime changes in capitalism, Varga made several specific forecasts regarding the future course of the capitalist business cycle. Dashing cold water on Soviet expectations of an early collapse of capitalism, Varga predicted that it would take at least ten years before a major economic depression erupted in the capitalist world. In his opinion the US, Canada, and the neutral countries would enjoy prosperity for two to three years, after which they would experience a routine crisis of overproduction. This crisis would not become severe or widespread, however, until after the devastated economies of Western Europe and Asia, aided by credits from the US, had reached their prewar levels of production. Then and only then, Varga insisted, would all the fundamental contradictions in the capitalist system become sharpened and lead to a major world-wide economic crisis.

17. Although Varga's specific prognoses about the next economic depression were undoubtedly of great importance to Soviet policy-makers, they were clearly overshadowed by his appraisal of the changes in the essential structure of capitalism. If Varga's analyses of the changes in capitalism were correct, then they raised a strong possibility, despite the appearance of statistical precision in his own predictions of the approaching depression, that capitalism might escape a final collapse entirely by making certain modifications in its basic structure. They also raised serious doubts about the success of the cold war policies then being implemented by the Soviet leaders. Thus, it is not surprising that both the professional and Party critics of Varga and his supporters were quick to seize and concentrate on these heretical propositions, rather than spend much time on his specific predictions.

18. Varga's book was subjected to extensive criticism in May 1947 at a three-day formal session of twenty Soviet scholars.* The seriousness with which the Soviet leadership viewed the issues raised by Varga is demonstrated by

*The participants at this session are listed in Appendix I.

the fact that unlike the situation in literature and philosophy where the Party intervened bluntly and directly in the person of Zhdanov, this meeting was presided over by a professional, K.V. Ostrovityanov, head of the Economics Institute of the USSR Academy of Sciences. The Party leadership was apparently interested in receiving a professional assessment of Varga's findings before indulging in ideological histrionics. In contrast to subsequent sessions dealing with the trends in capitalism, this meeting was distinguished by relatively serious scholarly debate, in large part uncluttered by personal vilification and political invective.

19. Although Varga was widely criticized along orthodox lines for all his heretical, reformist propositions, his severest critics (the economists A.N. Shneyerson, A.I. Kats, Motylov, I.N. Dvorkin and K.V. Ostrovityanov) reproached him sharply for having separated economics from politics and ignored the "general crisis of capitalism" and the struggle between the two systems of capitalism and socialism. In the course of the debate at this session, as well as in the later criticism, Varga was attacked for his position on the deceptively scholastic question of the origins of the "general crisis of capitalism," which according to Varga had originated at the beginning of the twentieth century instead of with World War I and the Russian Revolution, as set forth in official Soviet doctrine. In the jungle of Stalinist symbolism, the real issues were (1) whether the breakdown of capitalism and the shift in political power within the capitalist state could develop automatically or had to result from war and revolution (the former view was ascribed to Varga by his critics, and he never disowned it) and (2) whether there could be an intermediate stage between capitalism and socialism (Varga had characterized the Satellites as state capitalist). In reply to his critics, Varga stated that he was preparing a study of the political results of the war which would serve as a companion piece with his economic treatise.

20. Despite the general criticism of Varga's interpretation of the changes produced in capitalism by the war, the results of the debate were inconclusive. With the exception of his treatment of the Satellites, Varga stood his ground firmly and advanced some of his theoretical propositions even further. Citing developments in Great Britain, he pointed out that at that very moment certain forms of planning--admittedly unlike the Soviet variety--were being undertaken in some capitalist countries. Moreover,

some of Varga's colleagues in his Institute (the economists I.A. Trakhtenberg, M.I. Rubinshtein, Sh.B. Lif, V.A. Maslennikov, L.Ya. Eventov, and La. Mendelson), as well as the highly regarded economist S.G. Strumilin, while submitting partially to the generally critical tenor of the debate, defended Varga against charges that he had ignored the realities of the capitalist world. In sum, the professionals who had been commissioned to re-examine Varga's provocative conclusions on the state of contemporary capitalism could come to no basic agreement among themselves.

The Campaign Against Heresy

21. Faced with unpleasant answers about economic trends in the capitalist world and incipient heresy within the ranks of its professionals, the Kremlin was not slow in reacting in traditional fashion with a ready-made ideological prophylaxis. Surprisingly, the first sharp Party criticism was not directed at Varga but at a work of one of his Institute colleagues, L.Ya. Eventov, The War Economy of England (1946). This book, edited by I.A. Trakhtenberg, was a scholarly and relatively objective work which was apparently written in the spirit of the wartime coalition and which was generally sympathetic to economic developments in the UK. Training its sights on Eventov's book, the authoritative Party organ Bolshevik (15 July 1947) attacked the following propositions: that the wartime delay in opening the second front was connected with inadequate allied production rather than evil anti-Soviet motives; that Britain's colonial interests had suffered to the advantage of her colonies; that acceptance of the US loan and alliance with the US were the only alternatives open to the Laborite government; that British nationalization was progressive and realistic; and that "the war, increasing the economic role of the state, expanding its functions, moves capitalism to a higher level." With regard to the last point, Eventov was charged with following Kautsky's thesis of a "new phase," a "new level" of capitalism. Moreover, indicative of increasing virulence of the Party attack on the Varga school was the criticism of the anti-Varga economist, M.N. Smit, for failing to expose Eventov's doctrinal errors in her book review (Sovetskaya Kniga No. 1, 1947) earlier in the year.

22. The tempo of the ideological campaign against the Varga school was stepped up in the second half of 1947, culminating in administrative sanctions. In September Bolshevik critically reviewed the May discussion of the

economists and attacked Varga's colleagues for failing to repudiate him. Later in the year Politburo member Voznesensky's book, The War Economy of the USSR during World War II, appeared and carried a bitter attack against the economists sharing Varga's views, though not mentioning him by name. Finally, on 7 October Pravda announced the merging of Varga's Institute with the old Economics Institute into a single Institute headed by Ostrovityanov.*

23. Despite these heavy blows the Varga school kept plugging his line up to the time of the merger in his Institute journal, World Economy and World Politics. In August in an article on Anglo-American relations, similar to one he had contributed to Foreign Affairs (July 1947), he wrote that despite their contradictions the US and Britain were united in the chief aims of their foreign policy, which was directed against the USSR. At one point he also treated the Marshall Plan as advantageous to Britain because it would receive sorely needed credits. In October, writing on the thirtieth anniversary of the Revolution, he gave a reformist characterization of the prospects for the peaceful transition from capitalism to socialism in Western Europe, describing how even the European bourgeoisie fatalistically accepted nationalization, state economic control, and "planning." In November L.A. Mendelson wrote an article in which he, like Varga, predicted a short-term upswing in the postwar business cycle stimulated by consumer spending deferred during the war. His use of the concept "deferred demand" was later denounced by his critics as a denial of the Marxist "law" of the absolute and relative impoverishment of the workers under capitalism. In view of this situation, it is understandable why the Party decided to stop publication of Varga's mouthpiece at the end of the year.

24. Throughout 1948 the full force of the ideological juggernaut, propelled by the post-Cominform line of militant struggle between two systems, was directed at the Varga school and its heresies. Articles in the professional and Party journals scathingly attacked the scholarly works of Varga and his former Institute colleagues--works which collectively represent the best and most productive achievement of postwar Soviet economic scholarship.* These works,

*A table giving the structure of the new Institute is found in Appendix II.

**A brief account of the criticism in 1948 directed at the economists representing the Varga school and their heretical works is to be found in Appendix III.

some of which were discovered to contain germs of Hilferding's "organized" capitalism and Kautsky's "ultra-imperialism," were denounced as un-Marxist, unmilitant, and reformist. No less than five major sessions of the new Economics Institute were convened in 1948 to treat the problems of contemporary capitalism, four of which were devoted largely to denouncing the heresies of the Varga school.* Moreover, widespread personnel changes were made in the sectors of the Economics Institute studying capitalism; in the Sector on Capitalist Business Conditions alone, the important body responsible for collecting and processing all the diverse statistical data on the capitalist countries, there was a complete turnover of personnel.**

25. In the face of such an assault, the unity of the Varga school began to crumble. While some of his adherents remained silent, most of them recanted publicly, and, in the poisoned spirit of Soviet politics, turned viciously on each other. Varga himself became the object of their cruel attacks, and in a symbolic display of Party loyalty he prepared several very hostile and propagandistic articles on US policy for the journal New Times. Yet throughout 1948, in the face of threats, accusations, and the unsavory spectacle of widespread professional degradation, Varga retreated on only a few minor points. In October he admitted that the tone of his book was too temperate and that the separation of economics from politics was erroneous. However, he not only held his ground on his major theoretical heresies, but also delivered a most telling counterblow at his adversaries.

26. In an October meeting of the Economics Institute, at which many of Varga's associates fully recanted their errors after having been soundly denounced, Varga hurled another challenge to the Soviet leadership on the inviolability of the Leninist thesis of the inevitability of war between the imperialist countries. It was on this very

*A table listing the formal postwar sessions of Soviet economists dealing with capitalism is presented in Appendix IV.

**Appendix V contains a list of the known personnel in this Sector in Varga's old Institute in 1947 and in its successor in 1952-1953.

principle--that the growing contradictions between the imperialist countries would lead finally to war and collapse--that the Soviet leaders based their hopes for ultimate victory. Varga maintained that the overwhelming economic and military superiority of the US in the capitalist camp, as well as the pressing domestic and colonial problems of the imperialist powers, made war between them extremely improbable in the present period. In the light of such "powerful antitheses," Varga defiantly called for a re-examination of the fundamental Leninist theses on the origin and nature of war. The specter of Kautsky's "ultra-imperialism" which Varga had publicly raised was to haunt the Soviet leadership throughout the postwar period.

27. In 1949 the powerful wave of anticosmopolitanism flooded over into the ideological current, and together they were able to sweep away the last remnants of Varga's 30-month heresy. Varga recanted for his heretical mistakes in the March issue of Problems of Economics, the journal that had replaced Varga's own house organ. He admitted the error of his reformist propositions on the increased economic role of the state, capitalist planning, relations between the colonial powers and the colonies, and the peaceful transition from capitalism to socialism. Yet, surprisingly, he was silent about his long-range predictions of economic depression and his challenge to the Leninist theory of the inevitability of war. This silence, perhaps, may have been the reason he and his adherents were again denounced at a March session of the Economics Institute for their "half-way" recantations.

