

V. Atanasyev

Bourgeois Economic Thought 1930s-70s

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V. Afanasyev

Bourgeois Economic Thought 1930s - 70s



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**БУРЖУАЗНАЯ ЭКОНОМИЧЕСКАЯ МЫСЛЬ
30-70х ГОДОВ XX ВЕКА**

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INTRODUCTION

The period 1930-1970 has a special place in the history of bourgeois political economy, a period replete with crises. The period begins with the "Keynesian Revolution" which was a direct result of the Great Depression, the capitalist world's most deep-going and protracted economic crisis (1929-33). The concept of state-monopoly regulation of the capitalist economy, the brain-child of John Maynard Keynes, gained wide currency in bourgeois literature. Keynes was portrayed as the saviour of capitalism. His theory was supposed to provide the key for eradicating economic crises, stagnation, mass unemployment and currency chaos, and breathe new life into the flagging organism of the capitalist economy. The period ends with the obvious bankruptcy of neo-Keynesian economics that had been so widely acclaimed in bourgeois economic literature. As was pointed out in the Report to the Twenty-Fifth Congress of the Communist Party of the Soviet Union, "Now everyone can

see that one of the main myths created by reformists and bourgeois ideologists has collapsed—the myth that present-day capitalism is able to avert crises.”¹

The postwar economic crises, particularly the one which began in 1974, the most severe since the Great Depression of the thirties, along with capitalism’s inability to conquer unemployment and to attain a high and stable rate of economic growth, the chronic currency crisis, the energy crisis and other processes within the contemporary capitalist economy all testify to the inability of the present-day bourgeois economy to mobilise all its potential in overcoming capitalism’s internal contradictions, as well as to its inability to use modern productive forces effectively.

The period under review is typical also for the no less momentous changes in the methods of defending capitalism ideologically. Since the 1930s there has been a radical shift in the world balance of forces towards socialism. Since the last war, a world socialist economic system has come into being and is making rapid strides forward, working-class and communist movements within advanced capitalist countries have become highly influential and well-organised, the colonial system of imperialism has crumbled, and a whole group of liberated states has entered upon a non-capitalist path of development. These and other processes subsequent to the Great October So-

¹ *Documents and Resolutions. XXVth Congress of the CPSU*, Novosti Press Agency Publishing House, Moscow, 1976, p. 34.

cialist Revolution in Russia have demonstrated to the whole world that these vital issues of the twentieth century can be resolved only when societies shift from capitalism to socialism. The development of the world revolutionary process, capitalism's deepening crisis and the mounting discordance between the capitalist production system and the real and vital interests of the people have forced bourgeois political economy to shift from overt propaganda about the natural and eternal nature of the capitalist system to a more subtle veiled defence of capitalism in the form of "neocapitalist", and then "non-capitalist" notions.

The crisis in contemporary bourgeois political economy is deepening in a complex, often paradoxical way. Bourgeois economists use this to deny the crisis situation in bourgeois political economy. Keynesian economic theory may serve as an example. The very fact of its creation being portrayed in bourgeois literature as a "revolution" in political economy bears witness to the complete futility of the pre-Keynesian neoclassical theory of reproduction which turned out to be utterly incapable of explaining the crisis nature of capitalist development in this century. Keynesianism also fails to provide a scientific answer to this issue. Not only is it incapable of altering the course of twentieth century historical development, which has been so unfavourable to capitalism—and that is what bourgeois ideologists and politicians had been banking on—but has been totally unable to explain it in any realistic way.

The crisis processes in present-day bourgeois political economy are the latest manifestations of the objective laws of development of bourgeois economic science revealed by Marx and Engels. The establishment of the dominant vulgar tendency in bourgeois political economy during the 1830s stemmed from several objective circumstances: a change in the direction of social development under the impact of the industrial revolution at the turn of the 18th and 19th centuries and the entry onto the historical stage of a new class—the revolutionary proletariat; the conversion of the bourgeoisie from being a progressive class, fighting feudal elements and their vestiges, into a conservative, reactionary class interested in preserving the capitalist system of economic relations which were giving the bourgeoisie the dominant economic and political position within society; the class conditionality of bourgeois political economy.

An objective dependence exists between the state of the capitalist mode of production, the development of its basic contradiction and the nature of bourgeois political economy; this consists in that the extent of the limitation of its theoretical investigation is ultimately determined by the degree of disparity between capitalist relations of production and the nature of the productive forces, and the degree of exacerbation of the basic contradiction of capitalism. It is no coincidence that classical bourgeois political economy developed only during the period of greatest conformity between capitalist relations of production and level of development of social

productive forces, while vulgar bourgeois political economy established itself at the time of a clearly-expressed and evergrowing disparity between these two main aspects of the capitalist mode of production.

It is noteworthy that contemporary bourgeois economists try to explain the changes taking place in bourgeois political economy precisely by asserting that the above-mentioned conditions have lost their force. John Kenneth Galbraith, for example, flies in the face of a whole nexus of data on contemporary socio-economic development in maintaining that this development would lead to some kind of "convergence" of capitalism and socialism into "an industrial society" rather than to socialism. On the other hand, the bourgeoisie as an autonomous social force, in Galbraith's view, fades away from the social structure of that society. He actually includes it in the managerial apparatus of the corporations (the "technostructure") and portrays it as a cursor of technological and social progress. At the same time, he sees contemporary bourgeois political economy from the vantage point of "de-ideologisation" that is supposed to be going on within it and the voluntary liquidation of its class bourgeois nature. He writes about present-day bourgeois political economy as follows: "In its first half century or so as a subject of instruction and research, economics was subject to censorship by outsiders. Businessmen and their political and ideological acolytes kept watch on departments of economics and reacted promptly to heresy, the latter being anything that

seemed to threaten the sanctity of property, profits, a proper tariff policy, a balanced budget, or which involved sympathy for unions, public ownership, public regulation or, in any organised way, for the poor. The growing power and self-confidence of the educational estate, the formidable and growing complexity of our subject, and, no doubt, the increasing acceptability of our ideas has largely relieved us of this intervention."¹

This attitude, typical of postwar bourgeois political economy, lay behind the legend of its "revolutionary renovation", more than that, regular "revolutions" that were assumed to be taking place in contemporary bourgeois political economy. According to Harry Johnson, twentieth-century bourgeois political economy has experienced several such "revolutions" of which, "the most sweeping in its effects ... was the Keynesian Revolution".²

Nevertheless, the development of contradictions in capitalist production, even in circumstances conducive to its economic viability, more and more obviously revealed the insolvency of such an optimistic assessment of the state of the contemporary bourgeois political economy. By the 1970s, the fact of the crisis state of bourgeois political economy had gained sufficiently wide re-

¹ J. K. Galbraith, "Power and the Useful Economist", *The American Economic Review*, March 1973, Vol. LXIII, No. 1, p. 1.

² Harry G. Johnson, "The Keynesian Revolution and the Monetarist Counter-Revolution", *The American Economic Review*, May 1971, Vol. LXI, No. 2, p. 2.

cognition among its theoreticians. The most authoritative bourgeois theoreticians began to pour criticism upon their science. The British economist Guy Routh wrote in this connection, "...in our own day these criticisms have been levelled by the most prestigious members of the fraternity: presidents of the American Economic Association, the Royal Economic Society or Section F of the British Association for the Advancement of Science, or those elected to present the Richard T. Ely Lecture of the American Economic Association: Kenneth Boulding, Wassily Leontieff, E. H. Phelps Brown, G.D.N. Worswick, Joan Robinson, J. K. Galbraith."¹

The proselytisation of the attainments of the "Keynesian Revolution" now began to give way to sorrowful lamentations on the "second crisis of economic theory" which was affecting neo-Keynesianism as well as the neoclassical school. Joan Robinson, summing up the present state of neo-Keynesianism, wrote that it testifies to "the evident bankruptcy of economic theory which for the second time has nothing to say on the questions that, to everyone except economists, appear to be most in need to answer."²

Economic theory, as Joan Robinson writes of bourgeois political economy in another work, has been unable to answer the questions confronting capitalism under the impact of the economic

¹ Guy Routh, *The Origin of Economic Ideas*, London, 1975, pp. 19-20.

² Joan Robinson, "The Second Crisis of Economic Theory", *The American Economic Review*, May 1972, Vol. LXII, No. 2, p. 10.

crisis of the 1930s, the capitalist world's most severe. Up to now, she notes, "there are no consistent and accepted answers to the questions that were then raised".¹ At the same time, this crisis bears witness to the inability of the automatic market mechanism to ensure economic equilibrium and to the dislocation of the world capitalist economy due to virulent competition among capitalist monopolies.

The American economist Robert Gordon describes the crisis processes within bourgeois economic theory by drawing attention to the widening gap between it and a study of economic reality. He writes of the main trends in present-day bourgeois political economy as follows, "...in some lines of development macro and monetary theorists, like many of their colleagues in micro theory, seem to consider relevance to be more or less irrelevant".²

Galbraith focuses attention on another aspect of the crisis in bourgeois political economy, particularly sharply manifest in neoclassical theory—that is, its inability to serve as a guide in resolving practical problems. He writes, "...neoclassical economics doesn't come to grips with the practical problems with which society, including the modern state, is faced".³

¹ Joan Robinson, "What Are the Questions?", *Journal of Economic Literature*, December 1977, Vol. XV, No. 4, p. 1318.

² Robert Gordon, "Rigour and Relevance in a Changing Institutional Setting", *The American Economic Review*, March 1976, Vol. LXVI, No. 1, p. 5.

³ Myron Sharpe, *John Kenneth Galbraith and the Lower Economics*, 2nd ed., New York, 1974, p. 94.

The presidential reports at annual sessions of the American Economic Association, one of which was the above-quoted report by Robert Gordon, are of particular interest from the viewpoint of analysing the state of contemporary bourgeois political economy even when they avoid all mention of the most pressing problems of economic stability. A classical example was the report by the well-known American economist-econometrician Tjalling C. Koopmans at the 91st Session of the American Economic Association, dedicated, to judge by its name, to the methodologically important and ideologically topical theme of "Economics Among the Sciences". His report was extremely interesting from the point of view of studying important contemporary technological and techno-economic problems, such as methods of production and conservation of helium, technological aspects of future energy supplies and use; and yet it found no place for any clear-cut formulation of the author's view on the role of economic science itself.¹

In "Towards a New Paradigm", the Swiss economist Kurt Dopfer notes, "There is no doubt that contemporary economics is in crisis, at least if crisis is defined as the inability to meet the challenge of the times."² Among the problems which bourgeois political economy has been unable

¹ Tjalling C. Koopmans, "Economics Among the Sciences", *The American Economic Review*, March 1979, Vol. 69, No. 1, pp. 1-13.

² *Economics in the Future*, ed. Kurt Dopfer, "Introduction: Towards a New Paradigm", London, 1976, pp. 3-4.

to solve, Dopfer cites mass poverty, "unbalanced abundance", growth in regional economic imbalances, uneven population growth, irrational utilisation of unrenovable natural resources, etc.

While recognising the crisis state of contemporary bourgeois political economy, the British economist Benjamin Ward sees it as a process taking place alongside the expansion and development of economics and expressed in the inability of the old methodology to come to grips with new social problems.¹ He reduces the crisis sources merely to outmoded methodology, rather than the social nature of bourgeois political economy; he therefore does not see the objective roots of the crisis and the impossibility of it being eliminated within the confines of bourgeois economic theory. What is more, he regards as excessive the demands being made on economics to find a solution to the pressing social problems of present-day capitalist development, such as poverty, alienation, inflation and unemployment. He writes, "One does not condemn physicists for not having solved the problem of generating a perpetual-motion machine, and it is by no means inconceivable that there are social and economic problems too that are unsolvable in principle."²

Under the false pretext that there is an abstract possibility for the existence of unsolvable socio-economic problems, Ward tries to shrug off capi-

¹ See Benjamin Ward, *What's Wrong with Economics?*, London, 1972, pp. 89-90.

² *Ibid.*, p. 3.

talism's real contradictions that insistently demand a solution and, by the very fact of their existence, demonstrate the bankruptcy of bourgeois economic science which defends the contradictions engendered by capitalism. Economic insecurity, and sometimes even rank poverty among working people alongside the fabulous wealth of the bourgeoisie, mass unemployment and underemployment of productive capacity, unoccupied houses belonging to the well-to-do alongside the homeless poor—all testify to the fact that in itself the very existence of capitalism makes it about as possible to resolve these problems within the confines of the system as it does to invent a perpetual-motion machine. These contradictions have long since been resolved under socialism by replacing private capitalist ownership by mass socialist ownership.

By providing often a very sharp evaluation of the state of present-day bourgeois political economy, "Western" economists as a rule stop short of uncovering the actual causes of the crisis. Dopfer, for example, sees the cause in the way political economy has shut itself off in the late eighteenth century from "social philosophy". He therefore dates the beginning of the crisis in bourgeois political economy at the end of the eighteenth century; but this manifestly does not accord with generally-known historical facts: the end of the eighteenth and the beginning of the nineteenth centuries actually saw the flourishing, not the decline, of classical (scientific) bourgeois political economy in the works of the great scholars Adam Smith and David Ricardo.

But Dopfer's main error is in his attempt to locate the cause of the crisis in bourgeois political economy only in internal processes of the social sciences, in changes in relations between political economy and philosophy. This, naturally, draws a veil over the real sources of this crisis, its organic link with the antagonistic nature of the capitalist mode of production.

Joan Robinson also sees the cause of the crisis in modern bourgeois political economy generally in chance and individual circumstances. She believes that the main reason lies in the inability of pre-Keynesian bourgeois economic theory to realise in time the inefficiency of the spontaneous market mechanism as a regulator of the capitalist economy, which clearly manifested itself in the crisis years of the 1930s. In fact she interprets "the first crisis of economic theory" by this "inability". At the same time, she presents as the "Keynesian Revolution" in bourgeois political science Keynes's recognition of the demise of the market mechanism and his new concept of the need for state regulation of the capitalist economy. She believes that the "second crisis of economic theory" is the obvious inability of neo-Keynesianism to work out measures to overcome contradictions in present-day capitalist economy; this was particularly evident during the heightened instability in the capitalist economy during the 1960s and 1970s. In her opinion, there may not have been a crisis in neo-Keynesianism if it were not for "omissions" and "faulty memories". If that is the case, how do we explain that this "simple omission" is typical of all bourgeois econ-

omists and statesmen in all capitalist states without exception and, furthermore, over so many decades? This fact alone shows the presence of an objective basis for the crisis in present-day bourgeois political economy.

Galbraith has come close to an understanding of the actual sources of the crisis, despite the contradictory nature of his position and his lack of a really scientific insight into the problem as a whole. What is valuable in his treatment of the question is his recognition of the unscientific character of economics serving the interests of the ruling circles of "Western society". "Although the accepted image of economic society is not the reality, it is what is available. As such it serves as a surrogate for the reality for ... all, indeed, who must speak, write or act on economic questions."¹ In order to elucidate this non-coincidence of notions from economics with a reality that bears witness to the crisis character of contemporary bourgeois political economy, Galbraith pinpoints two functions of "economics": the "instrumental" and the "expository". By the former he means "...the contribution of economics to the exercise of power", and by the latter, "to seek to understand how things are".²

An important consequence of this approach is Galbraith's conclusion about the direction of "economics" towards an apology for monopoly power: "Economics thus slipped imperceptibly

¹ J. K. Galbraith, *Economics and the Public Purpose*, Boston, 1973, p. 7.

² *Ibid.*

into its role as a cloak over corporate power."¹ He comes close here to an understanding of the real role of bourgeois political economy and the causes of its crisis. All the same, his conceptions as a whole are objectively aimed at obscuring the real sources of the crisis in "economics".

The class essence of bourgeois political economy, which invariably lies behind the crisis in this form of bourgeois ideology, is played down by Galbraith in the sense that the corporations for whom the "economics" is a cover are presented as non-capitalist institutions; power within them, which the theory, as he admits, helps to implement, is presented as the power of a managerial apparatus rather than of big monopoly capital.

The major drawback in Galbraith's position is, therefore, that he ignores the class essence of modern bourgeois political economy. He sees it simply as "economics" which sometimes has an effect in exercising power. Here the class orientation of the process of cognition which bourgeois political economy effects is passed over in silence and not regarded as its socio-economic nature inherent in bourgeois political economy at all stages of its development. Galbraith sees the prime purpose of the instrumental function not in the class essence of bourgeois political economy, but in the fact that "the dominant economic interest is the standard and accepted voice in the community".² This treatment of the issue leaves out of consideration the main thing—the

¹ *Ibid.*, p. 8.

² *Ibid.*, p. 7.

coercive imposition of the ideology of capitalist monopolies on the whole of society, the antagonism of interests between labour and capital and the contradictions of the entire social mechanism. The ideology of big capital is imposed on society through a wide range of means—from various forms of pressure and bribery, especially through “charitable funds” operated by representatives of big business, educational traditions and the corresponding education system, ideological indoctrination of the populace through the mass media, and so on, up to the repressive apparatus of the bourgeois state.

The American economist Duncan Foley is particularly shrewd in his assessment of the state of contemporary bourgeois political economy, especially the neoclassical school (which he terms “individualist theory”). He asks how this theory can exist at all when it provides nothing either for science or for practice: “If individualist economic theory has serious problems as a scientific explanation, and if it also fails to reflect the real categories of political struggle and thus fails to influence political practice, why does it survive as a living body of ideas?”¹

He tries to find an answer to this question in the way economic theory acts as a definite ideology, which not only reflects actuality, but also carries with it the attitude to that actuality of the people studying it. Furthermore, he comes

¹ Duncan K. Foley, “Problems vs Conflicts”, *The American Economic Review*, May 1975, Vol. LXV, No. 2, p. 234.

to an appreciation that this is objectively conditioned attitude by the de facto position of researchers within society. However, Foley fails to approach the problem correctly. His own ideological position reflects his attitude to the reality he is studying and bars the way to a scientific solution to the problem.

Foley, in fact, endeavours to present ideology as some non-class professional awareness. Economic theory, therefore, is in his view an ideology of a certain professional group—that of economists.¹ It is in this vein that Foley tries to answer the question of why the neoclassical school exists at all, despite its irrelevance. He writes: “I suggest that individualist economic theory ... continues to live because it represents the relation between social reality and the economist in a way that helps economists come to terms with their own fate.”² In spite of the fact that he mentions many negative aspects of contemporary bourgeois political economy as testifying to its state of crisis, his limited approach to the ruling ideology prevents him from grasping the contradictions in the capitalist mode of production, and revealing the real causes of crisis processes within bourgeois political economy.

The inability of bourgeois economists to uncover the real, profound causes of the crisis in their science is not fortuitous. It is a manifestation of the class orientation of the process of cognition which representatives of “Western economics”

¹ *Ibid.*

² *Ibid.*, p. 235.

so stubbornly deny. However, it does not always exclude a fairly realistic description of the social control mechanism which guarantees the domination of bourgeois ideology within economic science of the capitalist countries, although this description in turn does not uncover the class essence of this mechanism. Benjamin Ward admits the existence of a whole system of control over economics. In his significantly-titled book, *What's Wrong with Economics?* he writes: "The power inherent in this system of quality control within the economic profession is obviously very great. The discipline's censors occupy leading posts in economics departments at the major institutions."¹ He thinks that the main instruments of this system are, firstly, control over appointment to the various posts and, secondly, control over the financing of economics. In describing the first instrument of the control system, he writes: "The lion's share of appointment and dismissal power has been vested in the departments themselves at these institutions. Any economist with serious hopes of obtaining a tenured position in one of these departments will soon be made aware of the criteria by which he is to be judged."² These inside instruments of control are accompanied by outside instruments, he writes, the most important of which is control of funds for research and teaching.³ Organisation-

¹ Benjamin Ward, *What's Wrong with Economics?*, New York, 1972, p. 29.

² *Ibid.*, pp. 29-30.

³ *Ibid.*

ally, the financial control levers which are supposed to subordinate economics to the interests of the bourgeoisie, have an adverse effect on economic science. The ideologically undisguised approach to appointments, Ward explains, is scientifically unjustified.¹ He also admits politically-motivated interference in the processes of "normal" scientific investigation, which exerts an "inhibiting" effect on the conduct and aspirations of economists.

This system makes it possible to ensure direction in the content of economic theory needed by "censors" and its back-up by appropriate specialists. Joan Robinson, too, exposes to a certain extent the social roots of this system of control when she writes that conservatives occupy positions of power within economics in order to keep criticism in check.²

In these circumstances, freedom of scientific investigation becomes mere fiction. It is not by chance that the crisis in contemporary bourgeois political economy is viewed in bourgeois literature as an internal phenomenon, one objectively absent from bourgeois economic theory, unconnected with the deep-going crisis in the capitalist economic system, affecting only isolated facets of bourgeois political economy and stemming only from subjective errors made by bourgeois economists. This typical position is clearly at variance with the facts. There can be no doubt

¹ *Ibid.*, p. 250.

² Joan Robinson, "What Are the Questions?", *Journal of Economic Literature*, No. 4, 1977, p. 1318.

that the deepening crisis in bourgeois political economy is intimately linked to a deepening of the general crisis of capitalism. Joan Robinson unwillingly admits this when she links "the first crisis of economic theory" with the world economic crisis of the 1930s, and its "second crisis" with capitalist economy's deepening economic crisis in the latter part of the 1960s and early 1970s.

The inability of contemporary bourgeois economists to discover the cause and the nature of the crisis state of their own economic science, in so far as they are closely related to the antagonistic essence and historically transient character of the capitalist system, is a blatant confirmation of the objective nature of this crisis. The objective nature of this crisis is also confirmed by its all-embracing nature within bourgeois political economy; this is apparent in that the crisis embraces all of its theories and concepts without exception, it manifests itself in all of its structural elements—in categories used, methodology, and theoretical systems, structure of directions and trends, functions of bourgeois political economy, the practical recommendations it has worked out for the economic policy of capitalist states and monopolies. For that reason, no matter what form the crisis in contemporary bourgeois political economy takes in the future, the very nature of the capitalist system is an unsurmountable obstacle in the way of its resolution.

Attempts by bourgeois economists to portray the causes and the content of crisis processes within the present-day bourgeois economics out-

side of the class nature of neo-Keynesianism, outside of the deep-going crisis processes in contemporary capitalism, and as a chance, unlaw-governed phenomenon stemming from the subjective errors and miscalculations of individual theoreticians, are all doomed to failure.

Part one

**LENIN ON IMPERIALISM
AND CRITERIA FOR
CLASSIFYING
TRENDS
IN CONTEMPORARY
BOURGEOIS
POLITICAL ECONOMY**

Chapter 1

TWO MAJOR TRENDS IN CONTEMPORARY BOURGEOIS POLITICAL ECONOMY

Bourgeois political economy today tends to be thought of as an amazing chaos of multiple conceptions, theories and tendencies which follow no pattern. In actual fact, however, like any social phenomenon, bourgeois political economy, being a form of ideology of the bourgeois class, obeys certain laws. It reflects an actual historical process through the prism of class interests of bourgeois ideologists; and this in certain measure limits their very possibility of cognising the objective economic laws of social development and limits it all the more as the contradictions in present-day capitalist production become more acute. Thus, not only the object of cognition, but also the *character of cognition* within the confines of bourgeois political economy is most intimately bound up with the development of real contradictions in present-day capitalism.¹

¹ "...the development of political economy and of the opposition to which it gives rise keeps pace with the *real* development of the social contradictions and

The point of departure, therefore, for revealing the social imperative, which determines the main content and basic structure of trends in contemporary bourgeois political economy, is Lenin's theory of imperialism, presenting a scientifically accurate picture of the essence of the present historical process as a revolutionary transition from the capitalist to the socialist system on a world-wide scale.

**1. ECONOMIC ESSENCE
OF IMPERIALISM
IS THE DOMINATION
OF CAPITALIST MONOPOLIES**

Lenin's analysis of the development of capitalism showed that, at the turn of this century, the capitalist mode of production had acquired a number of peculiarities which embraced all its main aspects. The sum total of these new features of capitalism enabled Lenin to conclude that the capitalist system had entered a special stage of its development—imperialism.

The economic and political changes in the world from the outset of the 20th century, including the most crucial of them—the emergence and rapid development of the world socialist economic system, and the deepening of the general crisis of capitalism, led to a radical change in the world balance of forces in favour of socialism. These

class conflicts inherent in capitalist production" (Karl Marx, *Theories of Surplus-Value*, Part III, Moscow, 1978, p. 501).

processes serve as convincing proof of the veracity of Lenin's theory of imperialism, treating imperialism as the monopoly stage of capitalist development, as the highest and last of its stages. An understanding of the essence of relations prevailing in present-day capitalist society is of decisive importance for pinpointing the laws and peculiarities of the development of bourgeois political economy.

To elucidate the uniqueness of imperialism as a particular stage in the development of the capitalist mode of production Lenin studied it from the angle of the Marxist theory of mode of production, underlining those new characteristics of the two main aspects of this mode of production which it acquired at the turn of the century. Lenin showed that imperialism has its own distinguishing characteristics both from the viewpoint of capitalism's productive forces—a high degree of concentration of production, leading directly to the formation of capitalist monopolies, and from the viewpoint of relations of production—a substantial concentration of capital emanating from the high level of concentration of production, leading to the establishment of the domination of capitalist monopolies. Lenin made the point that it was typical of imperialism's economic relations to replace free competition by capitalist monopoly which, nevertheless, did not remove competition altogether.

Such an approach to an analysis of imperialism enabled Lenin to uncover the uniqueness of imperialism as a special stage in the development of capitalism, its decisive economic and political

peculiarities. He established the vital fact that "the deepest economic foundation of imperialism is monopoly".¹ It is from this notion that there comes ultimately the whole uniqueness of imperialism as a special stage of capitalism, distinguishing it from free-competition capitalism. This conclusion enabled Lenin to pose an exceedingly important theoretical and methodological question concerning the basic law of imperialism as a certain stage in capitalism's development. He wrote, "the rise of monopolies, as the result of the concentration of production, is a general and fundamental law of the present stage of development of capitalism".²

All the major economic and political peculiarities of imperialism that distinguish it from pre-monopoly capitalism flow from its economic basis. The main features of imperialism are only various forms of manifestation of the domination of capitalist monopolies.

The methodology of Lenin's analysis of imperialism has exceptional importance also for com-

¹ V. I. Lenin, *Collected Works*, Vol. 22, Moscow, 1964, p. 276.

² *Ibid.*, p. 200. Lenin's analysis of imperialism from a Marxist approach to the mode of production also has a wider methodological meaning that goes beyond the bounds of investigation of the imperialist stage of capitalism, insofar as it provides the investigator with scientific criteria enabling him to judge what stage a particular mode of production is going through, it gives him a decisive guide in investigating that stage, since it raises the question of the basic economic law of the stage under examination and, linked with it, the question of modification of economic laws of the given mode of production at a certain stage of its development.

bating anti-scientific theories of imperialism. It confirms the impossibility of providing an objective description of the essence and paramount features of imperialism outside of an analysis of the two decisive aspects of the capitalist mode of production—its productive forces and relations of production in their interaction, emanating, for example, only from descriptions of some of its political features, which is typical of many anti-scientific conceptions of imperialism (like those of Karl Kautsky, John Strachey, etc.).

Lenin's scientific theory of imperialism is a most valuable contribution to the development of Marxist economic theory as a whole, including the theory of stages of a mode of production.

Imperialism is a continuation of the deepening development of the most essential features and trends of capitalism in its free competition stage. What is there new about capitalist relations of production brought about by the establishment of monopoly domination? Lenin answered that question as follows, "Domination, and the violence that is associated with it, such are the relationships that are typical of the 'latest phase of capitalist development'; this is what inevitably had to result, and has resulted, from the formation of all-powerful economic monopolies."¹ Lenin had in mind "domination and the violence that is associated with it" precisely in the sphere of economic relations of contemporary capitalism.

This *qualitative* change in capitalist relations of production has had a profound effect *on the*

¹ V. I. Lenin, *Collected Works*, Vol. 22, p. 207.

whole system of objective economic laws of capitalism, which continue to remain in force even under imperialism. The basic law of imperialism pre-determines a unique set of actions of all the economic laws of capitalism at this stage of its development. The domination of monopolies has led, for example, to a sharp intensification of factors that work against the tendency for the rate of profit to fall; this has been a reflection of the growing exploitation of the proletariat and all working people by the monopolies. Important changes have also taken place in the action mechanism of other economic laws of capitalism: the general law of capitalist accumulation, the law of economic crises, the law of land rent, and so on.¹

As a result of these changes, the relations of the domination of capitalist monopolies and the violence associated with it are penetrating the whole system of economic laws of capitalism.

2. TWO DIRECT HISTORICAL RESULTS OF THE CAPITALIST SOCIALISATION OF PRODUCTION

Differences in the main tendencies of contemporary bourgeois political economy are intimately bound up with the major historical results of the

¹ The importance of investigating these changes in the economic laws of capitalism at the imperialist stage, caused by the establishment of capitalist monopoly domination, may be seen from the law of uneven economic and political development of capitalist countries; by scientific analysis of this law Lenin was able to work

socialisation of production by capitalist monopolies, and with the present stage of development of the world revolutionary process.

While examining in *Imperialism, the Highest Stage of Capitalism* the "composite picture of the world capitalist system in its international relationships at the beginning of the twentieth century—on the eve of the first world imperialist war", Lenin comes to the following important conclusion on the nature of the epoch that capitalism was then living through: "Imperialism is the eve of the social revolution of the proletariat."¹

The overall direction of present-day socio-economic development from capitalism to socialism throughout the world owes much to the rapid rate of growth and high level of socialisation of production, making capitalist ownership increasingly incompatible with the development needs of the productive forces, which are social in character, and therefore with the vital interests of the many millions of working people, above all the working class.

The enormous growth of socialisation of capitalist production and the uneven economic and political development of the imperialist countries, which has caused a sharp exacerbation of contradictions between the social character of the productive forces and the private capitalist form

out a theory about the possible victory of socialism initially in one country, to lay the basis of the theory of general crisis of capitalism and to resolve a whole number of other complex problems.

¹ V. I. Lenin, *Collected Works*, Vol. 22, pp. 189, 194.

of appropriation, have brought into being two interconnected crucial historical results. First, there is the resolution of the basic contradiction of capitalism through the victorious socialist revolution in Russia, socialist socialisation of production which has supplemented the social character of production with public socialist ownership of the means of production. As a result of these transformations, the USSR has implemented that part of its Party Programme which had as its objective the building of socialism and elimination of exploitation of the working people. As the first Party Programme put it, "Having replaced private ownership of the means of production and introduced planned organisation of social production for ensuring the well-being and all-round development of all members of society, the social revolution of the proletariat will destroy class division of society and by this liberate all oppressed mankind, for it will put an end to all forms of exploitation of one part of society by another."¹ The triumph of the October Socialist Revolution in Russia set off the general crisis of capitalism, which is a historical process in which the socialist mode of production replaces the capitalist mode. The formation of the world system of socialism and the downfall of the political system of colonialism signified a further intensification of capitalism's general crisis. Victory for socialism primarily in countries with a medium level of capitalist development testifies

¹ *CPSU in Resolutions and Decisions of Congresses, Conferences and CC Plenary Meetings*, Vol. I, Moscow, 1970, p. 62 (in Russian).

that capitalism as a whole is ripe for socialist change. Second, a system of state-monopoly capitalism as a specific form of the dynamics of capitalism's basic contradiction took shape in the course of turbulent manifestations of this contradiction during World War I, the 1929-33 economic crisis and the long drawn-out depression that followed it, in World War II and, immediately after it, on the basis of a further socialisation of capitalist production.

