Editors’ note

The present essay by Nikolai Kondratieff is published on the occasion of the 150th anniversary of the birth of Mikhail Tugan-Baranovsky. It gives an opportunity to evaluate the many-sided personality and works of Mikhail Tugan-Baranovsky who is best known to the reader for his ideas about ‘periodic economic crises’. Kondratieff gives an opportunity to understand the personality of the scientist, the foundations of his worldview, his ability to respond the major challenges and problems of his time: the common and different points with Marxism, and many other things that give us a much deeper understanding of Tugan-Baranovsky’s heritage. Besides, the criticism of weak points of Tugan-Baranovsky’s views allows us to understand where Kondratieff maintained continuity with his teacher’s views and in which points he significantly diverged.

Mikhail Ivanovich Tugan-Baranovsky has passed away. He was an outstanding Russian scholar, a master spirit among Russian intellectuals, the most humane and unique person, an outstanding representative of the highest achievements of contemporary culture. […]

The most striking thing about Tugan-Baranovsky was his rich spiritual genius. But his talent would not always shine with an even and steady light. His talent was intuitive to the uttermost degree and would flash out especially brightly at the moments when intellectual work became rather easy for him, more a play than work. […]

The intuitive character of Tugan-Baranovsky’s talent makes a bright impact on all the aspects of his personality. Being an intuitional mind, he had no pro-
Tugan-Baranovsky lived in the times of prosperity of capitalism with all its difficulties, peculiarities and attributes. Therefore, it is not surprising that just the study of peculiar outcomes of the capitalist system development – we mean markets and crises of the capitalist system – were a starting point for Tugan-Baranovsky's investigation. His first prominent and outstanding work, ‘The Periodic industrial crises’ (1894), was devoted to these issues. However, Mikhail Ivanovich lived in Russia. He lived in the situation of evolving Russian capitalism, in the atmosphere of hot debates on the future and opportunities of the evolving capitalism in Russia. It is not surprising that absorbed with the debates, his second major work ‘The Russian factory in the past and present’ (1898) was also devoted to this issue. But later the society's demands and interests changed. Therefore, the crisis of Marxism and a fierce struggle between revisionists and orthodox historians had become the main topic of his works. Despite his prior adherence to Marxist ideas, Mikhail Ivanovich finally began to criticize Marxism and wrote ‘The Theoretical Foundations of Marxism’. […]

World War I brought to the fore a number of theoretical and practical issues. In particular, the first period of war aggravated the problem of money, more exactly, of paper money. With his characteristic sensitivity, Mikhail Ivanovich addressed this problem and wrote ‘Paper money and metal’ (1917). However, the society and Tugan-Baranovsky as well, remained concerned with issues of ethics and public ideal. The started Revolution only escalated this interest. And the last words of Tugan-Baranovsky as a scholar and ideologist were published in ‘Socialism as a Positive Doctrine’ (1917) and in the paper ‘On the cooperative ideal’.

Thus, there is a close relation and correspondence between the field of Tugan-Baranovsky's academic and ideological activity and the demands of the society. In this regard he was a responsive man abreast of the thought of his time. […]

Tugan-Baranovsky's social views were developed on the basis of Marx's ideas and materialistic understanding of history. But the views of Tugan-Baranovsky were also influenced by other social ideas, and in a more or less complete form they were profoundly different from Marx's views. According to Tugan-Baranovsky, ‘a society consists of individuals each seeking to satisfy his
own needs’, ‘which are inherent in human nature and which ultimately deter-
mine our behavior’.2 […]

These needs and inclinations are the driving forces of social develop-
ment. The needs make people search for the means to satisfy them. ‘The set
of human actions directed at the external world and aiming at creating
the material conditions necessary for satisfaction of the human needs’ is the
economy which holds the leading position in social life and serves as its basis
and foundation. […]

However, after all, it is not the econo my in general but its material as-
pects that have a determinant (but not exceptional) influence on the structure
and forms of social life, on the extent and the character of satisfaction of
needs. […]

