

Capitalist Restoration in the Former Soviet Union and Eastern Europe

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The counterrevolutions in 1989-91 in the Soviet Union and Eastern Europe were earth-shaking events. The successful capitalist restoration in the ex-USSR and most countries in Eastern Europe was a significant historical defeat for the working class internationally. It brought devastating attacks on the standard of living of the workers in these countries which include the abolition of many gains of planned economy based on the workers' states. The fact that these states were degenerated and deformed should not minimize the scope of the counterrevolutions. The counterrevolutions brought — to the largest scope since the second world war — the ugly face of extreme nationalism and fascism to the surface in Europe. The war in ex-Yugoslavia alone — which is a war for capitalist restoration on behalf of the reactionary nationalist bourgeoisies in ex-Yugoslavia (backed by imperialism) — is responsible for the death of over half a million people so far. It is inevitable that the reverse of the progressive historical development of planned economy (as degenerated or deformed as it was in the hands of the Stalinist bureaucracy) could only bring elements of barbarism and immense suffering to the masses. Consequently, in most of the countries where capitalist restoration has succeeded (ex-USSR, Croatia, Hungary, etc.) the fascist movement is growing in a big way.

Why The Workers' States Collapsed

For Trotskyists and Trotsky in particular, a degenerated/deformed workers' state dominated by the dictatorial Stalinist bureaucracy was a temporary historical phenomena. The project of "socialism in one country" was a utopia. In the hands of the Stalinist bureaucracy it was reactionary, since it was used as a tool to stop the world revolution. Surrounded by the dominating capitalist countries — which maintained the predominant mode of production internationally — the isolated workers' state had only a transitory character on the big historical scale. Trotsky clearly understood it: "The USSR thus embodies terrific contradictions. But it still remains a degenerated workers' state. Such is the social diagnosis. The political prognosis has an alternative character: *Either the bureaucracy, becoming ever more the organ of the world bourgeoisie in the workers' state, will overthrow the new forms of property and plunge the country back to capitalism; or the working class will crush the bureaucracy and open the way to socialism.*" (Transitional program, Documents of the Fourth International, our emphasis p. 210)

This prognosis of Trotsky was delayed for fifty years. Trotsky's "alternative character" was not only correct but inevitably irreversible; For Trotsky and the Fourth International always understood the degenerated workers' state and Stalinism as transitional, and on the large historical scale unstable phenomena. The Stalinists' "stability" depended on their continued ability to usurp the power of the working class; and equally important, the bureaucracy depended for its survival on the stability of world imperialism.

Trotsky's brilliant prognosis on the transitional character of Stalinism erred only on timing. Trotsky could not have foreseen the relative stability of imperialism after the Second World War, which lasted through the fifties and sixties. Stalinism survived despite the attempts of the masses in Eastern Europe to challenge it. The two principal reasons for the survival of Stalinism were firstly, the lack of revolutionary leadership (the break up of the 4th International) and secondly, the Stalinists' ability to strike deals with imperialism via the method of counterrevolutionary betrayal on a worldwide scale. The Stalinists' deals with imperialism de facto established a situation of "live and let live" in spite of the rhetoric of the Cold War. This allowed the USSR and to some extent the Eastern European states, to grow economically in the 1950's and early 1960's and even develop the productive forces despite their bureaucratic mismanagement. With all the distortions, the planned economy was still superior to the capitalist anarchy.

The price of "Socialism in One Country" was the increasing political and economic dependency of the Stalinist states on imperialism. "Socialism in One Country" (the philosophy of Stalinism) involved expropriation of the economic potential of the planned economies by the ruling bureaucracies. So, despite the superiority of the planned economy over capitalism, the economic potential of the former clearly exhausted itself by the 1970's. The internationally dominant capitalist mode of production had to win eventually. Consequently, the Stalinist bureaucracy attempted to obtain massive imperialist loans, thus increasing its dependency on imperialism.

Imperialism itself entered into periods of growing crisis in the seventies and the eighties. On the other side of the curtain, the workers' states experienced economic stagnation and decline. Their growing economic stagnation not only led to greater dependency on imperialism — but as importantly, it also brought greater tensions between the working class and

the bureaucracy. The conflict between the workers and the bureaucracy culminated in the Polish workers' upsurge of 1980-1. Imperialism, which was watching very carefully from the sidelines (and from the inside via its agents in Solidarnosc) kept on presenting the Stalinist bureaucracy with steeper bills (i.e. a growing foreign debt).

The imperialists, who never trusted the Stalinists to permanently control the mobilization of the masses, pressed ever harder for the solution of capitalist restoration, which became increasingly appealing for the bureaucracy with the growing world instability. The Stalinists started to desperately experiment with limited "market economies" in several countries in Eastern Europe, from the mid sixties through the eighties. Similar experiments developed in the USSR via the mechanism of perestroika. The bureaucracy hoped that the "market forces" would alleviate the worst bureaucratic distortions of Stalinism. Politically speaking, as long as the bureaucracy in the Soviet Union kept things controlled the "old way", the eruption of open counterrevolutionary situations in Eastern Europe was postponed.

But open counterrevolutions were only delayed until the late 1980's. The economic and political dependency of the Eastern European bureaucracy on the Soviet Union was overwhelming. The source of power of Stalinism still remained the degenerated revolution in the Soviet Union. When the bureaucracy in the USSR consciously allowed Eastern Europe to fall into the capitalist camp in 1989, they de facto declared open season for the big wave of the 1989-91 counterrevolutions that resulted in capitalist restorations in the USSR and most Eastern European countries.

The Role Of Bourgeois Democracy

Trotsky did not and could not foresee the actual way in which the bureaucratized workers' states were destroyed fifty years later. Trotsky predicted correctly that if restoration would take place in his time (1930's), it could succeed primarily with the brutality of fascism and civil war. But, brilliantly, he did not exclude in his writings the possibility that capitalism would be restored *principally* by the instruments of bourgeois "democracy".

At that time (the 1930's), the Soviet masses were willing to give their life for socialism. Illusions in bourgeois democracy were barely in existence. But to succeed in its restorationist project, bourgeois democracy needs to get active support from some sectors of the broad masses — this was out of the question in the 1930's. It was clear that the masses would not have tolerated bourgeois democracy and they were willing to *actively* resist restoration.

Why did the restoration of capitalism succeed by the political means of bourgeois democracy without the fascist fist? Genuine Bolshevism was erased from the memory of the masses by the Stalinist bureaucracy which murdered all the living representatives of the 1917 revolution. Decades of Stalinist oppression and the economic decline of the workers' state in the last twenty years created enormous disillusion for

the Russian and East European workers. The older workers in countries such as Czechoslovakia and Hungary remembered the days of bourgeois democracy in their countries. After decades of oppression under Stalinism, they naturally minimized the real oppression and exploitation of the old days, while they idealized the "democratic" aspects. Consistent imperialist propaganda also created illusions within strata of young workers that bourgeois democracy and "egalitarian" capitalism would allow them to climb up the social ladder and achieve a standard of living similar to the one enjoyed by the upper strata of the petty bourgeoisie in the West.

In order to take power and restore capitalism via the mechanism of bourgeois democracy, workers illusions had to be combined with two other crucial ingredients: 1). The Stalinist bureaucracy had to be extremely weak and unable to mount resistance. 2). Defeats and passivity in the class struggle, particularly in western Europe.

Both conditions materialized. The majority of the Stalinist bureaucracy became the principal leaders for restoration. Sections of the bureaucracy became the direct instrument of imperialism for destroying the workers state by combining bourgeois democratic institutions with Bonapartist decrees (Yeltsin and company in Russia). Other sectors of the bureaucracy (Poland, Hungary, E. Germany) became open social democrats and enthusiastic supporters of capitalism with a "human" face. The rest of the bureaucracy accepted capitalism as a necessary thing in life and set for itself the goal to convert itself into a new capitalist class, using *limited and carefully guarded* elements of bourgeois democracy to create a capitalist society in which the former bureaucracy would have the upper hand (Civic Union in Russia). The bottom line is that no section of the former bureaucracy was willing to lead a serious civil war to preserve its privileges (as the coup in 1991 illustrated); the majority of the bureaucracy in Eastern Europe and the USSR was willing to accept measures of bourgeois democracy as a way to restore capitalism without arousing the antagonism of the masses.

The betrayal of the working class by social democracy and Stalinism in Western Europe brought about one the quietest decades of the class struggle (the 1980's). This combined with the total capitulation of the Stalinist bureaucracy in the East, convinced imperialism and its agents to proceed with the creation of bourgeois parliaments and elections as the *safest* way to take state power; thus the creation of such bourgeois bodies was a *central* step in the restorationist process.

But in the last analysis, the success of restoration boiled down to the question of leadership. Only Trotskyism can show the workers the way forward. Unfortunately, the vast majority of the "Trotskyist" movement has abandoned the tasks of the political revolution since the inception of the workers' states in Eastern Europe. Many of those who consider themselves Trotskyists are in a miserable state of crisis and confusion. Consequently, at the present time —

years after the great historical crisis of Stalinism began to peak — the so-called Trotskyists have very few forces in the former workers' states. And these forces, if anything, mislead the workers with illusions in bourgeois democracy and the "democratic" forces.

It goes without saying that the absence of revolutionary parties only helped the counterrevolutionary forces. The masses need revolutionary parties with a clear method. It was necessary to show the masses how to create workers councils with workers' democracy that is counterposed to bourgeois "democracy". The creation of such militant councils would have opened the road for the masses to act in the name of their class; it would have prepared the revolutionary program to be combined with militancy of the masses, that is, prepared the ground to destroy the Stalinist regimes and the bourgeois counterrevolution. The historical events of '89-91 confirmed that when the crisis arrives such revolutionary parties *already need to have deep roots in the working class*. It is not possible to start building such parties at the last minute and *shift the process* in the direction of the political revolution.

What are the tasks of the working class in relationship to bourgeois democracy in the workers' state? The workers must object to the formation of openly reactionary (i.e., pro-restorationist) bourgeois parties and formations. The workers must be warned that the restorationist organizations will use bourgeois institutions — such as parliaments and governments chosen by parliamentary elections — to restore capitalism, that is, to impose mass unemployment, privatize industry, and so on.