Both results of capitalist socialisation of production are variegated expressions of the historical process of transition from capitalism to socialism, in the first case as the direct development of socialism, in the second case, as the development of objective and subjective preconditions for a revolutionary transition to socialism.

EMERGENCE AND DEVELOPMENT OF THE SOCIALIST MODE OF PRODUCTION

With the establishment of monopoly domination, capitalism is being drawn into a transitional process in which society is shifting from the domination of free competition to complete socialisation of production, which is possible only under socialism. The present-day level of development of productive forces is leading to the appearance of a new form of expression of the basic contradiction of capitalism: between the need of production for complete socialisation of productive forces on a national, international and world-wide scale, and the impossibility of this being

done within the framework of the capitalist mode of production.

The source of acute conflicts under imperialism is, therefore, the very contradictory nature of its economy typified by the intertwining of monopolies and competition. As Lenin once put it, "In fact it is this combination of antagonistic principles, viz. competition and monopoly, that is the essence of imperialism, it is this that is making for the final crash, i.e., the socialist revolution".¹

As a result of the huge concentration of production in the hands of very big monopolies, which have established their domination over both national and world markets, the social character of productive forces has increased substantially. As the world capitalist economy has come into being and developed, the conflict between productive forces and relations of production has exceeded the bounds of national economies and acquired an international character. This has meant that capitalism at its monopoly stage, as a world economic system, has matured for socialism.

It was no chance happening that the break in the imperialist chain and formation of the first socialist state should take place at that level of capitalist development and, consequently, with all the antagonisms inherent in it, when a world capitalist economy had taken shape and free-competition capitalism had changed to imperialism, when the traditional contradictions of

¹ V. I. Lenin, *Collected Works*, Vol. 24, Moscow, 1964, p. 465.

capitalism which had come to a head in the new historical circumstances, and the new contradictions engendered by the imperialist epoch had become inseparably entangled. A direct consequence of the emergence of the world capitalist economy were the world economic crises of overproduction and World War I, which had made the development of society's productive forces incompatible with their capitalist form primarily at imperialism's weak link, at which the contradiction had attained the greatest acuteness. Capitalism, which had shown itself to be a viable though antagonistic system within the bounds of a national economy in the pre-monopoly period, was now insolvent at a world economic scale.

The specifics of development of the world capitalist economy with its typical law of uneven economic and political development of states also predetermine the unfolding of a revolutionary struggle of the proletariat against capitalism. It is this struggle, as Lenin showed, that determines the unevenness in development in various countries of objective and subjective prerequisites for socialism, the possibility of socialism triumphing initially in one country, and the entry of states on the socialist path of development at different times.

In explaining the causes of defeat for the military intervention of imperialist powers in the young Soviet Republic, Lenin wrote that from the viewpoint of a world balance of forces, the Soviet Republic, backed up by working people all over the world, turned out to be stronger than the world bourgeoisie torn apart by interimperial-

ist contradictions and enfeebled by having to ward off their own working class. The major cause lay in the fact that although revolution had triumphed initially in one country, it had matured in many developed capitalist countries: "Domestic conditions have not allowed a single powerful capitalist state to hurl its army against Russia; this has been due to the revolution having matured within such countries," Lenin wrote.¹ And although the revolutionary situation in those countries did not lead to the victory of socialist revolution, it acted as a mighty reserve for the socialist revolution in Russia.

The experience of history shows that the working class triumphs over a particular national detachment of the world bourgeoisie as a world working class, insofar as it opposes the bourgeoisie on both a national and world scale at a time when the world capitalist economy is emerging and developing. Today, when the working class is being opposed world-wide by a bourgeoisie that is more consolidated than ever before, the question of unity of the world working-class movement is absolutely vital.

Socialism initially triumphed at the weakest link in the imperialist chain, in a country with the greatest tension in class contradictions, not in the most developed capitalist countries. This peculiarity of the world revolutionary process is also a result of contradictions in the world capitalist economic system; a typical feature of

¹ V. I. Lenin, *Collected Works*, Vol, 31, Moscow, 1966, p. 412.

this has been the polarising of two extremes: highly-developed imperialist powers and weakly-developed colonial dependencies oppressed and exploited by imperialist states. The international character of the labour movement and its distinguishing features in individual countries are closely bound up with the antagonistic nature of world imperialism. The most important factor in the fact of Russia becoming the weak link of imperialism was that the Russian working people found themselves under the double yoke of domestic and foreign capital. At the same time, imperialism uses exploitation of the less developed countries, a typical feature of the world capitalist economy, which ensures a higher level of production and living standards in the imperialist countries, for counteracting the revolutionary movement of the working class in the highly-developed capitalist countries.

The uneven development of capitalism, as a law of the world capitalist system, predetermines the specific nature of the revolutionary workers' movement in various countries, the character and sequence of historic tasks confronting it.

Contradictions in the capitalist world economy, the partition and the repartition of the world with a change in the balance of forces, have resulted in various national groups from among the imperialist bourgeoisie fighting ferociously for world supremacy. This has engendered world wars. The development of interimperialist contradictions on the eve of world wars was a typical picture of "the growth of the extreme groups"—the formation of inimical imperialist groupings—

and the "disappearance of middle groups"—drawing neutral, small and other countries into the orbit of a particular imperialist grouping. World-wide armed conflict between the leading imperialist powers, which considerably weakened imperialism as a whole, also meant a tremendous exacerbation of class and all social contradictions in general within capitalism. As Lenin wrote, "Thus, out of the *universal* ruin caused by the war a *world-wide* revolutionary crisis is arising which, however prolonged and arduous its stages may be, cannot end otherwise than in a proletarian revolution and in its victory."¹ The world wars unleashed by imperialism caused a horrendous destruction of society's productive forces and accelerated working-class social revolutions. The international working-class movement took advantage of the interimperialist contradictions in its fight against world capital. The two initial stages of the general crisis of capitalism, which signalled a world-wide severing of the imperialist chain, historically were linked with world wars and their consequences. Today, however, imperialist contradictions are so great and the influence of socialist forces so considerable, that a new break in the chain of imperialism, which had become a vital aspect of the third stage in its general crisis, occurred in times of peace.

The ever-growing internationalisation of capitalist production, encouraged by the ongoing

¹ V. I. Lenin, *Collected Works*, Vol. 22, p. 191 (my italics—V. A.).

scientific and technological revolution, the further development of the international capitalist division of labour and international intertwining of capital, the growth in imperialist integration, the mounting influence in the world capitalist economy of the multinationals, which embrace dozens of capitalist countries, are all leading to an increasingly greater role of the international character of the present-day class struggle of the working class.

As a result of the victory of socialism in several countries and the formation of the world socialist economic system, the basic contradiction of capitalism is acquiring a new form of manifestation as the basic contradiction of the epoch, a contradiction between the two opposing socio-economic systems of the world economy. It is this circumstance that is determining the transient nature of the present-day world economy, its development from complete supremacy of capitalist relations towards a world socialist economy.

The formation and development of the world socialist economic system have turned countries that had been economically and culturally backward into advanced and flourishing areas of the world once they had begun to implement socialist changes. The world socialist economic system has taken only a quarter of a century to attain this level of economic and scientific-technological development, which has for ever deprived capitalism of its hegemony in world economic relations.

Thanks to the economic and scientific-technological achievements of the world socialist econom-

ic system, imperialism has lost its former military-technical superiority. The forces of world socialism, of the international working-class and national liberation movements, are now the decisive factor in averting a world military conflict between the two opposing world socio-economic systems. Socialism brings peace among peoples, liberating humanity from the most monstrous form of destruction of productive forces that had taken shape within the world of private property.

With the formation of the world socialist economic system and its transformation into the decisive factor of world development, the struggle of the international working class, in alliance with other working people, acquired a qualitatively new form of expression; at the same time, there arose a qualitatively new factor that intensified internal contradictions of the capitalist mode of production, forcing the bourgeoisie to resort to social manoeuvring.

In response to the economic challenge of world socialism, and in an attempt to boost the rate and amount of their profits, and not to allow contradictions between labour and capital to reach an open and massive clash between classes, the monopoly bourgeoisie is trying to adapt itself to the new socio-economic conditions by relying on the latest attainments of science and technology. However, there are objective limits to this type of adaptation, which represents a change in certain aspects of capitalist relations of production, while retaining relations of exploitation of wage labour by capital.

The formation and development of the world socialist economic system is the most important international factor encouraging the liberation of developing nations from neocolonialist exploitation, and enabling them to make genuine progress. It is hardly surprising that today more and more developing countries are deserting capitalism and beginning to seek solutions to their pressing economic and political problems of national regeneration along non-capitalist paths of development. They are aware that the world history of capitalism knows no example where a backward country dependent on imperialist powers was able to hoist itself up to a modern level of production and culture without breaking with capitalism.

A new phenomenon in the present-day world economy is the socialist orientation of a number of developing countries. This is testimony to the most profound economic and political contradictions in the world capitalist system, showing that it is ripe, indeed over-ripe, for socialist change and, at the same time, it bears witness to the mounting might of the world socialist economic system. As was pointed out at the Twenty-Fourth Party Congress, "The main thing is that *the struggle for national liberation in many countries has in practical terms begun to grow into a struggle against exploitative relations, both feudal and capitalist.*"¹

All the above-mentioned processes vividly tes-

¹ 24th Congress of the CPSU, Documents, Novosti Press Agency Publishing House, Moscow, 1974, p. 23.

tify to the fact that the historical need for a revolutionary transition from the capitalist to the socialist mode of production—as scientifically proved by Marxism-Leninism—has today materialised in many countries of the world, that capitalism is by no means an eternal or effective economic system.

CAPITALIST SOCIALISATION AND STATE-MONOPOLY CAPITALISM

The second direct historical result of capitalist socialisation of production and its monopolisation has been the emergence and development of state-monopoly capitalism.

The nationalisation of capitalist production and the transfer of part of the productive forces to the bourgeois state is an objective reflection of their growing social character, the inability of private capitalist ownership to serve as an effective form of promoting present-day productive forces. At the same time, nationalisation of production in capitalist countries constitutes a process of dispensing with “capital as private property within the framework of capitalist production itself”¹, the development of one of the important material preconditions for a socialist economy.

Socialisation of capitalist production by monopolies during the first half of the century is now reaching international as well as national proportions, and this, in conditions of fierce competitive struggle among monopolies, is inev-

¹ Karl Marx, *Capital*, Vol. III, Moscow, 1978, p. 436.

itably upsetting economic proportions, intensifying economic crises and undermining the economy of the capitalist countries even more seriously. The development of the capitalist economy since the late nineteenth century confirms the obvious trend towards greater anarchy of production, caused by the monopolisation of capitalist production. The culminating points of this process were the world economic crisis of 1929-33, which shook the world capitalist economy to its foundations, and then World War II.

The monopolisation of production and capital in the developed capitalist countries has today reached unparalleled proportions. In the early 1970s, the biggest US corporations with capital of \$100 million and more comprised only 0.2 per cent of the total number of corporations, while they owned 66.5 per cent of the country's share capital. In Japan, 7 per cent of companies accounted for 86 per cent of share capital; and in the Federal Republic of Germany, 5 per cent of companies owned 64.7 per cent of the country's entire share capital.¹

The concentration of economic power in the capitalist world has reached considerable proportions in these main centres of imperialism. W. Leontieff's book *The Future of World Economy* forecasts that these imperialist centres will maintain a very high proportion of the world capitalist manufacturing industry right up to the year 2000. According to scenario X, the total propor-

¹ See *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 9, 1974, p. 7.

tion accounted for by the areas (not entirely coinciding with the above-named imperialist centres) of North America, Western Europe and Japan in the produce of the manufacturing industry of the capitalist world will contract from 68 per cent in 1970 to 47 per cent in 2000.¹

The huge growth in socialisation of capitalist production, and the deep-going crisis processes in the economy and politics of bourgeois society have caused monopoly capitalism to grow into state-monopoly capitalism, uniting the capitalist monopolies and the bourgeois state for strengthening the capitalist system, stepping up exploitation of the working people and enriching big capital. Monopoly capital aspires to attain these objectives through state regulation of the capitalist economy, which takes the form of state enterprise, the state purchase of goods and services, control of capital investment and consumer demand (for example, the wage freeze policy), and state economic programming.

The development of state-monopoly capitalism depends on a high level of concentration and centralisation of production and capital, and its monopolisation. However, state-monopoly capitalism does not resolve the basic contradiction of capitalism, it is only a specific form of its movement and exacerbation. The fact is that socialisation of the capitalist economy by the bourgeois state not only fails to remove the private capitalist basis of the economy, but it acts itself as

¹ According to *The Future of World Economy. A United Nations Study* by W. Leontieff, New York, 1977.

an extension and complement to it. All the same, the social character of present-day production has gone far beyond the bounds of national states. It is for this reason that capitalist socialisation is not confined to the nationalisation of the economy within national borders, but is backed up by the promotion of international forms of state-monopoly capitalism (such as integration within the Common Market) and transnational and multinational capitalist monopolies.

At present, the 300 biggest international monopolies provide some 22 per cent of the gross national product of all developed capitalist states. The annual industrial output of the overseas subsidiaries of international capitalist monopolies comprised in the 1970s \$370,000 million and surpassed the volume of world capitalist exports. This distinguishing feature of the contemporary world capitalist economy is most readily apparent in the USA which accounts for the bulk of the world's biggest multinationals: the amount of industrial production of American monopoly subsidiaries abroad is actually four times greater than American exports.¹

Even so, capitalist socialisation is incapable of ensuring the use of present-day productive forces in accordance with their social nature and society's interests. This task can be resolved, and is historically being dealt with, only on the basis of social, socialist ownership of the means of production and elimination of bourgeois polit-

¹ *Survey of Current Business*, January, September, October, 1973.

ical power. "The unnatural character of the situation in which production complexes, some of which serve more than one country, remain the private property of a handful of millionaires and billionaires is becoming increasingly evident to the peoples. The need for replacing capitalist by socialist relations of production is becoming ever more pressing."¹

Nationalisation of the capitalist economy is an enforced adaptation of capitalist relations of production to society's productive forces, whose social character is developing with particular alacrity under the impact of the ongoing scientific and technological revolution. Over the past few decades, there has been both a trend towards growing capitalist economic nationalisation in bourgeois countries, and an evident contradictory character of that process. On the one hand, nationalisation constitutes a paramount economic weapon in the hands of the monopoly bourgeoisie aimed at temporarily mollifying contradictions in capitalist reproduction; on the other, it is a process of redoubling these contradictions, a maturation of objective and subjective prerequisites for socialism. The state-monopoly stage of development of imperialism is, to quote Lenin, "a complete *materia l* preparation for socialism".² These circumstances explain why the process of nationalisation of the capitalist economy is so uneven both in individual states and at different

¹ *International Meeting of Communist and Workers' Parties. Moscow, 1969, Prague, 1969, p. 142.*

² V. I. Lenin, *Collected Works*, Vol. 25, Moscow, 1964, p. 359.

times, why the nationalisation policy sometimes yields to a reprivatisation policy.

Nationalisation does not resolve contradictions in the capitalist economy; it represents a form of their movement which prepares them for further exacerbation. On the one hand, this process somehow extends the growth potential of productive forces of present-day capitalism, inasmuch as it requires account of the social character of productive forces in a certain, by no means complete, measure. On the other hand, in intensifying the social character of capitalism's productive forces, nationalisation does not root out private capitalist appropriation that contradicts it, even though it leads to a whole series of modifications in its specific forms. The mounting economic role of the bourgeois state influences the whole system of economic relations of contemporary capitalism, all phases of the capitalist reproduction process and, consequently, the whole system of its economic laws. While remaining a component part of the superstructure of bourgeois society, the capitalist state at the same time is a vital economic subject of economic relations of present-day capitalism, embodying the collective interests of monopoly capital.

A clear illustration of this process is the modification of the law of surplus value and its external form of manifestation—the law of capitalist profit under state-monopoly capitalism, in particular its function linked up with the process of inter-sectoral competition and the transfer of capital from one branch of production to another. Inter-sectoral migration of capital depends on

the dynamics of the profit rate: capital travels from a less profitable to a more profitable branch of production. Up to the 1930s the action of this law ensured, though with huge losses for society (as a result of economic disproportions, economic crises, underemployment of production, unemployment, etc.), a more or less continuous capitalist reproduction process. The world economic crisis of 1929-33, however, demonstrated that this spontaneous mechanism (owing to a huge concentration of production and capital in the hands of capitalist monopolies, waging a virulent competitive struggle among themselves) engenders such acute economic disproportions that they are capable of violating the functioning of the world capitalist economy as a whole, as well as the national economies of individual capitalist countries.

In the sphere of inter-sectoral migration of capital, the adaptation of capitalist relations of production to the requirements of present-day productive forces means, in particular, that the state takes upon itself the financing (fully or partially) of unprofitable or insufficiently profitable (for private capital) branches or spheres of the economy, whose development is objectively necessary from the standpoint of unity and proportionality of the whole of social reproduction; consequently, it is also necessary for ensuring general conditions for exploiting the proletariat. Such, for instance, are the infrastructures of production (power, transport, communications) and consumption (health service, housing facilities, education) designation.

The influx of state capital into these branches solves three interconnected problems: (a) guarantee of normal operation for social reproduction and weakening of the profound structural disproportions in the capitalist economy; (b) exploitation by state capital of wage workers at state enterprises—the proceeds of this are appropriated by private monopoly capital through the system of prices and tariffs on goods and services of state enterprises; and (c) the release of private capital for its use in profitable branches of the economy.

Bourgeois state nationalisation of individual enterprises and branches, as well as their reprivatisation, plays an important part in the movement of social capital. Typically, the bourgeois state nationalises normally unprofitable private undertakings, paying compensation to their former owners, usually to the full value of nationalised property, and sometimes in excess of it. It is the bourgeois state which bears losses relating to this conversion, although it is ultimately tax-payers who end up footing the bill.

Another aspect of this form of inter-sectoral migration of capital is the reprivatisation of state enterprises. After nationalisation the state invests capital in the nationalised enterprises, modernises them, striving to ensure that they carry out certain economic objectives in the overall interests of monopoly capital. The fitting out of state enterprises with up-to-date technology and equipment, and their reorganisation, usually make them profitable. They become a profitable sphere for capital investment and immediately

attract private capital. The undertakings that have been brought up to date at state expense are then sold cheaply to private entrepreneurs and become a form of productive capital on exceptionally profitable terms.

The migration of private capital into branches that meet the collective interests of monopoly capital is also aided by the bourgeois state's tax system and other fiscal measures (including state subsidies), which act to turn loss-making enterprises into profitable undertakings for private capital.

In all these cases, state capital acts as a means of maximising profit for private monopoly capital.

The fact that the bourgeois state is obliged to take upon itself the costs of promoting firms and sometimes whole industries that are unprofitable for private capital, testifies to the ever-mounting lack of conformity between the private capitalist form of appropriation and the needs of present-day developing productive forces and, at the same time, to attempts by the bourgeoisie to alter the forms of this appropriation while maintaining its essence.

The private capitalist form of appropriation is no longer simply becoming an ever more serious obstacle for the development of productive forces. The bourgeoisie itself is aware that the specific system of exploitation of the working class based on that form of appropriation does not satisfy its class interests. It has to resort to using a state mechanism for appropriating the results of others' labour. The state increasingly takes on the role of collective capitalist and plays an increasingly

active part in exploiting wage labour by capital. One can single out at least the following forms of state-monopoly exploitation of the working class:

1. State enterprise.

Typical of this form is bourgeois state participation in exploiting the working class directly in production. The surplus value that is created at state enterprises is appropriated mainly by the biggest monopoly capital in direct commodity form through low prices and tariffs on goods and services of the state firms. The bourgeois state acts as the legal owner of such firms, although the real owner is monopoly capital. Isolation of the capital as a function from capital as property acquires a complete form in relations between the bourgeois state and monopoly capital. Exploitation of the working class at state enterprises is effected by state agents and at state expense, while the appropriation of its product is effected by monopoly capital. It is this change in the form of capitalist exploitation of the working class, bound up with the development of state-monopoly capitalism, that explains the fact that the state firms often make no profit or their profitability is fairly small.

2. Exploitation of the working class through taxation.

This form complements the system of exploitation of wage workers directly in material production by exploitative relations in redistributing national income. Tax withholdings from workers' incomes have altered considerably as state-monopoly capitalism has developed. Both the

volume and the proportion of tax withholdings have grown substantially (as a result of higher tax rates, lower exemption limits, new taxes). At the same time, the socio-economic functions of taxation itself have altered: while still the economic basis of the bourgeois state, taxation has become a powerful mechanism for additional exploitation of the working class. With the aid of withholdings from wages that accrue to the state budget, part of the necessary product becomes surplus product. This occurs because the volume of returnable taxes used through the state budget for satisfying certain social requirements (education, for example) is very small: some 75 per cent of total taxes and withholdings taken from US manufacturing employees are nonreturnable.¹ The money taken from workers' incomes into the state budget becomes additional capital or profit for monopoly capital.

We should note the exceptional multiplicity of channels through which this money is put at the disposal of the monopolies—from direct payments for state contracts (government military contracts play a special part in this) to expenditure on setting up various elements of the infrastructure and other facilities to help private capital operate, which enable it to boost its rate and size of profit.

3. State-monopoly regulation of the capitalist economy as a specific form of exploitation of the working class.

State-monopoly regulation of the capitalist

¹ See S. L. Vygodsky, *Contemporary Capitalism. Theoretical Analysis*, Moscow, 1969, p. 243 (in Russian).

economy shows the growing inability of private capital to ensure conditions for progress of the productive forces of bourgeois society and, to a certain extent, compensates for this limitation of private capital. At the same time, it acts as a vital form of state-monopoly exploitation of the working class. The "employment policy" is one example: its aim is to maintain a certain level of unemployment with the help of state-monopoly regulation, so as to exert pressure on the working class, reduce wages, increase labour intensity and disorganise workers' resistance.

This aspect of "employment policy" is very clearly spelled out by John Grey Gurley, professor of economics at Stanford University, in his article "The Future of American Capitalism", which contains an analysis of postwar US economic policy. Gurley writes that, "In the domestic area, postwar administrations have promoted corporate profits through high employment and growth policies".¹ He notes that the main lever of this policy is the unemployment it causes, which is necessary so as "to moderate wage demands and to strengthen work discipline".²

Typically, the "economic growth" policy acts specifically to maximise capitalist profit. If maintenance of unemployment through measures of state-monopoly regulation of the economy is aimed at stepping up exploitation of employed workers, the "economic growth" policy, presupposing an extension of production capacity and

¹ *The Quarterly Review of Economics and Business*, Vol. 12, No. 3, Autumn 1972, p. 7.

² *Ibid.*

a certain increase in employment levels, is also intended to expand exploitation of the working class.

Another specific form by which state-monopoly exploits the working class is the "incomes policy". Its primary purpose is to freeze nominal wages as the costs of consumer goods and services rise. As a result, there is a curb on growth and sometimes even a reduction in real wages. If we bear in mind that this policy is accompanied by higher productivity of social labour, it is not hard to see that it is directly intended to maximise capitalist profits. Government wage and price control makes it possible to block any rise in wages and ensure increased profits for the capitalists; it therefore has the aim, as Gurley writes, "to shift income from labour to capital..."¹

However, despite the use of various forms of economic manipulation within capitalist countries, aimed at obtaining a certain desired economic level, they invariably clash with the spontaneous market mechanism of capitalist reproduction.

In such circumstances, bourgeois economists, in carrying out the social imperative of the groups and strata they represent, cannot be geared only to studying the market forces and market mechanism; they have to work on theoretical problems dealing with justifying the various methods of state influence on the economy, and they try to grasp the consequences of state intervention.

¹ *Ibid.*, p. 9.

The internal contradictions of socialising capitalist production therefore are bound to have an impact on the formation of various trends in bourgeois political economy. The duality of the socialisation process objectively leads to a duality of the development of bourgeois political economy and is a paramount source of its profound crisis.

The monopolisation and nationalisation of the capitalist economy clash with the spontaneous market mechanism of capitalist reproduction and, at the same time, owing to their bourgeois essence and limited scope of socialisation, are unable to ensure complete planning in society's interests.

In these historical circumstances, bourgeois political economy can no longer bank on the automatic functioning of market forces and is forced to work out theoretical fundamentals of an economic policy for state-monopoly capitalism.

3. ANALYSIS OF FUNCTIONAL AND HISTORICAL ASPECTS OF ECONOMIC PROCESSES TURNS INTO RELATIVELY INDEPENDENT TRENDS IN BOURGEOIS POLITICAL ECONOMY

Marxist science often takes the objective subject of investigation as the basis for classifying bourgeois economic theories, examining separate elements of the mechanism of the capitalist economy.¹

¹ By objective subject of investigation we mean the real economic processes that are the objects of study of bourgeois economists, irrespective of how they themselves

We might distinguish, for example, bourgeois theories of economic cycles and crises, wages, profits, monopoly and competition. Of course, these aspects are very important, but only as a primary (in regard to the objective subject of analysis) criterion for classifying trends in bourgeois political economy. An objective subject of investigation approach provides an initial departing point for classifying bourgeois economic theories, being necessary, yet insufficient for such a classification. Bourgeois economic thought on one and the same problem is, as a rule, expressed from a multitude of positions and standpoints.¹

Many authors therefore use interpretation of a particular problem as a secondary criterion for classifying bourgeois economic concepts. Bourgeois theories on wages include, for example, the theory of "the wage-price spiral", of "wage control", the idea of "marginal productivity" and the "social theory of wages". Here classification criteria are either a prime methodological principle that lies behind the theory (for example, the marginal productivity theory), or a major thesis put forward by the given notion (spiral theory), or both together, since the main thesis or major stance of the particular notion is usually the realisation of a methodological principle.

formulate the subject of their analysis, and also irrespective of the degree of their knowledge of the given economic processes.

¹ We may note, in passing, that often the seeming multitude of bourgeois concepts which provide various in form and sometimes even diametrically opposite interpretations, actually reflects a uniformity of class position of these economists in essence.

Thus, a double classification criterion is normally applied to particular bourgeois economic notions: primary—objective subject of investigation, and secondary—the nature of its interpretation.

As to general bourgeois macroeconomic concepts, the usual criterion here is the nature of the interpretation, the specific features or traits of a particular bourgeois notion, i.e., secondary classification criteria. Criteria using an objective subject of investigation as the basis do not normally apply here. They single out, for example, the neoclassical theory, the neo-Keynesian theory and conceptions of industrial society, postindustrial society and consumer society. The very names of these conceptions show that they imply the criterion which we termed secondary, i.e., a specific position taken by proponents of a particular conception. All the same, despite its conditional status, such a criterion may well play an important part; what is more, it is necessary, since it enables one to single out distinguishing features of the trends indicated.

It should be apparent, however, that this criterion is insufficient for a critical analysis of bourgeois macroeconomic theories. Its limitation is obvious, first, in that a change in the positions which bourgeois economists had adopted as classification criteria for the given theories (while the objective subject of their investigation remains the same) hampers any attempt at classification. A good example of this is the question of the differentiation of neoclassical and neo-Keynesian theories of economic growth. Second,

criteria that emanate only from the different positions of bourgeois economists are deficient in the sense that they are tied to bourgeois economic thought, which creates the impression that behind their demarcation lie differences in the objective subject of investigation. Thus, various bourgeois interpretations of the socio-economic essence of "Western society" aim to create the illusion of change in its nature and its transformation into some sort of non-capitalist system. Meanwhile, despite all the changes in its technical-production and socio-economic character, the bourgeois nature of "Western society" has remained the same. Here we are faced precisely with that situation, typical of the metaphysics of contemporary bourgeois political economy, when the movement of theoretical concepts becomes divorced from the movement of real economic processes. Third, the use of secondary criteria alone for classifying bourgeois political economic trends, and not differences in the objective subject of investigation, makes it very difficult to forecast evolution of trends in contemporary bourgeois political economy.

Who could have foreseen that the neoclassical school which initially had rejected the need for state regulation of the capitalist economy and had pinned its chief hopes on its spontaneous self-regulation through the free play of market forces, and the Keynesian school, which had taken as its basic principle state economic activity as the decisive anti-crisis weapon, would, after rivaling each other, show a clear tendency to convergence, which is called "neoclassical syn-

thesis". At the same time, the synthesis of the neoclassical school and Keynesianism, despite the apparent differences in their positions, is a typical peculiarity of current bourgeois political economy. Soviet economist S. Dalin has written that "differences between the two trends in bourgeois political economy are gradually fading. Even such a laissez faire advocate as Milton Friedman has claimed that 'henceforth we are all Keynesians'. This evolution culminated in the Nixon Administration's 'new economic policy', proclaimed in 1971; behind it lay the 'symbiosis' of the two trends".¹ Emphasising that the two main tendencies of contemporary bourgeois political economy were converging in the course of contention between them, the eminent Soviet scholar Irina Osadchaya notes, "However, the critical duel that had arisen between the two tendencies—neo-Keynesian and neoclassical—did not result in the demise of one of the contenders. Something else occurred: in the course of the criticism ... within bourgeois political economy the process of so-called neoclassical synthesis is taking place."²

Why was a synthesis of such very different tendencies in present-day bourgeois political economy possible? Where is that "common denominator" between them which could serve as the basis of a synthesis? What causes made the process necessary?

¹ *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 8, 1974, p. 36.

² I. M. Osadchaya, *Present-Day Keynesianism*, Moscow, 1971, pp. 12-13 (in Russian).

The answers to these questions, we think, are to be found in a proposition advanced in Soviet economic literature of two functions—ideological and practical (or, rather, economic-political)—of contemporary bourgeois political economy. What this means is that it links changes within bourgeois economic science to both ideological and economic requirements of the bourgeoisie, and to the new historical situation, i.e., crisis in world capitalism and development of state-monopoly capitalism. In such circumstances the importance of the economic-political function of bourgeois political economy has increased, which was bound to cause certain changes in bourgeois political economy.

A solution to the question posed here ought to be sought in the generally-accepted law of differentiation of sciences, that has been particularly vividly manifest over the last few decades. Intensification of capitalism's general crisis and the development of state-monopoly capitalism have demanded a new tendency from bourgeois political economy that differs in certain respects from traditional bourgeois political economy.

The uniqueness of this new tendency in bourgeois political economy (let us call it functional macroeconomic analysis) lies in that, first, the object of its investigation is national economic processes; therefore, it is normally identified with traditional bourgeois political economy. Second, it differs from the latter by its investigation of economic processes, by its theoretical and applied character, by its close ties with economic policy. The main feature of Keynesianism,

neo-Keynesian and neoclassical economic growth theories is their practical orientation. They set out to elaborate theoretical fundamentals for the policy of state-monopoly capitalism and practical recommendations in this area.