Implications of the Varga Heresy

28. The Varga case is significant not only because it illustrated how the Party mobilized Soviet intellectuals behind its programs, but also because it involved issues that were intimately related to Soviet policy. The outlines of these issues may be discerned in the controversy over Varga's views. According to Varga, the Soviet leaders would be confronted with the following prospects in the postwar period:

a. Given the likelihood of a stabilization of capitalism, the capitalist states would be able to remain powerful and to preserve a united front for a long period of time. Consequently, any future war would not be between the capitalist powers, but between them and the USSR;

b. In the highly industrialized capitalist countries, the class struggle upon which the Kremlin relied for the expansion of its power would be modified and slowed down. In fact, in the major countries of Western Europe it was already being replaced by a struggle for a share in the participation by the working class and bourgeoisie in the direction of the state, as Varga had predicted;

c. In the colonial countries, the improvement in their economic and political status, the beginning of industrialization, and the growth of the native bourgeoisie would reduce the prospects for successful revolutionary activity for many years;

d. With continued economic solvency in the capitalist world and the gradual transition toward socialism through the various nationalization and welfare programs sponsored by the working class, the changing capitalist world might develop an ideology that could compete with Communism for universal allegiance by offering both economic security and political freedom. Such a development might eventually have adverse repercussions within the Soviet system. In sum, implicit in Varga's estimate of the capitalist world was a strong argument in favor of continuation of the tactics of the wartime coalition, at least on a level of militant competition, rather than support for the tactics of the "cold war" that were actually adopted.

29. The peculiar treatment of the Varga heresy--the toleration of wide divergencies between articles on capitalism and the Party line, the long delay in silencing the Varga school, and the continued failure to discredit Varga completely and to remove him from influential positions even after he had refused to recant--suggests the existence of high-level uncertainty, and probably even dissension, over the issues raised by Varga and their implications for Soviet policy. Despite the progressive tightening of ideological discipline after the Stalingrad victory and the increasing stress on the dangers arising from capitalism, some economists of the Varga school continued up to the end of 1947 to write books and articles in the spirit of the wartime coalition. Many of these works, particularly those on postwar economic developments in the UK, were fairly objective analyses, reflecting thinly disguised admiration for the developments then taking place in the capitalist economy. In view of the pattern of Soviet political behavior, the continued expression

of such views late in 1947 and, particularly, Varga's stubborn refusal* to recant under pressure in 1948 suggest that elements existed within the Soviet leadership which were desirous either of continuing on terms of friendship with the West, or at least, of temporarily delaying the adoption of the revolutionary "cold-war" tactics that were to culminate in the Korean war.

30. Although firm evidence is lacking, there is some information indicating that differences over capitalist economic trends and the tactics to be employed may have figured in the postwar jockeying for power in the Soviet hierarchy. Molotov is reported to have been at odds with Mikoyan over the question of Soviet participation in the Marshall Plan.** Molotov is said to have argued that the Marshall Plan would fail because of the imminence of a depression in the US and opposition by British imperial and European national interests. Mikoyan allegedly claimed that Molotov underestimated the economic stability of the US and ignored the changes in the US economy begun under the New Deal. Mikoyan is rumored to have believed that capitalism might be capable of perpetuating itself as a system for a long period of time and that the USSR could not exist indefinitely and build an adequate economy without trade with the West. Whether arguments like these actually occurred cannot be confirmed, but they do seem plausible in light of the treatment of the Varga heresy and the circumstances surrounding Soviet bloc rejection of the Marshall Plan.

31. In the absence of reliable information, some speculation about the policy implications of Varga's views may be permissible. If elements did actually exist in the Soviet hierarchy who shared Varga's views and desired the continuation of the tactics of the wartime coalition, then they probably would have held that Soviet interests could be advanced more successfully through Soviet governmental policies than through foreign Communist parties. They would have argued that the prospects for successful Communist subversion in

*Ruth Fischer, an old-time German Communist and an acquaintance of Varga, has stated that given Varga's strong conformist temperament, his behavior would be inconceivable without high-level support.

**For a more detailed treatment of this subject, see the CAESAR studies.

Western Europe were dim, and that revolutionary Communist action would alienate the rising native bourgeoisie in the colonial and underdeveloped areas. They would have held that Soviet policy should be directed at the national interests of the great powers, at playing one nation against another. They would have maintained that the specter of revolution, coupled with "cold-war" state policies, would frighten the bourgeoisie to unite and defend itself against the common danger. In sum, the policies implied by Varga's estimate of the capitalist world were, to a large extent, similar to those finally accepted by Stalin in his last years and pursued with such unprecedented vigor by his successors.

32. The fate of the Varga heresy and the subsequent course of Soviet policy suggest that expectation of an early and devastating capitalist economic crisis may have figured largely in the decisions reached by Moscow in the early postwar period. It would be mistaken, however, to exaggerate the importance of this particular factor, since the formulation of Soviet policy, like that of any national power, undoubtedly reflected the interplay of a complexity of domestic and foreign considerations. If the Kremlin had actually arrived at a firm decision that a capitalist crisis was imminent, it is highly unlikely that Varga would have been permitted to express his contrary views for so long a time. In the final analysis it was the pressure of events, in the form of the Western reaction to Soviet power and the worsening of East-West relations, that decided the fate of Varga's ideas and set the course of Soviet policy.

IV. SOVIET VIEWS OF CAPITALISM: 1948-1952

The Deformation of Soviet Economic Scholarship/Intelligence

33. To the student of intellectual history, the period between Varga's intellectual demise and Stalin's death was a period profuse with myths, but devoid of ideas. With the official disavowal and condemnation of Varga's views, Soviet analysis of the course of capitalist economic developments became heavily biased and distorted by the rigid requirements for ideological conformity imposed by the Soviet leadership. As a consequence, what was formerly serious scholarly analysis of the capitalist economy became transformed into academic propaganda conforming to the predetermined pattern of Marxist dogma.* The thesis of an approaching economic depression in the US and its development into a world economic crisis of major proportions became a staple of academic propaganda. Since it is highly doubtful that the Soviet leadership after 1949 ever seriously believed in the imminence of a major capitalist depression, this thesis was obviously designed for domestic and foreign propaganda purposes--to reassure the Soviet people that their economic status was better than that of Americans and to warn the allies of the US that too close economic dependence on the US with its impending economic crisis would have disastrous effects for them.

34. Although the patently propagandistic line adopted by the Soviet leaders and their academic propagandists on capitalist economic developments probably had little influence on Soviet policies in this period, the developments in this propaganda, and particularly the problems attending its implementation, are worthy of attention for several reasons. In the first place, the variations in the propaganda line cast some light on the changing Soviet estimate

* A list of the published works of Varga's Institute in 1946 and 1947 and those of the Economics Institute in 1953 is found in Appendix VI. A glance at the titles alone should clearly illustrate the deformation of Soviet scholarship. The appendix also contains a sample list of typical themes for dissertations on capitalism prepared by the Institute in 1950.

of international realities and on the subsequent tendencies toward change in Soviet tactics. Equally important, the problems arising from the reorganization of Varga's Institute, the difficulties experienced by professional economists in filtering their findings through ideological lenses, and the general deterioration in professional activity were such that it is highly questionable whether the Soviet leaders could have gotten an accurate appraisal of foreign economic developments in this period, even if they had desired one. Thus despite constant Party demands for "serious," "original," and "theoretically daring" studies on capitalism, most Soviet economists, fearing the consequences of error, were content to reduce their work to rehashing doctrinal themes, repeating high-level pronouncements, or issuing propagandistic articles and lectures. The few who dared to report economic truth about the outside world invited professional disaster.

35. The 1947 reorganization and the constant pressure of ideological conformity left the research base of Soviet analysis of capitalism in a continued state of disorganization throughout Stalin's lifetime. Throughout this period the director of the Economics Institute, Ostrovityanov, and his deputies, V. P. Dyachenko and F. V. Samokhvalov, were to complain bitterly that few scholarly works on contemporary capitalism were being published, the majority of works being "educational or propagandistic in function." In 1948 no scholarly works on capitalism were published by the Economics Institute and in 1951 only one work was released. As late as 1951 it was reported that the vital Sector on Capitalist Business Conditions did not produce a single work "because qualified personnel could not be found for the analysis of the accumulated material." Apparently the discovery a year earlier of a cell of "bourgeois objectivism" in the Institute had not aided the procurement of competent personnel! Thus it is not surprising that in late 1952 and early 1953 there were rumblings of change in the Institute and calls for a "decisive reorganization."

36. Faced with such difficulties, many Soviet specialists spent their time writing scholastic essays on Marxist doctrine and attempted to avoid the important questions of contemporary capitalist development, apparently in the hope that the Party literary hacks would treat these questions. The Party reacted to these diversionary maneuvers by charging in Culture and Life (21 October 1950) that the journal Problems of Economics, successor to Varga's journal, had devoted only one superficial review in 1949 to the development of the "latest economic crisis" of capitalism. It is

worth noting that V. Leonidov, author of the criticized article, (Prob. of Econ. No. 9, 1949) had compared the US recession of late 1948 with the great 1929 crash, but had carefully refrained from setting a date for the heralded big depression. As a consequence of this criticism, the editorial board of the journal, which had remained intact since early 1948, suffered in early 1951 the first of its many reorganizations.

37. Perhaps the best illustration of the deteriorating climate for serious study was the fate that befell L. S. Mendelson's book in 1950. Treating a subject far removed from current events, Mendelson had written a highly theoretical and voluminous Marxist history, 19th Century Economic Crises and Cycles (1949). Although this work had been prepared largely before the war under the aegis of Varga's Institute, it had been so carefully worked over by the staff of the Economics Institute that its final draft had been warmly praised by Ostrovityanov in 1948. Nevertheless, in 1950 Pravda (29 September) discovered "serious errors" in the work and sharply criticized its author, as well as its editor, P. K. Figurov, and reviewer, F. I. Mikhalevsky. Mendelson, in an apparent attempt to describe more or less objectively certain features of capitalist development, had erred in portraying the progressive, rather than the negative, side of capitalism. In the witch hunt that ensued, Figurov was found to have repeated errors similar to Varga's on the nature of the capitalist state in two pamphlets written in 1948 and 1949, and he was removed from his Institute post as head of the Sector on Imperialism. Despite three years of ideological disciplining, some Soviet economists still did not fully understand that they were meant to be propagandists for the regime and nothing else.