The workers must learn that the election of representatives to parliaments or other pro-capitalist institutions by atomized "citizens" will not change things for the better, but only for the worse. They must be shown that there is a world of difference between the basic workers' democratic rights that were suppressed by the Stalinists (the right to assemble, strike, etc.) and the "rights" of bourgeois parties to carry out their pro-capitalist programs against the workers. In the workers' states, "democracy" in the abstract, without a progressive class content, is *reactionary*, and its "freedoms" are merely used to stage brainstorming sessions for the dismantling of the gains of the plan. Conscious proletarians must counterpose workers' democracy to the deceptive bourgeois democracy. This can be done by creating genuine soviets and genuine workers' democracy within the new unions, factory committees and strike committees. In all workers' institutions, workers' control and the defense of the planned economy must be starkly posed against the restorationist proposals of bourgeois democracy and market economy.

As history showed us, unless workers' democracy is counterposed as an alternative to bourgeois democracy and smashes it, the new bourgeois democratic liberties are used by the restorationists as tools to pull wool over the eyes of the workers and restore capitalism. In summary: the deception of bourgeois institutions and parties, and illusions about the

separation of powers among parliaments, government, and economic institutions were used *purely* for restorationist purposes. They were the *safest* and the most important political instruments for capitalist restoration.

State Power Is The Decisive Criteria For Capitalist Restoration

Unlike the impressionist currents of the centrist Left that tell us that economic criteria (amount of privatization of state property) is decisive, the LCC(I) is the only international Marxist current that understands the crucial role that the state plays in the restorationist process. Which class the state serves (even if this class only exists in an embryonic form) is the most important criterion for the definition of the nature of the state (workers' state versus capitalist state). For the LCC(I), the most important factor for the success of restoration is the *ability* of a restorationist/bourgeois state to dismantle the fundamental mechanisms of the plan and the state monopoly over foreign trade — not the degree of privatization which has *already* taken place. The new ruling class in the new capitalist state must be extremely weak, or barely in existence, for a long time (possibly decades), since the new incipient capitalist states can survive only if *they are dominated* by imperialism. The new states can survive economically mainly through joint ventures dominated by Western capital. State power held by the restorationists and the creation of an incipient capitalist state prepares objectively for imperialist domination, regardless of whether power is in the hands of the pro-imperialist elements (Yeltsin and company) or the ex-conservative faction of the bureaucracy.

When Did Open Restorationists Take State Power In Russia And Destroy The Workers' State?

The counter-coup by Yeltsin and company brought the open restorationists who were the open agents of imperialism to state power. It was a crucial point at which the bureaucracy was destroyed as a ruling caste. When Yeltsin and company defeated the coup, they took state power from the Stalinist bureaucracy. The counter-coup of 1991 was a critical point from which it became crystal clear that the bureaucracy was ousted from power by the bourgeois restoration. At this point it was incorrect to call the Soviet union a workers' state. Yeltsin and his supporters quickly destroyed Gosplan and all the left-over mechanism of centralized state planning; they immediately banned the Communist Party (CP) and effectively destroyed it as a party of the Stalinist bureaucracy. The party of the ruling caste that controlled the degenerated workers' state was gone — the term degenerated workers' state became a meaningless terminology. State power was clearly in the hands of the incipient bourgeoisie. When it was clear that the army was in the camp of Yeltsin, Russia became an incipient capitalist state. The state is defined as armed -bodies of a class. The victory of Yeltsin with the

support of the army and the other repressive state apparatus proved this ABC of Marxism.

After the CP was effectively destroyed, the thousands of Stalinist bureaucrats showed their true restorationist colors. No longer interested in being Stalinist bureaucrats, they openly declared themselves as supporters of capitalism. That is why they did not lift a finger when Yeltsin took power. The conservative Stalinists that formed Civic Union later on, supported the destruction of the Communist Party which took place *days* after the Yeltsin's counter-coup triumphed. These people were no longer Stalinist bureaucrats. They became dependent for their survival on the success of capitalism. Their only argument with Yeltsin is that they want capitalism to be restored in a guarded way that preserves their privileges in the new capitalist society. This process did not happen at once, in fact it was clear that the conservative bureaucrats supported gradual restoration *before* the coup (that's why it was wrong to support the coup). But when they did not lift a finger to defend the CP when Yeltsin destroyed it, it became clear without a shred of doubt that these people cannot and would not return to Stalinism — the head of the CP was crushed. The Communist Party which was once the political and military instrument that defended the degenerated workers' state and the privileges of the Stalinist bureaucracy was gone with the workers' state.

The Capitalist State In Russia

Some sectors of the ex-bureaucracy in Russia would like to develop a stronger national bourgeoisie on the base of a strong nationalized industry of important sectors of the economy, which they try to defend against imperialist destruction. But they have to achieve this in the real world dominated by imperialism. The question of imperialist domination is the real reason for the latest conflicts between Yeltsin and Civic Union. The struggle is over how much of the economy should be dominated by imperialism, not about the *necessity of the capitalist state itself*. In reality, the struggle between Yeltsin and Congress produced the real compromise under which capitalism, including privatization, is developing in Russia. The most recent compromise between these two forces showed very clearly that their basic aims are the same. To establish capitalism in Russia, Civic Union needs to be recognized by imperialism to some degree; it cannot have totally hostile relations with imperialism. For this reason, Civic Union needs to tolerate Yeltsin. Thus, the *capitalist state* consists of the combination of both: Yeltsin's government and the "conservative" congress. Both are institutions of bourgeois superstructures; both have the backing of different sectors of the army — a crucial ingredient for a capitalist state. Both factions (and their backers in the army) want to avoid a civil war, because it will sabotage and undermine the restorationist process *as a whole*.

But the capitalist state in Russia is fragile. It will take many years to create a stable bourgeois state. For the time being different wings of the restorationists are pushing in

different directions. The so called conservative bureaucracy has a strong influence with the new state apparatus (the Congress). This permits the ex-Stalinists with the support of Civic Union to take factory after factory (in the gradual way) and privatize them for themselves. They prefer a weak bourgeois Constitution or even no bourgeois Constitution that could potentially interfere with the process of privatizing the industry on behalf of the managers. A strong nationalized industry on a state capitalist basis plays in their favor. Why? Because the ex-bureaucracy still manages those industries as it waits for the best economic and political combinations on the national and international scale to steal these industries and privatize them for the ex-bureaucracy.

The Russian Congress that dominates the central bank and the money allocated to the industries is the *best capitalist state instrument* for the goals of the ex-bureaucracy. On the other hand, Yeltsin wants to destroy state capitalist measures as soon as possible and create mass bankruptcies with the ruin of state industry. This would force greater domination of the economy by imperialist firms. For this reason Yeltsin and company want a strong Bonapartist presidency decorated with elements of bourgeois democracy that can destroy as quickly as possible state capitalist measures. But in reality Russian capitalism is developing as a compromise between both factions: Yeltsin guarantees that imperialist firms get favorable conditions for joint ventures, while the ex-Stalinists (protected by Civic Union and the Russian Congress) proceed with privatizing state enterprises for themselves as Yeltsin watches impotently. Yet the state with all its complexity and conflicting superstructure defend the development of a capitalist economy, that is, it is an incipient capitalist state.

The Capitalist State In Eastern Europe

It is even easier to see the nature of the state in Eastern Europe, where bourgeois democracy is an even more useful tool for restoring capitalism (compared to Russia). In order to better deceive the militant Polish workers, for example, the incipient bourgeoisie in Poland decided to give the Polish parliament a lot of power in the process of privatization. But parliament, as a capitalist state institution, cannot act mechanically: it must take into account the complex social contradictions. Hence, the parliament went through several zigzags — it even refused temporarily to proceed with its own privatization program — before it finally agreed to give the majority shares of 600 state enterprises slated for privatizations to top investment firms. But first the new capitalist state had to defeat the resistance of the Polish workers and their militant strike wave (in 1992). After defeating the strike waves, it was safer to proceed. But like any other bourgeois democratic institution, it had to pretend that it represent all the social classes. Thus the parliament agreed to give Polish workers a 10% share in the business and representation on *nonexecutive* boards of directors (in other words, minimal nonsense) in exchange for lower wages and greater speed-up; these are necessary conditions for the restoration of the law of value before state industries are

privatized. So, in Poland and other Eastern European countries, bourgeois democratic tools (and the illusions surrounding them) are good state instruments for finishing restoration. *The task of restoration is even easier because of the total capitulation of the Stalinists.* Thus, the bourgeois gentleman and ladies in the Polish parliament received the support of the Democratic Left Alliance which is controlled by the old Stalinist leaders from the Communist Party; now the Democratic Left Alliance is a social democratic party.

A Capitalist State Versus A Workers' State: A Summary

The nature of the state and what property relations it defends is a crucial criteria for Marxists when we assess at which point the workers' state *ceases* to exist as a workers' state. The economic criteria alone, that is, how far the restorationists have gone in the establishment of privatization and market mechanism is not decisive. The deciding criteria for the establishment of a capitalist state is the firm control of state power in the hands of the incipient bourgeoisie and its agents and the fundamental destruction of the plan. *When this is accomplished, the state is no longer a workers' state but a capitalist state.*

After securing firm control of the state, the restorationists have to destroy the basic mechanism of planned economy and the fundamental state monopoly over foreign trade that *derives* from the plan. These tasks are accomplished in the former Soviet Union and most Eastern European countries (Hungary, Slovakia, Slovenia, Czech Republic, Poland, Croatia, etc.). In all of these countries state monopoly over foreign trade is gone. Their currency is either floating or dependent on imperialism and the world market. The destruction of state planning (Gosplan, Comecon and similar apparatuses) and the abolition of state monopoly of foreign trade compel the currency to be integrated into the world capitalist market. The above is forcing the development of commercial capital and private banks dominated by imperialism. The new state capitalist trusts that are created on the ruins of planed economy provide a necessary cushion for the development of capitalism and imperialist domination. *The real data that is coming out from countries such as the Czech Republic reveals that the true forces that dominate the new state capitalist trusts are multi-national banks and bond companies and insurance companies — the same monopolies that control commercial capital, that is, the financial capital of imperialism.*

To illustrate the fact that a country cannot be called a workers' state if it does not have a planning mechanism, let's look at an example in Russia (where the majority of industries are not yet in private hands). One of those plants, Nizhni Sergi, is a steel mill and it is located in an industrial belt in the Ural mountains. In the days when Russia was a workers' state the mill produced steel for the auto industry. But the collapse of planning produced a steep decline of auto production. *Without the planning mechanism, the auto*

industry is gradually slated for privatization, and the Nizhni Sergi steel mill does not receive orders any longer. Since 1992, the steel mill's output was cut by a third. As with many other factories in Russia, the mill is scheduled to be privatized eventually. To restore the law of value, that is, the future profitability of the plant, the workers' paychecks were cut drastically (for full detail, see US News and World Report, Dec. 7, 1992). For the time being the plant is financed by the government. The central bank that finances such plants does it to avoid social explosion against the capitalist state and to prepare the ground for possible privatization in the future. But such delivery of money to the plants has nothing to do with planning — the delivery of state (capitalist) money to Nizhni Sergi steel mill only produces unneeded drive shafts that are accumulating in big piles. What emerges in the case of the Nizhni Sergi steel mill and thousand of other similar plants is that a state capitalist nationalized economy has nothing to do with a workers' state and even the most distorted Stalinist planning. As the capitalist economy develops Nizhni Sergi steel mill will either close down as a liability to the capitalist class or be privatized.