Does this not testify to certain distinctions in objects of investigation by traditional bourgeois political economy and by bourgeois macroeconomic analysis (the theories of state-monopoly regulation of the economy)?

In order to answer the question about differences in the objective subject of investigation by traditional bourgeois political economy and bourgeois macroanalysis, we must bear in mind that economic laws have two objectively-conditioned and closely interconnected aspects in their action and manifestation. On the one hand, they act as laws of development of economic relations between people and social productive forces, and, at the same time, of the whole mode of production.¹ Action of the law of value, for example,

¹ Like all phenomena and processes in the economy of bourgeois society, economic laws have two sides to them. Being internal, objective causal relationships between phenomena, economic laws act as regulators both of productive forces and of relations of production within bourgeois society simultaneously. Thus, the difference between the individual value of commodities and their social value, regulating exchange relations between people, the difference that constitutes the most important element of the law of value mechanism, gives an advantage to the most efficient production and encourages, therefore, the development of productive forces; it thereby leads also to the promotion of capitalism's relations of production, since it encourages the ruin of some pro-

leads in feudal conditions, to stratification of small commodity producers, the formation of the classes of bourgeois society and, thereby, to the maturing of objective conditions for a transition from the feudal to the bourgeois mode of production. In capitalist conditions, the law of value leads to a growth in class differentiation into proletariat and bourgeoisie; it helps to enhance the concentration of capital and production in the hands of big capitalists, the formation of monopolies and, at the same time, the transition of capitalism to its highest and last stage—imperialism. At this stage of capitalist development, action of the law of value prepares objective, material preconditions for a transition to a new, socialist mode of production. The law of value acts here as the law of development of social productive forces and the capitalist system of production relations.

On the other hand, objective causal ties between economic processes, which is what economic laws are, determine the functioning of the given mode of production at a particular moment, reproduction both of its productive forces, and of the system of its relations of production. Besides their quality as laws of *development* of a

ducers and their conversion into wage labourers and the concentration of capital in the hands of others. The contradictory nature of the law of value, particularly in the imperialist epoch when monopoly domination undermines commodity production, leads to important changes in the mechanism of its action, yet does not remove its dual character as a law of development of both productive forces and relations of production in bourgeois society.

particular mode of production, economic laws possess the quality of laws of the *functioning* of a mode of production. The very same law of value which, as we noted above, is a very important factor in promoting the capitalist mode of production, is simultaneously a law of the functioning of the capitalist system at every particular moment of its development. It ensures a law-governed, quantitatively determined character of exchange relations that permeate the whole system of capitalist relations of production.

The functioning of a certain mode of production, i.e., its implementation given qualitatively immutable productive forces and relations of production, is a necessary moment in the development of this mode of production, just as simple reproduction of social capital is a moment in its extended reproduction. The functioning of the mode of production is, so to speak, a vehicle for its development, its internal basis. At the same time, development of the mode of production, its transition from a lower to a higher stage, accompanied by qualitative changes in the two main aspects of the mode of production, is a continuation and realisation of those trends which the functioning of that particular mode of production contains. The exploitative nature of the capitalist mode of production, subordination of the functioning of the capitalist economy, with its high level of production socialisation, to the objectives of ensuring the greatest possible profits, necessarily predetermine an increasing polarisation of class interests of the proletariat and the bourgeoisie and, ultimately, the replacement

of capitalism by socialism, i.e., they predetermine the direction of socio-economic development of this mode of production.

Thus, the aspects of functioning and development, which represent two facets of economic laws, are intimately interconnected and mutually determined. Their differentiation, however, has no small practical and theoretical importance. Even today, with unparalleled acceleration of scientific and technological and socio-economic progress, the transition of a particular mode of production from one stage to another, especially a transition to a new mode of production, takes considerable time. This is bound to excite profound interest in the peculiarities in the workings of the economic system, a desire to single them out as objects of special analysis, particularly since the contemporary social economy, typified by its exceedingly high degree of socialisation of production, constitutes an extremely complicated system of economic relations.

Differences in objective subjects of investigation for traditional bourgeois political economy and bourgeois macroeconomic analysis affect only the directions of analysis of national economic processes. All the same, these differences are perfectly discernible.

If traditional bourgeois political economy has as its objective subject of investigation those aspects of the capitalist economy which are connected with the development of that mode of production, with the process of conversion of capitalism into its opposite—socialism (that is why bourgeois economists are unable to provide

a scientific analysis of those aspects of the economic laws), the macroeconomic analysis of capitalism investigates those aspects which are bound up with the functioning of the capitalist economy on the basis of the prevailing property relations (which makes it sometimes feasible for bourgeois economists to take a more or less objective approach to this facet of economic phenomena).

Differences between aspects of development and functioning of a particular system of social production certainly do not mean that we are faced with two classes of economic laws. They are only two closely connected facets of economic laws. Nonetheless, this contains the objective possibility of turning analysis of each given facet of economic laws into separate, though closely linked, trends of bourgeois political economy.

This possibility becomes a necessity for bourgeois economic science as state-monopoly capitalism gets underway, with its ever-growing requirement for scientifically substantiated recommendations for state regulation of the economy, with the deepening crisis of world capitalism and the rapid progress of the world socialist economic system. At the same time, as Marx had noted, those limitations of scientific analysis of economic processes which stem from the reactionary role of the bourgeoisie in contemporary capitalist society continue to operate with full force.

It is for these reasons that between various tendencies of bourgeois political economy today there is such a peculiar "division of labour", lead-

ing to an increasingly obvious singling out of the following two major schools.

The first is the functional macroeconomic analysis, whose object of study is the quantitative, functional relationships of the capitalist process of reproduction.

As a rule, bourgeois macroanalysis abstracts itself from investigation of aspects of capitalist development and its socio-economic essence or it takes up an apologetic stance on these issues. Bourgeois functional macroeconomic analysis may be said to include Keynesianism, neo-Keynesianism, neoclassical growth theory, certain investigations on the basis of the input-output method and certain other trends in present-day bourgeois economic thought. They are bourgeois theories of state-monopoly regulation of the capitalist economy, whose objective subject of investigation is the quantitative, functional aspects of capitalist reproduction.

The second school is represented by bourgeois notions aimed at providing an apology for the nature and historical tendencies of contemporary capitalism. Its spokesmen normally abstract themselves from any analysis of the functional relationships of capitalist reproduction or use its results for apologetic purposes. This school may be said to include theories of the mixed economy, the welfare state, various versions of people's capitalism, neoliberalism, stages of economic growth, neocapitalist conceptions, theories of a new industrial society, postindustrial society and the consumer society. The main purpose of them all is to fashion an ideological weapon for

present-day capitalism. Their objective subject of investigation is historical aspects of capitalism's economic laws; this conditions the particular vulgar and apologetic nature of this group of bourgeois ideas.

The subject of investigation of both the above-mentioned major schools of contemporary bourgeois political economy is the same: the capitalist mode of production. But the aspects of the subject of investigation differ: the first takes functional aspects of capitalism's economic laws; the second is concerned with historical aspects of these laws. The fact that bourgeois limitation ultimately predetermines the vulgar-apologetic nature (though in different forms and degrees) of both schools does not alter the certain distinction between them.

Such is the major qualitative distinction in subjects of investigation of the functional and historical schools in contemporary bourgeois political economy. They also contain certain differences in methods of investigation.

The objective historical basis for setting apart historical and functional aspects of investigation into particular tendencies of bourgeois political economy is the duality of direct historical results of capitalist socialisation—the emergence and rapid development of a new, socialist social system, on the one hand, and the development of state-monopoly capitalism in countries in which the socialist revolution has not yet occurred, on the other.

Difference in the objective subject of investigation of these trends in contemporary bourgeois

political economy is based, as noted already, on a difference in aspects of operation of capitalism's objective economic laws—the historical and the functional. Of course, the use only of these primary criteria, even though this is essentially necessary, is not sufficient for comprehending the whole complicated picture of trends within present-day bourgeois political economy. These criteria, however, reflect the peculiar social demand made on that political economy by the historical situation of capitalism's general crisis, by the development of world socialism and the need for state-monopoly regulation; and they contain a certain basis for making forecasts about the future of that political economy.

It follows from the objective nature of the subject of investigation of the two above-mentioned major trends that no matter what forms they take, they must of necessity remain in force until the historical situation that brought them into being changes.

This conclusion enables us to make a correct assessment of any further change in the crisis within contemporary bourgeois political economy which, in bourgeois literature has been termed the second crisis in economic theory. An outbreak of capitalism's social contradictions and crisis processes within the economy in the 1960s and 1970s patently demonstrated the inability of state-monopoly regulation of the capitalist economy to overcome or effectively mollify the antagonisms inherent in the capitalist system. In these circumstances, bourgeois literature has launched an extensive amount of criticism at

neo-Keynesian and neoclassical theories of economic growth, and the institutional trend in bourgeois political economy has begun to gain ground. It would, however, be premature to say that this marks the decline of bourgeois theories of state-monopoly regulation of the capitalist economy, since bourgeois economists are still confronted by the objective need to work out prescriptions for the economic policy of state-monopoly capitalism. In exactly the same way, the objective conditions of the historical process of transition to socialism and development of world socialism predetermine the need for bourgeois political economy to find increasingly fresh historical notions, including the "transformation" of capitalism theory.

Thus, the very structure of major trends in contemporary bourgeois political economy, not to speak of their content, results from the ongoing general crisis of capitalism.

A distinction between these two basic trends in bourgeois political economy is naturally relative.¹ The notions of bourgeois macroanalysis, which are intended to devise practical recommendations for the economic policy of state-monopoly capitalism, also have to cope with the traditional political economic task of acting as an apology for capitalism, striving to portray

¹ "...the classical position ... is the more general theoretical construction, while Keynesianism is the more practical application of the same theory." So writes the American economist Abba Lerner in "From the Treatise on Money to the General Theory", *Journal of Economic Literature*, March 1974, Vol. XII, No. 1, p. 42.

it as some sort of planned and regulated system in the interests of the people generally. The main focus of these notions, however, is to elaborate both general principles and concrete measures for the state-monopoly regulation of the capitalist economy.

Within the natural sciences, a differentiation of the evolutionary and functional aspects of investigation of integral systems has long been generally accepted. These aspects are sometimes singled out into separate, although interrelated, sciences. Such, for example, are human physiology and evolutionary theory on the origin and development of the human species. Medicine is, of course, a much older science than economics. Besides, it studies processes in which differences in the functioning of the system and its development are expressed much more clearly than in economics. All the same, the mode of production also represents an integral system in which aspects of development and aspects of functioning of laws are bound to differ.

Different branches of the same science may be connected in an integral whole by a common subject of investigation, yet retain relative autonomy. This enables them to divide into separate schools if the importance of specific subjects of their investigation grows. This, in particular, is what has happened with traditional bourgeois political economy and one of its branches—reproduction theory. It has branched out into a separate major school in the form of macroanalysis. Typically, it is this theory of reproduction that has an integral approach inherent in political

economy as a whole to a study of economic processes. Here lies one reason for such a long identification of the two tendencies in present-day bourgeois political economy.

The division of bourgeois political economy into the two above-mentioned major tendencies has its ultimate epistemological basis in the duality of capitalist production, representing a unity of two contradictory facets—the process of growth in value and the process of production of use value, the dual nature of labour producing a commodity of capitalist society.

The singling out of the functional macroeconomic analysis from traditional bourgeois economics is a clear testimony to the crisis state of the latter. It shows how impossible it is to use traditional vulgar economics for resolving practical tasks of state-monopoly regulation of the capitalist economy. As a result of a long process of vulgarisation, ultimately reflecting the mounting exacerbation of the basic contradiction of capitalism, bourgeois economics turned into a vulgar-apologetic system by the 1930s, when the need for clear principles and methods of state-monopoly regulation of the economy was acutely manifest. This system had broken with the elements of scientific analysis of capitalism typical of the methodology and theoretical system of classical bourgeois political economy of Adam Smith and David Ricardo.

Throughout the entire history of the labour movement, bourgeois political economy has been waging a stubborn battle against its ideology—socialist and communist ideas. But contention

with communism means contention with the progressive development of society. This battle can only be fought by ignoring the objective laws of social development, i.e. from an anti-scientific and apologetic standpoint. The anti-communist thrust of contemporary bourgeois political economy is the major reason for its downfall as a theoretical science.

4. LAWS OF ECONOMIC SUBSTANCE AND LAWS OF ECONOMIC FORM WITHIN BOURGEOIS MACROANALYSIS

The methodology used by bourgeois macroeconomic analysis is eclectic in the extreme, having as its general basis the traditional bourgeois political economy. Yet the unscientific nature of bourgeois political economy does not exclude the possibility of cognising economic processes, especially quantitative superficial relationships widely used in bourgeois macroanalysis. Such, for example, is the relationship between commodity prices and the correlation between demand and supply. To recognise this does not mean to reveal the profound mechanism of the law of value, even though it enables one to realise the empirical relationship between these phenomena. The vulgar nature of bourgeois political economy precludes a scientific analysis of the essence of capitalism's economic relations and society's law-governed progress towards socialism. These processes, however, are not the subject of investiga-

tion of bourgeois macroanalysis which focuses its efforts on studying quantitative national economic relationships in the functioning of capitalist reproduction. At the same time, the eclectic nature of bourgeois political economy, the multiplicity of its methodological positions and directions enable one to give a "theoretical" interpretation of any empirically-observed quantitative economic relationship and any application of it in the interests of the ruling class.

The possibilities of vulgar bourgeois political economy as a methodological basis for bourgeois theoretical and concrete-economic investigations are therefore fairly circumscribed. It is these circumstances that explain the certain borrowing by bourgeois functionalists of concepts and premises of the Marxist theory of reproduction, primarily those aspects that relate to an analysis of quantitative relationships of the functioning of capitalist reproduction. Sometimes this borrowing is done more or less openly (as, for example, with Joan Robinson), sometimes even without reference to Marx (as with, for example, Keynes, Roy Harrod and others), but always the premises of Marxist theory of reproduction are carefully worked over and purged of everything connected with Marx's analysis of the historical destiny of capitalism, everything that in one way or another is associated with the revolutionary essence of Marxism.

The potential of traditional vulgar bourgeois political economy to serve as the methodological basis of bourgeois macroanalysis in a social sense is determined by, the community of their class

bourgeois basis, the inability of bourgeois macroanalysis, like traditional bourgeois political economy, to investigate the internal laws of development of the capitalist mode of production. In an epistemological sense, this potential depends on the complex structure of economic laws, on the fact that vulgar bourgeois political economy spent many decades trying to rely, in its ideological struggle with Marxism-Leninism, on external superficial economic relationships of capitalist production, i.e., on exactly what bourgeois macroanalysis also uses in its theoretical constructions that have both an applied and an ideological orientation.

We come here to the important problem of structure of economic laws.

To understand the peculiarities of bourgeois macroanalysis we have to examine the differences in causal relationships of the capitalist economy which relate to the distinction between the essence of the economic process and its form of manifestation, as well as the functional and historical aspects of capitalism's economic laws.

From the complex inter-connection of economic phenomena, we have to single out above all relations between phenomena which are important to the same degree. One can clearly see that causal relationships of this type fall into two main groups between which there is a substantial number of transitional forms of relations of economic phenomena.

In the first place, there are relations between the profound and most essential processes in so-

ciety's economic affairs. There is, for example, a certain relationship between the level of productive power of social labour, the magnitude of value of commodities generally and consumer goods in particular, the magnitude of value of labour power and the magnitude (mass and rate) of surplus value. This sort of relationship is that between essentials of the same order, i.e., the internal profound relationships of economic phenomena and processes that come to the surface of economic life normally in a converted, deceptive form.

In the second place, there are causal relationships that exist between economic phenomena which are the form of expressing essential, innermost processes. These include, for example, relationships existing between the demand, supply, and price of goods, between the amount of a worker's real wages and the amount of the capitalist's profit.

It therefore follows that society's economic life is regulated by two unequal groups of economic laws: laws of economic substance and laws of economic form. While the first group of laws may be said to include the law of value, the law of value of labour power, the law of surplus value, the second group includes the law of supply and demand, dependence of amount of real wages on the price level of consumer goods, dependence of amount of value represented in a unit of paper money on the amount of paper money in circulation. Here the laws of economic form, being an external form and element of the mechanism of laws of economic substance, are regulated in

the final count by the innermost, essential relationships of economic processes.

It is perfectly proper, in our view, to pose the question of laws of economic form. It is not chance, but mass causal relations determining the repetition of effects with corresponding changes in causes that exist between phenomena of economic form. For example, provided other conditions remain unchanged, workers' real wages always fall if the prices of goods they consume increase. Consequently, a law-governed, and not a chance relationship, a constant, and not a temporary relationship, exists between prices of these goods and the amount of wages.

Marx always drew a distinction between internal relationships of the capitalist mode of production and external relationships of phenomena in the capitalist economy. He often described the latter as "apparent" relationships, meaning not only the distorted idea that comes to the superficial observer in regard to the content of capitalism's economic processes owing to their commodity-fetish, delusive form, but also a certain lack of coincidence between quantitative relationships of phenomena of an innermost essential order and phenomena of economic form.

Thus there exist two closely bound aspects of external forms of manifestation of capitalism's economic processes on the surface of economic life: qualitative and quantitative. For example, a worker's wages represent the price of his labour, although labour is not a commodity, and therefore has neither value nor price. In this case these categories relate to a special commodity—la-

hour power. The form of manifestation reflects in distorted form the essence and quality of the economic process and does not coincide with the actual content of the process, insofar as wages are actually a converted form of the value and price of labour power as a commodity. On the other hand, the external form of manifestation also contains a quantitative characteristic of the economic process; and often just as misleading. On the surface, a worker's wages appear not to depend on the value of labour power, but on various external forms of manifestation of other inmost processes: prices of consumer goods, labour supply and demand, etc. Consequently, the external commodity-fetish form of manifestation of capitalism's economic processes glosses over both the socio-economic essence of these processes and the quantitative relationships which determine their actual movement.

Here we come to the question of the relative independence of the laws of economic form from laws of economic substance. For example, a worker's real wages may change (rise or fall) as a result of price changes on consumer goods, while the value of the goods and of labour power remain unchanged. The fact that wages ultimately depend on the value of labour power, while prices of goods depend on their value, does not exclude, but presupposes, the possibility of their changing within certain limits (both in the scope of the changes and in time), irrespective of the value of labour power and the value of goods. As Marx wrote: "The possibility ... of quantitative incongruity between price and magnitude of value, or

the deviation of the former from the latter, is inherent in the price-form itself."¹

Recognition of relative independence of the economic form by no means signifies the rejection of the causal relations between the essence of economic processes and their form. What is more, the development of the economic form and changes in it are ultimately determined by precisely this decisive dependence of the economic form on a change in the content of the economic process. Since the internal form is only a means, the law of combination of content elements, it is clear that this means of combination is in direct and subordinate dependence on what is being combined. If this is so in regard to the internal form of economic processes, it is even more so in relation to the external forms of their manifestation.

The law of supply and demand, for example, is an external manifestation of the law of value, a component of its mechanism. However, it is not the correlation of supply and demand that ultimately determines the decisive moment—the level of value and prices of commodities that correspond to it. It is in conditions of equilibrium of supply and demand that the dependence of prices on value manifests itself in its purest form.

Nonetheless, the role of the law of supply and demand is important. First, correlation between supply and demand exposes exactly what labour expenditure is socially necessary, since this reflects the correlation between the volume of pro-

¹ Karl Marx, *Capital*, Vol. I, Moscow, 1972, p. 104.

duction of certain goods and social requirements. If, for example, demand considerably exceeds supply over a long period, the market value of goods begins to be determined by the worst production conditions. In these circumstances, the sum total of individual values is not equal to the market value of the whole product of that industry. The first is less than the second. The difference forms a false social value. Second, by upsetting the supply-demand equilibrium, and by having a protracted price deviation from average labour expenditure, a change in the production structure ultimately takes place. A change in the supply-demand correlation is an integral part of the mechanism of the law of value, ensuring a spontaneous (through crises, disproportions, etc.) distribution of social labour among branches corresponding to the structure and volume of social requirement (or, rather, effective demand). Thirdly, this law explains the short-term deviations of prices from value. Despite all this, the law of supply and demand is only a law of economic form, an external component part of the mechanism of the law of value.

It follows that, alongside relations and dependencies between phenomena of the same degree of importance, there are relations and dependencies between phenomena and processes of varying degrees of importance: not only the dependence, for example, of the magnitude of labour power value on that of the value of consumer goods (or dependence of wages on the level of prices on consumer goods), but also the dependence of a commodity's price on its value, the dependence of a

worker's wages on the value of labour power.

Clearly, the directions of these relationships vary. While in the first instance this is dependence of one essence on another (or dependence of a given form of economic process on another economic form), in the second it is the dependence of an economic form of a phenomenon on the essence of the latter.

The main point consists in that there is a decisive dependence of the laws of economic form on laws of economic substance. It is the latter, and not the laws of economic form, that determine both the essence and the main quantitative characteristic of economic processes, the major direction of their development and their principal relationship. The function of the laws of economic form is that they determine the specific outline and form of economic processes and, in certain measure, their quantitative expression.

This means that while any ignoring of laws of economic substance excludes the possibility of understanding the nature and content of economic processes and the principal trends in their development, any dismissive attitude towards the laws of economic form deprives the investigator of an ability to comprehend the specific nature of a particular economic phenomenon or process.

Out of the complex nexus of real economic relationships, bourgeois economics recognises only one group of laws—the laws of economic form. Law is normally treated as a generalised quantitative and superficial relationship between phenomena. The Dictionary of Modern Economics defines an economic law as: "A generalisation con-

cerning the relationship between various economic phenomena, such as that between price and total sales... An example of an economic law is the law of variable proportions, which holds that if the quantity of one productive service is increased while the quantities of other services are held constant, the resulting increments of product will decrease after a certain point."¹ Another Dictionary of Economics defines economic law as "a generalisation expressing a constant relationship among particular economic phenomena".² Here the law of supply and demand, which is only the external manifestation of a deeper law-governed relationship determining supply-demand correlation, namely the law of value, is cited as a typical example of an economic law. As a result, the objective nature of economic laws disappears, the fact that a law is not simply a stable relationship of phenomena, but an internal, essential objective relationship.

This approach in interpreting economic law stems from two circumstances: first, the inability (on ideological grounds) of bourgeois economists to investigate capitalism's internal law-governed regularities and, second, a need to provide practical recommendations to capitalist monopolies and the bourgeois state on matters of economic policy. It is hardly surprising that the authors of *The McGraw-Hill Dictionary of Modern Economics* highlight the following trait of eco-

¹ *The McGraw-Hill Dictionary of Modern Economics*, 2nd Edition, New York, 1973, p. 189.

² Harold S. Sloan, Arnold J. Zurcher, *A Dictionary of Economics*, 3rd Edition, New York, 1958, p. 104.

conomic laws: "The most important purpose of an economic law is to permit prediction, and prediction, in turn, permits control over phenomena."¹

Classification of economic laws into two organically-connected large groups—laws of economic substance and laws of economic form—is important from the viewpoint of analysis both of essence and of the principal trends in the development of contemporary bourgeois economics, inasmuch as their attitude varies to these different groups of economic laws. Lenin aptly distinguished between the general theoretical investigations of bourgeois economists and their analysis of special, concrete-economic problems: "... *not a single* professor of political economy, who may be capable of very valuable contributions in the field of factual and specialised investigations, can be trusted *one iota* when it comes to the general theory of political economy. For in modern society the latter is as much a *partisan* science as is *epistemology*,"² he wrote.

Lenin here draws the important conclusion that the hampering influence of bourgeois class interest and of the class function of bourgeois economics contrast in relation to an analysis of different areas of the bourgeois economy. In an analysis of concrete, special economic problems it is weaker than when investigating general theoretical issues.

¹ *The McGraw-Hill Dictionary of Modern Economics*, p. 189.

² V. I. Lenin, *Collected Works*, Vol. 14, Moscow, 1968, p. 342.

No major changes have occurred in the attitude of bourgeois political economists to innermost economic laws of capitalism. These laws and above all the aspects of development of capitalist society represented in these laws continue for them to be locked up.

It is a different matter with laws of economic form. The attitude to them of bourgeois economics (above all macroanalysis) has substantially altered: they have become a subject of intensive and careful investigation.

Before the general crisis of capitalism, bourgeois political economy employed a delusive external appearance of the economic processes of capitalism, using the external relationships of phenomena in the capitalist economy in purely apologetic terms so as to play down the action of the innermost laws of capitalist development. With the advent of the crisis, and with its development and intensification, it was patently obvious that the former social function of bourgeois political economy was insufficient. Under the impact of the ongoing process of collapse of the capitalist mode of production, the class function of bourgeois political economy becomes more complex: along with the demand to activate an ideological (apologetic) defence of the bourgeois system, the crisis in world capitalism faces bourgeois political economy with the task of practically defending the capitalist system, a task of finding reserves to make the capitalist mode of production function.

Bourgeois economics cannot resolve this difficult task through studying the laws of economic

substance of capitalist society's development. The very existence of the general crisis of capitalism serves as irrefutable confirmation of the decisive fact that the laws of social development are acting against capitalism. It is for this reason that bourgeois political economy, primarily macroeconomic analysis, is paying such close attention to the laws of economic form, striving to put the external causal relationships it has discovered at the service of maintaining the private capitalist economic system.

What are the distinguishing features of the laws of economic form that make them so attractive to present-day bourgeois political economy?

Above all, their investigation leaves aside issues that are most dangerous for the bourgeoisie, i.e., the direction of social development. On the other hand, it provides a certain explanation of the specific economic situation and, by creating an illusion of scientific elucidation, enables bourgeois economists to avoid uncovering the exploitative essence and historically-transient nature of capitalism.

But it is not merely a matter of ideological defence of capitalism. A study of the laws of economic form enables them to reveal predominantly unsubstantial, yet real causal relations between economic phenomena that possess a certain limited independence in regard to objective laws of economic substance. The price of a commodity, for example, may alter within certain limits and over a certain time irrespective of any change in the commodity's value. Further, within cer-

tain limits, a change in the economic forms owing to their relative independence may occur in a direction opposite to that of essential, innermost relations, thereby giving rise to contrary results in these principal trends. For example, the price of a commodity may rise when its value falls, let us suppose, through a more rapid rise in effective demand over the rate of growth of productive power of labour and, consequently, the speed of decline in expenditure of socially-necessary labour on the production of that commodity. Ultimately, the law of value will make itself felt and the principal (given particular prerequisites) tendency in the movement of price, that to fall, will come to the surface of phenomena. All the same, for a certain period its development will be in a direction contrary to the change in value, and this will temporarily engender results contrary to this change.

These specific features of the laws of economic form create certain practical (very limited) possibilities for capitalist monopolies and bourgeois states in counteracting basic objective trends in the disintegration and collapse of the capitalist mode of production; they make it possible for them to adapt somewhat the economic relations of capitalism to the new historical conditions (which, as history shows, does not ensure the stabilisation of capitalism). It is for this reason that present-day bourgeois economics is so intently studying the quantitative regularities of phenomena in the capitalist economy and proposing more and more new prescriptions to bourgeois governments for saving capitalism.

The most important manifestation of the class limitation of bourgeois economics is the way it ignores the internal relationship between laws of economic form and laws of economic substance. Although bourgeois macroeconomic analysis has activated investigation of laws of economic form, nevertheless they are usually studied apart from capitalism's laws of economic substance which ultimately determine also the main directions of development of the economic form.

The macroeconomic investigations of bourgeois economists are represented by a whole range of tendencies and a vast literature. Space is limited to analyse all of macroanalysis' tendencies as such. Another question interests us: does a study of the most prominent works of macroanalysis confirm that it is a special trend in bourgeois political economy aimed at studying the quantitative relationships of the process of capitalist reproduction and thereby differs from traditional bourgeois political economy? We shall dwell on an analysis of the theoretical positions of probably the two most eminent bourgeois economists: John Maynard Keynes, as the founder of bourgeois macroanalysis, and Roy Harrod¹ whose name is linked with a new stage in Keynesian theory after the last war—the "dynamic economics" theory.

Part two

**BOURGEOIS
FUNCTIONAL
MACROECONOMIC
ANALYSIS**

Chapter 2

KEYNES'S EMPLOYMENT THEORY AS THE FIRST FORM OF BOURGEOIS MACROANALYSIS

John Maynard Keynes is the father of bourgeois macroeconomic analysis, which attempts to study the quantitative functional relationships of the capitalist process of reproduction and to develop on that basis economic policy programmes for state-monopoly capitalism to ensure stable economic growth in the capitalist economy through various forms of state-monopoly measures; these normally lead to greater exploitation of the working class and maximisation of capitalist profit.

The importance of Keynesianism lies in the fact that Keynes was the first in bourgeois economics to pose the question of the need to shift from dead-end monopoly capitalism (its failure was particularly apparent during the 1929-33 world economic crisis which directly preceded the appearance of Keynes's key work *The General Theory of Employment, Interest and Money*) to state-monopoly capitalism, and to work out a

series of general principles for the state-monopoly regulation of the capitalist economy.¹

When he described the system devised by the American engineer Frederick Winslow Taylor for boosting output through mainly a sharp increase in labour intensity, Lenin called it "a scientific system of sweating". Taylorism was based on scientific methods of studying work operations so as to exclude all unnecessary motions and improve the organisation of work places. This aspect of Taylorism contained much that actually was scientific and progressive and which, as Lenin had noted, should also be used in organising socialist production. However, Taylor's scientific system turned into "a refined brutality of bourgeois exploitation" under capitalism and resulted in an unparalleled growth in labour intensity, and the production of innumerable sweating systems for organising labour and wages.

Something similar might be said about bourgeois macroanalysis. In analysing the quantitative relationships of the functioning of capitalist reproduction, its advocates put the results of their analysis at the service of the monopolies and the bourgeois state. For the workers in capitalist countries, bourgeois macroanalysis, just like Taylorism, is "a refined brutality of bourgeois exploitation", although not through "rationali-

¹ "It explained why the competitive capitalist economy does not automatically maintain a satisfactory level of employment and outlined the theory of remedial policy" (Harry G. Johnson, "The General Theory after Twenty-Five Years", *American Economic Review*, Vol. LI, No. 2, May 1961, pp. 16-17).

sation" of the labour process, as had happened with the Taylor system, but through organisation of new state-monopoly forms of exploitation of labour by capital ("regulated inflation", taxation, the wage freeze policy as a whole, employment policy, etc.). On the other hand, the reactionary nature of bourgeois macroanalysis is evident in its basic orientation of delaying the replacement of capitalism as long as possible, even though it has long exhausted its progressive potential, by the socialist mode of production.

1. JOHN MAYNARD KEYNES AS ECONOMIST

Before examining the principal ideas that put Keynes into the economic textbooks, we should make a few remarks about the major stages of his professional activity.