Thus, M. I. Tugan-Baranovsky generally follows the Marxist understanding of
society.3 But his interpretation of the objectives of economy is wider (the economy,
according to Tugan-Baranovsky, serves to satisfy not only the material needs, as
Marx and especially Engels argued) and he substitutes the concept of material fac-
tors of the economy for the Marxist concept of productive forces. […]

But Tugan-Baranovsky paid little attention to sociological issues. And the
focus of his scientific and ideological work is not laid on these subjects. Most
of his work is devoted to the study of economy which he considered the key
phenomenon of social life. We already know the notion of economy as inter-
preted by Tugan-Baranovsky. Now let us consider his understanding of major
categories of economic life.

According to Tugan-Baranovsky, the logical categories of economy are the
value and the cost. He lived in the epoch of the struggle between the Austrian
school’s theory of value and the theory of labor value. He also tried to develop
a synthetic theory of value and to combine Ricardo’s theory with the theory of
marginal utility. He considers labor and marginal utility as an objective and
subjective factors of value. He admits that the value of goods is equal to their
marginal utility. But he also considers that the marginal utility of goods de-
pends on the labor costs, and it is directly proportional to the labor costs of
these goods.

This brings us to the category of costs. Most economists do not
acknowledge the cost as an independent category. Contrary to them, Tugan-
Baranovsky strongly insists on the necessity of such an acknowledgement.4
According to him, the value is one aspect of economy while the cost is another
side of economy. On the one hand, an economy pursues certain aims, inter-

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2 See ‘Theoretical foundations of Marxism’ Edition 4, p. 36. [«Теоретические основы марксиз-
ма», изд. 4, стр. 36].
4 See ‘Theoretical foundations of Marxism’ p. 54. [«Основы», стр. 54 и сл.]
ests, profit, and this aspect is associated with the category of value; on the other hand, the economy resorts to certain means, costs, efforts and this aspect is represented by the category of costs. That is why Tugan-Baranovsky interprets the cost as economic expenses made to purchase some utility supplies. [...] 

It is evident from what is said the above, that if economic goods have some value, not all of them have a cost. It is also clear that the synthetic formula of value, developed by T-B, has no general meaning and, in any case, applies only to the economic goods that have some cost. [...] 

And it becomes evident that Tugan-Baranovsky strongly denied Marx's theory of value. He criticizes Marx who had actually developed a theory of the last category but not the theory of value, and thus, encountered insuperable contradictions with reality. [...] 

According to Tugan-Baranovsky, for the commodity economic system, the historical categories of economy are goods and exchange value, while for the capitalist system, which serves as a completion of the commodity system, these categories also include capital and surplus value. [...] 

If Tugan-Baranovsky bases his definitions of commodity and capital on the Marxist theory, then it becomes evident that having developed his own theory of value, he had to present another explanation for the concept of exchange value and surplus value which would differ from Marx's explanation. From his point of view, the exchange value is not the ratio of labor values of exchanged goods but is just an abstract possibility to receive in exchange for the given commodity a certain amount of other commodities, an abstract possibility, whose concrete and direct expression (which was not typical of Marx's theory) is the price. Thus, the gap between the value (in particular, the exchange value) and the price is eliminated; and that was the gap that had undermined Marx's theory. In this respect, Tugan-Baranovsky considered the surplus value not as a part of the value gained by the capitalist (as a socially necessary labor crystallized in the commodities), but as the value of surplus product, appropriated by the capitalist. [...] Meanwhile, the notion of the surplus value as an indicator of capitalist relations and as expression of social relation of exploitation is still preserved. Its nature consists in the fact that under capitalism a certain category of people has to yield a part of products of their labor that, of course, has a certain value, to the owners of the capital. In other words, the essence of the problem passes from the framework of the category of value to the category of absolute cost. From Tugan-Baranovsky's point of view, it would be more correct to speak not so much about the surplus value but about