Any state that defends the above developments cannot be called a workers' state but a capitalist state committed to the market and private property. But unfortunately there is still a lot of confusion about it by those who supposedly understand Marxist theory on the state. The definition "workers' state" or "degenerated workers' state" means that either the workers have *state power* and are ready to extend it internationally and prepare the ground to establish socialism (a healthy workers' state), or the state defends a bureaucracy and its material privileges which rest on planned economy (a degenerated/deformed workers state). *But neither the working class nor the bureaucracy are in power in Russia and most of Eastern Europe.* The bureaucracy was either removed from power or it joined the bourgeois state that smashed the basic mechanism of the plan. Under these conditions how can the new states be called workers' states? Many semi-colonies have nationalized economies and they keep it that way until the state apparatus concludes that the local bourgeoisie is strong enough to compete on the world market (Libya for example). While we defend such nationalized sectors of the economy against imperialism and its agents, we must not confuse such industries with a workers' state.

The state as a tool in the hands of incipient capitalist class in the new capitalist Eastern European states includes the superstructure of bourgeois democracy: the right of bourgeois parties to run in elections and a Constitution (that already exists or is being written) that defends private property and the right of bourgeois parties to come to power and implement capitalism. The state institutions (parliament, the court, etc.) are tools in the hands of the embryonic new ruling class in power.

These days, the state and the ex-bureaucracy defend the capitalist market and not collective property relations, or more accurately, the bureaucratic privileges that derive from

collective property. Under these conditions the term degenerated/deformed workers' state is meaningless and misleading. The ex-bureaucracy's survival and privileges rest on the capitalist economy and are defended by a capitalist state and not on the plan of the workers' state; the bureaucracy's chances for survival depend on its ability to transform itself into a new ruling class.

Does The New Economic Structure Have To Be Fully Developed Before The New Ruling Class Take State Power?

Many vulgar Marxists argue that the economy must be fully developed before the superstructure is firmly established. Even Plekhanov argued that this is the case. This vulgar thought rejects the dialectical zigzags of history. To a large extent this theory was true as far as the bourgeois revolution was concerned. Before the bourgeoisie took undisputed power in England the capitalist mode of production was quite developed. The French Revolution also took place after the bourgeoisie in France felt that the leftovers of the feudal mode of production were hindering the further development of the already pre-dominant capitalist productive forces. But in Germany the economy was mixed (partially feudal and partially capitalist) when the bourgeoisie took political power; and the bourgeoisie, therefore, had to retreat: sections of it supported the monarchy from time to time before the bourgeoisie realized firm power. In addition to that, in Germany and other countries in the 19th century, the bourgeoisie was afraid of working class struggle and even working class revolution; it was therefore reluctant to smash feudalism.

We will also be vulgar Marxists if we say that the reverse is true. The bourgeois counter-revolution in 1989-91 did not take political power from a state that rested on a "pure" planned economy. Since the 1960's — after the productive forces in the workers' states stopped their strong growth — large sectors of the Stalinist bureaucracy made one concession after another to capitalism by incorporating alongside the plan measures of "regulated market economy". By so doing, the bureaucracy objectively prepared the overthrow of the workers' state. By the time the counterrevolution took power, mixed economy was quite strong in Eastern Europe and the USSR.

Two big historical lessons are emerging from modern history: 1). When the working class takes power, it is likely to rest for a transitional period on state capitalist economy, i.e., on a nationalized economy without socialist planning. This is particularly true if the workers take power in a *backward country* which is surrounded by a hostile capitalist sea (Russia 1917). 2). When the reverse is taking place, that is, when the counterrevolution smashes the workers' state and takes power, they also have to rest for a transitional period on a state capitalist economy, i.e., a nationalized state capitalist economy without planning. In both historical developments, state power and which class the new state represents is the

crucial criteria for the nature of the state: a workers' state versus a capitalist state. Thus, after the Bolsheviks took power in 1917 our movement defined Russia as a workers' state even though the economy was largely capitalist; *the Bolsheviks protected the interests of the working class and socialism through state power*. The exact reverse can be said today in regard to the new states in Eastern Europe: even though the incipient bourgeoisie has to rest on large sectors of nationalized economy, state power in the hands of the agents of the bourgeoisie lays the ground for future capitalist development.

It is undeniable that the Soviet Union had to go through a stage of state capitalism; the Bolsheviks did not even start to seriously nationalize the economy until 1918. Lenin clearly understood that the Bolsheviks had to govern over a state capitalist economy even after 1918: "But what does the world "transition" mean? Does it not, as applied to an economy, mean that the present system contains elements, particles, fragments of *both* capitalism and socialism? Everyone will admit that it does" (Collected works, volume 27, page 335, emphasis in original) For Lenin the question of political power was clearly what was *crucial* for the definition of the state and the trajectory of the social and economic development: "In the first place, *economically*, state capitalism is immeasurably superior to our present economic system [that was dominated by the petty bourgeois mode of production of the huge peasantry].

In the second place, there is nothing terrible in it for Soviet power, for the Soviet state is a state in which the power of the workers and the poor is assured" (Ibid., page 339, emphasis in original).

Trotsky vividly explained the nature and contradictions of state capitalism in the Soviet Union: "In 1921, during the transition to the NEP, Lenin was particularly insistent on defining the overall economic regime taking shape in our country as state capitalism. At that time, when industry was in a state of complete paralysis, there were many reasons to think that its development would proceed chiefly by way of mixed companies, attracting foreign capital, granting concessions, leasing, etc. — i.e., by way of capitalist and semi-capitalist forms, controlled by the proletarian state. Under these conditions, cooperative organizations were to become the distributors of goods produced by state-capitalist industry, and consequently they were to become a constituent part of the state-capitalist economic apparatus linking industry with the peasantry" (The Challenge of the Left Opposition, 1923-25, page 387 Dec. 14, 1925)).

But such a course of development stopped at an early stage. Trotsky and the Left Opposition argued sharply against it. They correctly insisted that state capitalist measures had to be confined to the bare minimum. Against Stalin and Bukharin who supported a prolonged period of state capitalist measures combined with a middle-peasant cooperative schema (expressed with the famous slogan "enrich yourself"), the Left Opposition argued for early state planning. They

argued that such planning would establish strong industry. Such industry could have produced tractors, fertilizers, etc. The Left Opposition maintained that such machines and products would have attracted the poor peasantry to state collectives. The Left Opposition also argued that such strong state industry and planning would have helped the development of class struggle in the countryside against the rich peasants — the Kulaks.

The fact that the Bolsheviks had to govern a workers' state that rested for a period on state capitalist economy brought about a significant historical ramification. The inability of the Bolsheviks to introduce planning as soon as possible helped the rise of the Stalinist bureaucracy. It is not surprising that those who supported prolonged state capitalism and "enrich the Kulaks" became the social bases for the Stalinist bureaucracy.

But despite the sharp arguments for early planning, Trotsky was aware that some *elements* of state capitalism remained in the economy even in 1925: "To the extent that planning has become semipassive mediation between state industry — which has lagged behind the market — and the peasant economy, the Commissariat of Finance has naturally pushed Gosplan aside because finance was found to be a more direct and practical means of intermediary regulation than the statistical compilations of Gosplan. *But credit-finance regulation in and of itself does not include any principle of planning at all*, and while it gives sustenance to the whole economic process, it does not and cannot contain any inherent guarantee of an advance toward socialism." (Ibid., page 392, December 14, 1925, our emphasis)

In other words, elements of state capitalism remained (in diminishing number as time progressed) in the economy for years. Only in 1928 did the bureaucracy force the collectivization of the peasantry and finally destroy such elements. The historic struggle by the Left Opposition demonstrated the importance of waging an early struggle to minimize the duration of capitalist elements in the economy; it is a necessary struggle to prevent the rise of a bureaucracy.

The Buffer States In Eastern Europe

The seizure of state power in Eastern Europe by the Stalinist bureaucracy produced state capitalist measures that were interpolated by the Bolsheviks after 1917. The transformation of the capitalist states in Eastern Europe and China into deformed workers' states was a similar process to the restoration of capitalism today — but in reverse. Between 1947 and 1948 the Stalinists in Eastern Europe destroyed the political coalition and dual power (i.e., sharing power) with the bourgeoisie and took total control of the state. The overturn of the capitalist states and the establishment of incipient bureaucratized workers' states was thus concluded when the state apparatus was committed to defending a

planned economy.¹ As is the case today, state power in the hands of those who are committed to overturning the obtaining property relations proved to be decisive. *The newly established workers' states, however, govern for the first few years over private property.* The expropriation of the bourgeoisie and the establishment of planned economy took place later: the five year plan was introduced in Czechoslovakia in 1949, in Hungary and Poland in 1950 and in Rumania and East Germany in 1951.

Most of the self-proclaimed Trotskyist groups are as confused today as they were after the Second World War, when the transformation in Eastern Europe was going in the opposite direction. In assessing the events in 1989-90, most of the so-called Trotskyist groups repeat the same mistakes of Pabloism in reverse! Most of them viewed the quantity of nationalizations as the key criteria for recognizing that a workers' state was a workers' state. After the expansion of the deformed workers' states into Eastern Europe and China, the Trotskyist movement — without proper theoretical tools — did not see the historical changes, as the workers' states were expanding to a third of the world, until the 1950's; the majority stuck to sterile "orthodoxy" and declared that Stalinism could not defend and extend the workers' states. They waited until the implementation of the five year plans to recognize the overturns. However, reality proved what Trotsky predicted: that deformed workers' states can rise up under *exceptional* circumstances. Later most of the so-called Trotskyists — once again without proper theoretical tools — praised and tailed the Stalinist bureaucracy via the services of Pablo and company. Today, the great majority of the so-called Trotskyist movement either still considers Eastern Europe and the ex-USSR to be workers' states or some sort of undefined animals.