John Maynard Keynes (1883-1946) was a celebrated British bourgeois economist, statesman and author, with whose name is linked the emergence of the most important trend in bourgeois economics of the twentieth century—Keynesianism, which has had a considerable impact on both bourgeois political economy and present-day bourgeois economics as a whole, as well as on the economic policy of capitalist states. Under the influence of the most profound and long-lasting crisis (1929-33) in the history of capitalism, of a high level of socialisation of capitalist production, and of the ever-expanding economic competition between the two systems, Keynes developed a theory and programme of economic poli-

cy of state-monopoly capitalism. Keynes's major work, *The General Theory of Employment, Interest and Money* was published in London in 1936. As theoretician and statesman, Keynes devoted all his efforts to combating Marxist-Leninist economic theory and the labour movement, and to defending British and international imperialism. Lenin described Keynes as bourgeois and implacable enemy of Bolshevism.¹

Keynes received his education at Eton and King's College, Cambridge (1902-06). While still at school he displayed remarkable mathematical skills. In 1905, he distinguished himself as a student with particular ability in mathematics. At university, Keynes attended the lectures of the well-known British economist Alfred Marshall, the founder of the so-called Cambridge school in bourgeois political economy.

In 1919, Keynes was the British Treasury's chief representative at the Paris Peace Conference, as well as representative of the Chancellor of the Exchequer in the Entente's Supreme Economic Council, which Lenin had described as "an institution charged with protecting the bourgeois system throughout the world".² Keynes's far-sightedness as an economist became apparent when in protesting against the terms of the Versailles Treaty, which had caused economic havoc and paved the way for a new war in Europe, he had renounced all his powers and walked out of the conference. In 1919, he brought out a new

¹ See V. I. Lenin, *Collected Works*, Vol. 31, p. 249.

² *Ibid.*, p. 221.

book *The Economic Consequences of the Peace*, which brought him world-wide fame and was translated into many languages. In the book he roundly condemned the shortsighted and dangerous, even from a bourgeois standpoint, postwar economic policy of the victor countries. Keynes noted that the Versailles Treaty left no hope of rehabilitating the war-ravaged world capitalist economy, that the reparation demands on Germany were excessive, and therefore unrealistic (Germany was supposed to continue to pay 6,000 million gold Marks a year up to 1 May, 1963), and that the blockade of Russia proclaimed by the Allies would result in "blockading not so much Russia as ourselves"¹. In this connection Lenin wrote, "Keynes has reached the conclusion that after the Peace of Versailles, Europe and the whole world are heading for bankruptcy. He has resigned, and thrown his book in the government's face with the words: 'What you are doing is madness.'"²

Keynes returned to lecturing at Cambridge University, giving a relatively short course of lectures on the problems that he was researching on as Cambridge Professor. Significantly, it was thanks to Keynes's efforts that a faculty of applied economics was established at the university. This fact, and many others, indicates that, at all stages of his activity, Keynes displayed particular interest in applying economic theory for

¹ John Maynard Keynes, *Collected Writings*, Vol. 2, *The Economic Consequences of the Peace*, Cambridge, 1971, pp. 143, 186.

² V. I. Lenin, *Collected Works*, Vol. 31, p. 219.

resolving specific applied problems of economic policy. In 1921, he brought out the results of his mathematical research *Treatise on Probability* on which he had worked on since his graduation from Cambridge in 1906.

During the postwar economic chaos that gripped the capitalist countries, Keynes paid much attention to working out practical problems of the bourgeois state's economic policy. In a pamphlet entitled *The Economic Consequences of Mr. Churchill* (1925), he criticised the fiscal policy of Winston Churchill, at that time Chancellor of the Exchequer. In the same year he visited the USSR, where he read two lectures: "The Economic Situation in Britain" (14 September at the Business Club of the Supreme Economic Council) and "The Economic Change in Britain" (15 September).¹

In 1926, Keynes published his significantly-titled *The End of Laissez-Faire* in which he justified the possibility of removing unemployment and crises, inherent in private enterprise, by regulating the money supply and credit. After November 1929 Keynes became a member of the Macmillan government Finance and Industry Com-

¹ It was evident from these lectures that already in the mid-1920s Keynes was thinking about the problems of reforming private capitalism. In the Minutes of one of his lectures, there is the note that "Prof. Keynes states that he is not a defender of the capitalist system in its present form and believes that a number of measures can be taken to improve it; the existing social system must be reconstituted on more acceptable principles" (*Central State Economics Archives of the USSR*, Fund No. 3429, file 109).

mittee and took an active part in the production of its documents. The next year he brought out his *Treatise on Money* which was a collection of his lectures on the theory of money supply, which he had read at Cambridge University over the previous few years.

In his major work *The General Theory of Employment, Interest and Money* (1936), he set out the principal tenets of the set of views which received the name Keynesianism. Keynes rejected the old idea of using the mechanism of automatic restoration of equilibrium in the capitalist economy. He proved that capitalism had lost that mechanism, and therefore state regulation of the capitalist economy was needed. Without state economic intervention, private capitalism left on its own would inevitably perish, Keynes forecasted. That is why the need arose for bourgeois political economy to create a new school which would stand opposed to the neoclassical school and would provide an analytical apparatus capable of explaining, from bourgeois positions, new phenomena of the general crisis of capitalism and of state-monopoly capitalism, as well as providing a programme of economic policy intended to salvage capitalist orders. "In the 1930s," writes the British economist Robert Skidelsky, "mass unemployment was a clear threat to the legitimacy of capitalist democracies."¹ There thus arose the need to work out theoretical fun-

¹ Robert Skidelsky, "Keynes and the Reconstruction of Liberalism", *Encounter*, April 1979, Vol. LII, No. 4, p. 29.

damentals of state-monopoly regulation of the capitalist economy aimed at mitigating the contradictions of capitalist reproduction, and compensating for the market mechanism of reproduction that had been undermined by capitalist monopolies. Keynes has gone down in the history of bourgeois economics as the originator of the theory and programme of that regulation which he formulated as the "general theory of employment".

With the start of World War II, Keynes began paying particular attention to working on the financial problems caused by the war, and became one of the originators of the British war finance system. In 1944, Keynes was the principal British representative at the Bretton Woods U.N. Monetary Conference which drew up plans for setting up the International Monetary Fund and the International Bank for Reconstruction and Development behind which lay the so-called Keynes Plan, published in Britain in April 1944 and closely connected with the ideas he had put forward in his *Tract on Monetary Reform* (1923). As British representative, Keynes was appointed member of the boards of these international monetary organisations of the imperialist countries. In May 1944, the British coalition government published its *White Paper on Employment Policy*—the first state economic programme, based on Keynes's ideas. The following year, Keynes was a leader of the British finance mission sent to the USA to hold talks on questions relating to the end of Lend Lease and to negotiate a loan from the United States.

Even this very brief survey of Keynes's activity reveals some of its essential facets.

Keynes always had particular interest in those aspects of economic theory which could be applied to practice. "He was always advocating some practical course of action."¹ At the initial stages of his activity he was concerned with problems in the fiscal-credit sphere, problems of overcoming the postwar economic chaos, fighting against excessive unemployment which he saw as dangerous to capitalism; then, later, he worked on the general theory and programme of state-monopoly regulation over the country's economy. Typical was an almost constant participation in providing practical recommendations for the British government's economic policy. He subordinated his efforts in economic theory to the tasks of economic policy of the bourgeois state.

2. CRITICISM OF THE METHODOLOGICAL BASIS OF KEYNESIAN REPRODUCTION THEORY

The theory of reproduction of all social capital is the fulcrum of present-day bourgeois macro-economic analysis. Bourgeois literature owes the beginning of this analysis to Keynes and his work *The General Theory of Employment, Interest and Money*. Keynes's ideas are the basis

¹ Ben B. Seligman, *Main Currents in Modern Economics. Economic Thought Since 1870*, New York, 1963, p. 732.

both of bourgeois notions of reproduction and of the programmes of state-monopoly regulation of the capitalist economy based on them, including incomes policies aimed at intensifying exploitation of the working class.¹

In talking of Keynes's major work, the British economic historian Eric Roll notes, "This work undoubtedly marked a most important change in economic thinking..."² Since it first appeared in print, Roll continues, many very important events have occurred—World War II, restoration of the war-ruined economy, sharp acceleration in scientific and technological development—that have had a profound influence on economic theory. "But Keynes' work seems to stand as the last searching reexamination of the heart and core of economic theory."³

The wide-scale criticism of Keynesianism now popular in bourgeois economic literature, with the intention of reforming methods of state-monopoly regulation of the economy, does not at all mean rejection of the basic principles of Keynesianism, particularly its central proposition of the need for state economic intervention, without which, in the opinion of most bourgeois

¹ "Central to Keynes's argument for reducing high unemployment levels was a reduction in the real wage rate which could be accomplished by an increase in prices in relation to money wage rates or a fall of money wage rates in relation to prices. This argument can be used in support of an incomes policy" (Richard E. Caves et al, *Britain's Economic Prospects*, London, 1968, p. 116)

² Eric Roll, *The World After Keynes*, London, 1968 p. VII.

³ *Ibid.*

economists, capitalism could not continue to operate. This factor makes topical any critical study of Keynesian theory of reproduction as a whole, and the methodology behind it in particular.

An analysis of Keynesianism and its methodology enables us to determine its place in contemporary bourgeois economic theories. It shows that Keynesianism comes close to a concrete-economic aspect in examining the capitalist economy and, in a whole number of respects, differs from the object of traditional bourgeois political economy. The subject of investigation in Keynesianism (the quantitative, functional relationships of capitalist reproduction), as well as specific features of its methodology, peculiar categories that Keynes established and, in a certain sense, the applied nature of Keynes's theoretical works, all this testifies to the fact that we are faced with a specific economic bourgeois theoretical system, a special tendency in contemporary bourgeois political economy.

**KEYNES: THE COUNTERPOSING OF
CAPITALIST FUNCTIONING AND
DEVELOPMENT**

The above-mentioned features of Keynesianism as a specific tendency in bourgeois political economy find their clear manifestation in its attitude to the two principal aspects of economic laws.

A complex interrelationship exists between a class position, view and interpretation of the

subject of analysis and the methods of investigating economic processes. While the class position and view (with account for certain historical conditions) presuppose a most general approach to the processes under study and outline the subject of investigation, the latter in turn exerts a deciding influence on the nature of the methods of investigation that are chosen.

Keynes, as a bourgeois economist of the era of capitalism's general crisis and growing state-monopoly capitalism, in trying to find means of saving the capitalist system, concentrated his efforts on studying the quantitative, functional relationships of capitalist reproduction, abstracting himself in considerable measure from the laws of development of capitalist mode of production, from the development of objective conditions for socialism that existed in the womb of capitalism testifying to the inevitable replacement of capitalism by socialism.¹ The main objective of both the theory and the programme of economic policy put forward by Keynes was to halt this process through perfecting the mechanism of capitalist economic functioning. Keynes wrote, "Our final task might be to select those variables which can be deliberately controlled or managed by central authority *in the kind of*

¹ The bourgeois economic historian Ben Seligman expresses this feature of object and method of investigation in Keynesianism as follows: "But Keynes, unfortunately, concerned himself only with short-run situations... Long-run alterations he left to others" (B. B. Seligman, *Main Currents in Modern Economics*, New York, 1963, p. 737).

system in which we actually live."¹ Elsewhere, he writes of "our analysis of the behaviour of the economic system."²

Such a change in the very subject of investigation, demonstrating that Keynesianism represents a particular tendency in bourgeois political economy, was bound to leave its mark most forcibly on Keynes's methods of economic analysis which in many respects markedly differ from the traditional methodology of the former vulgar economics.³

Keynes relies on a macroeconomic approach, examining aggregates of national economic processes and magnitudes.⁴ And when Keynes gives a psychological interpretation of economic pro-

¹ J. M. Keynes, *The General Theory of Employment, Interest and Money*, London, 1946, p. 247 (my italics—V. A.).

² *Ibid.*, p. 240.

³ Seligman writes, "While it did combine policy with economics, Keynesianism failed to create a true political economy. And, by employing aggregate thinking almost exclusively, it ran the risk of creating a merely mechanical theory which would suggest that some kind of socialised gadgetry would be sufficient to attain economic change, whether in depression or prosperity" (B. B. Seligman, *op. cit.*, pp. 736-37). The contradiction which causes anxiety to Seligman as a future threat to Keynesianism is its immanent feature.

⁴ Eric Roll justly notes that "Keynes's appreciation of the 'aggregates' of the economic process ... was not entirely new. Smith and Ricardo too had dealt in aggregates" (Eric Roll, *The World After Keynes*, London, 1968, p. 5). Roll, however, confines himself only to a history of bourgeois political economy, ignoring a scientific Marxist analysis of the social nature of economic phenomena and processes.

cesses, he has in mind the mass psychology of economic subjects. Such an aggregated, macro-economic approach enables him, on the one hand, to depart from an analysis of the class aspect of national economic processes in those areas where it is socially dangerous for the bourgeoisie and on the other to deal with a number of actual relationships of the social process of reproduction, primarily general forms and relationships of reproduction; this would have been quite out of the question if he had taken the determining role of the psychology of isolated economic subjects. That means that in many cases Keynesian categories are based on abstraction from capitalist relations of production and, therefore, from the socio-economic essence of capitalist reproduction.¹ Even bourgeois economists, therefore, frequently admit that Keynesian categories are "too aggregative", which makes it difficult to interpret processes of social reproduction, and sometimes excludes the very possibility of any real interpretation of the reproduction of social

¹ This has not gone unnoticed in non-Marxist literature: "One of the significant differences in the methodological character of aggregates between Marx and Keynes lies in the direction in which *abstraction* is carried out. Marx's intention was to represent, as simply as possible, the specific interrelation of aggregates which is characteristic of capitalism, whereas Keynesian aggregates do not necessarily concern themselves with the specificity of capitalism. They are designed primarily to assist in accounting for the level of total employment" (Shigeto Tsuru, "Keynes versus Marx: The Methodology of Aggregates" in Kenneth K. Kurihara (ed.), *Post-Keynesian Economics*, London, 1955, p. 336).

capital. It is exactly this that caused the demand to "deaggregate" the Keynesian system.¹

In accordance with the established tradition of vulgar bourgeois political economy, Keynes views economic processes and phenomena as a reflection of the psychology of economic subjects. This idealist method often takes extreme forms. Keynes, for example, states: "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else."² It is hard to find in contemporary bourgeois writing a more clear-cut expression of the idealist approach to economic phenomena.

In explaining his position, Keynes refers to the gradual diffusion of ideas being elaborated by theoreticians and determining the behaviour of practising economists and statesmen. "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."³

The psychological treatment of economic processes and their laws serves in Keynes's theory to gloss over the exploitative nature of the capitalist mode of production, and its historically-tran-

¹ Gardner Ackley, *Macroeconomic Theory*, New York, 1961, p. 412.

² J. M. Keynes, *op. cit.*, p. 383.

³ *Ibid.*

sient character. Instead of investigating, for example, the source of capitalist profit, Keynes raises the question of the "foundation" in accordance with which "property brings in income". Seeing this "foundation" in the scarcity of such property, Keynes strives to avoid revealing what forms the basis of capital and therefore, the whole capitalist economy—the exploitation of the working class by the bourgeois class.

At the same time, it would be a simplification to interpret Keynes's use of "expectation categories" as a normal manifestation of his psychological method. These categories (expected profit, perspective cost of output, marginal efficiency of capital, expected changes in prices and value of money) are in a certain sense categories of economic forecasting without which entrepreneurial activity generally and the functioning of present-day monopoly capitalism in particular would be impossible.

Keynes states that one has to place at the base of these "expected" estimated magnitudes (in his chapter "The Marginal Efficiency of Capital", for example) the facts and figures of the period under review and the marked trends in their alterations. Of course, this sort of category of economic forecasting is bound to have a probability character and contain an element of subjectivism, yet at the same time contains certain objective information.

Keynes's idealist position is evident here in the way he sometimes views expected economic magnitudes ("expectations") as self-sufficing and

sometimes factors that even determine economic development.¹

When the psychological approach hampers Keynes in examining quantitative relationships of the capitalist process of reproduction, he does all he can to limit the role played by the psychological factor. He therefore acts as a typical eclectic. "Virtue and vice play no part. It all depends on how far the rate of interest is favourable to investment, after taking account of marginal efficiency of capital."²

Keynes lays stress on quantitative and not qualitative analysis of the reproduction process phenomena.³ Keynes is quite content to refer to "mass psychology" when it is a matter of the essence or qualitative definiteness of a particular phenomenon. He devotes his main attention to a search for quantitative, functional relationships between national economic magnitudes.

It is indicative in this respect that Keynes quite deliberately abstracts himself from an analysis of the movement of "the social structure of society" and its laws. In his theoretical system he views both the productive forces and the relations of production as immutable elements given once and for all. "We take as given the existing skill and quantity of available labour, the existing quality and quantity of available equipment, the existing technique, the degree of

¹ See J. M. Keynes, *op. cit.*, pp. 46-51.

² J. M. Keynes, *op. cit.*, pp. 111-12.

³ Typically, the American economic historian Ben Seligman examines Keynes's theory in the section aptly titled "From Realism to Technique".

competition ... as well as the social structure including the forces, other than our variables..., which determine the distribution of the national income."¹ Keynes says, moreover, that he does not consider all these factors generally immutable. As he says himself, "in this place and context, we are not considering or taking into account the effects and consequences of changes in them (factors—V. A.)."² Elsewhere Keynes writes that he takes as given, i.e., immutable, the whole "economic framework" of capitalism.³

In his theory of reproduction Keynes abstracts himself both from the development of the capitalist mode of production as a whole, and from changes in the distribution system typical of it. "In the argument of this book, however, we shall not concern ourselves, except in occasional digressions, with the results of far-reaching social changes... In so far as the distribution of wealth is determined by the more or less permanent social structure of the community, this also can be reckoned a factor, subject only to slow change

¹ J. M. Keynes, *op. cit.*, p. 245. The fact of Keynes taking the production apparatus of capitalism as something given and unchanging is seen by Joseph A. Schumpeter, the American economic historian, as ignoring the very essence of capitalism: "Those who look for the essence of capitalism in the phenomena that attend the incessant recreation of this apparatus and the incessant revolution that goes on within it must therefore be excused if they hold that Keynes's theory abstracts from the essence of the capitalist process" (J. Schumpeter, *History of Economic Analysis*, New York, 1954, p. 1175).

² J. M. Keynes, *op. cit.*, p. 245.

³ *Ibid.*, p. 246.

and over a long period, which we can take as given in our present context."¹

Here Keynes actually abstracts himself from a change in the relations of production of capitalist society, which comprise the object of the political economy of that formation. Commenting on Keynes's taking the "social structure" as something given, "including the forces ... which determine the distribution of the national income,"² the British economist Robert Skidelsky writes that "he defined the economic problem in a way that could be analysed apart from property relationships."³ Underlining the reformist nature of Keynesianism and Keynes's aspiration to normalise the functioning of the capitalist economy, he writes, "If existing social and political parameters are taken as given, then, of course, reform does become a matter of improved social technique."⁴

Keynes's theory is built in complete accordance with the 'Black Box' idea. He and his successors do not investigate the essence of the economic processes they are studying, and for that reason cannot reveal their objective law-governed relations of any causal order. They are interested only in the quantitative relation between a change in one or several national economic magnitudes and certain changes in another (or other) similar magnitude, irrespective of what sort of causal link exists between them. The object of their

¹ *Ibid.*, pp. 109-10.

² *Ibid.*, p. 245.

³ Robert Skidelsky, *op. cit.*, p. 31.

⁴ *Ibid.*, p. 32.

study is to establish a quantitative relationship between information accessible to direct measurement at "the entry" to the system and analogous information at "the exit" from it.

In striving to reveal the mechanism of functioning of the capitalist economy, Keynes was obliged to break with a whole number of methodological dogmas of the former vulgar economics (J.-B. Say's market theory, treatment of economic phenomena of a social nature from the viewpoint of an isolated economic subject, etc.) as unproductive and, moreover, hampering an analysis of the reproduction process. At the same time, he was faced with the need to borrow certain points of departure of this analysis from the arsenal of classical bourgeois political economy, and sometimes also from the economic theory of Marxism, which gave grounds for bourgeois economists to assert that it was possible to build a bridge between Keynesianism and Marxism. There are certainly no grounds for such an assertion, since Keynesianism, a bourgeois theory of state-monopoly capitalism, is aimed at perpetuating capitalist systems, while the scientific Marxist-Leninist proletarian political economy is dedicated to doing away with them. The contention between them reflects the irreconcilability of the two major social forces of the present time—the working class and the bourgeoisie. However, to the extent that Keynesian theory of reproduction, in examining the functioning of the capitalist economy from a concrete-economic standpoint, comes to describe certain objective laws, it is bound to come close to certain discoveries

that Marxist economic theory had made a long time ago, for it is this theory that reflects the only existing objective reality.¹

Abstraction from changes in the two principal aspects of the capitalist mode of production results from more than Keynes's apology for the system. It certainly stems also from the distinguishing features of Keynes's subject of investigation, when he tries to find laws of the functioning of the capitalist system, laws of social reproduction under given, precisely capitalist, social relations of production. This abstraction testifies to the fact that the area of Keynes's actual investigation lies outside an analysis of the objective laws of development

¹ This circumstance was aptly put in Dalin's thesis that "Keynes was a mouthpiece for the law-governed processes uncovered by Marx" (S. Dalin, *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 8, 1974, p. 35). The American economist Paul Mattick writes that "Keynes's theory... acknowledged Marx's economic predictions without acknowledging Marx himself, and represented, in its essentials and in bourgeois terms, a kind of weaker repetition of the Marxian critique" (Paul Mattick, *Marx and Keynes. The Limits of the Mixed Economy*, Boston, 1969, p. 26). Another Soviet economist A. V. Anikin directly links the borrowing of certain aspects of Marxist economic theory by bourgeois economists with the mounting need to deal with theoretical aspects of economic policy in bourgeois states: "In framing recommendations on economic policy concerning strategic problems (economic growth, accumulation, distribution of national income), where it is necessary to give a realistic assessment of the state of affairs, the more farsighted Western scholars are frequently attracted by the methods and results of Marxist analysis" (A. V. Anikin, *A Science in Its Youth*, Moscow, 1979, p. 12).

of the capitalist mode of production.¹ Keynes focuses his attention on quantitative relationships of phenomena of economic form.

In line with this basic methodological approach, Keynes regards as changing social elements only those phenomena which do not affect the domination of bourgeois social relations of production.

Their range is very small. Keynes differentiates economic phenomena into independent variables ("propensity to consume", "psychological attitude to liquidity", "marginal efficiency of capital", the wage-unit, the quantity of money in circulation and the related interest rate) and dependent variables (volume of employment, national income). The task, he claims, is to explain the quantitative relation between the dependent and independent variables. Here again we see Keynes's attempt to confine himself to quantitative, functional relations in the capitalist reproduction process.²

¹ We find oblique recognition of this fact in a number of bourgeois economists. "Keynesianism" is in fact an attempt to comprehend, and then control, *the workings of an economy in the last stage of capitalism*" (John Strachey, *Contemporary Capitalism*, London, 1956, p. 213, my italics—V. A.). "Keynes's economics failed to achieve the status of a true political economy... This ultimately focused attention on the level of economic values and their flows rather than on origins and consequently led to an overweaning interest in *the mere mechanics of the economy*" (B. B. Seligman, *op. cit.*, pp. 746, 747, my italics—V. A.).

² See J. M. Keynes, *op. cit.*, p. 245. "Above all else, he [Keynes] wanted to make capitalism *work*." "His formula permitted economists" take "a new look at the

The patently obvious metaphysical approach to an analysis of economic processes is a vivid manifestation of Keynes's bourgeois limitations. He very much narrows down the range of problems which he draws into his analysis of the reproduction process, for he leaves outside its framework those shifts in society's productive forces which are being caused by the present-day revolution in science and technology. It is certainly not without justification that some contemporary bourgeois economists chide him for producing too static a system. Although unemployment presents a great danger in the postwar period as well, writes the American economist Gardner Ackley, "the greatest macroeconomic problems of today appear to be connected with economic growth and inflation. By its own terms Keynesian analysis is not directly applicable to problems of growth."¹

This feature of Keynesian methodology is also stressed by Schumpeter in his summary of its characteristic features, "The analytic apparatus of the General Theory is, first, essentially static... Second, this static theory is not the statics of long-run normals but the theory of short-run equilibria. Third, the most important point in this connection is that, of all the aspects of the investment process, it is only the expenditure

way capitalism really *functioned*" (B. B. Seligman, *op. cit.*, pp. 732, 742, my italics—V. A.). And Jacob Oser writes, "Keynes geared economic theory to policy-making" (Jacob Oser, *The Evolution of Economic Thought*, New York, 1963, p. 333).

¹ Gardner Ackley, *Macroeconomic Theory*, New York, 1961, p. 418.

effect of new investment which enters the model... This limits the theory to an analysis of the factors that determine the higher or lower degree of utilisation of an existing industrial apparatus... Fourth, though aggregative, Keynesian analysis—no doubt for the sake of simplicity—presupposes 'free', if not actually 'pure' competition in all commodity and factor markets."¹

The major drawbacks of Keynesian methodology are that an analysis of the functioning of the capitalist system of production is divorced from investigation of the trends and laws of its development or, rather, that it ignores the latter, as well as abstracting itself from the very essence of the capitalist reproduction process—its exploitative nature, its monopolistic character. This feature of Keynesianism is apparent in all the specific methodological devices used in Keynesian analysis.

KEYNES ON THE NATURAL-MATERIAL STRUCTURE OF THE SOCIAL PRODUCT

A necessary condition for analysing the reproduction process is to distinguish two departments of social production: the means of production, and articles of consumption. This is dictated by the fact that means of production and articles of consumption play altogether different roles in the social reproduction process. While the former serve to reproduce primarily material elements of

¹ J. Schumpeter, *History of Economic Analysis*, New York, 1954, pp. 1174-1175.

the productive forces, the latter serve to reproduce a personal factor of production. The need to differentiate the two departments of social production is also dictated by the fact, linked to the first aspect, that the objective laws of relations between the two departments actually represent vital laws of social reproduction whose exposure is impossible without such a differentiation.

All economists who have left any notable trace in reproduction theory have tried to uncover the natural-material structure of the social product. François Quesnay pinpoints agricultural and industrial output within which he distinguishes between means of production and consumer goods.¹ Adam Smith, on the other hand, in one of his passing remarks, delineates two groups of workers, one of which is engaged in producing means of production, the other—articles of consumption.² None of Marx's predecessors, however, provides a clear classification of these two principal departments of social production³ or takes them as a basis in analysing the reproduction process. This delineation, first made by

¹ In his *Tableau économique*, Quesnay writes that of 2,000 mln. livres of Tours' worth of industrial output by the "sterile class", 1,000 mln. goes to means of production, and 1,000 mln. to consumer goods, at the same time as, of the 5,000 mln. livres of Tours' worth of agricultural output, the means of production constitute 2,000 mln., and consumer goods 3,000 mln. (F. Quesnay, *Oeuvres économiques et philosophiques*, Paris, 1888, pp. 305-28).

² Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, New York, p. 220. See also Karl Marx, *Capital*, Vol. II, Moscow, 1978, pp. 369-74,

Marx, made it possible to resolve the problem of compensating for the social product according to a natural-material form.

Where does Keynes stand on this issue? He writes that "assumptions relating to the integration of entrepreneurs in groups according as they produce consumption-goods or capital-goods ... are obscure and complicated in themselves and do not correspond to the facts".¹ Of course, it is not a matter of whether it is complicated or not to group entrepreneurs according to the nature of their production. Irrespective of its social form, social production objectively falls into two big departments which perform substantially different functions in the reproduction process. Keynes obviously fails to recognise this decisive fact.

He is nevertheless bound to notice that the entire social product is divided into two big groups of commodities: capital goods and consumption goods. In defining the magnitude of consumption, Keynes deducts capital goods (in his formula, the total sales made by one entrepreneur to another is denoted as ΣA_1) from the whole aggregate of sales and obtains the volume of sales of consumption goods.² At the same time, Keynes draws a distinction between the market for consumer goods and the market for capital goods, basing himself on the fact that in their movement they are subordinate to several distinctive law-governed processes. "The 'proceeds'"

¹ J. M. Keynes, *op. cit.*, p. 24, (footnote),

² *Ibid.*, p. 62.

(which Keynes identifies with aggregate demand) "are made up of the sum of two quantities—the sum which will be spent on consumption when employment is at the given level, and the sum which will be devoted to investment. The factors which govern these two quantities are largely distinct."¹

In regard to differentiating the two principal departments of social production, Keynes goes no further than mentioning in passing the production in the investment and consumption industries.² Meanwhile, this division is known to apply to the whole national economy and is by no means confined to industry. In addition, classification into these two groups of industrial branches is not put at the base of his analysis of the reproduction process.

Thus, in somewhat curtailed form, this condition for analysing the reproduction process is represented in Keynes's theory, mainly applying to the sphere of circulation.

Why does Keynes not apply this division according to natural-material distinction to the sphere of production? Why does he not single out the two departments in production itself? A clear-cut differentiation of the two major departments of social production would throw some light on the real nature of capitalist relations of production and their socio-economic essence. He would have to admit that the first department that produces the means of production develops at

¹ *Ibid.*, pp. 89-90.

² *Ibid.*, pp. 117 and 122-25.

a faster rate and, anyway, occupies a considerably greater proportion in the entire social product. And that means that a great part of an increment in social product represents an increment in the wealth of the bourgeoisie. Keynes realises only too well that the means of production are in the hands of only one class—the entrepreneurs or, rather, the capitalists. Such an approach would have advanced to the forefront problems of movement of the capitalist production system, the inevitability of intensification of the class antagonisms that lie at its basis; and that was an analysis that Keynes strove to steer clear of.

Disregard of the division of social production according to the natural-material form of output, which emanates from Keynes's class position, deprived him of any opportunity of uncovering the whole complexity of laws of simple and extended reproduction associated with relations between the two departments of social production. What is more, division of social product into articles of consumption and means of production leads Keynes to an understanding of several quantitative relationships of capitalist reproduction, including the fact that the market for consumer goods is considerably more limited than that of the market for capital goods.

THE LABOUR THEORY OF VALUE AND KEYNES'S REPRODUCTION THEORY

The following analysis of the value structure of social product in Keynes's reproduction theory shows that Keynes could not completely cast

aside certain of those scientifically-objective truths at which the labour theory of value arrived.¹ By replacing value categories by worth and value by price, he was still obliged to single out the value transferred from means of production, and newly-created value, the entire social product and national income. This shows that Keynes, though formally refusing to recognise the labour theory of value (since it leads to exposure of the exploitative nature of capitalist relations of production),² quietly bases himself

¹ Practical economic needs frequently oblige bourgeois economists to use in practice the labour theory of value, even if they reject it for ideological reasons. Thus, the term "value added" is widely used in bourgeois statistics, including both depreciation and newly-created value in terms of worth. This indicator gives an idea (bearing in mind that depreciation is relatively small) of the magnitude of newly-created value in a given production, although bourgeois political economy rejects on ideological grounds the thesis of labour as the only source of that value. In just the same way, the practical needs of state-monopoly regulation of capitalist production made it impossible for Keynes to be stridently negative in regard to all propositions and aspects of the labour theory of value.