38. In a larger sense, the events of this period point up not only the pitfalls facing Soviet economists studying capitalism but also the serious crisis facing Marxist doctrine itself in the USSR. The repeated tendency toward error or heresy by Soviet professionals derived not from their political courage or intellectual perversity but from the failure of the changing elements of international reality to conform to a predetermined mythological pattern. Thus the inherent incompatability "to analyse thoroughly and seriously the processes which occur in the contemporary capitalist economies and to show brilliantly the greatest

advantages of the Socialist system of economy" (Pravda, 10 December 1950) was, and still is, the source of the repeated heresies in official Soviet Marxism.*

"The Approaching US Economic Crisis": Dogma vs Reality

39. Although the thesis of an approaching economic crisis in the US continued to be expounded by Soviet leaders and reflected in Soviet economic writings throughout the postwar period, it received its biggest boost during the US recession of 1948-49. Spokesmen in the Party press asserted that the crisis just begun in the US would shortly embrace the entire capitalist world. Malenkov, making his debut as an October Revolution orator in 1949, completely ignored the gradual upswing in the US business cycle late in the year, and laid far greater stress on economic deterioration in the US than had Zhdanov in 1946 and Molotov in 1947 and 1948. However, while he implied that the US was worse off than it had been on the eve of the great depression, Malenkov did not commit himself on the anticipated date of the arrival of a fully developed depression in the US. The almost complete absence of such references in the October Revolution speeches of Bulganin in 1950 and Beria in 1951 indicates that the leadership had turned its attention to more realistic considerations, the war in Korea.

40. The Korean war and the consequent Western rearmament shattered Soviet expectations, (justified or not) of a major capitalist depression, and produced readjustments in the propaganda line of an approaching economic crisis. Shortly after the outbreak of the war, Stalin's old thesis of the effects of war on the capitalist economy was resurrected and adopted as the official line:

"What does placing the economy of a country on a military footing mean? It means giving industry a one-sided, military direction; developing to the utmost the production

* For more recent examples: (1) In 1951 Pravda (29 August) criticized a leading Soviet economist on Japan, Ya. Pevzner, for favorably treating the US-sponsored postwar agrarian reform in Japan in his book, The Monopoly Capital of Japan During the Second World War and After, ed. by K. Popov (1950); and (2) In November 1952 at a session of economists, one A. M. Alekseyev criticized a collective work of the Institute, The Situation and Struggle of the Working Class of Western Europe (1952) for not exposing the bourgeois theory that taxes tend to equalize the incomes of all classes in bourgeois society.

of 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 by the population, and confronting the country with an economic crisis."

Just as Soviet spokesmen had argued that the artificial stimulation of the Marshall Plan and the high level of early postwar military production had temporarily postponed the expected US crisis immediately after the war, they continued predicting after 1950 that Western rearmament would only temporarily delay the onset of a new, more disastrous capitalist depression.

41. The task of Soviet academic propaganda after 1950 was to prove this dictum laid down by Stalin and to adhere strictly to the Party demand of making every work on capitalism an indictment. Such articles as A. Bechin's in 1951 (Prob. of Econ. No. 3) mechanistically spelled out the consequences of militarization: destruction of the process of capital formation; reduction of nonmilitary production and personal consumption; enrichment of monopolies; inflation and reduced purchasing power; increased national debt and insolvency; concentration of production and ultimate isolation of the monopolist warmongers; and, finally, revolutionary action under working class leadership. Serious scholars like I. A. Trakhtenberg, the leading Soviet expert on capitalist finance and a fellow heretic with Varga, wrote in 1952 (Prob. of Econ. No. 10) that the history of the capitalist business cycle demonstrated that each successive crisis became longer and more destructive while the periods between crises became progressively shorter, thus suggesting that the approaching crisis would be the most destructive in history.* Other economists, including Varga, wrote similar propagandistic rot. However, even in their efforts to distort the facts and prove that the Western masses were suffering unbearably under the burders of rearmament, these academic propagandists gave inadvertent testimony to the growing power of the Western coalition, as evidenced by the substantial decline in the doctored Soviet figures on US unemployment, from 18 million in 1949 to 12 million in 1953.**

* He repeated this observation at a session of Soviet economists in January 1953 convened to discuss Stalin's last article.

** For these "unemployment" estimates, see the articles by Varga in Pravda (19 March 1950) and Ostrovityanov in Prob. of Econ. No. 12, 1953.

The most precise prediction of the timing of the collapse of capitalism and the complete victory of Communism was that by G. V. Kozlov in 1952 (Prob. of Econ. No. 4)--the second half of the 20th century!

42. Although Soviet predictions of the impending doom of capitalism became increasingly distorted and strident during the "hate-America" and "germ warfare" campaigns of 1951 and 1952, there were signs in both Soviet propaganda and policy of a different Soviet estimate of the world situation and a reapproasial of Soviet strategy. As 1951 ended, Soviet propaganda began to lay heavy stress on disunity within the Western coalition. While such exploitation of capitalist "contradictions" was a time-honored Communist tactic, Moscow now began to extend the list of weaknesses it had been stressing to include those between the US and other Western governments. Heretofore, it had largely hewed to the Cominform line that the Western European governments, however reluctantly, had been accepting US dictates. Indeed, Molotov, in his Pravda article (21 December 1949) commemorating Stalin's 70th birthday, had pointed to the two camps, one headed by the USSR, the other by the US and Great Britain. Also, in contrast to Beria's October Revolution speech in 1951, Pospelov in the following year dropped the thesis of a more sharply defined polarization between the two camps and instead stressed the growing contradictions in the West and the inevitable economic crisis. While Soviet propaganda on capitalism in this period failed to reflect the facts of international life, Soviet policy was apparently beginning the agonizing readjustment to the realities of capitalist economic stability, military power, and political unity.

43. Simultaneously with the increased stress on the "disunity" theme, another development reflecting a growing awareness of capitalist economic strength was the re-emergence of emphasis on East-West trade. During the six months preceding the opening of the Moscow Economic Conference in April 1952, Soviet propaganda sounded a strident crescendo hailing the mutual advantages of normalizing world trade relations. Although this propaganda had the obvious aim of wrecking the Western trade controls program and little actually resulted from it during Stalin's lifetime, the bountiful propagandistic proposals of Nesterov, the president of the Soviet Chamber of Commerce, to Western Europe and the underdeveloped areas of Southeast Asia and the Middle East did foreshadow the direction in which high-level Soviet thought was heading. Even before Stalin's death Soviet trade representatives at the ECE meeting in Geneva were talking in practical terms,

in marked contrast to their propagandistic performances in previous meetings. Following the pattern set by Lenin in the autumn of 1920 and repeated by Stalin before the XIVth Party Congress in 1925, the beginning of serious trade overtures to the capitalist countries reflected a recognition of the temporary stabilization of capitalism and an equilibrium in the world balance of power. Soviet policy appeared to be responding to Lenin's dictum of 1920:

> "We must be clever enough, by relying on the peculiarities of the capitalist world and exploiting the greed of capitalists for raw materials, to extract from it such advantages as will strengthen our economic position--however strange this may appear--among the capitalists."

Stalin's "Economic Problems of Socialism"*

44. As 1952 came to a close, the Soviet view of the capitalist world economy was set down authoritatively in Stalin's article Economic Problems of Socialism in the USSR. This work was unique only in the sense that the high priest of Communism had formally woven into one cohesive fabric all the main threads of orthodox thought that had been shaping during the entire postwar period. The ideas developed by Stalin--the breaking away of the "People's Democracies" from the capitalist system, the disintegration of the single world market, the deepening of the crisis of the world capitalist system, and the inevitability of wars between capitalist countries--had all been formulated and discussed in the debate over Varga's book and afterwards. Thus Stalin's article, carrying all the force and authority of an utterance ex cathedra for Communists throughout the world, formalized Soviet views that had been crystallizing for some time on the contemporary world situation and the tasks of Soviet policy.

45. The major premise of Stalin's analysis of the world situation was that the tide of Communist territorial expansion was ebbing temporarily as a result of the partial stabilization and consolidation of capitalism. By pointing to the present limited goals of the Communist "peace" movement in non-Communist countries, Stalin's article, in effect, reflected a clear recognition that the opportunities for the

* Since Stalin's article has been examined in detail in many publications, it will be treated here in only the most general terms.

immediate overthrow of capitalism by subversive action of Communist Parties or by armed aggression had narrowed considerably.* At the same time, the emphasis on the internal and external "contradictions" in the capitalist world system clearly placed the development and aggravation of the capitalist economic crisis and the struggle among capitalist states in the indeterminate future. The tone of the article was essentially one of "ultimate" events and of situations in the contemporary world that would not continue "forever and ever."

46. However, although Stalin recognized the elementary realities of capitalist economic stabilization, political unity, and military strength, he denied their permanency. His call to foreign Communist parties to pick up the banners of "bourgeois democratic rights" and "national independence and national sovereignty" was designed to exploit separate national interests against the common interests of the armed coalition led by the US. At the same time, it set the tune for a return to the tactics of diplomacy by the USSR. Moreover, Stalin's concentration on the problems of the capitalist world market reflected a belief that Soviet bloc economic policy could, through the imaginative and selective application of its growing economic power, affect the course of economic and political development in the committed and uncommitted areas in the East-West struggle. Perhaps Stalin even imagined that he could achieve through Communist economic fiat that which Marxist "laws" of social development had failed to achieve, the ultimate economic collapse of capitalism.

47. In reaffirming the validity of Lenin's thesis of the inevitability of wars between the imperialist states and stating that the contradictions between the capitalist states were greater than the contradictions between them and the Soviet bloc, Stalin provided an official answer to the challenge raised by Varga four years earlier.** Stalin's resort to the mythology of Marxist orthodoxy was intended to still the fears

* This was in marked contrast with the revolutionary goals which had regularly been announced in the Cominform journal, For A Lasting Peace, For A People's Democracy, since 1947. See in particular the article by Maurice Thorez in the issue of 16 December 1949.

** Significantly, Vargo praised Stalin's work and recanted for his ideological error at a session of the Economics Institute in November 1952.

that had been raised in the minds of rational men over the implications of modern technological progress and the doubts that had developed about the dangerous course of Soviet policy in the postwar period. The inadequacy of Stalin's answers about international realities reflected the bankruptcy of Marxist orthodoxy and formed the troublesome legacy of his successors.