The Restoration of the Law of Value

Several left groups (LRCI, ITC) contend that the former USSR and Eastern Europe are still workers' states because the law of value does not operate in these countries. It seems that our critics — when they consider the law of value — can only see an old fashioned capitalist who sits in his deluxe office, waiting for the report that demonstrates how much profit the speed-up of the workers would generate. According to these critics, the law of value must be obvious to the degree that every idiot in town can see it with the naked eye.

¹This took place after the bureaucracy in the USSR was threatened by the cold war. The Stalinist bureaucracy decided to establish a buffer in Eastern Europe to defend itself (or rather its privileges) against the growing power of US imperialism. The Communist Parties in Eastern Europe essentially followed the orders and the interests of the Stalinists in the USSR. Because the overturn of the states and property relations was carried out by the bureaucracy without workers' democracy and genuine mass participation, the newly established workers' states were deformed from the start.

They cannot conceive that sometimes — particularly in the case where the enterprises are not yet officially in the private hands of capitalists — the law of value is *hidden* from the naked eye; nevertheless it operates.

According to Marx, the critical aspect for the cost of a commodity and the profitability of a commodity — that in essence is expressed by the law of value — is the cost of labor. Sometime such cost is abstract, that is, it is not obvious to the naked eye: “A coat is only *value* insofar as it is a *reified expression of the human labor-power expended in its production*, and is thus a *coagulation of abstract human labor* — *abstract labor*, because *abstraction* is made from the determinate, useful, concrete character of the labor contained in it — *human labor*, because in this case labor counts only as *expenditure of labor-power in general*. . . *The simple value-form of the commodity is the simple commodity-form of the labor-product.*” (Karl Marx, *The Forms of Value*, Bulletin Marxist Classics V, pages 12, 19-20).

Thus, in a nationalized economy that is converted into a privatized economy, the law of value is expressed only in the general cost of the commodity that is produced for the capitalist market — it cannot always be traced to the individual profit of the factory owner; it is therefore abstract and hidden in the first stage of restoration. What is crucial, however, is that the new ruling class must get the capitalist commodity distributed on the world market by *dramatically lowering the cost of labor*. After the plan is destroyed and *labor cost is dramatically lowered*, the commodities — *produced either in the privatized industries or state capitalist industries* — are circulated on the world capitalist market; they behave like any other commodity, whose essential and most important part for successful competition is the cost of labor. The nationalized enterprises in the former Soviet Union and Eastern Europe that fail to compete are either closing down or will be closed in the future.

In this respect there is no difference between the nationalized enterprises in Russia and any other capitalist country. Take, for example, the mines in England. For decades the bourgeoisie subsidized the nationalized mines because of their strategic importance for the capitalist class. Certainly, despite the heavy subsidies, a Marxist could find the law of value in the English coal. Now that coal is no longer a strategic commodity, the English bourgeoisie is destroying the mines as an element of state capitalism, by destroying the fundamental element of the law of value: labor, that is, the jobs of thousands of miners.

In order to restore capitalism, it is necessary to make the *cost of labor* — the essential part of the form of value — *realistic* for the function of the law of value and its practical component: profit. The first step in this direction is to destroy all the unproductive industries. Consequently Russia and the Eastern European countries are in a big slump, that is, depression. Russian imports alone declined 46% in 1991 and the decline steepened in 1992 (Economist Dec. 5, 1992). A year after Yeltsin took power, 40% of Russian industrial

capacity is idle and the output is continuing to decline at 12 to 15 percent a month. The big depression is a necessary shock for the new ruling class; a growing unemployment is an important capitalist device used to lower wages. Thus in Poland, with an official unemployment alone of 14%, real income of industrial workers already fell 41% by the middle of 1991! (Economist march 13, 1993). Similar plunges in income occurred in Russia and other Eastern European countries.

The simple truth is the exact opposite of what vulgar “Marxists” are telling us. **The law of value is not restored after privatizations, but mass privatizations can occur only after the law of value is restored through dramatic wage cuts.** After the Ukraine, for example, forced severe wage cuts, it passed a bankruptcy law. According to the U.S. News & World Report and Ukraine’s deputy minister of economics: “hidden unemployment of 1 million workers needs to become open unemployment of 3 or 4 million” (U.S. News & World Report, Jan. 18, 1993). The parliament in the Czech Republic passed a similar bankruptcy law that allows mass layoffs. It permits the state capitalist trusts that don’t make a profit to go under. What is that if not the direct relationship between the law of value and the superstructure of capitalist society? The bourgeois parliament allows the law of value to show its power: the companies that cannot make a profit go under.

State Capitalism And The Law Of Value

We must be clear: the establishment of state capitalist mechanisms restored the law of value. In Poland after state capitalist trusts managed the state enterprises and forced the cost of labor to go down to the realistic value, they are selling the state-run companies that can make a profit: “This kind of privatization may be proceeding even faster than statistics reveal. Jan Wikniecki, a Polish director of the European Bank for Reconstruction and Development, says that many state companies, in an effort to stave off bankruptcy, have begun to simply sell their assets to private companies. In the end many may wither away, becoming little more than empty office buildings. They will, in effect, have been privatised. This is the way, optimists argue, in which the successful private sector will eventually absorb unprofitable state companies” (The Economist Jan. 23, 1993). The law of value must be operating before the state enterprises are given to private capitalists. State capitalism guarantees that not too many state-enterprises collapse at once. State capitalism is needed before the above process is finished or supplemented by some better mechanism. Under the tough conditions of today’s world wide capitalist crisis it takes time to finish the process.

The collapse of planning produced dramatic effects. The productive forces in the former workers’ states have shrunk dramatically. Just the collapse of inter-republic trade was the single biggest cause of Ukraine’s 20% decline in production in 1992 (The economist, Feb. 13, 1993). Also, in 1992 Russian oil to the Ukraine was down 25% and sugar exports to Russia were down 40% (Ibid.). None of the above was

substituted for by trade with imperialist countries. Gosbank and Gosplan, which arranged output and payment between factories, were destroyed. Consequently the factories, including those that are still nationalized are subjected to the *ruthless rules of market economy and the law of value*. How does the law of value work in the sphere of distribution? Take for example, Hammer and Sickle, a diesel-engine factory in the Ukraine. With the destruction of state monopoly over foreign trade, and the imposition of convertible currencies for Russia and the Ukraine that depend on the world market, Russia is a foreign country as far as Hammer and Sickle is concerned. According to *The Economist*, the factory in the Ukraine cannot finish its product: "Hammer and Sickle does not have the money to buy the missing parts [for the diesel-engine] largely because its Russian purchasers, like Rostelmash, have not paid their bills. The Russians say they cannot afford to because the collective farms that buy their combines — one-third of them in Ukraine — have not paid their debts either" (*The Economist* Feb. 13, 1993). Thus, according to the law of value, when you don't make a profit, you don't pay the bill; when you don't pay the bills, you don't receive necessary parts available on the market. Isn't that what's happening to the factories in Russia and the Ukraine? And when the plan is destroyed, the monopoly of foreign trade linked to the plan is also destroyed; the factories, including the nationalized ones, are subjected to the law of value whether they like it or not! If they don't obey the rules, they must eventually collapse. And sure enough *The Economist* concluded gleefully "Hammer and Sickle complains that none of its Russian suppliers want to be paid in Ukrainian coupons, and that the sinking exchange rate has weakened their purchasing power. Welcome to the real world." (*Ibid.*). And may we add: the law of value (profit) on the international scale determines which nationalized industries will survive (and eventually be privatized) and which will go under. Isn't that what the fundamental process that is taking place in the former USSR and Eastern Europe is all about?

Finally, to illustrate what the law of value is all about let's return to Russia and the Nizhni Sergi steel mill. The workers in the plant accepted severe wage cuts. But now, after the law of value was restored, it is still *hidden*. For the time being the factory cannot sell its products on the market, so the drive shafts are piling up, and the workers are paid by government subsidies. As the mill is awaiting its fate — to be privatized or go under — the bosses keep on lowering the cost of labor in order to make the commodities profitable on the capitalist market. According to *U.S. News & World Report* "Virtually every steelworker [from the Nizhni Sergi steel mill] keeps at least one pig or cow as a hedge against starvation" (December 7, 1992). Ergo, the dramatic way that the law of value and capitalism were restored force the Russian proletariat to accept a pre-capitalist mode of production as a means of survival! This is the dialectic of the barbaric restoration of capitalism and the law of value.

The mechanism of state capitalism

It may take the restorationists in power a considerable time before they can safely destroy state capitalist nationalized economy by converting it into fully or quasi-privatized economy. The first step in that direction is to convert the nationalized industries into state capitalist trusts that are controlled by the top financial and bond companies. 2000 state enterprises in the Czech republic have already been given to those financial institutions via the so called voucher scheme. *The Economist* honestly stated that "Nearly three-quarters of Czech vouchers were invested by 400 investment funds, many set up by banks. In short, mass privatization in Czechoslovakia turned out to be a mechanism for transferring control of companies to banks" (March 13, 1993). Nicely put! Unlike many confused "Trotskyists," the *Economist* is very clear about the role of state capitalism in such a process. With the collapse of production, state capitalist measures are essential for the restoration of the law of value and privatizations. The imperialist bourgeois is speaking approvingly: "Industrial output has fallen by 40% in the past three years in Poland, Hungary and Czechoslovakia. As this happens, state firms shed labour and sell assets, which are then snapped up by new owner-managers. Here, the organic growth of the new private sector meets the planned privatisation of the old state one" (*Ibid.*). Nobody can summarize state capitalism better! State capitalism via *planned privatization* transfers the state industry's assets to the banks, the bond and insurance companies — in most cases all are imperialist firms. Until it is safe to throw away the protective coat of the state capitalist trusts, the top firms of imperialism which dominate the new semi-colonies are quite happy. In the Czech Republic, Harvard Capital, the biggest funding company, concentrated its holdings in 51 of the former Czechoslovakia's most significant state trusts companies. The Harvard Capital outfit includes two of the biggest banks, and the dozen firms that it controls are connected to big foreign investors (*The Economist*, March 13, 1993).