² The forms of contention taken by contemporary bourgeois political economy against the Marxist theory of value, attention to which has sharply mounted at a time when the entire capitalist world is in the grip of unprecedented inflation, differ greatly. They include attempts to portray value as something "indefinite", just like any mystical "liquid" being imbibed by the product from the workers who produce it, and a desire to depict value as a "technological magnitude" with no relation to price formation, inasmuch as the value of commodities and their prices are "two sets of magnitudes which are derived more or less independently", and drag-

in his reproduction theory on certain important propositions of the theory he generally rejects, and adapts them to the aims of his concept. Interpretation of the value structure of social product in this respect is certainly no exception.

By subordinating his theory to a search for quantitative relationships in capitalist production, Keynes criticises such "too general concepts" as the general level of prices, society's aggregate output, the amount of means of production as a whole, the national income. Keynes stresses their quantitative indefiniteness from the viewpoint of analysing the mechanism of the economic system, since such an analysis of economic processes, as he notes, requires a relatively high level of precision in expressing national economic magnitudes. The above-mentioned "vague concepts" are only worthy, he writes, of "historical and statistical description" and "historical comparison".¹ That is, they are in fact for an analysis of economic laws of social development which Keynes avoids. "To predict how entrepreneurs possessing a given equipment will

ging out the myth of contradiction between volumes I and III of Marx's *Capital*. (See, for example, *The Journal of Economic Literature*, Vol. XII, March 1974, No. 1, pp. 38, 52, 53). It is no coincidence that bourgeois economists should pour new life into contention with the labour theory of value today, since exposure of the real causes of inflation which is a vivid confirmation of the veracity of the labour theory of value leads to an understanding of the anti-popular essence of the capitalist monopolies, the mechanism of their domination and enrichment.

¹ J. M. Keynes, *op. cit.*, pp. 40, 43.

respond to a shift in the aggregate demand function it is not necessary to know how the quantity of the resulting output, the standard of life and the general level of prices would compare with what they were at a different date or in another country."¹

Keynes therefore pays considerable attention to the "choice of units" with which he would be able to express quantitatively the complex national economic magnitudes. He regards the principal units of quantity to be, first, the "quantity of money values" owing to the homogeneity of such indicators, second, the employment level, since this indicator can be made homogeneous. To tackle this last task Keynes introduces the category of "labour-unit" by which he means one hour of unskilled labour. Here Keynes lays stress on the given unit corresponding most closely to the task confronting him—an analysis of the working of the capitalist economy. He writes, "It is my belief that much unnecessary perplexity can be avoided if we limit ourselves strictly to the two units, money and labour, when we are dealing with the behaviour of the economic system as a whole."²

It is typical of that standpoint that the quantity of employment is being measured by Keynes not by the number of workers employed or by the number of jobs available, but by the number of hours actually worked by unskilled labourers. "We shall call the unit in which the quantity of

¹ *Ibid.*, p. 44.

² *Ibid.*, p. 43.

employment is measured the labour-unit," he writes.¹ More skilled labour Keynes reduces to a larger amount of unskilled labour in accordance with the proportion in which payment per unit (hour) of skilled and unskilled labour is made.

Thus, the quantity of employment in a given society is measured by the aggregate of actually worked hours of unskilled labour. The fact that employment is being measured in number of hours worked and not in number of workers who have work enables him to depict employment primarily from the standpoint of the productive use of that labour, in fact from the standpoint of exploitation of workers. Such measurement of employment suppresses a distinction that is crucial for the working class—between those employed for part of the working day and those employed for the whole working day, between part-time employment and an excessively long working day.

At the same time, such a calculation of quantity of employment is important from the viewpoint of analysing the reproduction process, since it poses the question of the amount of actually used labour resources as distinct from potential resources. This approach enables Keynes to apply this "employment" indicator to measuring the amount of output produced. He writes, "the amount of employment ... will be a satisfactory index of the amount of resultant output".² So Keynes, that opponent of the labour theory of

¹ *Ibid.*, p. 41.

² *Ibid.*

value and proponent of marginalism, measures the amount of resultant output by the amount of labour expended on its production. In order to come close to the conclusion drawn many decades previously by the best representatives of classical bourgeois political economy and scientifically elaborated by Marxism, Keynes uses a complex roundabout method, initially defining the employment level by the amount of labour hours worked, and then viewing employment thus expressed as an indicator of the amount of output given constant means of production.

In many places in his work, Keynes recognises the existence of a functional quantitative relation between "income" and expended labour. "The fluctuations in real income under consideration in this book are those which result from applying different quantities of employment (i.e., of labour-units) to a given capital equipment, so that real income increases and decreases with the number of labour-units employed."¹ Without revealing the causal dependence of "income" on expended labour, the nature of the income he is investigating, Keynes nonetheless underlines the complete quantitative dependence of "income" on expended labour. What is more, this dependence is expressed so that it contains, whether he likes it or not, certain quantitative reflection of the growth in exploitation of the workers, although Keynes, of course, does all he can to disguise the very fact of exploitation of the proletariat by the bourgeoisie. He writes,

¹ *Ibid.*, p. 114.

"Income measured in terms of wage-units will increase more than in proportion to the amount of employment."¹ Let us note that "income measured in terms of wage-units" is certainly not wages, i.e., wages per hour of unskilled labour, which Keynes uses only as a device to measure "income ... which results from applying different quantities of employment to a given capital equipment", i.e., actually capitalist profit which is a form of surplus value. Surplus value actually increases in a greater measure than the amount of expended labour when the rate of surplus value increases.

Keynes's desire to rely on functional aspects of the law of value is evident also in his view of the dependence of national income on level of employment. "The national income depends on the volume of employment, i.e., on the quantity of effort currently devoted to production, in the sense that there is a unique correlation between the two."²

It is indicative that Keynes puts the volume of output and income in direct dependence on the volume of employment, i.e., on the amount of hours worked.

The following admission by Keynes is of relevance here, "I sympathise ... with the pre-classical doctrine that everything is *produced by labour*."³ By classical school Keynes was known to understand the vulgar economics of the post-

¹ *Ibid.*

² *Ibid.*, p. 246.

³ *Ibid.*, p. 213.

Ricardo period.¹ Consequently, Keynes wishes to say here that he is sympathetic to the labour theory of value of classical bourgeois political economy of Smith, Ricardo et alia.

Yet Keynes's position is strikingly different from that of the classical school, above all in that the classical economists came fairly close to an understanding of the decisive fact that labour expended on producing a commodity is the only source of its value. From that standpoint they had come close to revealing the exploitative nature of unearned incomes, even though they had not hit on the law of surplus value. Keynes, however, dedicates all his efforts to glossing over the real nature of these phenomena. In fact, he includes in his category of labour "the personal services of the entrepreneur and his assistants", and only given this condition is he prepared to see labour as "the sole factor of production". "It is preferable to regard labour," he writes, "including, of course, the personal services of the entrepreneur and his assistants, as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand."²

It is not hard to see the purposes served by such a stance. From this point of view, the "labour" of the entrepreneur in appropriating the results of others' labour in an unrequited way constitutes a factor of production, something necessary that is alleged to flow from require-

¹ See J. M. Keynes, *op. cit.*, p. 3 (footnote).

² *Ibid.*, pp. 213-14.

ments of the labour process, which is how the exploitative nature of capitalism becomes suppressed. Keynes actually tries to depict the capitalist form of production as necessary, and therefore also an eternal feature of the production process. Yet, Keynes himself admits the fact of "the separation between ownership and management".¹ What is more, ownership of capital is separated from direct production and, of course, cannot act as a factor of the latter.

With account for the above-mentioned apologetic subterfuge, Keynes, however, has to recognise in labour "the sole factor of production". Besides, a new aspect of investigation had forced him to this: the quantitative relationships of capitalist reproduction hang in the air, if all elements of the labour theory of value are consistently negated. Without recognising, if only partly, the decisive fact that the social product is the result of the aggregate social labour expended, one can neither understand the most elementary relations and laws of the reproduction process, nor, which is very important, measure either any national economic magnitude, or a single parameter of social reproduction. In stating his agreement with the thesis that "everything is produced by labour", Keynes writes, "This partly explains why we have been able to take the unit of labour as the sole physical unit which we require in our economic system, apart from units of money and of time."²

¹ *Ibid.*, p. 150.

² *Ibid.*, p. 214.

Keynes denotes money wages per labour unit as "wage-units" and uses them for expressing various money-value phenomena. In actual fact this mode of designating magnitudes expressed in money is aimed at showing what amount of "wage-units", i.e., wages per unit of unskilled labour, is equivalent to a given value magnitude. This is an extremely striking choice of measurement. It enables one to assess what amount of labour units, in fact labour power, an owner of a particular sum of money or a particular value magnitude can command. Keynes actually sees each sum of money as potential capital and, by the very choice of unit of measurement, underlines its ability to become real capital. In certain given circumstances, Keynes writes, "a man's real income will rise and fall with the amount of his command over labour-units, i.e., with the amount of his income measured in wage-units".¹ Here he indirectly reveals the decisive fact that the source of "real income" is precisely the labour which the owner of that income has at his command.

"Keynes showed that it was possible to discuss economic problems with labour as the major or even sole factor of production," writes Ben Seligman.² But Seligman does not see that Keynes singles out from the system of economic relations, which constitute the content and mechanism of the law of value, only certain external functional relationships, while discarding the causal relations.

¹ *Ibid.*, p. 91.

² Ben B. Seligman, *op. cit.*, p. 742.

In the choice of units, Keynes pursues clearly apologetic objectives. He regards a "wage-unit" as a monetary expression of a "labour-unit". Therefore, in order to express a particular national economic magnitude in labour-units, Keynes believes it is sufficient to represent it in wage-units.

Such an approach is based on the unspoken proposition that a labour-unit and a wage-unit are equal, that a worker receives in wages the full equivalent of the whole of his labour, i.e., on the supposition that there is no exploitation of the proletariat. And yet it is well known that paid-for labour hours comprise only a part, today a small part, of labour expended by the worker in producing output. Moreover, with a rise in the degree of exploitation of workers, this gap grows increasingly wider. For that reason, wages of workers cannot be an index either of the magnitude of or changes in the value of the whole social output. Wages cannot perform that role because the value of the social product cannot be reduced to newly-created value, to national income. It includes as an indispensable element the so-called old value, i.e., the value transferred from means of production in the process of production of the annual social product. Keynes, in fact, bases himself on one of the unscientific versions of Adam Smith's theory of value, which identifies the whole value of a commodity with the wages of workers who produced it.

In many parts of his main work Keynes underlines the close relationship between the volume of output produced and income, and the amount

of labour expended. He sees the aggregate supply of goods as a function of the employment level: $Z = \phi(N)$, where Z is the aggregate supply price, and N is the volume of employment.¹ Let us recall that by employment Keynes means the number of labour hours actually worked. Further, Keynes treats the entrepreneur's proceeds as a function of employment as well. "Let D be the proceeds which entrepreneurs expect to receive from the employment of N men, the relationship between D and N being written $D = f(N)$."² He writes of "the aggregate income (i.e., factor cost plus profit) resulting from a given amount of employment" as "the proceeds of that employment".³ "But in general it is a good approximation to regard Y_w as uniquely determined by N ."⁴ Here Keynes, suppressing the causal relation between expended labour (the level of employment N) and created income (Y_w), stresses the functional relationship between Y_w , i.e., income, and N , i.e., the amount of labour expended. What is more, he regards labour here as the sole factor determining the amount of income.

In all the above-cited quotations the question of the actual source of the value form of wealth and profit of the capitalists is not even raised. Keynes is interested only in a quantitative, functional relation between the amount of labour expended, on the one hand, and the volume of output, the volume of profit, on the other. And

¹ See J. M. Keynes, *op. cit.*, p. 25.

² *Ibid.*

³ *Ibid.*, p. 24.

⁴ *Ibid.*, p. 90.

here we see that Keynes excises all those propositions of the labour theory of value which could suggest an understanding of the exploitative nature of capitalism, and tries to maintain those of its aspects which are essential to describe the quantitative interrelations of the capitalist reproduction process.

VALUE STRUCTURE OF THE SOCIAL
PRODUCT WITHIN KEYNES'S SYSTEM

The question of the value structure of the social product is a crucial problem in investigating social reproduction that is decisive in understanding its essence. After all, the problem of reproduction is that of replacing the whole social product both in natural-material form and in value. It is no chance affair that a lack of understanding of the value structure of a commodity was a stumbling-block in all pre-Marxist literature concerning analysis of the reproduction process. While Quesnay reduced a commodity's value to expenditure of fixed and circulating capital plus a "net product", i.e., surplus value, Adam Smith normally excluded from the structure of a commodity's value any expenditure of constant capital, identifying the entire value of a commodity only with its newly-created part.¹

¹ In referring to contradictions in Adam Smith's position, Marx noted that "their source ought to be found precisely in his scientific premises" (Karl Marx, *Capital*, Vol. 11, Moscow, 1978, p. 378). Smith proceeded from one-sided interpretations of the social product either from the vantage of specific labour (in this case the an-

Marx was the first to produce a genuinely scientific classification of the social product according to value; he showed that the structure of value of both an individual commodity and the entire social product consisted of the value of a part of constant capital, expended in the process of their production, the value of variable capital and surplus value.

By constant capital Karl Marx meant the value of material elements of capital (machinery, equipment, raw materials, industrial buildings, instruments, etc.). A feature of constant capital is that it does not create new value and represents the living labour of workers, engineers and technologists, etc., embodied in commodities. The value itself of constant capital, by dint of its productive use, is transferred to a newly-produced commodity through the useful, purposive form of labour expended. This shows that constant capital as such does not increase the sum total of value which is at the disposal of the capitalist class. It was for this reason that Marx called it constant capital and designated it with the symbol c (constant).

nual social product was regarded as the sum total of use values produced during the year) or from the vantage of abstract labour (in this case social product was regarded by Smith as value newly created in a given year), interpretations that rest on his lack of understanding of the two-fold nature of labour of the commodity producers, the unity of its two aspects and his intuitive approach to economic problems of capitalism from the viewpoint of only individual facets of that labour (Karl Marx, *Capital*, Vol. II, pp. 378-82); see also "Contradictions in Smith's Theory and Marxist Economic Teaching", *Voprosy ekonomiki*, No. 3, 1976.

Marx named another part of capital represented by labour power variable capital. It received this name because only that part of capital, only living labour power, creates new value as a consequence of the expenditure of living labour on the production of commodities. As a result of expenditure of labour, the sum total of value of capital which is the property of the bourgeoisie grows. Therefore, the name given to capital spent on acquiring a commodity labour power, reflects the change in its magnitude in the production process and is designated with the symbol v (variable).

The difference between constant and variable capital is of great theoretical and practical importance, inasmuch as it enables us to pinpoint the real source of wealth of the bourgeois class. It is only variable capital, living labour power which produces not only its own value equivalent, but also a certain surplus above it, whose accumulation forms the wealth of the bourgeoisie.

The third element in the value structure of the social product is surplus value, which Marx designates with the symbol s . It represents the difference between the whole value of labour power and newly-created value. Statistically, surplus value is fairly accurately expressed as the difference between the value added and the wage. Surplus value created by wage workers is appropriated gratis by the bourgeoisie and is a material embodiment of capital's exploitation of labour, of the antagonistic nature of contradictions between the main classes of capitalist society—the

workers and the bourgeoisie. As a rule, therefore, bourgeois economists exclude surplus value from the value structure of the social product, since they pursue apologetic objectives, and therefore attempt to cover up the fact of capitalist exploitation.

Thus, the value structure of the social product contains three principal elements: c is the value of constant capital spent on creating this product; v is the value of variable capital used in producing the product, and s is the surplus value produced in this process. In total, the aggregate value of the social product is $c + v + s$. If the first element represents the value existing before the production process begins, the other two elements represent a new value, created for the first time during the production process. The difference between the old and the newly-created value of the social product is very important in comprehending the production process, since an equivalent of the old value must return to the production sphere, while the new value acts as a source of expanding production and satisfying consumption needs.

Investigation of the value structure of the social product enabled Marx to uncover the laws both of simple and of extended reproduction, to study both the reproduction of natural-material and personal elements of the production process, as well as reproduction of capitalist relations of production.

What is Keynes's position on this? In his *General Theory of Employment*, he distinguishes

the following value¹ elements of the product: (i) user costs; (ii) factor costs; (iii) supplementary costs; and (iv) aggregate income of entrepreneurs.

He defines user costs (U) by the following formula: $U = (G' - B) - (G - A_1)$, where G is the actual value of the capital equipment at the end of the period, i.e., the remaining value of basic means of production after using them to produce output, whose costs of production are here spoken about, as well as the stocks of unfinished and finished goods.² G' is the initial value of the given basic means of production if they had not been used for production, plus expenditures on maintaining and improving them. Keynes gives these latter expenditures the symbol B' . Thus, the expression $(G' - B') - G$ means chiefly the value of fixed capital that has been transferred in this production process.

Let us note that this is a typical case of Keynes drawing a veil over the origin of a number of categories he uses or, rather, borrowing them from Marxist economic theory. Indeed, if Keynes had simply deducted from the initial value of basic means of production its remaining (after completion of production of a certain output) value ($G' - G$), it would have been clear that Keynes was using the category, first developed

¹ The use of this terminology in describing Keynes's theory is in a certain sense conditional, since Keynes replaces value phenomena by money-value phenomena. It is justified only in the sense that the objective content of phenomena described by Keynes in this instance is of a value nature.

² J. M. Keynes. *op. cit.*, pp. 52-53.;

by Marx, of transferred value of constant capital (c). Evidently, this idea was not the least circumstance that led Keynes at first to include B' in initial value of means of production, presupposing that they were not being used, and then, since they did get to be used, to deduct B' from that value. Furthermore, he attributes the stocks of unfinished and finished goods to the remaining value of means of production. In total, these elements comprise the whole of that value which remains in the hands of the capitalists after selling the produced output. However, the economic designation of each of these elements is different. Deduction of the value of unfinished goods and the remainder of finished goods reduces the total of transferred value, insofar as in this case it loses from the initial value of means of production not simply their remaining value, but part of the transferred and of the newly-created value, embodied in what remains of the unfinished goods and stocks of finished goods. All this somewhat distorts the actual economic meaning of "user costs", though it does not remove the fact that the main point in them is the value transferred from the basic means of production.

The second part of "user costs" (A_1) is the value of finished output bought by entrepreneurs from one another and used to produce a certain output. Thus, if $(G' - B') - G$ is basically the value of means of production that have depreciated during the given process, then A_1 is the value of the means of production being purchased by entrepreneurs from other entrepreneurs and being used to produce a given output, the value

included during the process of production in the value of finished output (raw materials, energy, sets of equipment, etc.). Consequently, A_1 is also value transferred from means of production, but this is rather the value of the expended working part of constant capital rather than its main part.

On the whole, "user costs" are nothing more than the value of means of production that have been used up in the production process.¹

The fact that Keynes recognises the transfer of the value of instruments of labour as well as of raw materials is clear from his following critical remark on the stand taken by some bourgeois economists: "The assumption that there is a sharp division between raw materials where we must allow for the disinvestment due to using them and fixed capital where we can safely neglect it does not correspond to the facts."²

So we see that Keynes recognises the presence within the value structure of output a value that has been transferred from means of production. However, Keynes thinks that this element of costs of production should be regarded in the structure of the value of an individual firm's commodity and may be omitted in examining the entire social product.³

This is like identifying the value of the entire social product and the value of national income. Keynes's position on this issue therefore comes close to the so-called dogma of Adam Smith.

¹ See J. M. Keynes, *op. cit.*, pp. 52-53 and 66-67.

² *Ibid.*, p. 73.

³ *Ibid.*, p. 55.

This is clearly seen from Keynes's statement which reduces the value of the social product to the aggregate of incomes: "... the income derived in the aggregate by all the elements in the community concerned in a productive activity necessarily has a value exactly equal to the *value* of the output."¹

Despite such a statement, Keynes actually recognises the existence of expenditure of constant capital within the value structure of the social product, even though he gives Smith his due in his confusion. In defining the magnitude of the aggregate, i.e., national income, Keynes deducts from the whole value of social product (A) the "user costs" (U), i.e., he deducts the value transferred from means of production. "Aggregate income," he writes, "is equal to $A-U$."²

"User costs" in fact are expenditure of constant capital transferred to a newly-produced commodity. "We have defined the user cost as the reduction in the value of the equipment due to using it as compared with not using it."³

What then are factor costs? Keynes defines them as the amount paid out by the entrepreneur to the other "factors of production" in return for their services, which from their point of view is their income. Elsewhere he defines these costs as income of "other factors of production" exclusive of other entrepreneurs.⁴ We may therefore draw

¹ *Ibid.*, p. 21.

² *Ibid.*, p. 54.

³ *Ibid.*, p. 70.

⁴ *Ibid.*, pp. 26 and 53.

the conclusion that by factor costs Keynes means, first, wages, consequently, variable capital, second, those parts of surplus value which non-functioning capitalists receive, i.e., the interest on loan capital and land rent. Thus, factor costs F are $v + (s - p)$, i.e., variable capital and those parts of surplus value which a functioning capitalist has to pay to non-functioning capitalists and which he perceives as his costs being paid to other "factors of production", and from their standpoint come in as income.

We see that Keynes dissolves the category of variable capital into factor costs which include part of surplus value as well as variable capital.

Keynes takes a dual stand in regard to the factor costs category, trying to maintain within it certain objective truths that had been spotlighted by foregoing economists and, at the same time, divesting them of their class and socio-economic essence. This position comes from his specific mission to analyse and search for quantitative functional relationships of capitalist reproduction, as well as from his bourgeois limitations. The variable capital category stands very close to the deepest secrets of the source of bourgeois wealth. Even classical bourgeois political economy failed to uncover it, enjoying social conditions that were much more favourable to bourgeois science than contemporary bourgeois economics. However, a number of relations between variable capital and surplus value are crucially important also for contemporary bourgeois functional analysis of the process of capitalist reproduction,

including the rate of surplus value, since this provides a measure of capitalist efficiency in using wage labour. But how can it be expressed without possessing either the category of variable capital or that of surplus value?

Keynes apparently attempts to resolve that contradiction by advancing the relationship of an entrepreneur's profit to factor costs $\frac{D^1}{F}$,

i.e., $\frac{P}{v + (s - p)}$. Keynes writes of the desire by capitalists to maximise their profits in regard to factor costs. This surrogate of the rate of surplus value reflects the aspiration of functioning capital to do all it can to step up exploitation of the proletariat and reduce that part of surplus value which is appropriated by non-functioning capitalists.

Keynes calls the sum of the user cost and the factor cost, i.e., $U + F$ or $c + v + (s - p)$, the prime cost of production. First and foremost entrepreneurs try to reduce this cost to a minimum so as to gain maximum profit. "Thus an entrepreneur uses by preference that part of his equipment for which the user cost *plus* factor is least per unit of output."²

A considerable role is played by "supplementary cost" (V), by which Keynes means the moral depreciation of fixed capital, "the depreciation of the equipment, which is involuntary but not unexpected, i.e., the excess of the expected depre-

¹ See *Ibid.*, p. 54.

² *Ibid.*, p. 69.

ciation over the user cost."¹ He therefore speaks about obsolescence of equipment.

On the whole, Keynes designates costs of production as

$$U + F + V.$$

The fourth element in the value structure, according to Keynes, is income D . He distinguishes categories of "the income of the entrepreneur" (or his profit) and society's "aggregate income".

By entrepreneur's income he means profit (or that part of surplus value which goes to a functioning capitalist), since he defines it as the excess of the value of his finished output over his prime cost²;

$$A - (U + F),$$

$$\text{or } (c + v + s) - (c + v + s - p) = p.$$

He gives "aggregate income" a number of definitions, but they all actually boil down to the category of national income. First, aggregate income is defined as the sum total of factor costs and the entrepreneur's income: $F + D$, i.e., as $v + (s - p) + p = v + s$. Second, he sees aggregate income as the difference between the entire value of the social product and the user cost: $A - U$, i.e., $c + v + s - c = v + s$ —consequently, national income as well.

According to Keynes, a society's aggregate net income is equal to the entire social product after

¹ *Ibid.*, p. 56.

² See J. M. Keynes, *op. cit.*, p. 53.

deduction of both user cost and supplementary cost, i.e., $A - U - V$. Consequently, aggregate income is said to contain "supplementary cost" or part of c , which is the value of moral depreciation of fixed capital.

Thus, although Keynes excludes the variable capital category and replaces it by the factor cost category (which, as we saw, includes part of surplus value as well as variable capital), nonetheless he quite definitely draws a distinction between transferred value ($U + V$) and newly-created value (both in that part in which it takes the form of wages, and in the part in which it acts in a particular form of surplus value): $F + D$. Those distortions to which the value structure of the social product first discovered by Marx, are subject serve, first, to blur an understanding of the exploitative nature of capitalist relations of production (hence, for example, the factor cost category is represented as a mixture of variable capital and part of surplus value); second, to cover up the real source of those objective truths, discovered long since by Marx, which lie within the above-mentioned Keynesian categories of the value structure of the social product (hence the external distinction from the Marxist categories to which Keynes so jealously adheres). However, all the above-mentioned distortions by Keynes of the value structure of the social product do not affect that essential factor without which any realistic reproduction theory is unthinkable, that is differentiation of the old value transferred from means of production and the newly-created value or, in other words, distinction between the

value of the whole social product and the value of the national income.

According to Keynes, society's aggregate income is spent in the following two ways: on consumption and on investment.¹ Keynes maintains that, "income = value of output = consumption + investment."² Insofar as Keynes means by income not society's gross income, i.e., not the whole of the social product but national income (this is apparent from the fact that Keynes equals "the value of output" to the aggregate incomes of "factors" of production),³ we can take for granted that he excludes the value of spent constant capital from the value structure of the social product.

In defining capital expenditures very broadly as "the purchase of a capital asset of any kind out of income",⁴ Keynes actually has in mind only "the increment of capital equipment"⁵, that is "addition to the value of the capital equipment which has resulted from the productive activity of the period"⁶. It is equal to $\Sigma (A_i - U)$.

Keynes calls the actual increment in the value of capital equipment "net investment" which he

¹ As the American economist A. Lerner writes about Keynes, "With rigid consistency he defined I and C as actual investment and consumption, Y as their sum, and S as $Y - C$. S was thus always equal to $I + C - C$ and could never differ from I " (*Journal of Economic Literature*, March 1974, Vol. 12, No. 1, p. 39).

² J. M. Keynes, *op. cit.*, p. 63.

³ See J. M. Keynes, *op. cit.*, p. 21.

⁴ *Ibid.*, p. 75.

⁵ *Ibid.*

⁶ *Ibid.*, p. 62.

defines as "the net addition to all kinds of capital equipment, after allowing for those changes in the value of the old capital equipment which are taken into account in reckoning net income".¹ What then is net income?

It is $A - U - V$, i.e., the difference between the aggregate social product and the value transferred from capital equipment. Consequently, $c + v + s - c = v + s$, i.e., national income.

Thus, net investment, i.e., actual volume of constant capital accumulation, according to Keynes, is equal to $A_1 - U - V$, i.e., the difference between the aggregate sales of capital equipment during a certain period and the whole value of constant capital spent.

We generally come to the conclusion that Keynes holds a dual stand on the question of the relationship between national income and social product.

On the one hand, he makes them synonymous, ignoring the value transferred to the newly-created social product from the means of production worn out in that production process. On the other, Keynes equates the value of output with the aggregate incomes of factors of production; and he equates society's income with the value of output.

KEYNES ON FIXED AND CIRCULATING CAPITAL

Since the pivot of Keynes's work lies in the area of reproduction theory, naturally he cannot get

¹ *Ibid.*, p. 75.

by without dividing capital into fixed and circulating, based on the difference in the manner of circulation of various parts of capital, in modes of transfer of value from these parts of capital to the product being produced.

By fixed capital Keynes understands durable capital equipment, instruments of labour.¹ Circulating capital, or as Keynes calls it, liquid capital, is raw materials, stocks of unfinished and unsold goods.²

Let us note right off that Keynes's interpretation of circulating capital contains an error that comes originally from Adam Smith. By relating stocks of unsold goods to circulating capital Keynes is actually extending the division into fixed and circulating capital, inherent only in the productive form of capital, to the sphere of circulation and confusing circulating capital and capital of circulation.

Describing the difference between fixed and circulating capital Keynes writes, "The essential difference between raw materials and fixed capital lies ... in the fact that the return to liquid capital consists of a single term: whereas in the case of fixed capital, which is durable and used up gradually, the return consists of a series of user costs and profits earned in successive periods."³

The difference in the circulation of these two types of capital is here established in a very general form, above all according to their replacement method. The very process of trans-

¹ *Ibid.*, pp. 73 and 76.

² *Ibid.*, pp. 52, 73 and 76.

³ *Ibid.*, p. 73.

fer of value and differences of this nature are left aside, although the latter is a decisive criterion in dividing capital into fixed and circulating, and explains the difference in replacement methods. At the same time, Keynes, as mentioned above, recognises the fact of transferring value from capital equipment (though not the differences in the methods it is transferred).

* * *

Thus, a study of methodology of Keynes's reproduction theory shows that he set himself the task of illustrating how the contemporary capitalist economy worked, and actually found that several methodological propositions of the former vulgar economics were fruitless in analysing the reproduction process (Say's market theory, for example). He had to borrow some notions from classical bourgeois political economy (some, very general, functional elements of the labour theory of value, division of capital into fixed and circulating), and, in a number of cases, also from Marxist political economy (ideas of the natural-material and, to some extent, the value structure of the social product). Keynes tampered with these ideas so that they did not lead to any understanding of the exploitative nature of capitalism and its historically transient character, so that they would lose any apparent connection with the system of views that had produced them. He very ably severs within economic categories whatever reflects laws governing the development of the

capitalist system from whatever serves to express the laws of its functioning.

Keynes and his numerous followers wish to outwit history. Relying on those elements and trends in capitalism's economic laws which are bound up directly with its functioning, they try to halt the development of those elements and trends in economic laws which predetermine the movement of this mode of production towards socialism, its need for revolutionary substitution by socialism. Meantime, the functioning of an economic system is a feature of its own development right up to the time it turns into its opposite.

The well-known Labour theoretician John Strachey notes in his *Contemporary Capitalism* that capitalists had serious grounds for fearing their own salvation with the aid of Keynesian policy. Keynes proposes intensifying the economic role of the state only to the extent necessary to enliven the economy. "But what guarantee, what likelihood even, was there that things would stop there?" "In short, what if the wage earners came to the conclusion that it was not really necessary to tempt the entrepreneurs with rent, interest and profit, to get the necessities of life produced? That it was possible to produce things by means of a social initiative?" Did not Keynes's proposals harbour the possibility of complete socialisation of the economy? "Might not the end of the story be that the once proud possessors of the means of production would find themselves in effect but agents and managers on behalf of the commu-

nity? If this was saving capitalism ... it was saving it in a most Pickwickian sense."¹

State-monopoly regulation is exceedingly contradictory. Being a means of temporary and limited weakening of contradictions in the capitalist system, it simultaneously acts as a vital basis for movement and exacerbation of the system's internal antagonisms, for the maturation of objective and subjective prerequisites for socialism.