V. POST-STALIN SOVIET VIEWS OF CAPITALISM: 1953-1955*

Varga's New Book: Stalinism In Flux (Heresy Re-Visited)

48. The main stream of current Soviet thought on the capitalist world economy has continued to follow the course established during Stalin's last years. Soviet spokesman have continued to point to the approaching economic crisis in the US and to the disastrous consequences of the arms race on the economies and peoples of the capitalist world. With but one exception, they have failed to fix a firm date for the onset of the new crisis, and have by default projected such forecasts into the indeterminate future (e.g., Kaganovich's recent October Revolution prediction of the total victory of Communism in the 20th Century). They have continued to depict the economic plight of the "exploited" workers and peasants of the industrialized and colonial countries in the darkest colors, making such temporary adjustments as are required by the ephemeral interests of Soviet policy or, more recently, the "spirit of Geneva." Nevertheless, despite the force and direction of the main stream, there have developed, in the backwaters and eddys of Soviet thought since Stalin's death, certain movements of ideas that almost certainly reflect more accurately the underlying realities of current Soviet thinking on capitalism.

49. Varga's latest book, The Fundamental Problems of the Economics and Politics of Imperialism (after the Second World War) (August 1953), represents a good example of both the main stream of Soviet thought on capitalism and its conflicting currents. This book, which was prepared largely during Stalin's lifetime but which appeared after Stalin's death, derives its importance from the fact that it was widely acclaimed in the USSR as the "first outstanding comprehensive work on the post-war economics and politics of imperialism." As the only major Soviet work on capitalism spanning both the Stalinist and post-Stalinist periods, Varga's book is instructive because it pointedly reflects the myths of the former period and suggests the problems of the latter. In Varga's book, certain important questions of capitalist economic development which in Stalin's time were brushed off propagandistically have for the first time been treated as serious subjects for inquiry.

* The post-Stalin modifications in Soviet thinking on the "inevitability of wars" thesis will not be considered in this section, because they have received adequate treatment elsewhere.

50. Varga's most recent work, as a ridiculous caricature of capitalist economic development, represents his complete professional submission to the Party criticism of his early postwar treatise. Following the dictates of orthodoxy, the bulk of Varga's book reflected not only all the directives and themes of postwar official Soviet thought on capitalism culminating in Stalin's article, but also some distorted nuances of his own. For example, he so excessively exaggerated the Marxist concept of "colonial exploitation" (e.g., treating western and southern France as "internal colonies" of northern France, and the agricultural and mining states of the US as "colonies" of various monopolies!) that he even shocked the professional sensibilities of certain Soviet economists (Moscow Univ. Herald No. 4, 1954). Moreover, following the then held Party line on India, he treated the Congress Party leadership in the darkest colors, attacking it as representing the reactionary native bourgeoisie and the feudal landowners. By early 1954, after the line on India had changed, his critics were to find this view "somewhat simplified" (Prob. of Econ. No. 5, 1954, and Kommunist, No. 3, 1954). In sum, the bulk of Varga's book is a tribute to Stalinism and represents the apogee of Soviet academic propaganda on capitalism.

51. Nevertheless, while Varga has become a skilled mouthpiece for his Kremlin masters, he has also remained a good economist with perhaps a better understanding of capitalist economic processes than any other Soviet intellectual. He demonstrated this in the conclusions to his book, which were undoubtedly written after Stalin's death, by raising an issue that has since become the subject of lively debate and the central problem of current Soviet economic thought on capitalism - The question of the effects of rearmament on the capitalist economy. This question has been at the root of all the deceptively scholastic debates among Soviet economists over the chronological delineations of the postwar business cycle and its various phases. What these men have been actively attempting to determine in their theoretical controversies over the dating of cycles is the relative importance of military and nonmilitary factors in the cyclical rises and falls.

52. Varga challenged the oversimplified Stalinist proposition that capitalist rearmament leads directly and immediately to a reduction of nonmilitary production and personal consumption, a description applying more accurately to the situation in the Soviet economy where full employment of resources is planned. Varga declared that military production under capitalism, particularly in the US, supplements, rather than competes with, the other industrial sectors, and that it leads to a

temporary expansion of total industrial production as a result of bringing into employment productive forces that had not previously been utilized. While contemporary Soviet economic thought has accepted the thesis that rearmament leads to a temporary upswing in the business cycle, deforming its development, it has denied Varga's view that military production supplements industrial production.* Acceptance of the latter concept would imply not only a fundamental revision of orthodox Marxist thought on the structure of the capitalist economy but also a negation of the theory of the destructive consequences of rearmament on the capitalist economic system.

53. In effect, what Varga had done was to introduce once again a heretical equation into the Marxist mythological cosmos, by suggesting this time, in the worlds of his critics, "that the internal forces of capitalism and its laws have somehow ceased to operate and that the development of capitalism now is determined by artificial military-inflationary factors" (Kommunist No. 3, 1954). Surprisingly, despite his obvious heresy, Varga has not been officially criticized, and open debate--the first real one in many years--has continued to rage in the Soviet economic community right up to the present time.

54. Varga's critics have charged that he is not alone in holding such views, and, while no one has openly embraced them in principle, there have been tacit admissions of support. Varga's former associate, I. A. Trakhtenberg, writing in the June 1955 issue of Kommunist at a time when the US economy was enjoying an unprecedented economic boom, stated that while the general "laws" of capitalist development were immutable, "it would be incorrect to ignore the significance of military-inflationary factors, which can stimulate revival, delay the eruption of a crisis, change the course of a crisis, and change the form, sequence, and prospects of a crisis." He then went on to say, quite correctly, that only in the final analysis would rearmament lead to a reduction of living standards because in the short run "the inflationary method of accumulating monetary resources through the budget temporarily creates additional purchasing power. As a result the general purchasing

* Along with many others, A. Bechin, author of the much publicized prediction in September 1955 of an expected US crisis of overproduction "in the next few months," has denied that military production supplements over-all industrial production, but, significantly, he was not referring to the US economy in this instance. (Prob. of Econ. No. 9, 1955)

power increases, which stimulates the growth of production." This completely undermines the official Soviet Marxist rot about the "law of the absolute and relative impoverishment of the working class under capitalism."

55. The current theoretical debate about the effects of rearmament on capitalism is significant from a practical standpoint because it clearly demonstrates that professional Soviet economists, like their less pretentious Western counterparts, are in a quandary over the precise economic implications of a high level of arms production. Moreover, in contrast to what passed for economic research under Stalin, when scholars handled difficult problems by dusting off a few quotations from the Marxist classics, Soviet economists now are beginning to look closely and seriously at this problem and others like it. This debate also illustrates the crisis within Soviet Marxism, in the sense that Soviet professionals must repeatedly and deliberately circumvent the bankrupt doctrinal tenets in order to explain the complex phenomena of modern industrial society. Still more important from a political standpoint, the central focus of Soviet economic thought on what their propagandists call the "militarization of the Western economy" appears to reflect the Kremlin's long-held conviction that the long-awaited capitalist world depression has been postponed only by the high level of Western arms production. The current Soviet view of capitalism has thus posed a central problem for Soviet diplomacy: how to force a reduction in Western arms production without sacrificing vital Soviet interests?

"The Approaching US Economic Crisis:" A New Twist?

56. The end of the war in Korea and the prospect of a reduction in the Western arms build-up appeared to enliven real Soviet interest in the capitalist world economy and restore conviction in the long-inactive hopes for the approach of a new, severe US economic crisis. During the final stages of the long-drawn-out armistice negotiations, Soviet spokesmen began to react optimistically to the first signs of fluctuation in the US business cycle in the second quarter of 1953. Appearing closely on the heels of his Pravda article of 24 May, which had noted the signs of trouble in the US economy, Varga's book carried the following conclusion:

> "The economic situation of the capitalist world in 1952 practically demonstrates what has always been clear to Marxists: production for war cannot solve the problems of the market--the problems of sale. The capitalist economy clearly stands on the eve of a new economic crisis."

On 18 October and again on 28 January 1954, Varga wrote articles in Pravda in which he first observed that the US was heading "straight for a crisis of overproduction" and later declared that the anticipated crisis had already begun.

57. Although other Soviet spokesmen picked up his cue and expanded it much further, Varga carefully avoided pinpointing the precise role the then developing US "cyclical crisis" would play in the "ever-deepening 'general crisis of capitalism.'" The inclination to recognize the complexities of capitalist economic processes, to ascertain and examine scientifically all the facts, whether favorable to Marxist doctrine or not, and to submit to original analysis, seems characteristic of Varga, in contrast to the distorted dogmatic interpretations of his contemporaries. For example, the economist A. Kats wrote an article in May "proving" how American economists were falsifying unemployment statistics in order to cover up the deteriorating conditions. He "estimated" US employment at roughly 21 million, , including 11 million fully unemployed, 6.5 million partially unemployed, and 3.4 million in the armed forces! (Prob. of Econ. No. 5, 1954)

58. If it is true, as seems likely, that as of the end of 1953 the post-Stalin leadership shared Varga's cautious optimism, then they were probably convinced that the West was facing substantial economic difficulties,* but were uncertain concerning their extent, duration, and future implications. It appears almost certain that Soviet policy during the Berlin Conference was not predicated upon an expectation of imminent collapse of the Western economies. An indication of this caution was witnessed in the mid-March 1954 Supreme Soviet election speeches of the Soviet leaders. Their references to the then current capitalist economic difficulties were markedly mild and brief, framed within the standard propaganda context of the struggle between capitalism and socialism and the

* This view was also reflected in the conversations Gunnar Myrdal, Executive Secretary of the ECE, had in early 1954 with numerous Soviet economists. According to the widely circulated accounts of Myrdal's trip to the USSR, many Soviet economists continued to believe that a US depression was inevitable. They also were reportedly very eager to talk about world conditions and to learn about the outside world, first-hand knowledge of which had been almost impossible to obtain under Stalin.

demonstrated superiority of the latter. This was in marked contrast to the lengthy citations characteristic of their 1950 election speeches and the speeches at the 19th Party Congress.

59. A hint of the direction toward which serious Soviet thoughts on relations with the capitalist world were drifting was sounded in Malenkov's election speech and reflected in the field of Soviet foreign economic policy. Malenkov's brief, almost parenthetical, remark about making the trademark "Made In The USSR" stand for quality on the world market and the program announced earlier for increasing grain surpluses for foreign exports, as well as for other purposes, suggest that the Soviet leaders may have intended to develop commercial relations with the West on a fairly long-term basis. In contrast to Stalin's sterile early postwar policy of economic isolation and watchful waiting for the impending capitalist crisis, the policy of his successors is to employ trade as both a source of needed goods and a political weapon, whether or not the long-anticipated capitalist depression develops.