The effect of the coupon or voucher plan is not very different in Poland. The 600 state-owned enterprises to be transferred into capitalist trusts are to be controlled by 20 investment funds (*New York Times*, May 1, 1993). One does not need to be a genius to figure out how much of the new capitalist trusts are to be controlled by Polish workers and how much by the top financial institutions. The Polish workers' coupons are worthless; on the other hand the new capitalist trusts that can make a profit will be traded on the stock exchanges in New York, London or Tokyo. In Russia — where the process is going on at a slower rate because the conversion of the ex-bureaucracy into a capitalist class delays it — the fundamental process is nevertheless the same. According to *The Economist* "Three quarters of the large firms which were told to reorganise themselves into joint-stock companies and choose how to privatise have done so." (December 5th, 1992). And the article [with reference to a 'market share vs. production' chart] added that: "No evidence

there that monopolies *per se* sabotaged reform.” (Ibid., p.13) In other words, the ex-Stalinists who are still in control of state industries did not try to stop it.

Privatization And State Capitalism Russia

In Russia the development of capitalism is a combined effort by the new bourgeoisie and the ex-stalinists to steal the factories. The real state of affairs is to be found in the back pages of the financial newspapers and not in the front pages that concentrate on propaganda on behalf of Yeltsin. While the new bourgeoisie and the ex-bureaucracy compete with each other on who steal what, they never come to a head-on collision with each other.

There is a growing bourgeoisie in Russia that did not necessarily evolve from the Stalinist bureaucracy. Many of them are connected to the Mafia — a natural choice of connection for an incipient bourgeoisie. Since the collapse of the Soviet Union they managed to put \$25 billion in Swiss Banks (Newsweek Feb. 22, 1993) — not a small amount for a new bourgeoisie. Deputy Premier Chubais, a Yeltsin man, claims that so far 60,000 small firms and 2,000 big firms were privatized (U.S. News & world Report, March 29, 1993). This is confirmed by the financial pages that report almost daily on another big firm going private. By 1992 the private sector produced 14% of the goods (Industry Week, Aug. 17, 1992); and by the end of 1993 it is estimated to go up to approximately 20%.

It is natural that privatization would start with small and light industries. Because of the world-wide recession, investment in light industries is less risky and less expensive; many of the top international corporations are also waiting for more political stability before they put big money into heavy industries. This is true for Russia as well as Eastern Europe. But privatization is slowly penetrating into the heavy industries including the military-industrial complexes in Russia. Take for example Zil that makes Limousines and trucks and enormous refrigerators in 17 locations. The privatized company has 120,000 workers. It offers the workers and managers 40% of its stock; but in reality foreigners and big local capitalists may purchase unlimited stock (New York Times, March 5, 1993). Over time the workers' stocks will turned out to be as worthless as the ruble, because the real financial capital dominated by imperialism will take real control. The same can be said of the different workers' coupons schemes in Poland and other Eastern European countries.

Despite their complaints, Yeltsin's men — the capitalists who are content to be junior partners of imperialist firms — are not doing that badly. Take, for example, Raskin, a Russian multi-billionaire. He runs joint ventures with imperialist firms all over the place. His company is building a \$1.2 billion seaport for 180 miles; it finished a joint venture for metal construction with Finland and it is negotiating a deal with Motorola for cellular communications (Industry Week, Aug. 17, 1992). Here again the capitalist law of value

is gradually transforming from a hidden form to an open one. The state, for example, is allowing circulation of “a certain percentage of their [state industry] output through independent middlemen” (Ibid., page 42). Such middlemen are agents of the local bourgeoisie; they make sure that the state stores are empty. The goods that are produced by private firms that make a profit can be bought on the street (shoes for example) or in newly opened private stores. In this way private firms that make a profit are gradually dominating the market. This is the pure logic of a capitalism that runs by the law of value (profit). It is not surprising that the law of value would show its open face *in the area of distribution* before it operates directly in all the factories.

As state capitalism develops slowly into open capitalism, independent banks play a more important and direct role in the economy (compared to the state run central banks). Thousands of commercial banks were established in the last three years in Russia and Eastern Europe. With hyper inflation in Russia, it is almost impossible for such banks to be stable. Many of those banks lend money at less than 50% interest rate while inflation run over 300%. But even at the end of 1991 there were 1200 commercial banks in Russia, most of them are small and they consists of Yeltsin's men lending money to themselves and their friends. But over a dozen state banks also converted into commercial banks (New York Times, Feb. 29, 1992). In addition to that, the biggest state banks such as Promstroibank and Sberbank (where workers saving goes) were also commercialized. Now they lend to state enterprises money and they are expected to be paid back with interest (Ibid.). *Those banks are making independent decision on each separate loan.* They do not wait any longer for a call from the bureaucrat in the Gosplan who tell them which industries get what. The fact that Civic Union and its central bank rush millions of roubles to protect state enterprises who cannot pay back the loans, just indicates that the state capitalist mechanism is unstable and weak. But the ruthless laws of the market will later determine which companies survive and which ones will perish. Without real planning hyper-inflation will only undermine the economy and bring about a faster collapse of state enterprises. The Economist summarizes the contradiction succinctly: “. . . it [the central bank] is preparing designs for 50,000 and 100,000 rouble notes (the highest denomination now in circulation is 5,000). . . On current form, the new notes will soon be worthless too.” (Jan. 30th, 1993).

State Capitalism in Poland, Hungary and the Czech Republic

After the new bourgeoisie in Poland defeated the mass strikes in 1992, the Polish parliament signed an agreement with the trade unions that allows the sale of 7,000 state enterprises. Poland has clearly succeeded better than any other state in privatization. By 1993, a quarter of all manufacturing was in private hands, along with 70-80% of construction, 35% of companies that export and 55% of those that import. *Overall 55-60% of the workers are employed in*

private industries, and it accounts for about half of the GDP. (Economist Jan. 23, 1993). If one compared these figures to the Czech Republic where the private sector is responsible for only 15% of GDP, one may argue that capitalism is far more developed in Poland than in the Czech Republic. But figures alone are deceiving: many of the state enterprises in the Czech republic are capitalist trusts dominated by financial capital; state capitalist protection is transitory, particularly if the "state" enterprises are already run by the big banks. But that by itself should not blind us and have us thinking that the new Polish bourgeoisie is ahead in the game. With an official 14% unemployment that causes serious destruction of inefficient industries, the bourgeois state in Poland can press ahead with sharper attacks against the workers. Thus, the state enterprises are gearing up for full profitability or destruction. With the defeat of the strike waves, the new bosses are forcing wage hikes to be linked directly to speed-up in the plants, that is, to the increased rate of exploitation. Under these conditions, it is hard to understand why vulgar "Marxists" (LRCI, ITC), are still telling us that the law of value does not fully operate.

Hungary is following Poland closely. Like in Poland, most of the ex-Stalinist bureaucracy in Hungary was prevented from sharing the fruits of capitalism. The liberal bourgeoisie and the fascists are much stronger than the ex-bureaucracy (which converted itself into a social democratic outfit). Because of that, imperialism penetrated Hungary (for the time being) deeper than other countries. Many joint ventures are mushrooming on the defeated labor of the working class. Imperialism and its agents in the Hungarian capitalist state managed to lower labor costs to the extreme. Hungary is a good semi-colony for imperialist exploitation. Hungarian labor is one of the lowest priced in Eastern Europe.

The collapse of the Stalinist bureaucracy in Hungary and its inability to convert itself into a new ruling class brought a fairly rapid decline and destruction of state enterprises. Consequently, the local bourgeoisie managed to produce 40% of the output through new small plants alone — without counting the output of the privatized joint ventures dominated by imperialism! (The Economist, march 13, 1993).

Nobody knows what the real figures are for unemployment in Hungary. The reality is grim: most workers in Hungary need two jobs to survive; because of it many end up on the street. The bourgeoisie can have super-exploitation and the cushion of unemployment. But under these conditions fascist organizations in Hungary are growing at the fastest rate in Europe.

The Two Fundamental Ways In Which The Restorationists Proceed

What emerges is two fundamental ways in which restoration develops. One which excludes the majority of the ex-Stalinist bureaucracy and the other that includes it; or more accurately, the ex-bureaucracy is the chief carrier of the process. In countries like Hungary, Czech Republic and

Poland, the Stalinist bureaucracy was defeated first. The majority of the new bourgeoisie is not surfacing from the ranks of the bureaucracy. On the other hand in countries such as Russia, Ukraine and to a limited extent Slovakia and Lithuania, the ex-bureaucracy is in charge of the process or is strong enough to slow it down (Russia).

The case in which the Stalinists are excluded or play a minor rule

In Hungary, Czech Republic and Poland the ex-bureaucracy does not play a big rule in the restoration. In these countries the Stalinist did not have a social base of support. They depended to a great degree on the Soviet bureaucracy to keep them going. After the collapse of the Soviet Union, the weak bureaucracy in these countries did not manage to hold enough political power. In 1989 the Soviet bureaucracy permitted the fall of Stalinism in East Germany; East Germany was annexed to the German capitalist state. Gorbachev told the CPs in Eastern Europe to give up. Without the economic resources of the Soviet Union the bureaucracies in these countries could not maintain the deformed workers' states, nor did they want to. They transformed themselves into social democratic parties and allowed the bourgeois parties to defeat them in parliamentary elections. In Czechoslovakia, Civic Forum — the bourgeois coalition that took power — prosecuted many of the Stalinists. In Hungary, they were left more or less alone as a minority party. The following quotation from the LCC(I) document on the restoration of capitalism in Poland summarized the *particular* way that the Stalinist bureaucracy was removed from power in Poland; the general methodology, however, can be applied to the Czech Republic and Hungary too:

"In 1989, Gorbachev and the Soviet bureaucracy finally gave the Polish Stalinists the green light to put the workers' state up for sale, and a period of "round table" discussions was opened up.

