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Review Articles

# Eugen Varga and the Calamity of Stalinist Economics

Jelle Versieren

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development and the role of gold in the modern capitalist economy. His political and theoretical itinerary continued in the Hungarian Council Republic followed by his ultimate flight to the Soviet Union. He became acquainted with the most important Soviet contributors to the political economy and international affairs: Lenin, Trotsky, Bukharin and Preobrazhensky. He developed an eclectic crisis theory that contains strands of thought of Lenin, Bukharin, Luxemburg and Hilferding. During the rise of Stalin, he tried to distance himself from any direct political involvement. This had a major repercussions on the theoretical level as he pursued a clear underconsumptionist but centrist agenda. In the 1930s, Varga became the most well-known spokesperson about Soviet economic affairs, when Stalin adopted his theory of the general crisis as an official doctrine. After the war, Varga fell out of grace with Stalin and was marked as a revisionist. Under the destalinization Varga retook his position as one of the most important political economists in the Soviet bloc, but he never regained his direct theoretical influence. Nevertheless, he was one of the fathers of the post-Stalinist state monopoly capitalism theory, which opposed the notion of organized capitalism.

Keywords:

- Eugen Varga
- Marx
- André Mommen
- Stalin
- Soviet Economics
- Bukharin
- Preobrazhensky
- Henryk Grossman
- State Monopoly Capitalism
- Underconsumption Economics

## Notes

<sup>1</sup>A. Mommen, *Stalin and the Soviet Economy* (London: Routledge, 1964), p. 10. van Jeno

<sup>2</sup>S. K. Preobrazhensky, *The New Economic Policy* (Moscow: Progress Publishers, 1964).

<sup>3</sup>P. Sutelnyy, *The Soviet Economy* (London: Routledge, 1998), p. 10. Vagener

<sup>4</sup>Preobrazhensky, *The New Economic Policy* (Moscow: Progress Publishers, 1964), p. 10. not only recently but also in the recent past. The Soviet economy was seriously threatened by the danger of being transformed into a skeleton of methodological

bones.' E. Preobrazhensky, *Decline of Capitalism* (New York: M.E. Scharpe, 1985 [1931]), p. 2.

<sup>5</sup>After Stalin's death, Varga denounced the former's writings as thoroughly subjectivist. Furthermore, this subjectivist stance was attributed to the defectiveness of economics under Stalinism. Perhaps it is one of the ironies of history that after the destalinization many older scientists had the same view, therefore calling for more formalism and less attention for the role of political agencies. Y. Varga, *Politico-Economic Problems of Capitalism* (Moscow: Progress, 1968), p. 19.

<sup>6</sup>See the comparison between Baran and Sweezy and Varga by Altvater: E. Altvater, 'Einleitung' in E. Varga, *Die Krise des Kapitalismus und ihre politischen Folgen* (Europäische Verlagsanstalt, 1974), pp. xxi-xxvi.

<sup>7</sup>For example, his instructive difference between national income and national wealth to discover the hidden macro-economic factors of capital accumulation. See: E. Varga, *Two Systems: Socialist Economy and Capitalist Economy* (New York: International Publishers, 1939), pp. 18-23.

<sup>8</sup>On the differences of the agrarian question between Kautsky and Varga see: A. Mommen, 'Jeno Varga and the Economic Policy of the Hungarian Soviet Republic', Paper for the International Conference of Historians, Budapest, 22 May 1999, p. 9-13.

<sup>9</sup>A. Mommen, *The Agrarian Question in Hungary 1918-1945* (London: Routledge, 2000), p. 10.

<sup>10</sup>Mommen

<sup>11</sup>According to Varga, the difference in production between the small and large estates was not significant and the absence of a large landowning class was not a factor in the agrarian crises. As Varga argued, the agrarian crisis was not a crisis of the logic of capitalism but a crisis of the logic of the agrarian economy. In 1929. In Varga's view, the agrarian crisis was not a factor in the general crisis of capitalism.



<sup>12</sup>N.I. Bukharin (edited by Richard B. Day), 'Economics of the Transition Period', in Selected Writings on the State and the Transition to Socialism (Nottingham: Spokesman, 1982), p. 58.

<sup>13</sup>Mommen, op. cit., pp. 40–43.

<sup>14</sup>Mommen, op. cit., p. 48.

<sup>15</sup>Varga would distance himself from Preobrazhensky's view on monopoly capitalism. Preobrazhensky refrained from surmising a definite decline of capitalism, although he agreed with the fact it was the logical and historical outcome. Furthermore, monopoly capitalism still could manage organize production and partly effective demand. E. Preobrazhensky, *The New Economics* (Oxford: Clarendon Press, 1965 [1926]), p. 52, pp. 152–153.

<sup>16</sup>E. Varga, *The Great Crisis and its Political Consequences* (London: Modern Books Limited, 1935 [1934]), p. 12.

<sup>17</sup>G. Duda, *Jenö Varga und die Geschichte des Instituts für Weltwirtschaft und Weltpolitik in Moskau 1921–1970* (Berlin: Akademie Verlag, 1994), p. 18.