60. Although Varga predicted, in an English-language broadcast to American audiences in April 1954, that "a terrible calamity like the great crash of the early thirties was approaching with increasing speed," the flight of Soviet propagandistic fancy soon settled down to reality as the US cycle ceased to move downward and began its steady upward climb late in the year. From mid-1954 up to the present time Soviet spokesmen, with one exception, carefully avoided setting a date for the impending US crash, and instead turned characteristically to the themes of exploitation, misery, and bloodshed under capitalism. When the economist S. Vygodsky denied in April 1955 that the "factor of militarization was already exhausted and that military-inflationary business conditions were not vigorous enough to delay the movement of the crisis," it seemed that Soviet thought on the capitalist world economy had soberly resigned itself to the fact of foreign economic prosperity.

61. However, in September 1955, a strange note was sounded in a professional journal by the economist, A. Bechin, a relative newcomer among Soviet specialists on capitalism.*

* Bechin did not participate in any of the important postwar economic conferences in the USSR dealing with the world capitalist economy. See Appendix IV for a table listing those conferences.

In an article in Problems of Economics, characterized by high professional competence, relatively little propaganda, and reliance on official US sources, Bechin predicted that a "world economic crisis" similar to the great depression of the 1930's "would soon begin." He added, "It is quite possible that its beginning will be marked by a fresh curtailment of production in the US, which can be expected in the next few months." This represents the most clear-cut prediction of any Soviet economist in recent times.

62. Bechin argued that those factors that had staved off crises in the US in 1945 and 1949--increased exports, rearmament or "militarization," and replacement and expansion of fixed capital--were now being increasingly offset by other countervailing factors--increased unemployment, the "pauperization of the masses of small farmers," increased federal, state and private debt, and growing inflation. Moreover, these difficulties in the US economy were being exacerbated by growing competition from Western Europe and Japan, the national economies of which had already reached and surpassed their prewar levels of output, as well as by the general narrowing of the capitalist world market following World War II. While drawing his predictions in fairly sharp terms, forecasting that the next world capitalist business cycle would probably be more severe than that of the 1930's, Bechin ended his article on a pragmatic note by calling for further serious investigation of the subject.

63. Bechin's treatment of the role of "militarization" in the approaching depression, and particularly its effect on the economies of different capitalist countries, is important both for what it included and what it omitted. On the one hand, like other Soviet economists, he denied in general the theoretical point raised by Varga that military production is a unique form of production supplementing total industrial production. He adopted the standard Soviet line that "militarization," while temporarily stimulating growth in military and related production, leads to "impoverishment of the masses" and a growing disparity between total production and consumer demand. However, it is clear that he was referring to countries "which have no surplus of production capacity," i.e., Western Europe and Japan but not the US. He treated "militarization" as the primary source of postwar US industrial moderization and capital expansion. Hence, Bechin remained theoretically orthodox, with the exception of his treatment of the US economy, but in effect he plugged the same practical course as Varga, Trakhtenberg, and others. On the other hand, although he argued that there was

little prospect for expanding US exports and capital investment, he significantly failed to mention the future outlook for military production. Hence, it is reasonable to infer from Bechin's healthy regard for the stimulating economic effects of US military production that he predicated his estimate of an approaching economic crisis in the United States upon an assumption that defense expenditures would soon decline.

64. Moreover, the heavy stress placed by Bechin on the importance of foreign trade to the economies of Western Europe and Japan indicates a belief that the capitalist world market will in the future become the critical arena conditioning the development of the long-anticipated world economic crisis. In echoing Stalin's theme on the disintegration of the single world market, Bechin focused attention on a field in which Soviet policy has manifested active interest since Stalin's death. Stalin's successors may be more convinced than the old despot that economic policy can be used to reduce the areas of Western influence and even to exacerbate the internal difficulties in the capitalist economies.

65. There are some grounds for believing that Bechin's views and predictions may reflect the thinking of influential elements in the Soviet hierarchy, even though they have not been picked up by Soviet propaganda media nor echoed by Soviet spokesmen. Two of his previous articles in Problems of Economics (April 1953 and July 1954) on domestic economic policy have acted as bellwethers of shifts in Soviet policies and propaganda. In the first article, which preceded by four months Malenkov's announcement (8 August 1953) of the "new course," he intimated that Marxist theory clearly permitted the bringing together of the rates of industrial growth of Group I (heavy industry) and Group II (consumer industry) in the USSR. In the second article, written a full six months before Shepilov's spectacular Pravda blast (24 January 1955) against the advocates of priority for consumer goods, Bechin criticized, on theoretical, ideological, and political grounds, those economists who were arguing that the growth rate of Group II should exceed that of Group I during the entire period of

transition to Communism. A further indication of Bechin's high status among influential Party circles may be inferred from the fact that he was chosen by Pravda's editors, on 13 May 1954, to answer a reader's questions on the socialist economy.

66. In view of the possibility that Bechin's predictions represent the views of influential elements in the Soviet hierarchy, some speculation, and it is clearly only this, about their possible policy implications may be warranted. Expectation of the outbreak a great world depression triggered by a decline in US defense outlays may be one of the chief reasons for the unrestrained confidence now being displayed by the Soviet leaders. They may calculate that the outbreak of such an economic crisis in the US during a presidential election year, when policy is normally subordinated to politics, would find the US leadership incapable of coping with the situation decisively. They may also reckon that the outbreak of such a crisis might lead to the strengthening, and even the possible victory, of isolationist, ultranationalistic forces, and that the US, following the pattern set during the early New Deal years, might be forced to cut back its foreign economic and political commitments.* Thus the possible existence of such calculations by the present Soviet leaders, as well as the confidence gained at Geneva that the West would not use force to settle outstanding international disputes, may in part explain the recent actions of the Soviet leaders in peddling discontent in the uncommitted areas of the Near and Middle East.

67. If some such calculations are really present in current thinking of the present Soviet leaders and actually form a basis for their behavior since the summit conference, then the failure of the anticipated depression to develop and any serious setbacks suffered by Soviet diplomacy might in time lead to differences among the leaders over the situation in the West and its implications for Soviet policies, as well as to possible changes in the current leadership itself involving the emergence of more compromising, less intransigent elements.

68. It is possible that such high-level differences over the economic stability of the West and the various alternatives open to the USSR already exist and may be reflected in

* In the February 1954 discussion of his book, Varga stressed the importance of the economic basis of isolationist tendencies in the US which, in his opinion, "in certain political situations can be useful to the Soviets." (Moscow Univ. Herald No. 4, 1954)

Mikoyan's candid remark about the changes in capitalism since Marx at the recent Indonesian National Day reception in Moscow on 17 August.* Possibly such specialists as Mikoyan and Saburov, who have been to the United States and who probably have a more realistic view of the world economic situation, believe that any adventuristic policies predicated on the imminent collapse of capitalism might lead to dangerous, unintended consequences, particularly in the explosive Middle East. They may regard such policies as threats to the economic stability and national security of the Soviet state.

69. The apparent acceptance by the present Soviet leaders of the military implications of the atomic stalemate has raised to the forefront the political and economic aspects of international power. Whatever the different views now held by the Soviet leadership about the stability of the capitalist world economy, their policy implications seem to lead to the same practical conclusion under present world conditions: the application of national political and economic power to strengthen the Soviet state, destroy the armed Western coalition, and remove Western influence from the uncommitted areas of the East-West struggle. The prevention or outbreak of a major economic depression in the West would not only affect the balance of world power but also determine the choice of tactics to be employed by the Kremlin in the pursuit of its objectives. Signs of economic weakness in the West, real or imagined, could conceivably lead to major miscalculations in Soviet policy, as well as to high-level differences over alternatives open to the Kremlin.

Rebuilding the Research Base: The Dilemma of Planned Change

70. Since Stalin's death the forces for change in the USSR which during his lifetime were working deep beneath the base and superstructure of Soviet society have gradually, though intermittently, moved closer to the surface. At times, these forces, impelled by the aspirations of the Soviet people for intellectual truth and social justice, have advanced beyond the limits imposed by the regime, only to be forced back into line. At other times, the regime, desirous for purely practical reasons of repairing the damage to popular morale and professional activity incurred under Stalin and of exploiting the "creativity of the masses," has itself promoted the course of change and has even vacillated over establishing its proper limits. In a certain sense, the present period of Russian history may be viewed as an experiment in which the regime has been forced by circumstance

* This candid statement lends credence to the reports in 1947 that Mikoyan, among others, favored Soviet participation in the Marshall Plan, on the grounds that capitalism could muddle through indefinitely and the USSR could see the foreign credits.

to seek a new modus operandi in the relationships between state and society, one which gives greater play to group and individual interests without affecting the essentials of state power. The outcome of this experiment will probably depend not only on the degree of success enjoyed by the regime in achieving its goals, but also on developments outside the range of Soviet power.

71. A series of developments in the field of Soviet research on capitalism have reflected the spontaneous outbursts of change and the regime's efforts to control and direct them into channels serving its interests. The discussion over Varga's latest book in February 1954 provides a good illustration of the forces currently at work in the USSR. The atmosphere pervading this discussion, unlike that prevailing under Stalin, was serious, scholarly, and calm, even though Varga had raised a specter of heresy on a vital point and it had received support by several speakers. Moreover, the unusual behavior of one I. G. Blyumin pointedly emphasized the changing climate of opinion. Blyumin, a Professor of Economics at Moscow State University, had risen to prominence in the Economics Institute for his notorious hatchet-work on the bourgeois political economists, Keynes, Schumpeter, etc., and their inadvertent counterparts in the USSR, the Varga school of the early postwar period. Yet at this session he openly subscribed--he was criticized for so doing--to the position of Ya. A. Kronrod (Prob. of Econ. No. 1, 1954) that nonmilitary factors were no less a cause of postwar US prosperity than the "militarization" of the US economy. When even Blyumin turned his mind to serious problems, he too came up with heretical answers. How the worm had turned!

72. The recovery of Soviet scholarship from the trauma of Stalinism is nowhere better reflected than in the work of the highly respected academician, I. A. Trakhtenberg. In 1952 he gave evidence of his complete capitulation to orthodoxy by stressing the standard themes: the greater destructiveness of successive economic crises; the "impoverishment of the masses" as the immediate, direct result of "militarization"; and "militarization" as the sole source of capitalist growth, etc. (Prob. of Econ. No. 10, 1952). In 1955, however, he criticized those economists who stated that capitalism was always in a state of crisis, that it no longer had prospects for future growth. (Kommunist No. 9, 1955). His treatment of the recent past was also more objective, pointing out that

only the US economy had experienced a "crisis" in 1953. *(See S. Vishnev in Kommunist No.3, 1954 for contrast.) In general, while keeping well within ideological bounds, Trakhtenberg heavily emphasized the significant effects of concrete and changing conditions on the capitalist business cycle, thus leaving the door open for future heresy.