As a result of these discussions, Poland was stuck with the compromise government that emerged from the semi-free elections of June 1989, in which the Stalinists were guaranteed a fixed percentage of seats in the new parliament. This compromise extended to the government positions as well. The Mazowiecki government took the reins of the economy, but for a while certain positions were left in the hands of the Stalinists. In the sensitive area of the interior ministry and the army the nomenklatura were left in control. *So what was bequeathed by the round table was dual power in the state and the economy.*

The dual power, however, was not equal. A growing section of the Stalinist bureaucracy accepted the idea of capitalist restoration, or at least did not try to interfere with it. Thus, on the one hand, the "conservative" Stalinists caved in without a fight, and many of them joined the restorationist camp, while, on the other hand, the openly bourgeois

restorationist ministers of Solidarnosc controlled the important decisions of the government from the beginning.

Since the bureaucracy did not try to defend the workers' state, the process was fairly peaceful, and the dual power did not evolve into an irreconcilable struggle between two opposing camps, as it normally does in a revolutionary situation. While strikes against the consequences of the economic reforms occurred, there was no mass movement to oust the *nomenklatura* from below. The working class' illusions in Lech Walesa were decreasing, but they were still quite strong, and Walesa made sure that the transition to restoration would be in the context of social peace as far as possible.

To guarantee the restoration of capitalism, however, it was not enough to quiet down working class resistance. It was also necessary that the power of resistance of the top layers of the bureaucracy be *destroyed*. The decisive influence of the PUWP (Polish Communist Party) at all levels of the state and civil society had to be dissolved. The game plan at the political level was first to remove the hold of the Stalinists over the presidency, which was achieved by Walesa's victory in November 1990. The second and *decisive* goal of the restorationists was to force the *nomenklatura* to give up their control of the army and the police.

Until March 1990, the Ministry of Internal Affairs remained closed to non-Stalinists. In that month, however, the Catholic journalist Krzysztof Kozlowski was appointed as deputy minister to General Kiszczak. In June Kozlowski took over as minister. Meanwhile, in May the Sejm (parliament) had pushed through a reorganization of the police force and abolished the security police. As one account puts it: 'A strict screening process weeded out many, though not all of the old regime's security forces.' (Radio Liberty, REE, January 4, 1991.)

The Ministry of the Interior was thoroughly restructured. The security service and two People's Militia formations with a brutal reputation (ZOMO and ORMO) had been abolished. The Militia itself had been replaced by a state police force and a new "Office for the Protection of the State" had been created under the control of the Interior Ministry.

Developments within the army followed a similar pattern. The Main Political Board was abolished in November 1989, and with it party membership and ideological training were banned, or rather, transformed into indoctrination with great Polish patriotic values rather than Stalinist ones. Religious ministers were attached once more to the army units. Some 80% of the officer caste resigned from the PUWP and were regarded as loyal by the restorationists. Most of the top commanding officers were retired and replaced by a younger generation. Two non-Stalinist deputy ministers were appointed in April 1990. Three months later, the die-hard Stalinist Defense Minister, General Florian Siwicki, was replaced. This coincided with a shift in orientation away from the then-crumbling (now defunct) Warsaw Pact and towards cooperation with NATO.

In the judiciary, the Stalinist placemen were cleared out during 1990 by the appointment of new court chairmen. All the offices have been reorganized. The reorganization included the disbanding of the Prosecutor's Office which was tied to the old Internal Affairs Ministry. All prosecutors were "retired" and then rehired according to "professional" qualifications. The civil and criminal codes were rewritten to expunge them of their Stalinist ideological content.

In the political sphere the power of the *nomenklatura* has been *fatally* weakened. In May 1990 the system of 49 voivods (local governments) was completely reorganized. In the past they had been tightly controlled top-down local organizations that had some powers delegated to them from the center. They are now composed of officials elected at the local level and holding a broad range of local municipal powers (including taxation) over the population.

The PUWP itself disintegrated after its Congress in January 1990. It had had a membership of two million, but its power had rested on its political privileges and its media and property empire — RSW 'Prasa'. Eventually this was taken from it, and the government retroactively seized newly established assets. The PUWP changed its name to the Social Democracy of the Republic of Poland (SDRP) and now only claims a membership of 60,000.

The election of Walesa as President on December 9, 1990, replacing General Jaruzelski, represented the *definitive ending* of dual power in the state. Much of his long election campaign centered on criticism of Mazowiecki's government for its alleged softness on the *nomenklatura*. This criticism was for most part unfounded, but the pressure of the attack did stiffen the resolve of the government to press ahead with purges during the second half of 1990.

On December 29, Walesa nominated Bielecki to head a "government of experts." Only four ministers from the Mazowiecki administration retained their posts, none of them members of the SDRP. There was no longer any correlation between the round table alignment in the Sejm and the composition of the forces in the cabinet. As a sign of the old PUWP representatives' surrender, the Sejm approved the new government on January 12 with only four dissenting votes. The Stalinists were almost totally in favor of the new openly restorationist government. This partially explains why the capitalist restoration was peaceful.

With the approval of the 1991 government, Walesa's drive against the 1989 agreement was complete. The final nail in the coffin of the round table deal will be the scheduled parliamentary elections this fall, which will see most of the old PUWP representatives dumped. But even now their presence does not signify meaningful power or ability to disrupt the process of restoration. Dual power in the state machine is at an end." (Poland: Capitalism Restored, International Trotskyist No 4, Fall-Winter 1991, pages 14-15)

The defeat of the Stalinists in these countries brought into power open bourgeois parties which needed close relationships with imperialism in order to survive. Therefore, these countries are trying to minimize the duration of state capitalism as they attempt to destroy and privatize the nationalized economy faster than the countries in which the ex-bureaucracy tries to convert itself into a new ruling class. This development already resulted in stronger imperialist control of these countries: their transformation into semi-colonies is more advanced than Russia. By the end of 1992, 8% of the Hungarian economy was completely controlled by imperialist firms. But the contradictions of imperialism and the growing economic crisis forced cautious investment on the part of the advanced capitalist countries. This slows down the process of restoration.

How The Bureaucracy Convert Itself Into A New Ruling Class

When imperialism finally forced the Stalinists into the corner, the bureaucracy chose the restorationist road. The entire ex-bureaucracy in Russia, without serious dissension, is trying to convert itself into a new ruling class. The differences between various sections of the ex-bureaucrats are only about tempo. The Yeltsinites who argue, in the ex-USSR, for a fast track capitalist restoration lost some ground to the conservatives who argue that to be realistic the ex-Stalinists must choose the slower road via the different phases of state capitalism. *The slower road is in fact a better guarantee that a larger sector of the ex-bureaucracy could transform itself into a new capitalist class*; it is also a more realistic approach, since it takes into account the world capitalist crisis and the inability of the imperialist "friends" to assist meaningfully in a quicker transformation. Thus: slower dismantling of the state enterprises enables the ex-Stalinists to transform a *bigger* section of the bureaucracy into new owners or top managers of the privatized enterprises. Until this happens (a process that will take years *without* a guarantee that the majority of the top Stalinists will succeed), the ex-bureaucracy must rest for the time being on a large sector of (state capitalist) nationalized industries that it controls.

This is a sensible approach for the integration of the new incipient ruling class into the world financial system (which is currently ridden with crisis), because this approach could permit the incipient bourgeoisie that evolved from the bureaucracy more independence in relationship to imperialism; the ex-bureaucracy will own more industries which are not under imperialist control. Thus, the majority of the ex-bureaucrats who quietly supported the aborted coup (the enterprises' bosses from Civic Union) are forcing the Yeltsinites to slow down the pace of restoration. The same phenomenon is taking place in Lithuania and the Ukraine, where the wing of the ex-bureaucrats who want a slow road to capitalism is gaining the upper hand.

The way the Stalinist bureaucracy is being converted into a new ruling class repudiated many mechanical theories advocated by those from the so called Trotskyist groups who come from the Pabloite or Spartacist tradition. They mechanically repeated Trotsky's predictions from the 1930's that the bureaucracy is likely to split as its crisis intensified. Trotsky did not exclude the possibility that a minority section within the bureaucracy could break with Stalinism and join Ignace Reiss and the Fourth International. Theoretically Trotsky's analysis was not wrong for the 1930's. The support for socialism by the masses in the Soviet Union was formidable; it was possible that the best layers from the CP and even the bureaucracy would have discovered the power of the fourth International's program. But with the great disillusionment regarding the socialist project in the Soviet Union in the 1980's, a serious left split from the bureaucracy was out of the question. In addition, the Trotskyist movement was very weak and too disoriented to attract the potentially few Ignace Reisses.

Trotsky also thought that the majority of the bureaucracy would join "complete fascism" (F. Butenko). Obviously his assessment was wrong, because the historical conditions today are quite different — most of the Stalinists joined George Bush, John Major and Mitterand — the bourgeois "democratic" forces dominated by imperialism and social democracy.

But Trotsky was never attached to a one-sided analysis. In *The Revolution Betrayed*, Trotsky outlined the prognosis that one of the variants of restoration will be an attempt by the bureaucracy to transform itself from a ruling caste into a ruling class. History (since the Aug. 1991 coup) is confirming Trotsky's prognosis. This prognosis establishes that when history finally does not give the bureaucracy much room to maneuver and defend its privileges, the bureaucracy tries to *lead* the restorationist camp:

"Let us assume — to take a third variant — that neither a revolutionary nor a counterrevolutionary [bourgeois] party seizes power. The bureaucracy continues at the head of the state. Even under these conditions social relations will not jell. We cannot count upon the bureaucracy's peacefully and voluntarily renouncing itself in behalf of socialist equality. If at the present time, notwithstanding the too obvious inconveniences of such an operation, it has considered it possible to introduce ranks and decorations, it must inevitably in future stages seek supports for itself in property relations. . . It is not enough to be the director of a trust; it is necessary to be a stockholder. The victory of the bureaucracy in this decisive sphere would mean its conversion into a new possessing class." (Leon Trotsky, *The Revolution Betrayed* [reprinted as "Is the Bureaucracy a Ruling Class?" in *The Basic Writings of Trotsky* (Howe, ed.), page 221], our emphasis).

The transformation of the bureaucracy into a new ruling class is indeed the heart of the differences between the ex-Stalinists and imperialism. Imperialism is unhappy because

the transformation would limit its control of Russia as a semi-colony. In the last analysis the conflict between the Russian Parliament and imperialism (via its agent: Yeltsin) is a typical conflict between imperialism and a weak bourgeoisie in a semi-colony which tries to gain better maneuverability with imperialism — the dispute is not about capitalism itself.

