

Stalin's Economist

The economic contributions of
Jenő Varga

André Mommen



Routledge Studies in the History of Economics

Stalin's Economist

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

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

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

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

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

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The economic contributions of Jenő Varga
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To the memory of Victor Léopold Mommen (1903–57)

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



The Varga family in Berlin (© Mária Varga)

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Acronyms

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

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

Preface

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

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

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

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

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

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

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

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

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

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

Notes on the text

Note on translation

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

Note on references

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

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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