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the surplus product which, of course, possess some value. With respect to wages and profit he put forward a peculiar social theory of distribution. According to this theory, the problem of distribution does not depend on any theory of value: the solution of the problem of distribution cannot be worked out of any theory of value. The net national product or income is distributed, that is the whole social product, excluding the means of production spent in the process of production. And since the issue concerns wages and profit, their level is defined, first, by the productivity of social labor, and, second, by the social force of the working class and capitalists. Hence it becomes clear, the more productive is the social labor, the more advanced is the technological development and the higher, ceteris paribus, are profits and wages. [...] In Tugan-Baranovsky's theory of distribution the naturalistic motive instead of the axiological one appears more prominent, and we have already seen the indicators of this when speaking about the concept of surplus value as a surplus product. At the same time, there is a connection between Tugan-Baranovsky's concept and theories of productivity in terms of the solution of the problem of distribution. Indeed, Tugan-Baranovsky's concept of the origin and possibility of profit is purely naturalistic. In his opinion, as we have seen, the problem of distribution is solved irrespective of the theory of value. Just a certain multiplication of social product together with a certain surplus is needed for the profit to become possible. [...] Yet, presenting a considerable scientific interest and being characterized by simplicity and persuasiveness, the theory of Tugan-Baranovsky, however, leaves unresolved and obscure the question of the naturalistic approach to the problem of distribution and to the axiological point of view on the distribution. Meanwhile, this problem is far from being too simple and obvious to be ignored. In particular, despite all his attempts to disprove his critics, the question remains unresolved if the natural growth of social product through the inclusion of a surplus product means a simultaneous increase of value of social

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6 See “Theoretical foundations of Marxism'. Part IV, Chapter VII ["Основы", отд. IV, гл. VII].
7 Foundations p. 392, 467 ["Основы", 392, 467ff]. See "Sociale Theorie der Verteilung".
8 See ‘Foundations’. Ch. IV, Part. III and VII ["Основы", отд. IV, гл. III и VII].
product. And one more question: why is the profit impossible (from the axiological point of view) even without surplus product, and due only to social economic factors?

Tugan-Baranovsky considers the problem of distribution, as *sui generis* problem of the capitalist system. Unlike many others, he refused to reduce it to the problem of exchange. Within the sphere of exchange he subjected to the analysis one of the most difficult and mysterious phenomena of commodity capitalist economy – that of the money. He came to the conclusion that none of the existing monetary theories, including Tooke’s monetary theory, which Tugan-Baranovsky called commodity-based, as well as the quantitative theory, fully developed by Irving Fischer, gives a satisfactory solution of the problem of money.

And nevertheless, both theories contain certain reasonable arguments. Money is an entirely social phenomenon, the result of spontaneous national economic processes. The amount of money is a relatively minor factor. And the quantitative theory could be applied only in the sphere of paper money circulation. Only with respect to this limited sphere of circulation this theory is valid. As for the basis of currency circulation – metal money – one should search for the explanation of the problem of value of money in the commodity market, and Tooke was right here. However the value of money, contrary to Tooke, is represented not by the function of prices of certain goods, but by the function of the state of a general economic conjuncture and its cyclic fluctuations. This is the main idea of Tugan-Baranovsky’s theory of money – the theory which he called conjutorial. But having put forward this extremely original idea, he unfortunately failed to give it a consecutive development and justification, did not find the mechanism connecting the fluctuations of conjuncture with the value of money.

However, to some extent this gap is filled by earlier and, undoubtedly, outstanding in their scientific value studies of conjuncture performed within his theory; we mean his theory of markets and crises. No doubt, those earlier studies were a starting point for his conjunctural theory of money.

Within the capitalist system the market is considered as the central node where complex threads of economic relations interweave and the results of economic activity are summarized spontaneously. The characteristic feature of capitalism is that it creates a prevalence of supply over demand, which leads to the pursuit for the markets and fight for them. To find markets for goods, to sell goods is a great challenge for a private-owned factory. The task of economic theory is to understand the nature of these diffi-
culties and of the development of market relations as well as the ways to overcome the difficulties.