73. The new approach to the tasks facing Soviet specialists on capitalism is illustrated by the criticism of Trakhtenberg's latest book, The Monetary-Credit System of Capitalism After the Second World War (Moscow, 1954), by the economist A. Alekseev. (Prob. of Econ. No.12, 1955). Trakhtenberg was charged with having treated the question of the effects of inflation on workers' real wages in a declarative fashion without presenting any evidence. Moreover, he was criticized for having failed to argue empirically his position on the important question of the role of military production in the capitalist economy. "Trakhtenberg," according to his critic, "ended his analysis where in fact he should have begun." In other words, he and other Soviet economists are now being called upon substitute analysis for cliché, a noteworthy change in Soviet policy toward professionals.

74. Following in the wake of these changing views, the bureaucratic leaders of the economic community, as well as the Party leaders, have attempted to direct their course and control their pace, lest they should come into open conflict with high policy. In academic discussions, scholarly articles, and speeches--particularly the recent speech by the new head of the Economics Institute, V.P. Dyachenko, (Prob. of Eco. No.10, 1955)--the renewal of deep, serious interest in the capitalist world economy has been widely encouraged. Dyachenko candidly admitted the obvious fact that in Stalin's day Soviet study of capitalism was characterized by ideological slogans, epithets, and rituals, but no scholarly research. Soviet economists have been warned that the progressive achievements of capitalism should not be ignored (especially when the regime is attempting to borrow advanced foreign technique). They have been charged with the need to produce serious studies on such subjects as the market problem, "militarization," the postwar business cycle, etc., and they have even been scolded for ignoring the "variations in the conditions of the workers and peasants" in the different capitalist countries.

* Also in contrast to previous accounts (see the once authoritative textbook Political Economy (1954),p.290.), Bechin stated that the economic "crisis" in 1949 had occurred only in the US and not in any other areas.

75. The regime has attempted to institutionalize these manifestations of intellectual ferment on capitalism by setting up on 19 August 1955 a new body within the USSR Academy of Sciences, the Institute of the Economy of Modern Capitalism. Thus far no details have been released about the personnel and structure of this organization, and no works have appeared under its aegis. However, if this body should attempt to emulate the work of its predecessor, Varga's old Institute, and if Soviet students of the economy of capitalism take heed of the recent pointed criticism of their past achievements, the results should at least prove interesting, and perhaps even dangerous to the protectors of ideological orthodoxy.

76. In anticipation of such possible outbursts of heresy, the Party delivered a warning in the September issue of Kommunist (No. 14, 1955). The important editorial dealing with Molotov's recent ideological error also contained a reference to a heretical work by the economist A. Kats which allegedly emphasized the decay of capitalism leading to its automatic collapse. This work by Kats, "The Disintegration of Capitalism," was the object of severe professional criticism nearly a decade ago, was thoroughly discredited by everyone, and was never released for publication. If the Party was really interested in rooting out heresy, why did it resurrect a dead work from the distant past and ignore the current important heresy raised by Varga? The Party is apparently attempting to avoid the effects on morale and work of a rigid enforcement of conformity. Instead, the present leadership apparently desires, perhaps to a greater extent than in any previous period of Soviet history, accurate appraisals of foreign economic developments, provided they remain within reasonable ideological bounds.

77. The activity since Stalin's death in the field of Soviet analysis of developments in the capitalist world economy represents a microcosm of the forces at work in the larger arena of Soviet society. Although the majority have continued to follow the dictates of orthodoxy, some Soviet specialists, particularly those of high standing, have bypassed the limits of ideology and skirted along heretical ground in their attempts to report accurately and honestly the realities of the capitalist economy. These heretics have obviously been encouraged by the repeated insistence of the post-Stalin regime for the unvarnished facts about the outside world, in contrast to Stalin's repeated emphasis on rehashing predetermined ideological myths. Moreover, despite criticism by their colleagues, these men have not backed down, nor have they been silenced yet officially.

78. What are the future prospects for the development of Soviet views of capitalism? The current situation, in which the regime tolerates occasional heresy in the hope of obtaining accurate reports of foreign economic trends, may, of course, continue indefinitely. However, the toleration of such professional subterfuge could, in time, undermine the ethos of Soviet society among articulate elements in the population and even debase the ideological appeal of Communism to disaffected intellectuals abroad. The regime could even return to a rigid insistence on orthodoxy, with all its attending adverse consequences on morale and professional activity. Such a policy could have dangerous consequences on its foreign intelligence activities. The last and most difficult course open to the regime would be to accept officially the changes that have taken place in capitalism, changes which make unlikely a repetition of the Great Depression of the 1930s.

79. Over the long run, events outside the sphere of Soviet power will probably have as much to do with the changes in Soviet views of capitalism as events inside the USSR. In the past, as the present study has tried to point out, the realities of international life in the form of the continued economic stability and progress of the West have repeatedly produced heresy and confusion in the minds of articulate Soviet citizens. The continued economic prosperity, political unity, and military strength of the West will almost certainly lead to the recurrence of heresy among Soviet intellectuals, and perhaps even division within the ranks of the Soviet leadership. Over the long run, they may even erode the ideological basis of the East-West struggle and help transform the current heresies into established orthodoxy.

APPENDIX I

PARTICIPANTS AT MAY 1947 DISCUSSION OF VARGA'S BOOK

M. A. Arzhanov

Z. V. Atlas

I. N. Dvorkin

L. Ya. Eventov *

P. K. Figurov

E. I. Gurvich

A. I. Kats

P. A. Khromov

Sh. B. Lif* **

V. A. Maslennikov* ***

L. A. Mendelson*

V. E. Motylov

K. V. Ostrovityanov

V. V. Reikhardt

M. I. Rubinshtein* ** ***

A. N. Shneyerson

M. N. Smit-Faulkner

S. G. Strumilin

I. A. Trakhtenberg * ** ***

E. S. Varga

NOTE: A translation of the complete transcript of the three-day proceedings is published in Soviet Views on the Post-War World Economy (Washington, 1948)

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* Known members of Varga's Institute of World Economy and World Politics.

** Members of Varga's Institute who had aided him in the preparation of his book, along with other members: S. M. Vishnev, M. L. Bokshitsky, A. Yu. Shpirt, Yu. Vintser, L. A. Leontiev, and R. M. Magid.

*** Members of the editorial collegium of Varga's Institute journal, World Economy and World Politics, along with L. N. Ivanov, R. S. Levina, S. M. Vishnev, and I. M. Lemin.

APPENDIX II

STRUCTURE OF THE ECONOMICS INSTITUTE IN 1948*

Director, K. V. Ostrovityanov (1948 - 1955)
Acting Director, F. V. Samokhvalov (1952)
Deputy Director, V. A. Maslennikov (October 1950)
Deputy Director, V. P. Dyachenko (1950)

Sectors	Sector Heads	
American Countries	M.I. Rubinshtein	(late 1950)
British Empire	L. I. Ivanov	(late 1950)
Capitalist Business Conditions	V. P. Glushkov	(1950 ---)
Oriental Countries & National-Colonial Problems		
People's Democracies	P. K. Figurov	(1948)
European Capitalist Countries	S. M. Vishnev	(1948)
Imperialism & General Crisis of Capitalism	P. K. Figurov	(dismissed in 1950)
History of Economic Thought		

Group for Study of Situation of the Working Class and Workers' Movement in Capitalist Countries (Staffed by only 4 persons in 1948)

Capital Circulation in the National Economy of the USSR.
The Distribution of Productive Forces.
The Economic Regions of the USSR.
Economic Statistics.
The Economy of USSR Agriculture.
The Economy of USSR Industry and Transport.
The History of the National Economy of the USSR.
The Political Economy of Socialism.

Post-Graduate's Division
Editing and Publishing Division
Information Division
Party Organization - - - - - - - - - - - - - - - I. A. Anchishkin Secy. in 1949)
Post-Graduates' Party Group
Scientific Library

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*The Institute was organized within the USSR Academy of Sciences and was subordinated to The State Planning Commission, then headed by Politburo member N. A. Voznesensky.

APPENDIX III

THE HERESIES OF THE VARGA SCHOOL: 1945-1947

A. Chronology of Heretical Works on Capitalism: 1945 - 1947

Note: Works containing clearly heretical formulations are labelled "H," those which were merely objective or lacking militancy are labelled "O."

1. Articles

E. Varga, "The Decisive Role of the State in the War Economy of Capitalist Countries," World Economy and World Politics* January 1945 H.

L. Ya. Eventov, "Changes in the US Economy During the War," Planned Economy Jan./Feb. 1945 O,

I. A. Trakhtenberg, "The Transition of Capitalist Countries From War Economy to Peace Economy," Planned Economy May/June 1945; repeated in the Supplement to W.E. and W.P. April/May 1946 H.

I. M. Lemin, "The International Situation in 1945," W.E. and W.P. Jan./Feb. 1946 O.

S. Vishnev, "Industry of the Capitalist Countries After the War," Planned Economy No. 2, March/April 1946 O.

R. Levina, "The Food Situation in the Capitalist Countries After the War," Planned Economy May/June 1946 O.

Varga, "Peculiarities of the Internal and Foreign Policy of Capitalist Countries in the Epoch of the General Crisis of Capitalism," W.E. and W.P. June 1946 H.

R. Levina, "The Postwar Food Crisis and Its Causes," W.E. and W.P. September 1946 O.

L. Ya. Eventov, "Nationalization of Industry in England," W.E. and W.P. April 1947 H.

Varga, "Anglo-American Rivalry and Partnership," Foreign Affairs July 1947 H.

_____, "Struggle And Cooperation Between the US And England," W.E. and W.P. August 1947 H.

* Hereafter referred to as W.E. and W.P.

_____, "Socialism And Capitalism After 30 Years," W.E. and W.P. October 1947 H.

L. Mendelson, "Crises and Cycles In the Epoch Of The General Crisis of Capitalism," W.E. and W.P. November 1947 H.

2. Books

L. Ya. Eventov, The War Economy of England. ed. by I. A. Trakhtenberg (June 1946) H.

E. S. Varga, Changes in the Economy of Capitalism as a Result of the Second World War (September 1946) H.

A. Shpirt, Changes in the Economy of Raw Materials and Fuels in the Second World War (September 1946) O.

L. I. Frei, Questions of the Foreign Trade Policy of Foreign States (1946) O.

I. A. Trakhtenberg, The Financial Results of the War (1946) O.

M. L. Bokshitsky, Technical Economic Changes in US Industry During The Second World War, ed. by I. A. Trakhtenberg (January 1947) H.