<sup>18</sup>G. Duda, *Jenö Varga und die Geschichte des Instituts für Weltwirtschaft und Weltpolitik*

<sup>19</sup>E. Varg

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<sup>21</sup>Varga,

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second statement opens up more room for discussion. The rationalization process

consists of an enhanced investment in fixed capital to raise labour productivity with fewer workers. Therefore, the technical composition rises. In later explanations, Varga clearly stated that the organic composition of capital rises. However, he never linked this statement to his law of static wages and lower physical amount of labour. Rather than just agreeing with Lominadze that he used both concepts interchangeably, Varga's real problem consists of connecting both compositions. What follows is a logical reconstruction of Varga's law. On the one hand, Varga's concept of rationalization lowers the physical amount of labour (rising unemployment), and on the other hand he agrees with the fact that the new technical composition as a labour-saving technique lowers the value of variable capital in the organic composition of capital. Thus the total amount of variable capital has been lowered in two ways. We can conclude that Varga's law implies a faster rise in the organic composition of capital compared with the technical variant. It remains a completely open question what the results are for the value composition; nowhere can we find a suitable answer. So it can be concluded that Varga's law consists of a falling rate of profit with mass unemployment. The only solution for monopoly enterprises to counter this tendency is curtailing the number of factories (but not output)—idle fixed capital. This is Varga's implicit solution to keep a stable value composition in the face of a rising organic composition and therefore it is Varga's version of monopoly concentration of output with monopoly prices. In addition to these issues, Varga frequently gave different definitions of rationalization, whether it is based on the physical amount of labour or the value composition—he opted for the first one. After the war, Varga gave different definitions of rationalization (op. cit., pp. 26–27).

<sup>26</sup>H. Grossman, *The Law of the Falling Rate of Profit* (London: New Left Books, 1971), pp. 26–27.

<sup>25</sup>H. Grossman, *The Law of the Falling Rate of Profit* (London: New Left Books, 1971), pp. 26–27.

<sup>27</sup>Momm, *op. cit.*, pp. 26–27.

<sup>29</sup>Momm, *op. cit.*, pp. 26–27.

<sup>28</sup>See also Momm, *op. cit.*, pp. 26–27. (London: New Left Books, 1971).



<sup>30</sup>M.C. Howard and J.E. King, 'Marxian Economists and the Great Depression', *History of Political Economy*, 22:1 (1990), p. 84.

<sup>31</sup>Preobrazhensky, *Decline of Capitalism*, op. cit., pp. 18–19.

<sup>32</sup>See parts two to four in *Decline of Capitalism*. Both Grossman and Preobrazhensky used the expanded reproduction schemes to explain the role of investment with time and technology as essential factors. In comparison with Grossman, Preobrazhensky did not fully develop the role of the rate of profit, but he was insightful regarding the difference in the business cycles between free market capitalism and monopoly capitalism. His view on effective demand partly resembled Kalecki's theory of monopoly capitalism.

<sup>33</sup>R.B. Day, 'Introduction', in Preobrazhensky, *Decline of Capitalism*, op. cit., p. xiii.

<sup>34</sup>Preobrazhensky, op. cit., p. 14.

<sup>35</sup>Duda, op. cit., pp. 75–77.

<sup>36</sup>Day, op. cit., pp. 269–270.

<sup>37</sup>E. Varga, *The Great Crisis and its Political Consequences* (London: Modern Books Limited, 1935), pp. 15–25.

<sup>38</sup>Varga, *Decline of Capitalism*, op. cit., pp. 37–38. Varga's argument is a counter-measure against the claim that the amount of investment in the economy is determined by the amount of savings. Varga, op. cit., pp. 37–38.

<sup>39</sup>Varga,

<sup>40</sup>P. W. Davies, *The Crisis of Capitalism*, The University of Chicago Press, 1934.

<sup>41</sup>Duda,

<sup>42</sup>Although Keynes's *General Theory of Employment, Interest and Money* is a critique of John Maynard Keynes's *Principles of Economics*, it is not a critique of Keynes's *Principles*.

<sup>43</sup>Duda,

<sup>44</sup>Varga, Politico-Economic Problems of Capitalism, op. cit., pp. 142–148.

<sup>45</sup>Mommen, op. cit., p. 227.

<sup>46</sup>‘The dogmatic assertion that there can be only two alternatives—complete anarchy of production or complete planned economy—is impractical, untrue and hence anti-Marxist.’ Varga, Politico-Economic Problems of Capitalism, op. cit., p. 50.

<sup>47</sup>E. Varga, Twentieth Century Capitalism (The Evolution of Capitalism) (Foreign Languages Publishing House: Moscow, 1972 [1964]), p. 91.

<sup>48</sup>Wenlock, op. cit., pp. 161–162.

<sup>49</sup>Altwater, op. cit., p. xxxviii.

<sup>50</sup>Duda, op. cit., pp. 321–322.

<sup>51</sup>Varga, Politico-Economic Problems of Capitalism, op. cit., pp. 53–54.

<sup>52</sup>Duda, op. cit., pp. 297–307.

<sup>53</sup>Varga, Twentieth Century Capitalism, op. cit., p. 117.

<sup>54</sup>Varga, Twentieth Century Capitalism, op. cit., p. 124.

<sup>55</sup>Varga,

<sup>56</sup>Varga,

<sup>57</sup>Varga,

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