Tugan-Baranovsky considers the problem of market, first of all, through the application of the method of schematic consideration of a national economy as a whole; one can trace the elements of this method already in Quesnay's works and it was further developed by Marx. And such schematic consideration leads him to a number of the following ingenious conclusions. The size of the capitalist economy market is not defined by the amount of public consumption because the social product consists not only of consumer goods, but also of means of production. Therefore, with a proportional distribution of production hardly any reduction of consumer demand can cause an excess of general supply over demand, and there are no obstacles for the victorious development of capitalism. In other words, the size of market under a proportional distribution of production is defined by the amount of production itself. And it is clear that a general overproduction of goods can never actually occur; only a partial overproduction is possible.

By considering the nature of capitalism, he tries to prove and explain in analytical terms these paradoxical conclusions.

Capitalism is an antagonistic system of national economy. And while under conditions of commodity economy the goods are somewhat spiritualized and they become masters of a man, and that is the fetishism of the commodity economy, capitalism makes a thing of a person himself. From here also originates the above-mentioned paradox of the capitalist system. Not the consumption controls the production, but the production determines the consumption; it is not the production for the sake of consumption, but production for the sake of production, for the sake of the greatest profit, not the capital for people, but people for the capital. From here originates the above mentioned fetishism of the capitalist economic system.

So, if capitalism is able to organize a more or less proportional distribution of production, it can also solve the problem of market and can develop its hidden productive potential. However, capitalism with great difficulty determines this condition of proportional distribution of production. It finds itself in a certain unstable state, and it is struck periodically by crises, which are typical phenomena of the developed capitalist system. So, why? What are the reasons of crises and how can one formulate these reasons? Tugan-Baranovsky tried to give answers to these questions in his theory of crises, which is based on his theory of markets. Having awoken socioeconomic initiative and having created

12 See 'Periodical industrial crises'. Part II, Chapter IV [«Периодические промышленные кризисы», ч. II, глава IV].
13 See Ibid., Chapters V–VI.
opportunities for getting and increasing profit, capitalism served as a vigorous impetus for the growth of business activity. That was the origin of the capitalist system striving to expand and develop the production for the sake of profit; therefore, we observe a fast development rate of productive forces and a constant pressure of the supply upon demand. But capitalism is not an organized system, and it is basically spontaneous. Therefore, one can see the strivings and sometimes failures to solve the problem of proportional distribution of production, i.e. a problem of the market. Thus, there arises the need for crises. The lack of proportional distribution of production like an elastic bandage restrains the aspirations of capitalist forces to expansion, sometimes causing their sharp shock. This shock is perceived as a crisis, as a situation of general overproduction which is manifested in the general fall of prices, decreasing profit rate, increasing number of bankruptcies, reduction in production, etc. The credit that has developed within the capitalist system on an extensive scale, intensifies the shock. However, as has been stated above, the general overproduction is actually impossible, only a partial overproduction of goods is possible. But due to the connection of some goods and commodity prices with others, this partial overproduction tends to be transferred to other goods and thus, there appears a sort of general overproduction because the market starts to experience partial overproduction as a general fall of prices and as a general excess of supply over monetary demand. The above-said reveals the inherent reasons and the general character of the need for crises. But crises repeat periodically, and the course of economic conjuncture gives an image of a rather regular alternation of three phases – the rise, crisis and depression. To completely understand the crises, it is necessary to give the reasons of this rhythm, the reasons of the periodical character of crises.