3. THE "EFFECTIVE DEMAND PRINCIPLE" AS PIVOT OF THE KEYNESIAN SYSTEM

Keynesian theory is normally treated as the theory of employment of labour power, intended to seek out causes of unemployment and remedy them. It was Keynes who first gave it this interpretation: "The ultimate object of our analysis," he writes, "is to discover what determines the volume of employment."² At the same time, Keynes's opponents among bourgeois economists maintain that the attainment of full employment is the principal objective of Keynesian recommendations for state intervention in the economy. The British economist A. C. Pigou writes that "Keynes's whole work is centred about the concept of full employment".³ In the

¹ John Strachey, *Contemporary Capitalism*, pp. 232, 233 and 234.

² J. M. Keynes, *op. cit.*, p. 89.

³ A. C. Pigou, *Keynes's "General Theory"*, London, 1951, p. 5.

view of the Japanese economist Ito, "the major aim of Keynes was achievement of full employment".¹

In right-wing socialist literature, the idea that Keynes's theory is oriented not so much by the interests of the bourgeoisie as by those of the working class is expressed ever stronger. The eminent Labour theoretician G. D. H. Cole writes, "Keynesian economics cannot correctly be called 'pro-capitalist'; they are fully compatible either with a wide measure of socialisation or with private capitalist ownership." He writes further, "Keynes was essentially an advocate of a planned economy, and thus found himself broadly in alliance with the reformist Socialists, though he differed from them in attaching less importance to public operation of industry."² John Strachey depicted Keynes's theory as if it were intended to safeguard the interests of the workers. Keynes, wrote Strachey, "assumed that ... the system ... would be regulated in the interests of 'the community as a whole'."³ Meanwhile, according to Strachey, Keynes "would have unenthusiastically agreed that that interest must in practice today be primarily the interest of the wage-earning mass of the population."⁴ In fact, it was on the basis of Keynes's theory of employment that Labour

¹ *The Oriental Economist*, January 1966, Vol. XXXIV, No. 663, p. 67.

² G. D. H. Cole, *Capitalism in the Modern World*, Oxford, 1957, p. 21.

³ John Strachey, *op. cit.*, p. 235.

⁴ *Ibid.*

ideologists worked out their notion of "democratic socialism".

It is patently apparent that the question posed here affects the very essence of the economic viewpoint and programmes of economic policy elaborated by Keynes and neo-Keynesians, affects their class orientation.

* * *

Keynes asserted that the cause of unemployment was rooted in the lack of effective demand for goods—consumer goods and capital goods. On this basis he urgently called to increase the volume of "effective" demand. It was to the achievement of this end that Keynes's programme of economic policy for a bourgeois state was dedicated.¹

Many prominent investigators of Keynesianism (the American economist Laurence R. Klein in his work *The Keynesian Revolution*, for example), regard elaboration of the problem of "effective" demand to be Keynes's major contribution.²

The Japanese economist Ito mentions in this connection that after World War II, "it has come to be generally accepted that the core of Keynesian economics is the theory regarding

¹ Ito writes, "... effective demand is considered to be the determinant of economic policy" (*The Oriental Economist*, p. 67).

² "The revolution was solely the development of a theory of effective demand, i.e., a theory of the determination of the level of output as a whole" (L. R. Klein, *The Keynesian Revolution*, New York, 1948, p. 56).

the relationship between expenditure and income (the consumption function), which determines effective demand, and hence the emphasis on analysis of effective demand."¹ Ito sees the distinction between the classical and Keynesian schools in the different approaches to the problem of market formation: "If the classical economics approach is to be defined as that which gave recognition to or believed in the free movement of prices, the Keynesian approach featured awareness of the need of intervention by the state in regard to generation of effective demand."²

The Symposium on Problems of Keynesian Theory from which the above-mentioned statements by Ito were taken is of even more interest in that its participants came to the unanimous conclusion that Keynes and Keynesians base their theory on an analysis of "effective demand".³

Even more remarkable is the fact that Keynes raises the demand to boost volume of effective demand to the rank of the most important principle of his theory; he essentially begins his *General Theory of Employment* with an examination of "the principle of effective demand".⁴

¹ *The Oriental Economist*, p. 65.

² *Ibid.*, p. 66.

³ See also B. Seligman, *op. cit.*, pp. 731-32 and 737 ("... Keynes came to feel that 'effective demand' was the prime mover in the attainment of this balance." "Basic to the Keynesian system was the concern with effective demand").

⁴ This problem was also dealt with in the books *Present-Day Non-Marxist Political Economy* and I. Osadchaya, *From Keynes to Neoclassical Synthesis*.

In viewing a boost to effective demand as a key point in activating economic life, Keynes is not calling for this objective to be implemented by a lowering of commodity prices. Nor does he set his sights on expanding the capacity of the market by raising workers' wages. Consequently, Keynes is speaking not simply of converting a commodity into money, not simply of a change of value forms, but of increasing demand for goods through monopoly-high prices that would ensure monopoly superprofits. Given these preconditions, the call to increase the volume of "effective" demand meant to expand the market for those goods which can ensure monopoly-high profits. From that standpoint, effective demand actually operates as something effective, but only for big capital.

Effective demand in Keynesian literature is normally interpreted as that relationship between demand and supply which helps to gain the maximum, in Keynes's terminology, profit, or profit itself. In seeing "effective" demand as the whole gross proceeds of entrepreneurs, Keynes wrote, "the *effective demand* is simply the aggregate income (or proceeds) which the entrepreneurs expect to receive, inclusive of the incomes which they will hand on to the other factors of production, from the amount of current employment which they decide to give."¹

"Effective" demand is here identified with the entire gross proceeds which include the "incomes of other factors of production", i.e.,

¹ J. M. Keynes, *op. cit.*, p. 55.

not only capitalist's profit, but also wages, interest and rent. Elsewhere in his major work, Keynes is more definite in reducing effective demand to maximum profit¹. Effective demand, Keynes writes, is the relationship between demand and supply at which growth of capitalist profit takes priority: "The effective demand is the point on the aggregate demand function which becomes effective because, taken in conjunction with the conditions of supply, it corresponds to the level of employment which maximises the entrepreneur's expectation of profit."² It is blatantly evident here that the volume of employment of workers is determined by the desire of capitalists to gain maximum profit which corresponds to capitalist reality, although it is far from exposing fully the mechanism that decides the level of employment. In capitalist conditions, the volume of employment depends on conditions of production and utilisation of profit.

Thus, "effective" demand, according to Keynes, is demand that is actually displayed and not potential effective demand. And, what is very important, it is demand for goods given the invariable preservation of the system of prevailing, i.e., monopoly-high, prices; and consequently, effective demand is a form and crucial means of ensuring "maximum profits".³

¹ *Ibid.*, p. 299.

² *Ibid.*, p. 55.

³ This close link between the "effective" demand category and conditions for ensuring the greatest profit is sometimes fairly clearly seen even through the prism

Keynes regards "effective" demand as a stimulus and the bounds of capitalist production, reflecting within his theoretical system the fact that capitalist production is subordinated to the aims of maximising profit. This orientation of Keynesian analysis is adequate to one of the most important aspects of state-monopoly capitalism—the subordination of the bourgeois state's economic policy to the objective of maximising capitalist profits.

By identifying "demand" and "income" Keynes typically confuses the question of the source of incomes with that of the source of money in which these incomes are expressed. In conformity with the vulgar position of bourgeois political economy, the source of capitalist incomes is not exploitation of wage workers by the bourgeoisie, but the expenses of the state, firms, and public and foreigners, i.e., effective demand. Explaining Keynes's point of view, the American economic historian Jacob Oser writes, "Every dollar spent on final goods and services, either for consumption or investment, becomes income."¹

of the "psychological method". The American economist Leo Rogin has written: "The effective demand is that particular expectation of aggregate expenditure for consumer goods and for investment which corresponds to the calculus, aggregated, for maximising net profits on the part of each economic enterprise. The reference of maxima makes effective demand an equilibrium magnitude" (Leo Rogin, *The Meaning and Validity of Economic Theory*, New York, 1956, p. 681).

¹ Jacob Oser, *The Evolution of Economic Thought*, New York, 1963, p. 329.

In the most clear-cut way Keynes links the concept of "effective" demand with that of profit; what is more, the maximum possible profit. An increase in the volume of effective demand presupposes the creation of a relationship between aggregate supply and aggregate demand, which would ensure maximum profit.

"The significance of both my present and my former arguments lies in their attempt to show that the volume of employment is determined by the estimates of effective demand made by the entrepreneurs, an expected increase of investment relative to savings ... being a criterion of an increase in effective demand."¹

The criterion for increasing effective demand, therefore, consists in increasing investment as compared to savings, i.e., to the extent at which savings really do become capital investment. The profitability of this investment is the deciding factor in this conversion.

Seligman writes, "That level of aggregate demand which led to an equilibrium was the effective balance."² He therefore admits that effective demand is not identical simply with aggregate demand. The latter will become effective if it fulfils a certain economic function over and above its main role. Seligman assumes that it consists in ensuring an economic equilibrium. But he forgets to underline that equilibrium may be attained only when demand is sufficient not only for replacing costs of production, but also

¹ J. M. Keynes, *op. cit.*, p. 78.

² B. Seligman, *op. cit.*, p. 737.

for ensuring maximum possible profit. Elsewhere, Seligman writes that production declines if the level of demand is lower than the entrepreneur expects, since the costs of production will not be covered. "On the other hand, should aggregate demand exceed expectations, production will be stimulated."¹ As Keynes notes, the expected size of profit is the greatest possible profit. Seligman recognises this second aspect of effective demand to a certain extent, when he explains the proposition that effective demand is demand that leads to the establishment of equilibrium. "This had two facets: it represented actual consumer expenditure and it also was income to the factors of production."² On the one hand, effective demand is expenditure made by purchasers, and on the other it is the income of owners of the factors of production.

Let us note that in bourgeois political economy this approach in interpreting effective demand is certainly not new. Robert Torrens had thought it necessary to demarcate demand and "effectual demand". By the latter he means demand that was capable of ensuring profit to the capitalists. "Effectual demand consists in the power and inclination *on the part of consumers*, to give for commodities, either by immediate or circuitous barter, *some greater portion* of all the ingredients of capital than their production costs."³

Torrens's "effectual demand" is very close in

¹ *Ibid.*

² *Ibid.*

³ Quoted from Karl Marx, *Theories of Surplus-Value*, Part III, Moscow, 1978, p. 78.

its content to Keynes's "effective" demand category. The difference probably lies in that Keynes's interpretation of the act of selling a commodity and its conversion into money as a means of ensuring profit is expressed more boldly. The major distinction between them is that in Keynesian theory the principle of "effective" demand is given a central place, which reflects, first, the essentially mounting role of the act of exchange, the act of selling a commodity among the means of ensuring capitalist profits, second, the decisive objectives of state-monopoly regulation of the economy and, third, the greater contradictions in capitalist reproduction.

Keynes is constantly stressing that it is the size of profit that is the decisive moment for entrepreneurs, while employment of workers is a phenomenon produced by it. Employment is established at the level at which the entrepreneurs reckon on making maximum profit. "The entrepreneur's profit thus defined is, as it should be, the quantity which he endeavours to maximise when he is deciding what amount of employment to offer."¹ Elsewhere he writes, "For entrepreneurs will endeavour to fix the amount of employment at the level which they expect to maximise the excess of the proceeds over the factor cost."²

This idea lies at the heart of Keynes's general employment theory. He actually maintains (and this fully accords with capitalist reality) that

¹ J. M. Keynes, *op. cit.*, pp. 23-24.

² *Ibid.*, pp. 24-25.

the level of employment of workers depends on conditions of production and utilisation of profit. Keynes underlines this dependence when examining the relationship between aggregate supply price and aggregate demand. "Now if for a given value of N the expected proceeds are greater than the aggregate supply price, i.e., if D is greater than Z , there will be an incentive to entrepreneurs to increase employment beyond N ... up to the value of N for which Z has become equal to D ."¹ Consequently, if the proceeds expected by the entrepreneurs exceed those which they earlier assumed they would receive in providing employment to a given number of workers, then they would increase the number employed up to an amount at which they would succeed in obtaining this expected amount of proceeds. In other words, if the profitable demand surpasses supply and proceeds rise, the capitalists increase employment.

This determining relationship between level of employment and conditions for ensuring capitalist profits is expressed very clearly by Keynes when he is describing "the substance of the general theory of employment". At the same time, we will acquaint ourselves fully here with the "effective" demand category. "Thus the volume of employment is given by the point of intersection between the aggregate demand function and the aggregate supply function; for it is at this point that the entrepreneurs' expectation of profits will be maximised. The value of

¹ *Ibid.*, p. 25.

D at the point of the aggregate demand function, where it is intersected by the aggregate supply function, will be called *the effective demand*. Since this is the substance of the General Theory of Employment, which it will be our object to expound, the succeeding chapters will be largely occupied with examining the various factors upon which these two functions depend."¹

In order to understand this definition of the essence of the General Theory of Employment, we should remember that, first, by the symbol *D* Keynes means the profit expected by the entrepreneurs² and, second, "the point of intersection between the aggregate demand function and the aggregate supply function" is seen as the relationship between demand and supply in which expected profit is highest.

If we put these two elucidations, wholly based on Keynes's own writings, into the above-cited definition of the substance of the General Theory of Employment, we obtain the following picture: "Thus the volume of employment depends on conditions in which profits will be maximised. The value of proceeds expected by entrepreneurs in conditions in which the proceeds will be greatest, will be called the effective demand. Since this is the substance of the General Theory of Employment which it will be our object to expound, the succeeding chapters will be largely occupied with examining the various factors upon which these conditions depend."

¹ *Ibid.*, p. 25.

² *Ibid.*

It is not fortuitous that Keynes's whole theoretical analysis is oriented on examining factors upon which "effective" demand and entrepreneur's proceeds associated with it depend. The substance of the General Theory of Employment lies in explaining primarily these problems, i.e., the conditions for ensuring the biggest profits as the main stimulus of capitalist production.¹ "The principle of effective demand" is therefore seen as a reflection of the aim of present-day capitalist production in the distorting mirror of bourgeois political economy.

Moreover, Keynes's concept has another very important side to it. Since he proclaims the ensurance of "effective" demand to be the prime task of the economic policy of a bourgeois state, we are undoubtedly dealing here with a theoretical reflection of state-monopoly capitalism's orientation on ensuring monopoly-high profits to big capital. There is in this definition a second aspect of state-monopoly capitalism as well: stimulation of business activity through maximising capitalist profits (activity seen here demagogically and one-sidedly as only "volume of employment"), so as to try to counteract the

¹ Alvin H. Hansen writes that "Chapter 3 of the *General Theory* is a highly important part of Keynes's epoch-making book" (A. H. Hansen, *A Guide to Keynes*, New York, 1953, p. 25). But Hansen suppresses the decisive feature of the "effective" demand category, its link with the process of maximising profit, which comprises an essential element in a Keynesian interpretation of that category. Hansen identifies "effective" with "aggregate" demand.

development of contradictions typical of the epoch of capitalism's general crisis. There remains no room here for complete elimination of unemployment as an aim of economic policy.

The principal objective of the Keynesian system of state-monopoly regulation of the capitalist economy should not be oversimplified. Sometimes present-day capitalist production, being located within a system of state-monopoly regulation, is only subordinated in the final count to this objective. Attempts at state-monopoly application of the laws of surplus value and profit arise precisely because the spontaneous action of these laws sometimes flies in the face of the general class interests of the bourgeoisie.

Nor is the essence of surplus value altered by the fact that a considerable part of it is taken from private entrepreneurs through the tax system into the state budget, takes the form of "general-class" or "associated" state-monopoly surplus value and is used in the interests of the bourgeois class as a whole, and primarily in the interests of its monopoly elite.

Keynes, speaking of "attaining employment" meant "obtaining income". Oser notes that Keynes focused attention on short-term changes in the economy, and therefore abstracted himself from the effect of long-term technological processes. "In the short run we can neglect technological change, and then we can agree (with Keynes—V. A.) that the level of income determines the level of employment, and the two can be used synonymously and interchangeably."

bly."¹ This is an obvious attempt to provide a type of theoretical backing for the method applied by Keynes: since "income" decides "employment" over the short run in which there can be no manifestation of the quality, inherent in technical progress under capitalism, of producing unemployment, we can therefore agree that "income" and "employment" are synonyms, and that the theory of attaining economic equilibrium by maximising profit may be presented as a theory for ensuring "full employment".

Oser's suggested synonyms based on identifying the causes of economic processes and their consequences are blatantly intended to substantiate class peace between the bourgeoisie and the proletariat; the "income" of the bourgeoisie and the "employment" of the workers are "interchangeable", according to Oser.

In substance, the same idea was expressed, though in a less clear form, in the discussion held on the occasion of the twenty-fifth anniversary of the appearance of Keynes's book. The American economist Harry Johnson wrote in his article about the substance of Keynes's work, "As Keynes presented it, it is a theory of the determination of income and employment, in which the emphasis is thrown on the determinants of effective demand and monetary factors play a subsidiary role."² The American

¹ Jacob Oser, *The Evolution of Economic Thought*, New York, 1963, p. 329.

² Harry G. Johnson, "The General Theory after Twenty-Five Years", *American Economic Review*, Vol. LI, May 1961, No. 2, p. 6.

economist Lawrence R. Klein treated Keynes's theory of effective demand as a theory determining the level of production as a whole. If we bear in mind that the determining factor in "level of production as a whole" are conditions for maximising capitalist profits, we can see that Klein's position in assessing Keynesianism will not be far from the truth.

Henry G. Bruton, another American economist, is also worthy of consideration in evaluating Keynesianism; he sees it as a theory aimed mainly at examining factors determining income. Enumerating what Keynes accepted in his system as given and immutable, Bruton writes, "With all these given, the problem was to determine the equilibrium level of income."¹

Thus, the above-noted orientation of Keynesianism on searches for means of maximising capitalist profit has not passed unnoticed in bourgeois writing.

Keynes's highlighting of "effective" demand theory shows the importance of the problem of selling commodities in the process of capitalist reproduction, and on condition of ensuring monopoly-high profits at that; this shows an important law of the contemporary capitalist market. This approach enables Keynes to pose the question of analysing the functional relationships of the capitalist reproduction process and to work out recommendations for state-monopoly regulation of the economy for the purpose

¹ Henry J. Bruton, "Contemporary Theorising on Economic Growth", in Bert F. Hoselitz, *Theories of Economic Growth*, Illinois, 1960, p. 243.

of maximising profit and ensuring stability in the capitalist economy, and, at the same time, to present his theory as a doctrine for guaranteeing full employment of the working class. It would have been impossible to resolve these tasks had Keynes simply confined himself to recognising the subordination of capitalist production to the objective of ensuring the greatest profit and had not linked it up with the problems of demand and employment.

An examination of the Keynesian concept of "effective" demand indicates that within this category Keynes sums up the effect of the capitalist form of production on the development of productive forces through the prism of the exchange notion. Keynes explains unemployment, the underemployment of the production apparatus, the low rate of growth of production, economic crises and other contradictions in capitalism's economy by deficient "effective" demand.¹

We have seen that the aim of contemporary capitalist production found its theoretical reflection in the so-called effective demand principle within the Keynesian system. Meanwhile,

¹ Lerner shows that Keynes's formula—excess demand causes inflation, while deficient demand causes depression—has not been borne out by the facts. He writes, "The coexistence of depression and inflation, since it cannot be due to the coexistence of excess demand and deficient demand indicates that there must be a cause of inflation other than excess demand, since the existence of depression is clear enough evidence that demand is deficient" (*Journal of Economic Literature*, March 1974, Vol. XII, No. 1, p. 42).

the whole content of Keynesianism, its method, its recommendations for economic policy in bourgeois states and their practical embodiment are subordinate to this crucial concept. Prescriptions worked out by Keynesians for economic policy are aimed at regulating the economy with regard to the objective of capitalist production.

4. KEYNES'S THEORY OF THE MARKET

As noted in the section above, the problem of the market is one of the central elements in the Keynesian system. Keynes's distinguishing feature in presenting this problem is that he reflects the specific role of the market in conditions of state-monopoly capitalism, when the market appears as a central link in the reproduction process, as well as the most important, relatively independent component part of the mechanism for guaranteeing monopoly-high profits by state-monopoly methods, and as one of the decisive spheres through which state-monopoly regulation of capitalist production is carried out.

Keynes singles out two principal components of the capitalist market: the market for consumer goods and the market for capital goods.

THE MARKET FOR CONSUMER GOODS

In examining factors affecting the capacity of the consumer market given an unchanging dis-

tribution system, Keynes singles out two decisive factors: first, "the propensity to consume" and, second, amount of aggregate income.

"The propensity to consume"

By this term Keynes means the functional relationship between income and expenditure on consumption given a static level of income. Quantitatively, "propensity to consume" is the portion of income being spent on consumption. Keynes defines it as "the functional relationship χ between Y_w , a given level of income in terms of wage-units, and C_w the expenditure on consumption out of that level of income, so that

$$C_w = \chi (Y_w) \text{ or } C = W \cdot \chi (Y_w)".^1$$

According to Keynes, the "propensity to consume" is an independent factor affecting the capacity of the market for consumer goods irrespective of the size of aggregate income. Given a constant magnitude of income, yet with varying "propensity to consume", market demand for consumer goods will be correspondingly different.

In turn, "propensity to consume" depends on objective and subjective factors. Subjective factors according to Keynes include precaution, foresight, calculation, avarice and other traits of the people which affect the amount of their expendi-

¹ J. M. Keynes, *op. cit.*, p. 90 ("W is the wage-unit", *ibid.*, p. 55, note 2).

ture on consumption, irrespective of the amount of their income. As Keynes points out, this type of factor does not have any marked influence on consumption¹ and should be taken into account only "in an historical enquiry or in comparing one social system with another of a different type".² He therefore takes subjective factors as given and concludes that "the propensity to consume depends only on changes in the objective factors".³

Keynes's desire to avoid examining subjective factors will become patently clear if we bear in mind that he actually includes in the group of subjective factors affecting the amount of consumption "the principles on which the income is divided" between those who take part in the economic process.⁴ "The subjective factors ... include those psychological characteristics of human nature and those social practices and institutions which, though not unalterable, are unlikely to undergo a material change over a short period of time except in abnormal or revolutionary circumstances."⁵

Keynes, therefore, takes them as given and unalterable, and in fact abstracts himself from the heart of the matter, from capitalist relations of production, the laws of the capitalist economy, which are precisely those that determine the capacity of the consumer market.

¹ *Ibid.*, pp. 111-12.

² *Ibid.*, p. 91.

³ *Ibid.*

⁴ *Ibid.*

⁵ *Ibid.*

We see once again that Keynes examines only the mechanism of functioning of the existing capitalist economic system (and even so very one-sidedly), and not its movement and development.

Keynes includes the following six elements in objective factors affecting the "propensity to consume"—i.e., affecting the part of income going to consumption given a certain size of income. First, a change in the wage-unit. Keynes expresses all value magnitudes in units of money wages—i.e., he sees them as equivalent to payment for a certain number of hours of unskilled work. The size of real income represented in wage-units will alter depending on the number of wage-units it is equal to and, consequently, to the number of labour-units this income makes possible for disposal.¹ The relationship between a change in labour-unit and volume of consumer demand, according to Keynes, is directly proportional. "If the wage-unit changes, the expenditure on consumption corresponding to a given level of employment will, like prices, change in the same proportion."²

Second, a change in the difference between the magnitudes of income and net income, since "the amount of consumption depends on net income rather than on income".³

Third, fortuitous changes in the value of capital not taken into consideration in determining

¹ *Ibid.*, pp. 91-92.

² *Ibid.*, p. 92.

³ *Ibid.*

net income. They exert, as Keynes writes, a considerable influence on altering the amount of consumption of the wealthy classes.

Fourth, changes "in the ratio of exchange between present goods and future goods". He is talking here of the impact of such phenomena as possible devaluation of money, tax imposition of a confiscatory nature, etc., on the portion of income being consumed.

Fifth, changes in taxation policy.

Sixth, changes in assessment of the relationship between present and future income levels.

Keynes attributes a change in wage-unit as a decisive part among the objective factors. Provided that we have eliminated changes in the wage-unit in terms of money, Keynes writes, "the propensity to consume may be considered a fairly stable function".¹

All in all, we may say that by "propensity to consume" Keynes means the whole aggregate of factors that affect the amount of the portion of income going to consumption, besides the effect of the magnitude itself of income.² Changes in "propensity to consume" have a certain (secondary, according to Keynes)³ influence on the size of consumer demand. It is the size of aggregate income that is the decisive factor. "For whilst the other factors are capable of varying (and this must not be forgotten), the aggregate income measured in terms of the wage-unit

¹ *Ibid.*, p. 95.

² *Ibid.*, p. 96.

³ *Ibid.*, p. 110.

is, as a rule, the principal variable upon which the consumption-constituent of the aggregate demand function will depend."¹

Keynes's "Fundamental Psychological Law"

How does Keynes see changes in society's aggregate income affecting the volume of aggregate consumption? "What is the normal shape of this function" connecting the two variables indicated? Keynes provides an answer in his so-called fundamental psychological law which, he believes, is applicable to all countries and socio-economic systems.

"Men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income."² Therefore, with an increase in real income to an even greater extent than income normally rises, there is an increase in its savings part which is taken out of circulation and is not spent on consumption needs: "These reasons will lead, as a rule, to a greater *proportion* of income being saved as real income increases."³ The demand for consumer goods diminishes relatively by that magnitude. "A higher absolute level of income will tend, as a rule, to widen the gap between income and consumption."⁴

¹ *Ibid.*, p. 96.

² *Ibid.*

³ *Ibid.*, p. 97.

⁴ *Ibid.*

Thus, Keynes is actually obliged to admit that capitalism contains a relatively limited market for consumer goods (which gets even worse with a greater amount of production and national income), although he strives to depict it as an expression of certain "psychological" characteristics of human nature.

In the final count, Keynes affirms the utterly trivial truth that the volume of personal consumption depends on the size of national income and of its portion going to consumption. This means that Keynesian methodology enables its advocates to detect only certain very general reproduction ties and relationships which exist in any system of social production, and therefore do not determine the specific nature of the consumer market under capitalism.

Keynes ignores objective economic laws of capitalism which circumscribe the capacity of the consumer market. The relative narrowness of the market for consumer goods is certainly not attributed in Keynes to the capitalism-inherent trend towards fall of real wages of workers or to essential restraining of its growth relative to the growth in labour productivity. On the contrary, Keynes explains it as being due to growth of "the community's income", which he does not break down into the incomes of different classes. The apologetic role of such an attitude is patently obvious.

Further, this theory has a certain anti-worker orientation. From Keynes's point of view, it appears that any wage increase associated with a rise in employment leads to a relative narrow-

ing of the consumer market, since it reduces the "marginal propensity to consume"—i.e., the relationship of an increment in personal consumption to an increment in national income. "...The marginal propensity to consume falls off steadily as we approach full employment...."¹ Yet, it is known that a deciding factor of growth in capacity of the consumer market is precisely an increase in workers' real wages.

At the same time, this "law" partly reflects the actually prevailing general quantitative relationship of the reproduction process, consisting in that the potential of accumulation has a tendency to rise with growth in social production and national income.

To the extent that the structure of its use changes with an increase in national income (the proportion of consumption in it diminishes), an ever smaller proportion of additional labour has to go on developing the production of consumer goods. "This means," writes Keynes in explaining the "fundamental psychological law", "that, if employment and hence aggregate income increase, *not all* the additional employment will be required to satisfy the needs of additional consumption."² It therefore follows that in comparison with a growth in national income, accumulation potential rises in an even greater measure. It is to the production of means of production that an ever greater proportion of additional labour must be directed, insofar as if the whole

¹ *Ibid.*, p. 127.

² *Ibid.*, p. 97.

increase in employment were to go to increasing production of consumer goods, prices would fall and employers would make a loss.¹ Demand, therefore, would stop being effective. And this has a decisive significance for Keynes's system.

We see that Keynes's "fundamental psychological law" expresses certain universal quantitative relationships of the social reproduction process which had been scientifically formulated by Marxist-Leninist political economy in the law of priority growth of the production of means of production with account for the specific nature of the capitalist or the socialist modes of production. It is certainly not fortuitous that Keynes is writing about the fact that the "stability of the economic system" depends on whether the "fundamental law" operates in practice.

In recognising the limited capacity of the market for consumer goods, Keynes is posing the question of the need to compensate for it through expanding the market for capital goods.

Keynes's Multiplier Theory

Keynes's multiplier theory is an important component of his market theory. Like all preceding Keynesian concepts, it is oriented on seeking quantitative relationships in capitalist reproduction, as well as on resolving tasks determined

¹ *Ibid.*, p. 27.

by being an apologist for capitalism. On the one hand, it operates as a theory of efficiency of state expenditure from the standpoint of its effect on the volume of production, employment, income and market; and on the other, as an apologist theory of the origin of income in investment.

The theory of the multiplying process within the capitalist economy originated during the 1929-33 world economic crisis as a means of theoretically substantiating rising state expenditure for mollifying economic crises and unemployment which had assumed menacing proportions at the time. Having initially arisen in the form of the concept of employment multiplier, the theory was supplemented by Keynes with his theory of the multiplier of investment or income.

The term, in technical language, implies a mechanism that augments the number of revolutions of a machine. In contemporary bourgeois economics the term means a coefficient reflecting a certain quantitative correlation between two or more variable economic magnitudes which are functionally dependent. The most widespread feature of Keynesian literature is the attempt to link the role of the multiplier—a kind of supercharger of economic conditions—with government investment. State expenditure ensures the initial impulse and excites economic activity leading to a general boost to aggregate demand. That is a fundamental tenet of Keynesianism on state-monopoly regulation of the economy. The multiplier theory has been a vital

link in the chain of arguments aimed at justifying the need for state intervention in the capitalist economy.

The multiplier concept, first introduced by the British economist R. F. Kahn, had the objective, as Keynes notes, "aimed at laying down general principles by which to estimate the actual *quantitative relationship* between an increment of net investment and the increment of aggregate employment which will be associated with it."¹ Kahn's idea was that "the change in the amount of employment will be a function of the net change in the amount of investment".²

Keynes calls the employment multiplier (K') the relationship of increment in total employment (ΔN) to increment in primary employment (ΔN_2) in industries directly connected with investment. The employment multiplier is expressed by the formula:

$$K' = \frac{\Delta N}{\Delta N_2}.$$

He shows that an increment in primary employment caused by investment in any branch of the economy, thanks to a chain reaction between the given branch and other branches, engenders in the latter a rise in employment in a certain (K') relation to primary employment.