A closer examination of the program of Civic Union reveals the simple truth that its only significant difference with the Yeltsinites is who will dominate the new bourgeoisie. The *New York Times*, which supports the Yeltsinites, complains that:

“. . . it [Civic Union] wanted to guarantee [for the ex-bureaucrats] the real value of enterprise assets and to restore the real bank savings that had been inflated away. Thus, a maximum amount of benefits was to be given to the vested interests of the old Communist society. The public, on the contrary, would be hit with strict controls on wages and social benefits. The Civic Union is also against rapid privatization, especially the free distribution of enterprise shares to the public at large. . . .”(Dec. 7, 1992)

Thus the ex-bureaucrats want to slow down “legal” distribution of the factories to the “public” (in reality imperialist firms in joint ventures with local entrepreneurs). The ex-bureaucrats want **first** to grab as many factories as they can and deliver them to themselves. Therefore, the difference on the tactics between the Yeltsinites and the ex-conservatives on the tempo of restoration are: the Yeltsinites want imperialist dominated investment, while the ex-conservatives want a stronger Russian bourgeoisie (in which joint ventures with foreign companies are just evil necessities) dominated by the ex-Stalinists, that is, the ex-bureaucrats in the state industries.

The so called “conservatives” in parliament are a loose unstable coalition of many parties, which include open fascists and moderate bourgeois parties such as Travkin’s Russian Democratic Party that broke away from the old restorationist Democratic Russia. The latest Bonaparte who is trying to keep the pieces together is Yeltsin’s Vice President (who broke with Yeltsin) — Rutskoi. Rutskoi, the new darling of Civic Union, represents a slower path of capitalist development with strong Russian patriotism and chauvinism that exemplifies a desire for a strong bourgeoisie: “Russia no longer has imperial desires,” Rutskoi declared for public relations, “yet the interests of our state, which has a thousand-year history, must be represented more vigorously and more clearly in relations with other countries”(The Nation, April 12, 1993). This statement speaks for itself.

The ex-Stalinists are doing everything they can to rob the state enterprises and take them for themselves. According to the *New York Times*, this is how many state enterprises have been privatized so far:

“In June [1992], the city and some military-industrial managers began a new investment company, the Defense Industry Corporation, with initial capital of 500 million rubles. . . . The vice president of the corporation, Boris G. Mikhailov, who is also general director of another large

military plant, Impuls, said he hoped that a proposed stock offering would bring in twice as much, a billion rubles more.

“. . . Mr. Mikhailov, 53 years old, is looking for Western investors. He promised profit at Impuls, which makes advanced military and satellite communications and, in the last year, computer modems and microwave ovens. . . . [H]e dismisses lazy or incompetent workers; he wants to press ahead to establish a what he considers more rational market economy.” (8/19/92)

This is how the ex-Stalinists/new capitalists steal the big state industries and privatize them for themselves! The majority of the Russian parliament represents one variety or another of these ex-bureaucrats. One representative of Civic Union in the Russian Parliament, Cherepkov (who manages a leather factory), expresses best the attitude of vast layers of the ex-bureaucracy when he said: “I have criticisms of the Government and I think it is a weak one. But I also think our present course is more or less correct.” (*New York Times*, Dec. 3, 1992) The “more” is the general restorationist course and the “less” is the disagreement with the Yeltsinites on who should be the new owners of the factories.

Every day one can read in the back pages of the financial press about several examples of factories being grabbed by ex-bureaucrats for privatization. The area that the ex-bureaucracy is most busy in is the military-industrial complex. As the bureaucracy privatizes the military factories, it tries to convert the weapons into profitable commodities on the world market. According to the First Deputy Defense Minister of Russia, “Weapon production has dropped 50 to 60 percent and, in some cases, by as much as 90%” (U.S. News & World Report, Jan. 18, 1993). To illustrate what happens to the factories that stop producing weapons, take, for example, Leninets, a huge factory in St. Petersburg. There the ex-Stalinists are converting the factory from the production of MIG parts to the production of vacuum cleaners, as the director of the factory explains: “The Russian market is in effect closed. Demand exceeds production. We can make and sell at a profit a vacuum cleaner for 8,000 roubles. Electroux cannot compete with that” (quoted in the *Economist*, January 16, 1993). No one can blame the ex-bureaucracy for not trying to build a strong bourgeoisie. But firms from imperialist countries (Electroux) are much better equipped to compete; let’s see the muddle-head “Trotskyists” explain to us how the law of value will *not* operate when our poor ex-Stalinists discover that Electrolux will crush them after all! When the dust settles the new ruling class will discover that it cannot be an imperialist country. The membership in the imperialist league was settled a long time ago.

The list of military and other factories that are stolen for private use by the ex-bureaucracy is growing alarmingly on a daily basis. Take another example in the person of General Belousov, the former head of Soviet defense production. Now this boss is converting the production of the SS-20 medium missile and various types of tanks into the

production of refrigerators for profit. According to the Wall Street Journal (Feb. 25, 1993) "he was questioned after the abortive coup that ultimately toppled the Soviet Union". Thus, the suspected supporters of the coup are doing quite well as capitalists! Let the Left that supported the coup leaders explain to us one more time how the coup backers "defended" the workers' state!

As we move on from ground weapons to aerospace, we discover Mr. Yemishin, a former defense factory director who runs the Saratov Aviation plant on the Volga river. He plans to make 127-seat passenger airliners for export (The Wall Street Journal, Jan. 5, 1993). As a typical step in stealing the plants he gives the workers a "share" in the profit — the better deceive them. But competing with Boeing is not easy. It is much easier to sell off military products. The low quality of Russian products compared to those of the advanced capitalist countries, plus limited Russian capital (with inflation at 2000% a year) is compelling to ex-bureaucracy to make joint ventures with imperialist firms whether they like it or not.

From the list above we can see why the so-called conservative bureaucracy is not in a rush to institute a bourgeois Constitution. Such a constitution will tie their hands and options in regard to the theft of state property. The U.S. News & World Report summarized the current material interests of the ex-bureaucracy: "Former Communists have become 'democrats' and continue stealing from their own people. Officials form private companies, buy hundreds of former state buildings at rock-bottom prices, resell them at huge profits and bank the gains abroad." (March 29, 1993).

The above examples may bring an expected question from the readers: Why do you still characterize China as a workers' state? Didn't the Chinese bureaucrats privatize a similar number of factories? Isn't there also a similarity between the slow road of restoration executed by the Chinese bureaucracy and that of the Russian bureaucracy? Without describing in detail the complex differences between China and Russia, we'll briefly deal with the most important fundamental difference. As we saw from the above examples, the Russian Congress represents a *conscious* bureaucracy that is converting itself into a capitalist class. The Russian Congress represents many thousands of such ex-bureaucrats. The program of Civic Union is a definite break from a program of a bureaucracy that still maintains its material benefits by usurping the economy of the workers' state. On the other hand, the majority of Chinese bureaucrats in the major industries in China have not made (as of yet) such a conscious leap. Their privileges still rest on the workers state while they accept the growing role of the "regulated" market. Thus, the political representatives of the Chinese bureaucracy supports (and this could and will change) a program of regulated market economy on the basis of "socialism", i.e., the usurpation of the plan by the bureaucracy. On the other hand the ex-bureaucracy in Russia broke from the "regulated" market. Its representative, Civic Union, adopted a program

that calls for open capitalism. The ex-bureaucrats are implementing it by stealing the factories.

The Conversion Of the Bureaucracy Into A New Capitalist Class In The Ukraine

After a year of uncertainty and anxiety, the imperialist press looks with growing optimism at the "reforms" in the Ukraine. The imperialist powers were a bit nervous because the ex-bureaucracy fundamentally remained in power. Unlike giant Russia, which used to be imperialism's arch-enemy, "independent" capitalist Ukraine is not as much of a threat. Russia was always the center of Stalinism and to some degree was still remembered as the country of the 1917 revolution. Unlike the reluctant acceptance of the ex-bureaucrats in Russia, imperialism is more friendly to the reality that the old bureaucracy in the Ukraine is becoming the new capitalist class.

Politically the ex-bureaucracy in the Ukraine has firmer political power than in Russia. There is no Yeltsin or other popular agent of imperialism to compete with the ex-bureaucracy. The nationalist movement lost its popularity after the masses realized what an independent capitalist state is all about. But without a revolutionary program and leadership the resistance by the workers (which included some important strikes) was limited.

The ex-bureaucracy began an unbridled theft of state property after it discovered that it was tolerated by imperialism. The Economist brilliantly described the process: "many ex-Communists are profiting from the economic uncertainty. Factory managers enjoy most of the rights of private owners (and are using them to sell state assets for personal profit), but face none of the responsibilities (like the risk of bankruptcy). Understandably, that suits them. They are determined to obstruct free-market privatization; and their power is the key to the future of capitalism in Ukraine" (February 27, 1993). Nobody could put this better. When the ex-Stalinists do well on the world market (with the newly privatized plants) the slowroaders are not so slow. But when problems arise they throw more money into the state industries. The ex-Stalinists in the Ukraine go back and forth between promising the withdrawal of the central bank support for industry and pumping in more money when they realize the risks. Of course, the fear of massive workers' responses to the growing unemployment also plays a role.

So, as the government attacks the workers by freeing price controls and imposing a wage freeze (necessary ingredients for profitability), it still spends billions of coupons on the state industry. This forces the coupon to fall sharply on the world market, which weakens the new bourgeoisie and restoration. But this process also helps the long term development of local bankers who come directly from the ranks of the bureaucracy: "Bowling to special pleading by industrialists in parliament and by commercial banks, who are growing fat on commissions 'earned' by acting as conduits for cheap credits to firms, the central bank used about half of

the credit it created last month to cover unpaid bills" (The Economist, April 24, 1993).

In the transitional period, state capitalism needs to cover the unpaid bills. It is necessary until the state can permit the commodities from the *new private capitalist firms* to float freely in the anarchy of the world market. Thus the state gave many factories to the ex-bureaucracy in the Ukraine. But as they are de facto privatized, the state capitalist mechanism is still in operation to project the new bourgeoisie. The Economist describes how that works: "The most difficult issue involves a leasing law, introduced last year, which allowed 'workers' collectives' (read: state managers) to lease their enterprises for a nominal fee and operate them as private concerns. *More than one-fifth of large enterprises* — and, in some cities, as many as nine out of ten small businesses — operate under this sort of leasing agreement. (The Economist, Feb. 27, our emphasis).