While examining the fluctuation of conjuncture and prices of certain goods, one can easily observe an especially strict compliance between the general movement of conjuncture and the iron prices, or in other words, the prices of the main type of raw materials needed for the production of new means of production and new capital stock. And it is clear, why. The upswing phase is the period, first of all, of speculative promotion, the period of construction of new enterprises, new railroads. Therefore, the upheaval of speculative promotion in the first place contributes to a prominent increase of iron prices. But the speculative promotion and revival in primary branches of industry also cause the revival in other branches of national economy. There starts a general rise. Why does this rise happen periodically and finish indispensably with a crisis? In order for the rise and speculative promotion to start, the accumulation of free capital is needed. The capital is accumulated not only in industry. There are many public groups whose income is independent from the fluctuations of industrial-capitalist conjuncture: these are the recipients of ground-rent, the state
securities owners, officials, and pensioners. During the period of stagnation, a considerable capital is accumulated here by means of large and small shares, which are allocated usually in banks and which, having accumulated in a sufficient amount, set in motion industry and cause the rise of industry first of all in major branches and thus, acts similar to steam in a steam-engine when it puts the forcer in motion. But in the course of the further rise, the free capital becomes exhausted at larger rates. The discount percent increases. The upward movement of the market rates ceases; sometimes the stock crisis bursts out and the credit starts to show the signs of strain, a panic arises, and a general crisis starts. That is why a rise inevitably leads to a collapse followed by a depression period. Then, the same work on capital accumulation begins, and the signs of new economic rise appear and the cycle of conjuncture repeats.

The theory of markets and, in particular, the theory of crises developed by Tugan-Baranovsky, in an original and profound way, has put and solved the problem and brightly revealed the nature of capitalist national economy in its whole and it was generally confirmed by reality; thus, deservedly, it brought him the world fame. This concept served as basis for a whole school which in some ways was adopted by prominent Western economists, including Spiethoff, Eulenburg, Pohle, Schmoller, Lescure, etc. It has generated a number of publications in favor and opposed to it. Even its opponents like Werner Sombart, recognized it as 'an extraordinary step forward and, undoubtedly, the highest form of theories of crises'. Of course, this does not mean that the theory of Tugan-Baranovsky causes no objections and needs no further improvement. On the contrary, its weak points are evident in the same way as its prominent value in economic science is indisputable. In particular, one of the basic statements of his theory of crises, namely, the idea of accumulation of some free, not invested capital, is disputable: in fact, does such capital really exist? Moreover, in his theory of markets and crises Tugan-Baranovsky assumes a self-contained and purely capitalist national economy. The reality is much more difficult. It is obvious that here emerges the direction of and necessity for the further improvement and complication of the theory.

While studying the theory, it is easy to note that it was developed under the influence of intersecting ideas and in the first place under the influence of the Say–Ricardo theory, and also the related ideas by Marx and Engels. But there is no doubt, that the most valuable contribution to the creation of the theory was the author's creative skill enriched by an attentive study of the capitalist reality and primarily of the history of English crises.

14 See Jean Lescure ‘General periodical industrial crises’. Sankt-Petersburg, 1908, p.435 and passim.
Putting forward the theory of markets and crises, Tugan-Baranovsky resolutely broke off with former theories, which to a greater or lesser extent identified the causes of crises in the discrepancy between production and consumption. At the same time, his theory threw a new light on the problem of development and future of capitalism.

Marx and Engels’ school to which Tugan-Baranovsky was close in many respects and from which his theories so often originated, as we know, argues about an inevitable crash of the capitalist system. The basis for this concept were two main ideas: 1) first, it is the concept of the growing and persistent scarcity of markets and, therefore, of the increasing and insuperable for the capitalist system obstacles to the development of productive forces and, second, the idea about the falling profit rate in the process of development of capitalism, the idea about the growing weakness of this mode. Tugan-Baranovsky, as we have seen, rejected both these theses. And as a result he had to recognize that ‘capitalism will never die a natural death’, and that it is intrinsically capable to continuous development. However, crises will shake it. But these crises are not a symptom of coming death, but only sharp and painful means to correct the development pattern of capitalism. […]

The contemporary socioeconomic mode provokes a great number of unnecessary tensions and waste of public forces and it is far from being perfect. But we see that in spite of being imperfect it has all prerequisites to exist and, moreover, to develop.