I. M. Lemin, Foreign Policy of Great Britain From Versailles to Locarno (April 1947) O.

V. Lan, The U.S.A. From the First to the Second World War (May 1947) O.

S. Vishnev, Industry of the Capitalist Countries in the Second World War, ed. by L. Ya. Eventov (June 1947) O.

I. A. Trakhtenberg, ed., The War Economy of the Capitalist Countries in the Transition to Peacetime Economy (December 1947) H. and O. Including the following Articles:

(1) I. A. Trakhtenberg, "Basic Characteristics of the Transition of Capitalist Countries From War Economy to Peace Economy" H.

(2) S. Vishnev, "The Labor Force" O.

(3) M. Bokshitsky, "The Auto Industry" O.

(4) L. Roitburg, "Ferrous Metallurgy" O.

(5) A. Santalov, "The Oil Industry" O.

(6) L. Eventov, "The Productive Apparat O.

(7) Sh. Lif, "State Industry"

(8) E. Gorfinkel, "International Trade"

(9) Ya. Vintser, "Export of Capital"))

(10) V. Bessonov, "Non-Ferrous Metallurgy"

(11) M. Rubinshtein, "Chemical Industry"

(12) A. Shpirt, "The Coal Industry"

N. N. Lyubimov, ed., Financial Systems of Foreign States (1947)

P. Maslov, Methods of Economic Calculation (1947) O.

K. I. Lukashav, The Imperialist Struggle For Raw Materials And Sources Of Raw Materials (1947) O.

B. The Official Counterattack: 1947 - 1948

1. The Varga school's controversial ideas about capitalism had been circulating at least since the beginning of 1945 and continued to be advanced throughout 1947. (As indicated in the discussion above, Varga alone maintained his theoretical heresies in 1948.) In general, the controversial views of the Varga school were of two varieties, some clearly heretical, others merely objective accounts of capitalist development. Many of the exponents of the controversial views (including Varga himself), perhaps because of personal anxiety over their careers in the event of a shift in official attitudes, continued to write militant,polemical articles hostile to the West. Nevertheless, the members of the Varga school were not challenged for their errors of omission and commission for nearly two and one-half years, and some of them, particularly Trakhtenberg,went for a time even further than Varga on certain heretical points.

2. Before the open Party intervention early in 1948 (I. Laptev in Pravda 26 January), the criticism of the Varga school was relatively mild and scholarly.

This is illustrated most clearly by the treatment accorded M. L. Bokshitsky's doctoral dissertation on technological changes in US industry by the Learned Council of the Economics Institute on 24 February 1947. The formal opponents of the dissertation, G. Krizhizhanovsky, M. Rubinshtein, and S. Vygodsky, considered it a serious scientific work, and the Council recommended that Bokshitsky be awarded his doctorate. By early 1948 after the monograph had been published it was attacked for its unmilitant "technical-economic approach" and for intimating the possibility of "class peace" between US labor and management. (I. N. Dvorkin in Planned Economy Jan/Feb 1948).

3. The first professional review of Varga's book was devoid of doctrinal hysteria or personal invective, even though the critic, A. I. Shneyerson, disagreed with Varga's formulations on the economic role of the bourgeois state, the position of the colonies, and the status of Soviet Satellites in Eastern Europe. (Planned Economy No. 3 May/June 1947). This is particularly surprising since Shneyerson was Varga's severest critic at the May discussion of his book. (Incidentally, it is of some interest to note that Shneyerson faired well as a Party economist in the postwar period, as evidenced by his high position in 1954 as Professor of Economics in the important academy of Social Sciences under the Party Central Committee.)

4. I. N. Dvorkin's review in Bolshevik (15 July 1947) of Eventov's book on Britain's wartime economy was the first sharp attack of the Varga school. Among other things, he charged that Eventov was following Kautsky's line that capitalism could enter into a "new phase" of development instead of ending in imperialism, war and ultimate collapse. On 15 September 1947 Bolshevik, the authoritative Party organ, carried an article by I. Gladkov critically reviewing the inconclusive May discussion of Varga's book by the professionals.

Gladkov repeated all the major points of criticism and added that some of the participants,,instead of criticizing Varga's errors, proposed merely to talk over with him the need for reformulating a number of his concepts.

5. Laptev's Pravda article on 26 January 1948 and Ostrovityanov's critical speech at the annual meeting of the Economic Institute on the following day initiated the full-scale offensive against the Varga school. Ostrovityanov sharply attacked the books by Varga, Bokshitsky, Vishnev, Eventov, and Shpirt, as well as the two articles that had been written by Varga after the May discussion. In the period following this polemical onslaught, the books and articles by members of the Varga school (see the chronology in Section A above) came under a heavy barrage of criticism. The "reformist" errors of the Varga school were catalogued by Ostrovityanov in October 1948 as follows:

> "These errors lie in ignoring and distorting the Leninist-Stalinist theory of imperialism and of the general crisis of capitalism; in glossing over the class contradictions of contemporary capitalism; in ignoring the struggle of the two systems, in non-Marxist assertions concerning the decisive role of the bourgeois state in capitalist countries; in the existence... of a narrow technical-economic approach to the treatment of the economy of foreign countries; in an apolitical attitude; in bourgeois objectivism; in an uncritical attitude toward bourgeois data; and in admiration of bourgeois science and technique."

Ostrovityanov capped his criticism with an ominous warning to Varga personally for still refusing to recant: "From the history of our Party you should know to what sad consequences stubborn insistence on one's errors leads." Here indeed was a clear echo of the blood purges of the late 30's!

6. The official counterattack after January 1948 developed chronologically as follows:

(1) (Bolshevik 15 February 1948): I. Dvorkin criticized Vishnev's book for echoing Varga's views on the broad representative character of the bourgeois state during the war. Vishnev was attacked in March (Prob. of Eco. No. 1) by L. Mendelson for his unmilitant, objective approach to capitalism.

(2) (Bolshevik 15 March 1948): L. Gatovsky attacked the authors of the collective work edited by I. A. Trakhtenberg, The War Economy Of The Capitalist Countries And The Transition To Peace Economy, for being "prisoners of bourgeois methodology." He especially took the editor to task for his views that bourgeois state regulationshad changed the capitalist system of private enterprise and that the state represented general national interests instead of monopoly interests only. At the end of the month, the authors of the book were criticized at a session of the Economics Institute and they slavishly recanted for their "errors."

(3) Between March and May 1948 the Economics Institute held a series of sessions at which Soviet statisticians were criticized for their uncritical acceptance of bourgeois statistics, particularly on living standards in the West. In this discussion the works of Bokshitsky, Vishnev and Varga came under heavy fire for treating the capitalist economies in "rosy tones." (See Prob. of Eco. No. 5, 1948).

(4) (Bolshevik 15 May 1948): N. Rubinshtein attacked Lemin's book on Great Britain's foreign policy for "bourgeois objectivism" and for its uncritical treatment.

(5) (Bolshevik 30 June 1948): M. Marinin criticized V. Lan's book on US. foreign policy as the work of a "bourgeois apologist." Lan was charged with treating the "transformation" of the bourgeois state from a tool of monopoly capital into some kind of supraclass agency. He was attacked

for considering the possibility of compromises between Wall Street and the working class.

(6) In June, A. Shneyerson delivered a report on capitalism before the Economics Institute in which he delivered a general criticism of Varga's views.

(7) (Planned Economy July/August 1948): Shneyerson attacked two articles that Varga had written in the June 1946 issue of his journal. He criticized Varga for stating that the "general crisis of capitalism" had started early in the 20th Century before the October Revolution and that during World War II the conflict between the wartime allies in their struggle against fascism had been "suspended."

(8) (Prob. of Eco. No. 5, October 1948): A. Kochetkov criticized the books of L. I. Frei and K. I. Lukashev for their objectivism. The former was attacked for uncritical references to "planning" under capitalism and for depicting basic changes in the situation of the colonies, the latter for raising the possibility of Anglo-American co-operation in exploiting overseas oil reserves.

(9) (Planned Economy Nov/Dec 1948): M. Myznikov delivered a comprehensive critique of Varga's heresies, charging that in essence Varga had developed a new variant of Hilferding's thesis of "organized" or "planned" capitalism. He insisted that Varga had a "reformist" view of the state as an organ for reconciling class antagonism and attacked Varga's "opportunist" view of the peaceful transition from capitalisn to socialism. He also criticized L. Mendelson for arguing at the May 1947 discussion that Varga's position on the bourgeois state was only "too one-sided."

(10) (Bolshevik 15 December 1948): I. Kuz'minov attacked Mendelson's article of November 1947 for expounding the theory of "deferred demand," which implied that the workers in the capitalist countries were enriched during the war, instead of impoverished in accordance with Soviet Marxist theory. Mendelson was also attacked for repeating Varga's prediction of an upsurge of US. production in the early postwar period.

APPENDIX IV

POSTWAR SESSIONS OF SOVIET ECONOMISTS ON CAPITALISM

DATE	THEME	RAPPORTEUR	SPONSOR
7,14,21 May '47	Varga's 1946 Book	K. V. Ostrovityanov	Eco. Inst.
27 January '48	Annual Review of Economic Work	K. V. Ostrovityanov	Eco. Inst.
29-30 March '48	Critique of Collected Work *	G. A. Kozlov	Eco. Inst.
March-May '48	Critique of Statistical Work	V. S. Nemchinov	Eco. Inst.
June '48	Report on Capitalism In Crisis	A. I. Shneyerson	Eco. Inst.
October '48	Annual Critique of Eco. Work	Ostrovityanov	Eco. Inst.
March '49	Critique: "Bourgeois Cosmopolitanism"	A. I. Pashkov	Eco. Inst.
June '49	Colonial Situation After The War	Ostrovityanov	Eco. Inst. & Paci. Ocean Inst.
21 September '49	Critique By Culture & Life	----------	Staff & Party Buro of Eco. Inst.
June 1950	Report on "State-Capitalist Tendencies"	A. I. Shneyerson	Eco. Inst.
October 1950	Pravda's Critique of Mendelson's Book	V. P. Dyachenko	Eco. Inst.
November 1950	Critique of Prob. of Econ.	----------	Editors of Prob. of Econ. & Directors of Econ. Inst.
10 December '50	Mendelson's Heretical Book	----------	Eco. Inst.
February 1952	Critique of Shortcomings	Ostrovityanov	Dept. of Eco. & Law of USSR Acad. of Sci.
4-5 November '52	Stalin's Article	----------	Eco. Inst.
7-10 January '53	Stalin's Article	Ostrovityanov	Eco. Inst. & Dept. of Eco. & Law of Acad.
12-19 February '54	Varga's 1953 Book	A. I. Pashkov	Moscow State University
22 August 1955	Critique of Eco. Work	V. P. Dyachenko	Dept. Heads of Higher Edu. Inst.