Under this system, the state can still protect the new private owners (the ex-Stalinists) if they run into trouble. All in all, the ex-bureaucracy in the Ukraine is doing pretty well as a new capitalist class. Without the sharp political contradiction that exists in Russia between the ex-bureaucracy and the direct imperialist agents, the Ukrainian cousins of the Russian slowroaders are moving a little bit faster.

Capitalist Restoration And Imperialism — The Painful Development Of New Semi-Colonies

The ex-Stalinist bureaucracy must tolerate Yeltsin for he is their best link with imperialism. Without some links with imperialism the ex-bureaucracy is a dead fish in the water. Russia — whether the new ruling class likes it or not — is a semi-colony that depends on imperialism like the rest of the new capitalist states in Eastern Europe.

Despite the objections from the extreme nationalist wing of the new ruling class (the brown-red coalition), imperialist investment is growing in Russia mainly through the scheme of joint ventures. Russian capitalists, for example, are building Aviastar, the giant aircraft maker. The new bosses claim that in ten years Aviastar is going to be the No. 3 commercial airliner builder, behind Boeing and Airbus (The Wall Street Journal, January 27, 1993). But the patriotic new bourgeoisie is trapped in the imperialist web. The newest Aviastar plant (500 miles from Moscow) is forced to make it with huge foreign investment. The joint venture that will build the planes to compete on the world market is dominated by European money, mainly by (British) Rolls-Royce which will build the engines. So, the real story "Aviastar officials say, has led to talks with British Aerospace PLC about the Russian company building airplanes under contracts" (Ibid.). In other words, the Russian dreams will come true only if imperialist companies control them! The data that emerges shows that joint ventures in the former workers' states *must* be dominated by imperialist financing.

The local bourgeoisies are making a lot of noises of objection, but they cave in anyway. Take Hungary, for example, the favorite country for imperialist investment. The government put the big state enterprises up for sale to those who can finance restructuring, which mean in plain language: to imperialist companies. The governing right wing bourgeois parties (The Hungarian Democratic Forum, the Christian Democrats) — who are under pressure from the extreme nationalists and fascists — complain about a foreign plot to take over Hungary. But life goes on, and when a state enterprise finds a foreign buyer it is sold (often via the joint venture scheme). Similar development occurs in Poland and other Eastern European countries. Everybody is beginning to realize that capitalist restoration without imperialist domination is not doable.

In Russia the process is less straightforward than in Eastern Europe. Money that does not go directly for profit ("aid") is hard to come by. The instability of the superstructure (the conflict between Yeltsin and Congress) forced the imperialists to display caution with regard to generous support for the Russian economy. The big seven and their imperialist governments make a lot of promises about aid when Yeltsin is in a political crisis. Usually most of the money does not come across. Why throw billions of dollars into the trash? Most of the money will be wiped out by hyperinflation any way. But the imperialists have no problem with financing a more reliable capitalist *state*. Hence, Clinton donates millions of dollars for financing housing for the Russian generals!

The imperialists are more generous with Poland, since the political regime and the economy are more stable. After the Polish government approved the privatization of 600 state enterprises to be run by 20 investment funds, the World Bank has agreed to commit loans for the cost of running the 20 investment funds! (The New York Times, May 1, 1993). This is state capitalism in a semi-colony — it is subordinated to imperialism! One does not have to be a genius to realize that the World Bank does not make loans for nothing. The Wall Street Journal summarized the reasons for the loans: ". . . low labor costs — recently estimated at \$1 an hour — for an educated and skilled work force, contribute to Poland's growing appeal" (Feb. 8, 1993). Precisely! The first rule that makes a semi-colony a semi-colony is the low cost of labor that attracts finance capital into the country with its manufacturing facilities. So, Fiat, General Motors, International Paper Co., Levi Strauss, etc., are all building the factories to exploit the new attractive low labor costs in Poland.

German imperialism is taking the leading role in generating the waves of investments in Eastern Europe. German imperialism and its Austrian junior partner, already dominate many Eastern European countries such as the Czech Republic, Slovakia, Slovenia, Hungary, Poland and Croatia. Volkswagen is taking over in a big way in the Czech Republic and for good reason: labor cost in the Czech Republic is about \$220 a month compared to \$4,000 a month

in Germany (The New York Times, April 29, 1993). Labor cost in the Czech Republic and Slovakia generally are a tenth of what they are in Germany; in Hungary the ratio is one to six, and in Poland one to eight (central bank research, quoted in the New York Times, Apr. 29, 1993).

The Contradiction Of Imperialist Domination

Overall, imperialist investment in Eastern Europe has risen from \$2.3 billion in 1990 to \$11 billion in 1992 (the Economist, March 13, 1993); for the time being Hungary is attracting more investment than others. These figures, however, are not particularly rosy for capitalist restoration; they are loaded with contradictions. The capitalist system is in a deep crisis. As direct competition between the imperialist countries is becoming more merciless, the individual banks and companies are losing profit and therefore have limited resources for huge new investments. In addition, the new cheaper commodities that are emerging from Eastern Europe and the former Soviet Union are floating in a saturated market, and they are in direct competition with the commodities that are made in Western Europe at a much higher cost. For the time being the successful restoration only brings a prolonged recession to Europe and the US. It also intensifies the antagonism between the imperialist countries: every bourgeois politician complains that Germany is taking over Europe. Indeed, the anxiety is growing to the extreme when the discussion shifts to what will happen after Germany straightens out East Germany and uses the newly available monies for the rest of Eastern Europe.

It all boils down to the following: while the imperialists are increasing investments in Eastern Europe and the former Soviet Union (they put \$9 billion in Kazakhstan alone just for oil), they also apply pressure to muzzle the growth of a local bourgeoisie. Thus, the European countries are imposing quotas for Czech and Slovak steel imports which includes punitive tariffs for violations. Widespread anger arose when the Eastern European countries found that their meat and dairy are banned from Western Europe for the time being (The New York Time, Apr. 29, 1993). While the West European countries are mumbling about letting the Eastern European countries join the Common European Market, the imperialist politicians are doing their best — behind the scenes — to prevent it. Dr. Andreas Gummich of Deutsche Bank Research in Frankfurt summarized the problems that the new capitalists in Eastern Europe are facing: "Agriculture, textiles and coal and steel make up 75 percent of the exports of the Czech Republic, Slovakia, Poland and Hungary — the very same areas in which the European Community is most highly protective" (Ibid.).

Prospects For Class Struggle

With such contradictions, no stable completion of the restoration is possible. Europe is indeed in a big economic and political crisis. The pains and costs of restoration

aggravate the general crisis. In Eastern Europe and Russia that means a big rise of extreme nationalism and fascist movements. As the new capitalist politicians are forced to accept imperialist domination, they must compensate for the indignation of the masses — who are thrown out on the streets as unemployment rises — by building mass nationalist and fascist organizations as a distraction from the immense problems.

The growing lumpenproletariat is a natural recruiting soil for the fascist organizations. Not only that, the fascist forces have plenty of sympathy in "proper" bourgeois parties. Take for example, Istvan Csurka, the vice president of Democratic Forum (MDF) in Hungary; he doesn't miss an opportunity to add another anti-Semitic remark, or state his sympathy for the growing fascist forces disguised as Hungarian patriots. Indeed, fascism is maturing in Hungary with the duration of the massive misery. The fascist organizations in Hungary are the biggest in Europe; but extreme nationalism and hatred toward other countries and ethnic groups is growing everywhere.

The new wave of nationalism is the ideological trademark of capitalist restoration. The bourgeois nationalists must sell the masses the story that their misery will be mitigated if "their" country will annex new territories or expel foreigners. This ideology is utilized consciously by the nationalists in the Baltic (against the Russians), and in the most extreme fashion in the Balkans — where the nationalist war with imperialist backing is used for the creation of national bourgeois states by the slaughter of hundreds of thousands. Communists must defend foreigners and ethnic groups in these countries by organizing multi-ethnic workers' militias to smash and destroy the ugly nationalist and fascist forces. The ultimate task is the overthrow of the new capitalist states with their nationalist ugly faces by the socialist revolution.

Unfortunately, the rise of fascist forces has not stopped because the masses, so far, are relatively passive. Despite the savage attacks on the working class, no mass upsurge has developed against restoration. In each country there were sporadic strikes that were mostly isolated. The only significant exception was Poland, where mass strikes and workers militancy paralyzed the country. Not surprisingly the miners led the struggles: they are faced with 180,000 layoffs. The 300,000 miners were joined by thousands of steel workers, railroad workers and others. But by the end of 1992 they were defeated and were forced to accept wage cuts and further layoffs.

The mobilizations in Poland were small compared to the uprising of 1980-81. The reactionary pro-capitalist leadership of the different Solidarnosc factions were able to stop the spontaneous uprising. In Russia the same pro-capitalist leaders of the unions are capable, for the time being, of stopping the growing indignation and hatred of the workers towards capitalism. Most of the mobilization against capitalism in Russia is organized by pro-capitalist forces who disguise themselves as "pro-labor". The different conferences

against privatizations, for example, are organized by Mensheviks and “mixed economy” lovers who are supported by some decayed centrist groups (the Lambertists are the worst).

Capitalist restoration, however, cannot stop the laws of motion, that is, the material reality. Workers indignation is growing. As the situation worsens, the workers’ leaders have only limited maneuverability to stop the struggles. The bourgeoisie itself has limited possibilities. The bourgeois-democratic institutions are very weak. The apathy of the workers toward bourgeois democracy is a clear trend. Most of the new coalitions in Eastern Europe are very fragile since no party can win strong support from the masses. Thus, bourgeois democracy could fall down with the first serious storm. Make a note of this: The workers should be politically organized to take power. If they fail, the fascists will emerge from the wings.

Despite the big historical defeat of the workers in Eastern Europe and the former Soviet Union, the LCC(I) is optimistic about the future. The tasks ahead of us are not the political revolution — the workers states in most of Europe are gone. We need to raise the banner of the social revolution against the new capitalist class. We are optimistic, because the imperialist bosses in Western Europe are once again faced with the growing militancy of the working class. The big strikes in Italy are moving to other areas in Europe. The recent boost in class struggle in Europe is spreading to the East. The massive strikes in East Germany indicate that the workers in the rest of Eastern Europe will fight back. To succeed, we must be prepared with a revolutionary program and leadership. The coming years may put our slogan “*For a United Socialist Europe*” on the agenda once again.