It cannot die a natural death: ‘only human thought and will can strike a mortal blow to it’. And such a blow should and will be stricken because capitalism is in itself the main and inherently deep defect and contradiction. This contradiction is that capitalism turns a human into a means, into a slave of things, and at the same time it leads to the distribution and strengthening of public and moral consciousness which considers a personality as the supreme value of social life. This most profound contradiction should inevitably increase both the mass discontentment and disappointment with the present, and the aspiration to the future social ideal; it should also increase the organization level and an organized conscious aspiration to change the present for the sake of the future. […]

Thus, we have finished the analysis of Tugan-Baranovsky’s main scientific and ideological views. And we see, these views were developed not only due to the influence of the public environment surrounding Tugan-Baranovsky but also due to the impact of scientific and ideological concepts of the past.

17 Ibid.
18 Ibid: 194.
The theories of Marx and Ricardo, the Austrian school and the Windelband–Rikkert school, the ideas of Kant and Dostoyevsky, all become determinant in this respect. The ideas of Quesnay, Word, and Fouilléé are of less and partial importance. But Tugan-Baranovsky was not a unilateral follower, not a pupil of every mentioned theory. In his studies he proceeded from them. But as a creative mind and a talent he aspired to be in advance and surpass them\(^{19}\) – and he really did it – and he introduced much of his own. This promoted him to the prominent place which he deserves in the history of development of social sciences and especially in the history of the Russian social thought.

To justify the last statement we would like to give the following arguments. In scientific and ideological schemes of Tugan-Baranovsky many things are disputable and stereotyped. But alongside with them there are many ideas and thoughts which are already or will be acquired, with certain modifications, by the academic and ideological social thinking. This refers to his researches in the field of the theory of markets and crises, development of capitalism and the theory of distribution, the studies of socialism and cooperation. Many of these ideas will survive him both in Russia and in the West.

The last point allows us to take a different approach to the evaluation of Tugan-Baranovsky's heritage. We would like to emphasize resolutely and definitely his significance as a Russian scholar in the field of economic theory. Unlike in other branches of science and culture, the Western thinking ignored the development of economic theory in Russia. One can safely assert that in the field of economic theory Tugan-Baranovsky was the first who made the European thinkers to consider carefully the progress in this sphere made in the east of Europe, in Russia. We have already mentioned it above, and it increases the national significance of Tugan-Baranovsky. He succeeded to achieve the level of the epoch and the level of scientific and economic thought of the advanced countries, and moreover, he succeeded to contribute to this progress, and thus, more than anyone else he tried to bring the Russian economic science into line with the European one. The power of a nation in various spheres of life is determined not only by far and even not so much by its physical forces, but considerably by its spiritual forces. From this point of view, Tugan-Baranovsky is a personage who indicates the growing power of the Russian economic thinking and at the same time he is its agent. While in the field of art, music and belles-lettres, Russia has already made a great contribution, in the field of science and, in particular, economic science it just starts to enter the historical scene and there is much to be done here.

However, there are other things that define the national importance of Tugan-Baranovsky's works. In his works the study and analysis of various (and

\(^{19}\) See ‘Kant and Marx’, the article in ‘To better future’.\)
even general) issues bears the features especially familiar to us, Russians. While analyzing the problems, even in their general bases, he rather frequently emphasizes the features that these problems gain in the conditions of the Russian reality, he exemplifies them by the Russian experience. This also refers to his idea about the development of capitalism and about the destinies of the small-scale pre-capitalist industry, and also to his theory about small labor agriculture and large-scale capitalist agriculture, about cooperation and socialism. Tugan-Baranovsky was alien to the spirit of national isolation. His perspective was wider. But this fact more significantly designates his character and significance as a Russian academic economist.

Finally, the significance of his works lies in the fact that with his interest in theoretical issues and questions of social ideal, with his continuous search and with his colorful and often inspired essays, he was constantly awakening the Russian thought, in particular the thought of the younger generations. And in this regard Tugan-Baranovsky produced an enormous impact. He did not and could not create a whole ‘school’: he was an academic economist educated in an extremely European manner so he could not get isolated within his own system (and a creation of scientific self-contained systems is, undoubtedly, an indicator of an infantile condition of a given field of knowledge), he had a very intuitive and developing mind to commit to the accepted ideas. M. I. Tugan-Baranovsky did not create a ‘school’, but hardly any school can and will avoid the influence of his ideas.