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Review Articles

Eugen Varga and the Calamity of Stalinist Economics

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Abstract

This paper presents a state of the art on the methodological issues surrounding Eugen Varga's contributions to Marxist economics in a chronological manner. André Mommen's recent Stalin's Economist. The Economic Contributions (2011) focuses on Varga's place within the general Marxist school of economic thought, thus widening the debate on the impact of Stalinist politics on the changing perspectives of Marxist economics. It is of the utmost importance to maintain a balance between the internal evolution of Stalinist economics as a social praxis and the determining force of exterior political motives. In the past, Varga has been marked as an ideologue with highly vacillating opinions because of his pragmatist attitude towards the ruling Stalinist bureaucracy. The recent

literature reveals to the reader a more complex picture. Varga will not be remembered as the most original or skilled economist of his age, but he did fill up the theoretical space that ensued from the purges under Stalin. Varga started as a young pupil of the theorists of the Second International and had a minor impact on issues such as agrarian 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

[1]A. Mommen, Eens komt de grote crisis van het kapitalisme. Leven en werk van Jeno Varga (Brussels: Imavo, 2002), pp. 14–15 (translation by the author).

[2]S. Karsz, Théorie et Politique: Louis Althusser (Paris: Fayard, 1974), pp. 63–64.

[3]P. Sutela and V. Mau, ‘Economics under Socialism: The Russian Case’ in J. Wagener (ed.) Economic Thought in Communist and Post-Communist Europe (London: Routledge, 1998), pp. 34–38.

[4]Preobrazhensky foresaw this in his preface of Decline of Capitalism: ‘In the recent past not only our philosophy, but also our economic science has been rather 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.

[5]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.

[6]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 (Europaïsche Verlagsanstalt, 1974), pp. xxi–xxvi.

[7]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.

[8]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, 20 March 2009, pp. 9–13.

[9]A. Mommen, Stalin's Economist. The Economic Contributions of Jeno Varga (London: Routledge, 2011), pp. 17–18.

[10]Mommen, op. cit., pp. 80–85.

[11]According to Varga, ground rent, a low organic composition of capital, the difference in production costs, the enduring co-existence of (proletarianized) peasants and large estates, price scissors between agriculture and industry, subsistence farming and the absence of business cycles were the reasons why the agrarian sector could not be compared with the industrial sector, thus demanding another way to handle agrarian crises. An industrial crisis can influence the agrarian sector, but the latter has its own logic of crisis. The latter, Varga contended, was not the case anymore in the crisis of

1929. In general, as capitalism develops, the agrarian sector becomes a minor factor in the general growth of the economy.

[12]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.

[13]Mommen, op. cit., pp. 40–43.

[14]Mommen, op. cit., p. 48.

[15]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.

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

[17]G. Duda, Jenö Varga und die Geschichte des Instituts für Weltwirtschaft und Weltpolitik in Moskou 1921–1970 (Berlin: Akademie Verlag, 1994), p. 18.

[18]G. Duda, Jenö Varga und die Geschichte des Instituts für Weltwirtschaft und Weltpolitik in Moskou 1921–1970 (Berlin: Akademie Verlag, 1994), p. 103.

[19]E. Varga, The Decline of Capitalism (London: The Dorrit Press, 1928), pp. 62–69.

[20]Mommen, op. cit., p. 61.

[21]Varga, op. cit., pp. 4–6.

[22]Duda, op. cit., pp. 63–66.

[23]Varga, op. cit., p. 19.

[24]The Stalinist Besso Lominadze gave the most interesting remarks regarding the analytical content of Varga's law. He asked how this rationalization process related to the value composition, technical composition and organic composition of capital. Lominadze just stated that in the accumulation process constant and variable capital

rose, and insisted that Varga did not separate the value composition from the technical variant. The first statement can be referred as a possibility but not a necessity. The 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 solely on absolute surplus value extraction (labour intensity) or not—he opted for the first definition in The Decline of Capitalism (op. cit., p. 35). Just before the war, Varga gave a contradictory definition of ‘crisis rationalisation’ in his Two Systems (op. cit., pp. 62–63).

[26]H. Grossman, The Law of Accumulation and Breakdown of the Capitalist System (London: Pluto Press; 1992 [1929]), pp. 181–186.

[25]H. Grossman, The Law of Accumulation and Breakdown of the Capitalist System (London: Pluto Press; 1992 [1929]), p. 180.

[27]Mommen, op. cit., pp. 107–108.

[29]Mommen, op. cit., p. 109.

[28]See also: R.B. Day, The ‘Crisis’ and the ‘Crash’. Soviet Studies of the West (London: New Left Books, 1981), p. 39.

[30]M.C. Howard and J.E. King, ‘Marxian Economists and the Great Depression’, History of Political Economy, 22:1 (1990), p. 84.

[31]Preobrazhensky, Decline of Capitalism, op. cit., pp. 18–19.

[32]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.

[33]R.B. Day, ‘Introduction’, in Preobrazhensky, Decline of Capitalism, op. cit., p. xiii.

[34]Preobrazhensky, op. cit., p. 14.

[35]Duda, op. cit., pp. 75–77.

[36]Day, op. cit., pp. 269–270.

[37]E. Varga, The Great Crisis and its Political Consequences (London: Modern Books Limited, 1935), pp. 15–25.

[38]Varga gave another reason why monopoly prices existed. It is also a counter-measure against the difference between the faster fall of the price level and the fall in the amount of surplus value, which causes even negative amounts of profit. Varga, op. cit., pp. 37–38.

[39]Varga, Two Systems, op. cit., pp. 114–115.

[40]P. Wenlock, ‘The Theory of State Monopoly Capitalism’ (unpublished PhD thesis, The University of Leeds, 1981), p. 224.

[41]Duda, op. cit., p. 223.

[42]Although only the Stalinist Volodin could give somewhat of a developed critique of Keynes's General Theory. See: C.B. Turner, An Analysis of Soviet Views on John Maynard

Keynes (Durham, NC: Duke University Press, 1969), pp. 74–112.

[43]Duda, op. cit., p. 287.

[44]Varga, Politico-Economic Problems of Capitalism, op. cit., pp. 142–148.

[45]Mommen, op. cit., p. 227.

[46]'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.

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

[48]Wenlock, op. cit., pp. 161–162.

[49]Altvater, op. cit., p. xxxviii.

[50]Duda, op. cit., pp. 321–322.

[51]Varga, Politico-Economic Problems of Capitalism, op. cit., pp. 53–54.

[52]Duda, op. cit., pp. 297–307.

[53]Varga, Twentieth Century Capitalism, op. cit., p. 117.

[54]Varga, Twentieth Century Capitalism, op. cit., p. 124.

[55]Varga, Twentieth Century Capitalism, op. cit., p. 153.

[56]Varga, Politico-Economic Problems of Capitalism, op. cit., p. 60.

[57]Varga, Politico-Economic Problems of Capitalism, op. cit., p. 64.

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