Of course, the volume of employment is closely dependent on a change in an increment in

¹ *Ibid.*, pp. 113-14 (my italics—V. A.).

² By net investment Keynes means net increment in "capital property", equivalent to $A_1 - U - V$ (see *ibid.*, p. 113).

investment. The employment multiplier theory in a certain degree reflects this objective relationship, but only in its very general form, without account in many cases of the specific nature of the capitalist economy. "Employment can only increase *pari passu* with an increase in investment."¹ Yet since the multiplier concept is linked with the effect of inter-sector relations on the size of the market, it provides a far from full and a distorted reflection of the dependence of the capacity of the market on the degree of division of social labour. What it further leaves out of consideration is that the size of employment will depend not only on the volume of investment, but also to a considerable extent on the nature of this investment, on the organic structure of both accumulating and already functioning capital. With an increase in the amount of functioning capital and a growth in its organic structure there may arise a situation where employment not only does not rise, it will actually fall. Keynes does not investigate this decisive dependence of the volume of employment on the organic structure of capital; he presents it in a very general way, in the form of a brief note: "In the more generalised case it [the multiplier] is also a function of the physical conditions of production in the investment and consumption industries respectively."²

The size of increment in aggregate employment is bound to depend on the overall state of the

¹ *Ibid.*, p. 98.

² *Ibid.*, p. 117.

branch of primary investment and the branches associated with it. When there is underemployment of production capacity, surplus commodity supplies and other crisis phenomena immanent in the capitalist economy, an increment in investment in the initial branch may not provide any marked positive effect on the size of aggregate employment. If that increment strengthens an overproduction of goods, overall employment may even fall. What is more, one is bound to see the reverse side of a chain reaction between branches: with a fall in employment in any big branch of the economy and with a contraction of demand made by that branch on the output of related branches, there is bound to be, all things being equal, a considerably greater fall in the overall level of employment.

Thus, Keynes does not thoroughly analyse the complex system of causal relations that exist between a rise in investment and a change in the overall volume of employment. It receives only an extremely general quantitative expression in the employment multiplier. Crisis processes of the capitalist economy that have considerable effect on the volume of employment find no direct quantitative reflection within it.

Keynes's multiplier theory serves as an important link in justifying the parasitical, including military, expenditure of imperialist states. In conformity with this theory, one is ultimately indifferent to what the primary expenditure actually represents, whether it goes on military, parasitical objectives or on resolving actual economic problems. In fact, it would

seem that even expenditure on non-productive, including military, aims is preferable, since it is not accompanied by an increase in supply of goods, and nevertheless ensures the multiplier effect. "Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York."¹

The following points are noteworthy. First, Keynes realises that in a situation of substantial unemployment the opportunities to exploit the proletariat greatly increase, since this situation favours reduction in wages and greater intensity of labour, etc. "When involuntary unemployment exists, the marginal disutility of labour is necessarily less than the utility of the marginal product."² In this situation (when the rate of surplus value is exceedingly high), even "wasteful" loan expenditure may nevertheless enrich the community on balance".³ He continues, "Pyramid-building, earthquakes, even wars may serve to increase wealth."⁴

Second, this very situation of substantial unemployment threatens the preservation of the system of exploitation of the proletariat. Therefore, Keynes's efforts are bent on playing down this danger through an increase in exploitation, which he views as a condition of stabilising the economy and reducing unemployment. In this connection, the American economist Walt Rostow doubts that the state can achieve

¹ *Ibid.*, p. 131.

² *Ibid.*, p. 128.

³ *Ibid.*, pp. 128-29.

⁴ *Ibid.*, p. 129.

an economic balance with "a politically unacceptable level of unemployment and an economically unacceptable rate of inflation".¹

Keynes writes, "If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal-mines which are then filled up to the surface with town rubbish, and leave it to private enterprise ... to dig the notes up again ..., there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is."² By "capital wealth" here he means, of course, the wealth of the bourgeoisie. From this viewpoint "wars have been the only form of large-scale loan expenditure which statesmen have thought justifiable".³ One of the propositions at which the multiplier theory arrives in present-day militarised state-monopoly capitalism is to assert that the arms race "creates employment". This aspect of the multiplier theory best exposes the most blatant forms of parasitism and decadence of contemporary imperialism.

Keynes understands by multiplier not only the coefficient reflecting the quantitative dependence of overall employment on primary employment, but also the dependence of income, and therefore also consumer demand, on volume

¹ W. W. Rostow, *Politics and the Stages of Growth*, London, 1971, p. 237.

² J. M. Keynes, *op. cit.*, p. 129.

³ *Ibid.*, p. 130.

of investment. Keynes writes that the multiplier is "a definite ratio ... between income and investment and, subject to certain simplifications, between the total employment and the employment directly employed on investment".¹

Keynes establishes a certain connection between the employment multiplier (K') and the investment multiplier (K). While the employment multiplier indicates the quantitative relationship between increment in overall volume of employment and increment in investment, the investment multiplier shows the quantitative relationship between increment in income and increment in investment. This connection depends on the fact that, in accordance with Keynes's theory, an increment in employment is functionally dependent on an increment in investment, while an increment in income, in turn, depends on an increment in employment. "In general it is a good approximation to regard Y_w as uniquely determined by N ."² Consequently, behind the income multiplier theory is the already noted Keynes's proposition of a functional relationship between income (Y_w) and employment (N). Further, Keynes notes that "there is no reason in general to suppose that $K = K'$ ".³

The Keynesian Richard Goodwin writes that the multiplier theory, initially concerned only with the problem of unemployment, "has thus broadened into a general concept of income

¹ *Ibid.*, p. 113.

² *Ibid.*, p. 90.

³ *Ibid.*, p. 115.

formation".¹ "We now have a theory, or at least its sound beginnings, of income generation and propagation."² In line with the income multiplier theory, national income comes from investment, being in direct quantitative dependence on it. Another, even more crude version of the theory bases itself on the notion that "all the expenditure, including the injections, becomes income".³ As Goodwin writes, "Income at any time is equal to current injections plus a fraction of the previous period's income, which was in turn the sum of the previous injection and income, and, thus regressing backward in time, we may explain present income as the sum of all past injections, each appropriately discounted."⁴

Both the first and second versions of the income multiplier theory as a theory of its generation are aimed at masking the real source of national income and capitalist profit—the exploitation of hired labour. What is more, the first version represents a modern variety of the old vulgar theory of "capital productivity". In actual fact, only live productive labour is the source of national income in value form. And insofar as investment does not create national income, although it is an important condition of its creation, there is no direct quantitative

¹ Richard M. Goodwin, *The New Economics. Keynes' Influence on Theory and Public Policy*, New York, 1965, p. 484.

² *Ibid.*

³ *Ibid.*

⁴ *Ibid.*

relationship between these two phenomena. The volume of investment has an indirect rather than direct influence on the magnitude of national income: first, through that volume of producer goods in kind which, in value form, is represented as the sum of investment; second, through that amount of live labour which is set in motion by the given means of production, and third, through a change in the complexity, intensity and continuity of this labour because of the given investment.

In regard to the second version of the income multiplier theory, it actually substitutes the question of the source of "income" with that of the source of money in which this income is paid. It is absolutely impossible to explain the generation of "income"—i.e., growth in general sum of value wealth existing in society, by expenditure representing in money form an equivalent of already created value. The exchange processes may lead only to a redistribution of already-created wealth, and not to its increase.

Keynes regards the investment multiplier theory as part of his concept of the market in the section of his book devoted to factors determining the market for consumer goods. He uses this theory to show how the size of "society's income" alters and, consequently, how aggregate demand mainly for consumer goods alters, depending on a change in the volume of investment.

An increase in national income, and therefore the "increment of aggregate demand is equal to the increment of aggregate investment multi-

plied by the marginal propensity to consume".¹
Put another way,

$$\Delta Y_w = \Delta I_w \cdot K,$$

where ΔY_w is increment in income; ΔI_w is increment in investment; and K is the multiplier.

Keynes bases himself on the idea that an increase in investment leads to growth in employment, and therefore in "society's income". Expenditure on consumption also rises. Consumer demand is the higher, the greater is the portion of income being spent on consumption, and the smaller is its savings portion. In turn, the bigger is consumer demand, the greater is the market capacity and, consequently, the more favourable are conditions for a growth in production of employment and incomes. Therefore, Keynes links the size of the multiplier with a "marginal propensity to consume", reflecting the relationship of an increment in expenditure on consumption to an increment in income. He writes,

$$1 - \frac{1}{K} = \frac{\Delta C_w}{\Delta Y_w},$$

where $\frac{\Delta C_w}{\Delta Y_w}$ is the "marginal propensity to consume".²

¹ J. M. Keynes, *op. cit.*, p. 123.

² *Ibid.*, p. 115.

Hence we have the multiplier formula:

$$K = \frac{1}{1 - \frac{\Delta C_w}{\Delta Y_w}}.$$

¹ This formula is obtained from the following

$$\Delta Y_w = \Delta C_w + \Delta I_w$$

together with $\Delta Y_w = K \cdot \Delta I_w$ or $1 = \frac{\Delta C_w}{\Delta Y_w} + \frac{\Delta I_w}{\Delta Y_w}$

$$\text{and } 1 = \frac{K \cdot \Delta I_w}{\Delta Y_w},$$

$$\text{consequently, } \frac{\Delta C_w}{\Delta Y_w} + \frac{\Delta I_w}{\Delta Y_w} = \frac{K \cdot \Delta I_w}{\Delta Y_w},$$

$$\text{or } \frac{\Delta C_w}{\Delta Y_w} = K \cdot \frac{\Delta I_w}{\Delta Y_w} - \frac{\Delta I_w}{\Delta Y_w},$$

$$K = \frac{\Delta Y_w}{\Delta I_w},$$

$$\text{or } \frac{1}{K} = \frac{\Delta I_w}{\Delta Y_w};$$

$$\text{then } \frac{\Delta C_w}{\Delta Y_w} = K \cdot \frac{1}{K} - \frac{1}{K},$$

$$\text{or } \frac{\Delta C_w}{\Delta Y_w} = 1 - \frac{1}{K},$$

$$\text{hence } K = \frac{1}{1 - \frac{\Delta C_w}{\Delta Y_w}}$$

This formula may be presented in another form, with account for the fact that,

$$1 - \frac{\Delta C_w}{\Delta Y_w} = \frac{\Delta I_w}{\Delta Y_w}.$$

Then

$$K = \frac{1}{\frac{\Delta I_w}{\Delta Y_w}}, \text{ or } K = \frac{\Delta Y_w}{\Delta I_w},$$

where ΔI_w is the investment increment.

It follows from these formulas that the multiplier is directly proportional to the portion of consumption (marginal propensity to consume) and in inverse proportion to the portion of savings (marginal propensity to save) in the increment in national income. "The greater the marginal propensity to consume, the greater the multiplier, and hence the greater the disturbance to employment corresponding to a given change in investment."¹ For example, if the portion of increment in income going to consumption is equal to $\frac{8}{10}$, then the multiplier will be 5:

$$K = \frac{1}{1 - \frac{\Delta C_w}{\Delta Y_w}} = \frac{1}{1 - \frac{8}{10}} = \frac{1}{\frac{2}{10}} = 5.$$

If "propensity to consume" is equal to $\frac{9}{10}$, then the multiplier will be 10.

If the increment in income is not accompanied by an increment in consumption ($\Delta C_w = 0$)

¹ *Ibid.*, p. 125.

and the entire income increment is saved, the aggregate employment will rise only to the amount of primary employment. In these circumstances, $K' = 1$, consequently (increment in aggregate employment), $\Delta N = \Delta N_2$ (increment in primary employment).

But if $\Delta Y_w = \Delta C_w$, that is, if the whole increment in income is used only for consumption, "there will be no point of stability".¹ Given such a prerequisite,

$$K = \infty,$$

since

$$K = \frac{1}{1 - \frac{\Delta C_w}{\Delta Y_w}}$$

and

$$\frac{\Delta C_w}{\Delta Y_w} = 1$$

thus, $K = \infty$.

The magnitude of increment in aggregate employment (ΔN) will constitute

$$\Delta N = K \cdot \Delta N_2$$

but

$$K = \infty,$$

therefore

$$\Delta N = \infty \cdot \Delta N_2 = \infty.^2$$

In this situation, as Keynes explains, a comparatively small increment in investment will

¹ *Ibid.*, p. 117.

² As Hansen has put it, "If it were *all* spent and *none* saved, the cumulative process would indeed go on and *In*" (Alvin H. Hansen, *Business Cycles and National Income*. New York, 1951, p. 173).

lead to full employment. If the portion of increment in income going to consumption diminishes, then we need a substantial increment in investment to ensure full employment.¹

So Keynes links the effect that investment has within the given branch of the economy on related branches primarily with a change in the volume of consumption in the initial branch—i.e., with an expansion of the capacity of the consumer market in connection with the initial investment. He wrote: "We have here established the law that increased employment for investment must necessarily stimulate the industries producing for consumption and thus lead to a total increase of employment which is a multiple of the primary employment required by the investment itself."²

Keynes thinks investment more effective in a branch of the economy producing consumer goods than in the producer goods sector. The peculiar feature of the latter, he says, is that primary investment will "take gradual effect, subject to time-lag, and only after an interval".³

However, in fact the size of the multiplier will be very closely related to the additional volume of investment or otherwise to the growth in the market for producer goods. R. F. Kahn, talking of the reasons for generation of "secondary employment", links it up with an expansion of production and transport of raw materials (and other means of production) required

¹ J. M. Keynes, *op. cit.*, p. 118.

² *Ibid.*, p. 118.

³ *Ibid.*, p. 123.

for new investment.¹ This conclusion also follows from Keynes's arguments. Primary investment causes a growth in employment and, together with it, a growth in income. In accordance with the "fundamental psychological law", the structure of income being used then alters: there is an increase in the portion of it going to savings and, therefore, to investment, since,

$$\Delta Y_w = \Delta C_w + \Delta I_w.$$

Expenditure on consumption will grow absolutely, and will diminish relatively within the increment in income; ΔI_w will grow absolutely and relatively.

Thus, with growth in investment the market will expand chiefly for means of production, and the chain reaction between branches of the economy will work to the extent that they represent for each other a market primarily for means of production.

The concept of Keynes's multiplier to some extent reflects that fact, long established by Marxist economics, that movement of fixed capital is a material foundation for the economic cycle. "It is, however, to the general principle of the multiplier to which we have to look for an explanation of how fluctuations in the amount of investment, which are a comparatively small proportion of the national income, are capable of generating fluctuations in ag-

¹ R. F. Kahn, "The Relation of Home Investment to Unemployment", *The Economic Journal*, June 1931, Vol. XLI, No. 162, p. 173.

gregate employment and income so much greater in amplitude than themselves."¹

A formal construction of Keynes's multiplier theory is interesting in that it reflects his understanding of operation of the reverse effect principle within the system of capitalist economic regulation. A certain volume of investment in the capitalist economy will lead, according to Keynes, to a growth in employment and income to an amount divisible by the magnitude of the multiplier. In turn, increments in income and expenditure on consumption which reflect this magnitude of the multiplier effect exert an influence on the volume of fresh investment. So, information at the entry into the system (primary investment) becomes information at the exit (an increment in income and consumption), which once again is transferred to the entry (in the form of a new volume of investment). This formal aspect of the theory of the multiplier has enabled the Polish economist Oskar Lange to conclude that "Keynes's multiplier ... may be seen as a special case of the reverse effect multiplier".²

At the same time, Keynes runs into a palpably obvious contradiction in his system. It follows from the "fundamental psychological law" that with an increase in income the structure of its use changes in favour of investment and to the detriment of consumption. Consequently, the market must grow primarily for

¹ J. M. Keynes, *op. cit.*, p. 122.

² Oskar Lange, *Introduction to Economic Cybernetics*, Moscow, 1968, p. 33 (in Russian).

producer goods and be the chief factor of growth.

Simultaneously, it follows from the multiplier theory that growth in aggregate employment (and therefore production as well) is directly dependent on the portion of income going to consumption and, inversely, on expenditure to investment. Keynes writes, "In any case, the multiplier is likely to be greater for a small net increment of investment than for a large increment."¹ Aggregate employment, and consequently production as well, will be greater the more is spent on consumption from the increment of income and the less goes from it to investment. From this point of view, it is fluctuations in volume of consumption and not volume of investment that are given a decisive part in explaining economic fluctuations, although the exactly opposite conclusion follows from the "fundamental psychological law".

Keynes had spotted this contradiction. He wrote, "This² might seem to lead to the paradoxical conclusion that a poor community in which saving is a very small proportion of income will be more subject to violent fluctuations than a wealthy community where saving is a larger proportion of income and the multiplier consequently smaller."³

Keynes tries to wriggle out of this tight corner by demarcating absolute and relative magnitude

¹ J. M. Keynes, *op. cit.*, p. 121.

² The reference is to the fact that the magnitude of the multiplier is directly proportional to "the marginal propensity to consume".

³ *Ibid.*, p. 125.

of the multiplier. While in a poor community, he writes, marginal propensity to consume is great and a small part of income is saved, the multiplier becomes a significant relative magnitude. But its absolute magnitude is insignificant because absolute investment is not great (since the average propensity to consume is great). "Thus whilst the multiplier is larger in a poor community, the effect on employment of fluctuations in investment will be much greater in a wealthy community, assuming that in the latter current investment represents a much larger proportion of current output."¹

In this contradictory interpretation of decisive factors in forming the market, in contradiction of the concept of marginal propensity to consume which highlights the market for consumer goods and the notion of his "fundamental psychological law", thus focusing attention on the market for the means of production, he demonstrates the deficiency of his initial methodological position, his ignoring of the division of social production according to a natural-material composition into two large departments. So Keynes does not elucidate the question of the nature of these markets and the part they play in forming "aggregate demand".

In regard to the quantitative side of things, in effect Keynes only posed the question of the need for a mathematical expression of the multiplier effect of inter-sector economic relations. However, he did not provide any scientific

¹ *Ibid.*, p. 126.

solution to the question, largely because he ignored the class antagonistic character of capitalist relations of production. In his multiplier formula, Keynes does not include the direct quantitative expression of such manifestations of contradictions in capitalist reproduction as the extent of underemployment of production, the unemployment level and volume of surplus commodity stocks, which are bound substantially to affect both the nature and the magnitude of the multiplier effect. Capitalist production is depicted here as directly subject to consumption objectives and decisively dependent on the "propensity to consume". In reality, the direct aim of capitalist production is to obtain the biggest possible profit, which lends the whole capitalist reproduction process an extremely contradictory character, including the relationship between effective demand and the level of production being expressed in the former lagging considerably behind the latter. For this reason, Keynes's multiplier formula can go no further than elementary tautology: an increment in income is equal to an increment in investment multiplied by the multiplier—i.e., by the quotient from dividing the income increment by the same investment,¹ or,

$$\Delta Y = \Delta I \cdot K,$$

¹ See L. Alter, "The 'Multiplier' and 'the Principle of Acceleration' in Bourgeois Political Economy", in *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, 1960, No. 1, p. 92.

where

$$K = \frac{1}{1 - \frac{\Delta C}{\Delta Y}} = \frac{1}{\frac{\Delta I}{\Delta Y}} = \frac{\Delta Y}{\Delta I},$$

that is,

$$\Delta Y = \Delta I \cdot \frac{\Delta Y}{\Delta I} = \Delta Y$$

and finally

$$\Delta Y = \Delta Y.$$

The multiplier theory, therefore, does not reveal either the causal or any fully functional relationships between the magnitude of investment and the volume of national income. Yet, importantly, it contains the question of the presence of a chain reaction between branches of the economy, of the need for defining quantitative relations between a series of economic phenomena (volume of employment, magnitude of national income, volume of aggregate capital investment and capacity of the market), as well as an attempt to work out a formal construction reflecting some direct and reverse relationships within the system of capitalist economic regulation.

THE MARKET FOR CAPITAL GOODS

In examining the factors determining the capacity of the market for capital goods, Keynes attributes a decisive role to the correlation between the following two economic magni-

tudes: "the marginal efficiency of capital" and the rate of interest on loan capital. The difference between these magnitudes determines the actual profitability of investment, since it provides a category close to entrepreneur's profit, on which depends the so-called inducement to invest which, in Keynes's view, determines the demand for capital goods.

"The Marginal Efficiency of Capital"

"The relation between the prospective yield of a capital-asset and its supply price or replacement cost, *i.e.* the relation between the prospective yield of one more unit of that type of capital and the cost of producing that unit, furnishes us with the *marginal efficiency of capital* of that type."¹

A commodity-fetish interpretation of capital is therefore typical of Keynes. By capital he means a thing, a "capital-asset" that brings in income. The source of this income, the social essence of capital, its exploitative and historically transient nature, all this, in conformity with the traditions of vulgar economics, remains outside his analysis.

The problem of the essence of capital affects the innermost secrets of production of bourgeois wealth. Therefore, Keynes's position on the nature of capital is extremely primitive and apologist. He tries to divorce capital from its

¹ *Ibid.*, p. 135.

inner relationship with production. "It is much preferable to speak of capital," writes Keynes, reducing the whole problem to a semantic issue, "as having a yield over the course of its life in excess of its original cost, than as being *productive*."¹ At the same time, he replaces the question of the source of "yield from capital" by a moral-ethical problem that is unrelated to the matter, on what grounds an asset as capital brings a yield in excess of its "supply price". He regards the scarcity of capital-asset as these grounds. This is "the only reason" why capital offers an income in excess of its value.² Capital, in Keynes's interpretation, has nothing to do with exploitation of the proletariat. It is simply the ability of assets to bring in income owing to their own scarcity: "If capital becomes less scarce, the excess yield will diminish, without its having become less productive—at least in the physical sense."³

The epistemological basis of this position, fully distorting the actual social essence of capital—the socio-productive relationship of the proletariat's exploitation by the bourgeoisie—is the commodity-fetish interpretation of capital, which is inculcated in the bourgeois consciousness by the fact that capital operates not only in the sphere of material production, but also in that of exchange and services, and in both spheres acquires certain material forms. On these

¹ *Ibid.*, p. 213.

² *Ibid.*

³ *Ibid.*

grounds there arises the erroneous notion that assets as such possess the miraculous quality of creating income. The idea is based on confusing the source of creating income (which can only be a worker's surplus labour) and the means of appropriating this income by the owner of capital (which is his assets).

In interpreting capital as assets that bring income, Keynes singles out two of its principal forms: "instrumental capital" (a materialised form of capital engaged in the production process, like, for example, a machine) and "consumption capital" (a material form of capital operating in the sphere of consumption, like, for example, a house).¹

If we apply this definition to production, it would result that by capital we would have only means of production, i.e., only constant capital, and not the whole of capital which consists of the constant and variable parts. The entire train of Keynes's arguments tells us that by capital he means only its materialised elements, the means of production or their value form.

It follows that the "marginal efficiency of capital" is not in itself the rate of profit, since here profit is taken in regard only to the constant part of capital rather than to all capital. Moreover, not all constant capital is taken into account: we know that a "capital-asset", i.e., actually means of labour, forms the materialised form only of constant capital. Keynes attributes

¹ *Ibid.*, p. 226.

profit to a unit of increment in 'such capital.

By "marginal efficiency of capital", therefore, Keynes means the relation between prospective profit going to a unit of the newly-set-in-motion fixed part of constant capital and the "replacement cost" of this unit—the prospective proportionate profitability of the increment in fixed capital. This is an important economic indicator applicable in practice and representing the efficiency coefficient of reproduction of fixed capital.

In accordance with his method, Keynes is trying to give the indicator the character of an economic forecasting category. He writes that "the marginal efficiency of capital" depends on the expected prospective yield of new investment, "not on the historical result of what an investment has yielded on its original cost if we look back on its record after its life is over".¹ It is this expected, forecasting indicator of the efficiency of capital that determines, according to Keynes, an entrepreneur's demand for capital goods. Keynes equalises the investment demand-schedule and the schedule of the marginal efficiency of capital.²

He says that the marginal efficiency of capital is in inverse proportion to the volume of investment, inasmuch as the prospective yield of capital, in conformity with the vulgar marginal productivity theory, diminishes as its³ amount rises and, consequently its scarcity is reduced,

¹ *Ibid.*, p. 136.

² *Ibid.*

whereas the value of the capital-asset (the "supply price") increases with the growth of its production, as a result of "pressure on the facilities for producing that type of capital".¹ Consequently, both components determining the marginal efficiency of capital (the expected profit per unit of increment in fixed capital and the "replacement cost" of this capital) undergo a change with a growth in investment in a direction leading to a reduction in this indicator. With the growth in investment, its prospective yield will diminish and conditions for subsequent investment will worsen, until the marginal efficiency of capital will generally be equal to the market interest rate, and entrepreneur's profit will disappear. Hence Keynes draws the conclusion that "the inducement to invest depends partly on the investment demand-schedule and partly on the rate of interest".²

Keynes's idea about the fall of the "marginal efficiency of capital" with the growth of its accumulation, reflects to a certain extent the external manifestation of the law of the tendency of the profit rate to decline, whose inner mechanism (closely linked with the law of surplus value and the tendency of the organic composition of capital to grow) and specific operation in present-day capitalist conditions Keynes was unable to lay bare.

The "marginal efficiency of capital" is, therefore, the anticipated proportionate profitability of fixed capital that is set in motion.

¹ *Ibid.*

² *Ibid.*, p. 137.

Expected prospective yields, Keynes writes, affect the economic situation largely through the "marginal efficiency of capital" schedule. In other words, he is here stressing the determining role of profit. What determines an entrepreneur's current decisions is the future profitability of a unit of fixed capital that is set in motion.

Keynes's Interest Theory

The problem of forming the rate of interest occupies an important place in Keynes's reproduction theory.¹ Keynes proceeds from the notion that a capitalist uses borrowed capital and therefore receives only the difference between the rate of profit and the rate of interest, i.e., entrepreneur's profit. The level of loan interest determines a lower schedule of profitability. Therefore, a change in the rate of interest exerts, says Keynes, considerable influence on the profitability of investment, and so also both on the inducement to invest and on "effective" demand. At the same time, the rate of interest governs the supply terms of loan capital. Keynes wrote: "The schedule of the marginal efficiency of capital may be said to govern the terms on which loanable funds are demanded for the purpose of new investment; whilst the rate of interest governs the terms on which funds are

¹ In the opinion of the American economist Seymour E. Harris, "the rate of interest is a cornerstone in the Keynesian system" (*The New Economics*, New York, 1965, pp. 50, 69).

being currently supplied."¹ This is one of the rare passages in Keynes's major work where he views loan interest in relation to the movement of loan capital.

Yet when Keynes deals with the question of the essence of interest he takes up a position that is very far from revealing the connection between interest and surplus value and the movement of loan capital. Neither does he share the traditional vulgar-apologist interpretation of interest as "a return to saving or waiting as such".² The rate of interest, in Keynes's view, "is the reward for parting with liquidity for a specified period"³, i.e., for parting with the liquid, money form of wealth.

He explains that the liquid (money) form of wealth is the most mobile and convenient. Therefore, the owners of wealth always aspire to give it a money form and not to part with it. This aspiration, which Keynes calls "liquidity-preference", is measured by the amounts of those resources which the owner of wealth "will wish to retain in the form of money in different sets of circumstances".⁴ In a situation of political unrest, danger of nationalisation or the coming to power of a workers' government, liquidity-preference has a tendency to rise. According to Keynes, it affects the rate of interest, insofar as it is "a highly psychological phenomenon".⁵

¹ J. M. Keynes, *op. cit.*, p. 165.

² *Ibid.*, p. 167.

³ *Ibid.*

⁴ *Ibid.*, p. 166.

⁵ *Ibid.*, p. 202.

In drawing a distinction between the use of money as a means of exchange and its use as a "store of wealth", Keynes regards "liquidity-preference" as relating to money as the means of storing wealth.¹ "Liquidity-preference is a potentiality or functional tendency, which fixes the quantity of money which the public will hold when the rate of interest is given".²

He attributes a great deal of importance to examination of "liquidity-preference", doing all he can to stress the social danger of accumulating ready cash.

According to Keynes, the quantity of cash which its owners aspire to keep depends on the following: the need of cash for "the current transaction of personal and business exchanges", the desire to have cash for reserves, and speculative motives. The rate of interest in Keynes's theory acts as a "purely monetary phenomenon" engendered directly by commodity-money or, rather, simple commodity, but not capitalist, relationships. "Interest is a payment for borrowing *money*."³ So, interest is separated from the base that causes it—loan capital, and is depicted as payment for forgoing liquidity.

In accordance with the dual interpretation of interest: on the one hand as psychological, on the other as a monetary phenomenon, Keynes singles out two factors that exert, he believes a decisive influence on the rate of interest. First, there is "liquidity-preference", to the size

¹ *Ibid.*, p. 168.

² *Ibid.*

³ *Ibid.*, p. 186 (footnote).

of which interest is directly proportional. The second factor determining the rate of interest is the amount of money in circulation. Interest, according to Keynes, is in inverse proportion to the amount of money in circulation. So we have "the rate of interest falling as the quantity of money is increased".¹

The influence of these two factors may be in opposite directions, and only their aggregate result will tell on the rate of interest. A large increase in the quantity of money in circulation, which should reduce the rate of interest, may cause so much uncertainty about the future that the desire to hold cash will grow sharply and the rate of interest will rise.²

Thus, Keynes thinks that the rate of interest on the one hand depends on the psychology of creditors and, on the other, on the emissions policy of the capitalist state. He ignores the objective laws that lie behind movement in the rate of interest, and relies on a psychological reflection of the laws of economic form associated with movement of loan interest.

The Keynesian interest theory bears the obvious imprint of the general crisis of capitalism. The highlighting of such factors as "liquidity-preference" is a distorted reflection of the bourgeois awareness of the mounting political and economic instability of contemporary capitalism, the uncertainty of capitalists about the profitability and even security of their capital. The

¹ *Ibid.*, p. 171.

² *Ibid.*, p. 172.

Keynesian "liquidity-preference" category expresses the bourgeoisie's fear of revolution and nationalisation and the desire to sooner use capital in the sphere of speculation, to keep it as cash, than to take a chance on long-term investment.

As regards the second factor that is supposed to determine the rate of interest—the amount of ready cash in circulation, we see that Keynes's position is unconvincing here as well. He describes only the appearance of economic phenomena, not their substance, and that from a vulgar-apologist standpoint, regarding interest as the generation of money as such, identifying loan capital and money. This position is a step backwards as compared with that of the early British bourgeois economists of the seventeenth and eighteenth centuries.

In his *Theories of Surplus-Value*, Marx wrote that Petty and Locke had mistakenly assumed that "the real object of the loan is money (not capital)".¹ Yet already "in Sir Dudley North's writings we find the first correct conception of interest as opposed to Locke's idea".² North's work *Discourses upon Trade*, in which he sets out his views on interest, was published in London in 1691. In the middle of the eighteenth century the works of Massey and Hume appeared, in which they opposed Locke and Petty on interest, proving that the real object of the loan was capital rather than money.

¹ Karl Marx, *Theories of Surplus-Value*, Part I, Moscow, 1975, p. 373.

² *Ibid.*, p. 364.