* The War Economy of the Capitalist Countries and the Transition to Peace Economy, edited by I. A. Trakhtenberg (Moscow, 1947).

APPENDIX V

PERSONNEL CHANGES IN SECTOR ON CAPITALIST BUSINESS CONDITIONS

INSTITUTE OF WORLD ECONOMY & WORLD POLITICS 1947		ECONOMICS INSTITUTE 1952-1953
L. A. Mendelson		V. P. Glushkov, Chief
Yu. Vintser		E. I. Ivanova
S. Drabkina	(U.S.)	B. N. Kiselev
I. Zhivova	(U.S.)	YaYa Kotkovsky
V. Sokolov	(U.K.)	Z. A. Martinsen
M. Gan.	(France)	I. Moreno
I. Sosensky	(Canada)	N. N. Orlina
S. Slobodskoy	(Italy)	A. N. Puchkov
Ya. Pevzner	(Japan)	E. A. Chebtareva
A. Petrushov		P. M. Shapiro
M. Skebel'skaya	(Cen. Eur.)	V. I. Shumilin
R. Razumova		S. N. Bakulin
K. Dimitrov	(Eas. Eur.)	N. A. Kulagin
O. Gerbst		
V. Karra	(Eas. Eur.)	
G. Gertsovich	(Germany)	
D. Monin	(Czech.)	
Ya. Segal	(No. Eur.)	

NOTE: The countries in parentheses are believed to be the areas of professional specialization. Information on the personnel in the Sector during 1948-1951 is not available, although it was reported in 1951 that the staff of 22 persons did not produce any "scientific work" in that year "because qualified personnel were not available for analysis of the accumulated material."

APPENDIX VI

TITLES OF

SOVIET PUBLICATIONS ON CAPITALISM BEFORE & AFTER THE DELUGE

KNOWN PUBLICATIONS OF VARGA'S INSTITUTE IN 1946-1947

E. S. Varga, Changes in the Economy of Capitalism as a Result of The Second World War (1946)

L. Ya. Eventov, The War Economy of England, edited by I. S. Trakhtenberg (1946)

I. A. Trakhtenberg, The Financial Results of the War (1946)

S. Vishnev, The War Economy of Fascist Italy (1946)

A. Shpirt, Changes in the Economy of Raw Materials and Fuels in the Second World War (1946)

Kh. Eidusa, Japan from the First to the Second World War (1946) (A History)

S. Slobodsky, Italian Fascism and Its Collapse (1946) (A History)

V. Maslennikov, China (1946)

I. M. Lemin, The Foreign Policy of Great Britain from Versailles to Locarno (1947)

V. Lan, The United States from the First to the Second World War (1947)

M. Bokshitsky, Technical-Economic Changes in U. S. Industry During the Second World War, edited by I. A. Trakhtenberg (1947)

S. Vishnev, Industry of the Capitalist Countries in the Second World War, edited by L. Ya. Eventov (1947)

I. A. Trakhtenberg, editor, The War Economy of the Capitalist Countries in the Transition to Peace Economy (1947)

KNOWN PUBLICATIONS OF THE ECONOMICS INSTITUTE IN 1953

E. Bregel', Taxes, Loans and Inflation in the Service of Imperialism

Questions on the General Crisis of Capitalism (Collective Work)

Deepening of the Crisis of the Imperialist Colonial System After World War II (Collective Work)

The Imperialist Struggle for Africa and the People's Liberation Movement (Collective Work)

Militarization of the U. S. Economy and the Worsening of the Workers' Situation (Collective Work)

I. G. Blyumin, A Critique of Contemporary English Bourgeois Political Economy

E. S. Varga, The Fundamental Problems of the Economics and Politics of Imperialism (after the Second World War)

V. S. Volodin, Keynes--Ideologist of Monopoly Capital

M. V. Danilevich, The Situation and Struggle of the Working Class of the Latin American Countries

I. Dvorkin, The Ideology and Policy of the Right Laborites in the Service of Monopoly

N. I. Mnogoletova, The Economic Expansion of American Monopolies

G. A. Oborina, The Situation and Struggle of the Italian Working Class After the Second World War.

M. N. Smit, The Situation of the Working class in the U. S., England, and France After World War II.

V. V. Sushchenko, Expansion of American Imperialism in Canada After World War II.

TYPICAL THEMES OF DISSERTATIONS ON CAPITALISM PREPARED BY THE ECONOMICS INSTITUTE IN 1950

(See Problems of Economics No. 5, 1950, pp. 108-109 for complete list)

"The Development and Struggle of Two Camps--The Democratic, Anti-Imperialist Headed By The USSR and the Imperialist, Anti-Democratic Headed By the USA."

"The Leading Role of the USSR in the Peoples' Struggle Against Imperialist Reaction For a Durable, Just Peace."

"Economic Crisis in the Period of Monopoly Capitalism (USA, England, France, Germany, and others)."

"Parasitism and the Decay of Capitalism on the Eve, During, and After the Second World War (e.g., USA, England, France, and others)."

"The Degradation of Agriculture in the Colonies and Semi-Colonies."

"The Absolute and Relative Impoverishment of the Proletariat of the Capitalist Countries in the Period of the General Crisis of Capitalist."

APPENDIX VII.

SOVIET USE OF WESTERN SOURCES

Soviet economic research on the world capitalist economy both during and after Stalin's lifetime has been characterized by extensive coverage, intensive use, careful selectivity, and deliberate distortion of Western sources. From the standpoint of source coverage alone, Soviet research on foreign economies displays a degree of familiarity and sophistication that our own intelligence community would do well to emulate. However, in terms of over-all objectivity, the results leave much to be desired. Soviet economists rarely, if ever, falsify Western statistics; instead they distort them in a masterfully Machiavellian manner. The latter is particularly the rule whenever they deal with Western statistics on living conditions, a field of inquiry that could be rightfully described as the "Achilles Heel" of Soviet research on foreign economies. The most frquently quoted Western source on living conditions is the Labor Fact Book, published by the Communist-Front organization, The Labor Research Association of the United States.

A fairly representative illustration of Soviet coverage of Western sources may be found in the first chapter of Varga's book, The Fundamental Problems of the Economics and Politics of Imperialism (After the Second World War) (Moscow, 1953). These sources are listed below in their order of appearance, with the

works by Communists or fellow-travellers listed parenthetically:

Monthly Bulletin of Statistics of the United Nations
Statistical Yearbook of the United Nations
Annuaire Statistique de la France
Statistical Abstract of the United States
Federal Reserve Bulletin
Economic Reports of the President
Monthly Labor Review
(The Worker Magazine)
Economist, Records and Statistics
Monthly Bulletin of Statistics
The New York Times
Economic Survey of Asia and the Far East (UN)
Survey of Current Business
US News and World Report
Neue Zürcher Zeitung
Economist
(The Black Market Yearbook)
(Frederick Lundberg, America's Sixty Families) (in Russian 1948)
Statistical Yearbook of the United States
Tables to the Economic Survey of Europe (UN)
Le Monde
US Budget
Monieur Officiel du Commerce et de l'Industrie
The Times
(Harry Pollitt, Looking Ahead, London 1947)

APPENDIX VIII

BIBLIOGRAPHY

PRE-REVOLUTIONARY PERIOD

I. Primary Sources

VI. Lenin, Imperialism, The Highest Stage of Capitalism, English Edition (N.Y., 1932).

----------, The State and Revolution, English Edition, (N.Y., 1932).

II. Secondary Sources

Maurice Dobb, Political Economy and Capitalism (N.Y., 1937).

Merle Fainsod, International Socialism and the World War (Cambridge, 1935).

Rudolf Schlesinger, Marx-His Time and Ours (London, 1950).

Joseph A. Schumpeter, Capitalism, Socialism, and Democracy (N.Y., 1942).

POSTWAR PERIOD

I. Primary Sources

World Economy and World Politics (in Russian) 1945--1947. This was the monthly organ of Varga's old Institute of World Economy and World Politics.

Problems of Economics (in Russian) March 1948--November 1955. This is the monthly journal of the Economics Institute of the USSR Academy of Sciences.

Planned Economy (in Russian) January/February 1945--September/October 1955. This is the bimonthly organ of Gosplan, The State Planning Committee.

Bolshevik (in Russian) January 1947--September 1952; Kommunist (in Russian) October 1952--December 1955. This fortnightly is the authoritative organ of the Central Committee of the Soviet Communist Party.

Current Digest of the Soviet Press, 1949--1955. This weekly was relied upon for full and partial translations of articles in Pravda, Izvestiya, and other Soviet publications from late 1948 up to the present time. Its quarterly indexes were invaluable.

Soviet Views on the Postwar World Economy, translated by Leo Gruliow (Washington, 1948).

II. Secondary Sources

Frederick C. Barghoorn, "The Varga Controversy and Its Implications", The American Slavic and East European Review, October 1948, is useful for its detailed analysis of Varga's 1946 book. The author overlooks the work of other principals in the Varga school, however, and his treatment concentrates primarily on the imposition of the ideological straitjacket on the Soviet intelligentsia in the postwar period.

Frederick C. Barghoorn, The Soviet Image of the United States (N.Y., 1950) is good descriptively but weak analytically.

Rudolf Schlesinger, "The Discussions on E. Varga's Book on Capitalist War Economy", Soviet Studies, June 1949, complements Barghoorn's article by dealing with the intellectual issues raised by the Varga controversy. Although reference is made to some heretical works of the period, the coverage is far from complete. Like Barghoorn, the author avoids political interpretation.

Soviet Affairs, an organ of the Office of Intelligence Research, Department of State. The articles in this monthly publication which deal with the Varga controversy are models of intelligent interpretation of Soviet thought--concise, accurate, scholarly, and readable. Unfortunately, far less attention and sophisticated analysis has been devoted to the period after Varga's intellectual demise, particularly developments in the post-Stalin period, than in the earlier period.