Sismondi, too, largely understood interest correctly; he was the last of the classical bourgeois economists in France. In his *Nouveaux principes d'économie politique*, he wrote that interest depends on "competition between capital" and that "a more or less abundance of money has no influence on the fixing of the interest".¹ David Ricardo gives an indication in his *Principles of Political Economy and Taxation* that the rate of interest is "ultimately and permanently governed by the rate of profit".² Even Alfred Marshall understands interest as the price being paid for use of capital.

Loan interest does not depend directly on the amount of money in circulation, since its determining factor—the supply and demand of loan capital—are not identical with the amount of money in circulation. The supply and demand of loan capital are regulated by objective laws. That is why banks cannot arbitrarily establish the rate of interest, which is very closely dependent on phases of the industrial cycle.

Keynes's concept of interest is deceptive. The fact is that loan capital and money are far from being one and the same thing. The qualitative distinction between loan capital and money consists in that the former functions as capital, as self-mounting value serving as an introduction to capitalist production. An increase in the amount of money in circulation does

¹ J. Ch. L. Simonde de Sismondi, *Nouveaux principes d'économie politique*, Vol. 2, Paris, 1975, p. 53.

² David Ricardo, *Principles of Political Economy and Taxation*, London, 1908, p. 282.

not yet mean an increase in the supply of loan capital, and therefore may not have any great effect on the rate of interest.

Neither do loan capital and money coincide in a quantitative respect. As Marx put it, "the mass of loan capital is quite different from the quantity of circulation."¹

A change in the quantity of money does not have a direct influence on the size of loan interest, since not all the quantity of money in circulation acts simultaneously as a function of payment funds. One of the deciding factors of the amount of money in circulation is the volume and speed of circulation of goods, related to the performance by money of the function of being a means of exchange. Therefore, an increase in the quantity of money may affect the rate of interest only to the extent that this increase will lead to a rise in temporarily free cash funds accumulating in the banks and able to function as loan capital, i.e., to the extent that increase in the quantity of money in circulation will ultimately affect an increase in the supply of loan capital.

It follows that not any increase in the quantity of money can produce this result. In the event of inflation, given a growth in paper money in excess of the requirements of commodity turnover and commodity prices, an increase in the supply of loan capital, which will occur as a result of a growth in temporarily free funds in the banks, will be counteracted by deprecia-

¹ Karl Marx, *Capital*, Vol. III, Moscow, 1977, p. 499.

tion of that loan capital because of depreciation of money. Consequently, in this situation there may not be any increase in real supply of loan capital.

At the same time, the rate of interest depends, as we know, not only on supply, but also on demand for loan capital. This means that in the event of inflation creating favourable conditions for the speculative use of capital and a sharp rise in the rate of interest, there will be an increase in demand for loan capital and the interest rate far from falling may even rise.

All this goes to show that there is no direct and simple relationship, as Keynes maintains, between the quantity of money in circulation and the rate of interest. It does not exist precisely, because interest is certainly not the payment for borrowing money, it is a specific form of surplus value inherently associated with the functioning of loan capital.

Keynes criticises, as he calls it, the classical interest theory, according to which the interest rate depends on the correlation between investment (represented as demand for capital) and saving (represented as supply of capital).

The trend of Keynesian criticism of this concept is extremely noteworthy. It goes to show that his major objective is precisely to analyse the functional relationships of the capitalist economy. He states that the "classical" theory wrongly regards investment and saving as independent variables, while it is precisely the latter that must still be determined. "The traditional analysis is faulty because it has failed to isolate

correctly the independent variables of the system. Saving and Investment are the determinates of the system, not the determinants. They are twin results of the system's determinants, namely, the propensity to consume, the schedule of the marginal efficiency of capital and the rate of interest."¹

We have a situation, therefore, where the rate of interest changes from a determinable magnitude to one of the determining factors. The point at issue, says Keynes, is not to elucidate how the interest rate depends on the volume of investment and saving. It does not depend directly on them. The object is to determine on what the amount of investment and saving depend.

The principal line of Keynesian criticism of the "classical" interest theory is to show that this theory provides disastrous practical recommendations in regulating economic affairs. According to the former interest theory, a reduction in spending ought to lead to a lowering of interest (since a reduction in spending correspondingly increases saving, and thereby also the supply of loan capital), and a growth in investment to a rise in the rate of interest. According to Keynes, however, these factors have an influence not so much on the rate of interest as on the aggregate of employment and business activity. Reduction in spending, from his point of view, not only will not reduce the rate of interest and therefore stimulate a growth in investment and employment, on the contrary, it will lead to a

¹ J. M. Keynes, *op. cit.*, pp. 183-84.

fall in effective demand, a decline in investment profitability and will therefore undermine business activity radically. Having in mind the volume of expenditure and investment, Keynes writes in his running battle with the "classical" interest theory: "But if what these two quantities determine is, not the rate of interest, but the aggregate volume of employment, then our outlook on the mechanisms of the economic system will be profoundly changed."¹ He emphasises that "the problem here under discussion is a matter of the most fundamental theoretical significance and of overwhelming practical importance".²

At the same time, Keynes criticises the former ideas of bourgeois political economy about the role of saving as the source of investment. According to this view, "current investment is promoted by individual saving to the same extent as present consumption is diminished".³ Keynes shows that this position emanated from the conviction that "an increased desire to hold wealth", is "much the same thing as an increased desire to hold investments".⁴ He calls this idea absurd, even though it reflected a generally-held opinion.

The act of saving, notes Keynes, "is not a substitution of future consumption-demand for present consumption-demand,—it is a net diminution of such demand".⁵ Furthermore, present

¹ *Ibid.*, p. 185.

² *Ibid.*, pp. 184-85.

³ *Ibid.*, p. 211.

⁴ *Ibid.*

⁵ *Ibid.*, p. 210.

saving may continue in the future to serve as a reason for reducing demand on both consumer and capital goods. "An act of individual saving means—so to speak—a decision not to have dinner today. But it does *not* necessitate a decision to have dinner or to buy a pair of boots a week hence or a year hence or to consume any specified thing at any specified date."¹

The rate of interest in Keynes's theory acts the part of a lower margin of profitability. The rate of profit approximating to the rate of interest makes investment increasingly less favourable and finally (given equality of these two magnitudes) impossible. For that reason, asserts Keynes, the profitability level is in inverse proportion to the change in the rate of interest: the lower the rate of interest, the higher are profitability and business activity and, together with it, the level of employment. The rate of interest which is "consistent with *full* employment, given the other parameters of the system" is described as neutral or optimum rate.² On the other hand, if the rate of interest rises, then, all things being equal, the profitability of investment falls, as does the demand for capital goods and, together with that, production itself and employment.

Thus, the rate of interest in Keynes's theory is one of the most important elements in the working of the capitalist economy. What is more, it is depicted as a factor constraining

¹ *Ibid.*

² *Ibid.*, p. 243.

any possibility of stimulating economic activity. He thinks that the rate of interest is distinguished by its great inelasticity owing to the considerable "liquidity-preference" and stable quantity of money in circulation. If we leave aside the action of state agencies, writes Keynes, "it is also impracticable, owing to the inelasticity of the production of money, for natural forces to bring the money rate of interest down by affecting the supply side".¹

He sees a way out in a certain set of state measures aimed at an absolute (through so-called controlled inflation) or a relative (through reducing wages) increase in money in circulation.

5. WAGES AS A FACTOR IN SHAPING "EFFECTIVE DEMAND"

Keynes includes wages of hired workers among "ultimate independent variables" through which the bourgeois state has to control the capitalist economy.² And wages really do function in his system as one of the decisive levers of such control. This is, in fact, Keynes's "new approach" to the problem of wages.

In his interpretation of the very essence of wages, Keynes subscribes to the old positions of vulgar political economy: wages are a reward for a "factor of production", i.e., labour. Thus, Keynes subscribes to the so-called factors of

¹ *Ibid.*

² *Ibid.*, p. 246.

production theory of Jean B. Say, the founder of bourgeois political economy, but in its version as elaborated by the American economist John B. Clark, the creator of the theory of marginal productivity.¹

Analysis of Keynes's wage theory demonstrates that he devotes his primary attention, in accordance with his overall objective, to studying quantitative relationships of capitalist reproduction. "Keynes's discussion of wages revolved around the effects of a reduction of wages upon demand and output," wrote Seymour E. Harris, an American researcher of Keynes's theory. He went on to say that "there is relatively little said about rises in wage rates".² This approach to wages very clearly shows up the anti-labour orientation of Keynesianism.

According to Keynes, a reduction in the wage level exerts in the final count a "positive" influence on all three principal "independent variables" of his system—the "propensity to consume", "marginal efficiency of capital" and the rate of interest, which determine the movement of aggregate employment and national income. As he writes himself, "*the reduction in money-wages will have no lasting tendency to increase employment except by virtue of its repercussions*

¹ A number of bourgeois specialists in wage problems admit that the marginal productivity theory does not distinguish "between particular wages and the general wage level" (John T. Dunlop, "The Task of Contemporary Wage Theory", *The Theory of Wage Determination*, ed. by John T. Dunlop, London, 1957, p. 10).

² Seymour E. Harris, *The New Economics*, p. 350.

either on the propensity to consume for the community as a whole, or on the schedule of marginal efficiencies of capital, or on the rate of interest".¹

Following the logic of the "fundamental psychological law", a reduction in incomes, including wages (in effect, we are talking precisely about a wage cut), will mean an even greater drop in their savings part, and on that count an increase in the "propensity to consume" and an expansion of the consumption market. Actually, these propositions represent a principle of the programme proposed by Keynes for freezing nominal and reducing real wages.

On the other hand, a reduction in nominal wages, Keynes maintains, will worsen the price differential between exports and imports, which will lead to lower incomes, and therefore to a greater "propensity to consume". However, a direct reduction in nominal wages may, he says, lead also to less "propensity to consume" by the community as a whole, since this fall will evidently mean a certain reduction in prices and a redistribution of "real income" from workers and entrepreneurs to "other factors of production" and rentiers, whose "propensity to consume" is fairly small.

Consequently, Keynes reasons, the "propensity to consume" of the community as a whole, as well as the market for consumption goods, will contract not because the effective demand of workers will fall owing to a reduction in wages,

¹ J. M. Keynes, *op. cit.*, p. 262 (my italics—V. A.).

but because the "positive" effect of this reduction will outweigh the negative effect of the redistribution, associated with it, of income in favour of rentiers and other sectors which have high incomes and a low "propensity to consume". Typical of Keynes's apologist devices here is his attempt stubbornly to conceal an intensification in the antagonism between the proletariat and the bourgeoisie owing to a reduction in wages; he portrays this as if the entrepreneurs will not only fail to gain large profits out of a wage reduction, but they will even suffer a profit decrease. Keynes assesses the major influence of a contraction in nominal wages on consumption market generally as unfavourable, insofar as it brings on a redistribution of aggregate income in favour of groups with a lower "propensity to consume". All his hopes are pinned on the effect of such a reduction on the "marginal efficiency of capital" and the rate of interest.

Lower wages operate in Keynes's scheme of things also as an important means of boosting the "marginal efficiency of capital". Being a component part of "factor costs", wages have a substantial effect on the size of entrepreneurs' profits. Keynes sees their reduction as a crucial prerequisite for stimulating business activity. "Since a special reduction of money-wages is always advantageous to an individual entrepreneur ... a general reduction ... may also produce an optimistic tone in the minds of entrepreneurs" and increase the marginal efficiency of capital.¹

¹ *Ibid.*, p. 264.

Keynes, however, is opposed to the primitive position of the earlier vulgar bourgeois political economy which had maintained that a reduction in money-wages in all conditions would lead to a reduction in the costs of production, an increase in profits and therefore also a rise in employment. Keynes contrasts this standpoint with his macro-economic approach: "If, then, entrepreneurs generally act on this expectation, will they in fact succeed in increasing their profits?"¹ Certainly not always, says Keynes. Such a universal reduction in nominal wages will not undermine conditions for boosting profits only when, as Keynes explains it, the market does not contract, i.e., if the results of reducing wages will be compensated by a growth in consumption in other public sectors or by an increase in investment. In these circumstances, Keynes thinks, a reduction in wages is a crucial factor in maintaining and increasing "effective", i.e. profitable demand, therefore a factor in increasing capitalist profits without undermining, however, the stability of the whole process of capitalist reproduction.

He thinks that it is very advantageous for the nominal wages of workers within a country to fall compared with their level abroad, for countries with what he calls an open economic system. In this situation conditions are created for a profitable increase in the volume of exports and, consequently, for an increase in the volume of domestic investment, which in turn should stimulate business activity. The "marginal effi-

¹ *Ibid.*, p. 261.

ciency of capital" will also rise, he says, with a reduction in money-wages that "is expected to be a *reduction relatively to money-wages in the future*".¹ It also will be "advantageous" for consumption because it will increase the "propensity to consume".

"The contingency, which is favourable to an increase in the marginal efficiency of capital, is that in which money-wages are believed to have touched bottom."² Here we have with the utmost clarity the antagonism between labour and capital which Keynes is trying so carefully to mask. Maximum profit is most effectively ensured to the monopolies when wages are at a minimum.

Reduction in nominal wages also plays a considerable part as a means of reducing the rate of interest—this crucial, from Keynes's point of view, barrier to the growth in "marginal efficiency of capital", and therefore to business activity in general. A reduction in wages should lead to a redistribution of the amount of ready cash in favour of entrepreneurs and to a relative overflowing of the channels of "business circulation" which, according to Keynes's logic, is equivalent to an excess money supply, and in the same way will lower the rate of interest.

"We can . . . produce precisely the same effects on the rate of interest by reducing wages, whilst leaving the quantity of money unchanged, that we can produce by increasing the quantity of

¹ *Ibid.*, p. 263.

² *Ibid.*, p. 265.

money whilst leaving the level of wages unchanged."¹ The same aim may be achieved not only by reducing the overall level of nominal wages, but also by reducing the money "wage-unit", i.e., the hourly wage payment. "A reduction of the wage-unit will release cash from its other uses for the satisfaction of the liquidity-motive."² That really means for the satisfaction of the appetites of monopoly capital. Here too, however, Keynes underlines the limited nature of a reduction in nominal wages as a means of stimulating business activity. He writes that popular discontent caused by a reduction in money-wages may so disturb political confidence that "the increase in liquidity-preference due to this cause may more than offset the release of cash from the active circulation",³ as a result of the reduction of wages.

Here Keynes bends all his efforts to searching for an optimum level of reduction in nominal wages which, on the one hand, would be sufficiently "effective" from the point of view of its influencing the rate of interest and, on the other, would not be so immoderate as to "shatter confidence" and upset the whole course of the capitalist reproduction process.⁴

Thus, a reduction in nominal wages has, Keynes thinks, a stimulating effect on all three principal independent variables, and thereby also on the level of business activity as a whole.

¹ *Ibid.*, p. 266.

² *Ibid.*, p. 232.

³ *Ibid.*, pp. 263-64.

⁴ *Ibid.*, p. 267.

"A reduction in money-wages is quite capable in certain circumstances of affording a stimulus to output."¹

It also follows from this that it would be wrong to assume that Keynesians oppose a reduction in nominal wages. Their position on wage policy reflects the following two factors: first, the fear of political complications from any large reduction in money wages and, second, an urge to use this as another way for boosting the profits of the bourgeoisie.

According to Keynes, just about all economic, political and even psychological problems could be resolved by lowering nominal wages if it were not for labour resistance. In a situation when labour resistance for some reason weakens, the bourgeoisie and its theoreticians do not neglect this means of raising profits as well. Therefore, many contemporary followers of Keynes regard his thesis about the "inelasticity" of money wages unacceptable, since it ties the hands of the defenders of direct state "control" of wages. Harry Johnson thinks this feature of Keynesian theory valid only for the period preceding the publication of *The General Theory of Employment*, with its massive chronic unemployment in Britain, but inapplicable to the present day. The "rigid" money-wage thesis, Johnson explains, is a category of "the political economy of depression"; it sees nominal wages as something given and therefore excludes them from the parameters of economic analysis, being

¹ *Ibid.*, p. 257.

based on the assumption of the economic irrationality of part of the working class, interested more in money wages than in real wages. In criticising Keynes and admitting the changeable nature of wages, Johnson writes that "the level of money wages is a proper subject for economic analysis, unless we are prepared to reject the assumption that wage earners ... are in some sense economically rational".¹

In line with the orientation of his investigations on drawing up prescriptions for state-monopoly regulation of the capitalist economy, Keynes pays considerable attention to the methods and conditions of reducing wages. And here he is truly inexhaustive. He had collected and systematised, indeed, the entire argumentation of bourgeois economics aimed at justifying the "favourable" consequences for a country's economy of cutting wages.

He devotes his main efforts to substantiating the possibility and necessity of an inflationary reduction in wages. In this connection he stresses, as distinguished from economists of the "classical" school, the essential difference between real and nominal wages in their relation to the "marginal disutility of labour". He asserts that the notion held by the "classical" school that wages were an indicator of the "marginal disutility of labour" applies only to nominal and not real wages. Real wages, he notes, are not an

¹ Harry G. Johnson, "The Determination of the General Level of Wage Rates", in *The Theory of Wage Determination* p. 35.

accurate indicator of the marginal disutility of labour.¹

The fact is, he maintains, that workers as a rule do not withdraw labour when there is a certain rise in prices and fall in real wages. Their psychology is such that they fight to uphold the level of money wages rather than real wages.² Trade unions, he explains, put up resistance to any cut in money wages, however small. But "no trade union would dream of striking on every occasion of a rise in the cost of living".³ From that he draws the significant conclusion that "trade unions do not raise the obstacle to any increase in aggregate employment".⁴ This proposition would sound like a taunt to the trade unions if it were not for him identifying conditions for increasing employment with those for ensuring the greatest profits for the bourgeoisie.

Keynes explains that money wages possess a certain "inelasticity" distinguishing them from real wages. Stable money wages with a drop in real wages would seem to be fully satisfactory to workers, since they remain in work. "In fact, a movement by employers to revise money-wage bargains downward will be much more strongly

¹ J. M. Keynes, *op. cit.*, p. 8. "Disutility must be here understood to cover every kind of reason which might lead a man, or a body of men, to withhold their labour rather than accept a wage which had to them a utility below a certain minimum" (*ibid.*, p. 6).

² *Ibid.*, p. 9.

³ *Ibid.*, p. 15.

⁴ *Ibid.*

resisted than a gradual and automatic lowering of real wages as a result of rising prices."¹

On this consideration Keynes recommends bourgeois states to "freeze" nominal wages and reduce real wages. This policy is portrayed as the most advantageous in increasing the "marginal efficiency of capital", i.e., in essence the rate of capitalist profit. "It follows that with the actual practices and institutions of the contemporary world it is more expedient to aim at a rigid money-wage policy than at a flexible policy ...—so far, that is to say, as the marginal efficiency of capital is concerned."²

What is more, Keynes sees the fixing of money wages in a situation of inflationary reduction in real wages as a means of guaranteeing not only profits but also stability of the capitalist economic system. The idea that a reduction in real wages "is a condition of the system possessing inherent stability"³ fully accords with Keynes's whole conception, for this reduction, all things being equal, will lead to an increase in the "marginal efficiency of capital" and in profits. According to Keynes, a reduction in real wages increases effective demand, inasmuch as it is accompanied by a drop in savings. In fact, a fall in real wages inhibits ultimate demand for goods and undermines stability of the reproduction process.

The American economist Abba Lerner takes Keynes to task and makes the point that nominal

¹ *Ibid.*, p. 264.

² *Ibid.*, pp. 265-66.

³ *Ibid.*, p. 239.

wages possess greater freedom than Keynes anticipated: "...A new ball game had been established in which only direct influence on the wage unit by an incomes policy, as a kind of splint on the fractured price mechanism, can restore a free economy working at a satisfactory level of employment."¹ It would be hardly possible to express more clearly the urge to transfer the burden of crisis processes in the capitalist economy to the workers' shoulders.

Keynes was the first person in present-day bourgeois economics to depict inflation as a major means of state-monopoly regulation of the capitalist economy on the basis of maximising capitalist profits—i.e., actually as a means of attacking the proletariat's standard of living. Keynes found the "safest" method of increasing profits in an inflationary reduction in real wages typical of the general crisis of capitalism. He warns the bourgeoisie that it is risky directly to reduce nominal wages, stating that "the result can only be ... probably completed only after wasteful and disastrous struggles".² So he recommends that the bourgeoisie stake their hopes on reducing real wages.

Consequently, what is new about the notion which Keynes introduced to the so-called marginal productivity theory, demarcating real and nominal wages in their relation to the "marginal disutility of labour", is caused by chronic inflation and associated with an intensification of

¹ *Journal of Economic Literature*, March 1974, Vol. XII, No. 1, p. 42.

² J. M. Keynes, *op. cit.*, p. 267.

the struggle between the proletariat and the bourgeoisie. The theory of the "inelasticity" of money wages is intended to mask the role of inflation as a state-monopoly instrument for stepping up exploitation of the working class.

Although it is, indeed, harder for workers to fight against inflationary exploitation than against direct reduction in money wages, the fight of the working class against a reduction in real wages through inflation is surely no less dangerous for the bourgeoisie, since it has a general class character and is directed against the entire class of capitalists, against the whole system of state-monopoly exploitation of the working class.

Here we see the dialectics of the economic laws of contemporary capitalism. In pursuing narrow-class objectives and striving to ensure monopoly-high profits, the bourgeoisie rely in their actions in some degree on the objective economic laws of capitalism, using them in their own interests; and this leads to an intensification of the basic contradiction of capitalism and creates a situation in which the law of the conformity of relations of production to the nature of the productive forces begins to be felt. "The condition of the working class," Frederick Engels wrote, "is the real basis and point of departure of all social movements of the present because it is the highest and most unconcealed pinnacle of the social misery existing in our day."¹

¹ K. Marx, F. Engels, Preface to "The Condition of the Working-Class in England", *Collected Works*, Vol. 4, Moscow, 1975, p. 302.

Keynes's theory, undoubtedly, greatly encouraged the imperialist practice of inflationary exploitation of the working class. After the last war, the bourgeoisie widely used the policy of a wage freeze in inflationary conditions, transferring to workers the expenditure on the arms race, unprecedented in times of peace, and guaranteeing for themselves fabulous profits. The first round of this policy began in the early postwar years—late 1940s and early 1950s. Workers' wages were frozen by law in Britain in 1948, in France in 1950 and in the USA in 1951.

Keynesians persistently search for ways and means to reduce or hold back a growth in wages. They look upon the bourgeois state as a force capable of carrying out the lowering of the proletariat's standard of living. Keynes wrote: "When we enter on a period of weakening effective demand, *a sudden large reduction of money-wages to a level so low that no one believes in its indefinite continuance would be the event most favourable to a strengthening of effective demand.*"¹ In Keynes's opinion, this operation could be implemented only through "direct decrees by the state power" in conditions of trade union "freedoms". This argument is clear enough indication that prescriptions for strengthening state-monopoly tendencies in the interests of ensuring high profits for the monopolies are depicted as

¹ J. M. Keynes, *op. cit.*, p. 265 (my italics—V. A.). Significantly, effective demand in Keynes's above-mentioned proposition means nothing more than profit; it increases with a fall in wages, although in fact demand, as such, should diminish with a reduction in wages.

measures of an anti-crisis character. The objective tendency inherent in capitalism for the real wages of workers to fall therefore acquires the character of a vital principle of the economic policy of state-monopoly capitalism.

A high level of unemployment is presented by Keynesians as a very suitable condition for lowering wages. In a period of depression, Keynes explains, the workers are in no way more demanding than they are during a boom. Nonetheless, their "physical productivity" in this period is certainly no less. Consequently, conditions for increasing exploitation are most favourable. It is well known that it is precisely in periods of economic crises and depression that workers have less opportunity of safeguarding their economic interests. Bourgeois theorists hasten to demonstrate this circumstance to the bourgeoisie.

With his wages theory Keynes tries ideologically to disarm the proletariat in its fight against a reduction in wages. He, for example, declares that "it would be *impracticable* to resist every reduction of real wages, due to a change in the purchasing power of money".¹ Keynes and his followers attempt to convince the workers that it is futile to campaign for higher nominal wages, since this would lead to a price increase and a *reduction in real wages*, that there is no need to resist a fall in nominal wages, since it will bring a lowering of prices and a rise in real wages.

¹ J. M. Keynes, *op. cit.*, p. 14 (my italics—V. A.).

Keynes wages theory has the objective of not only seeking ways to step up exploitation of the workers with account for the new situation brought about by the general crisis of capitalism and the growth in state-monopoly tendencies, but also of disarming workers ideologically, weakening and splitting the labour movement.

Keynes alleges that, in fighting for wage rises, the workers of a given industry are opposing not the capitalists but groups of workers employed in other industries, and depressing their wages. "The struggle about money-wages primarily affects the *distribution* of the aggregate real wage between different labour-groups, and not its average amount per unit of employment, which depends ... on a different set of forces."¹ To deflect a blow from the bourgeoisie, Keynes introduces the concept of "relative real wages" in defence of which workers of a particular industry are supposed to be fighting workers of other industries.

Keynesians try to counterpose the interests of the employed and the unemployed. To this end, Keynes puts forward the false theory that "any increase in employment involves some sacrifice off real income to those who were already employed".² In essence, this theory is the culmination of many years of practice of the monopoly bourgeoisie in splitting the working class into those with jobs and those without. Behind it lies the old vulgar-apologist notion of the "wages fund",

¹ *Ibid.*

² *Ibid.*, p. 81.

according to which a certain unchanging "wages fund" is divided up among the workers; therefore, the size of average wages is inversely proportional to the number of workers.

The Keynesian dogma that a major reason for unemployment is the trade union fight for higher wages also pursues the objective of disorganising the labour movement. This assertion is palpably untenable, yet pursues the aim of counterposing unorganised workers to union members, and the latter to their union leadership.

Keynes bends all his efforts to find ways and means of shifting onto the workers the main burden of costs in ensuring the stability of the capitalist economy. Keynesian wages theory, which is an elaboration and justification of state-monopoly methods of stepping up exploitation of the workers, is an important component part of the theory and practical programme of Keynesianism, intended to resolve the inherently contradictory task of ensuring stability of the capitalist economy through maximising profits. In these circumstances, the control of wages for purposes of constraining and reducing them is a decisive means of ensuring "effective demand".

6. THE REAL PLACE OF EMPLOYMENT THEORY WITHIN THE KEYNESIAN SYSTEM

Keynes's *General Theory of Employment* has been described by some bourgeois writers as the "political economy of depression". They stress

that feature of Keynesianism which stems from the specific historical conditions of the "Great Depression" of the 1930s, which had a considerable effect on the formation of Keynesianism. This found one of its most obvious manifestations in Keynes's own theory of employment.

In earlier bourgeois economic theory, unemployment was treated either as "voluntary", i.e., caused by unwillingness of workers to work for low wages, or as "frictional", i.e., engendered by a peculiar "social friction"—insufficient information about vacancies, transfer of place of work, etc. Keynes put forward the thesis that there is "forced" unemployment, which arises because of a lack of effective demand and in which situation the workers cannot find a job even for low wages. Thus, being confronted by the fact of the existence of massive and chronic unemployment, Keynes was obliged to recognise (many decades after the fact had been scientifically explained by Marxist political economy) that unemployment was a law of the capitalist economic system, although he also tries to explain it by the psychological characteristics of "human nature".

Observing the sharp increase in mass unemployment, unprecedented in the history of capitalism and menacing the social foundations of the capitalist system, Keynes was forced to ask what factors were determining the volume of employment and, therefore, what means could be used to avert excessive unemployment. As we shall see below, this did not in any way indicate

a search for ways of ensuring actual full employment for the able-bodied population.

Keynes views employment (along with national income) as a dependent variable determined by changes in the so-called independent variables: "the propensity to consume", "the marginal efficiency of capital" and the rate of interest. Here the main aim of his investigation is to try to spotlight the causes of unemployment and to find means of removing them. In actual fact, the aims of his analysis are quite different.

In line with Keynes's typical exchange notion, employment is examined as a magnitude directly dependent on the capacity of the market both for consumer goods and for producer goods. "So far we have established the preliminary conclusion that the volume of employment is determined by the point of intersection of the aggregate supply function with the aggregate demand function."¹ It follows that employment is supposed to depend on the correlation between aggregate effective demand and the aggregate supply of goods. Its volume will be that which corresponds to an equivalence between the supply and demand of goods.

A closer scrutiny of Keynesianism shows that it is not simply a matter of conditions for realising a commodity, but of conditions for realising capital. "The volume of employment is determined by the estimates of effective demand made by the entrepreneurs",² i.e., ultimately by the

¹ *Ibid.*, p. 89.

² *Ibid.*, p. 78.

same conditions as those which determine the profitable nature of demand. Keynes expresses this very idea, bearing in mind an entrepreneur's maximum profit, in the following way: "...The volume of employment which will maximise his profit depends on the aggregate demand function given by his expectations of the sum of the proceeds resulting from consumption and investment respectively on various hypotheses."¹ Mathematically, this proposition is expressed in the so-called employment function: $N = F(D_w)$, where N is the volume of employment; D_w is the volume of effective demand.

Clearly, the Keynesian system treats the employment problem secondarily, taking a back seat to entrepreneurial profit, which in fact belongs to it in capitalist reality. Already in the very definition of the essence of the "general theory" Keynes precisely establishes this dependence: "The volume of employment is given by the point of intersection between the aggregate demand function and the aggregate supply function; for it is at this point that the entrepreneurs' expectation of profits will be maximised."² It could hardly be put more clearly.

Here and elsewhere Keynes puts forward the idea that it is not the object of entrepreneurs to ensure employment of workers; their ambition is only to look after themselves and maximise profits. Therefore, the question of employment is subordinate to that principal aim of their

¹ *Ibid.*, p. 77.

² *Ibid.*, p. 25.

activity. They establish employment on a level which they need to gain the biggest profits. "...Entrepreneurs will endeavour to fix the amount of employment at the level which they expect to maximise the excess of the proceeds over the factor cost."¹ Elsewhere, he puts it even more clearly: "...The volume of employment ... is fixed by the entrepreneur under the motive of seeking to maximise his present and prospective profits."² So we see that conditions for maximising profits and volume of employment are far from being the same thing: gaining maximum profits certainly does not mean gaining the maximum employment level for workers. With the help of state-monopoly regulation of the economy the bourgeoisie try to fix employment on such a low level that it presents no social danger to them, yet which exerts enough strong pressure on wages to help profits mount. Thus, the "attainment of employment" which Keynes proclaimed as the main aim of his theory and his programme of economic policy is only a means of maximising capitalist profit.

The thread running through Keynes's work is that the volume of employment is determined by conditions that guarantee capitalists the biggest possible profits. One has to give Keynes his due: this is a standpoint close to reality. Unemployment really is intimately bound up with the mechanism of capitalism's basic economic law. It really does depend, as Marx pointed

¹ *Ibid.*, pp. 24-25.

² *Ibid.*, p. 77.

out in *Capital*, on conditions of production and realisation of surplus value. Talking of the "gross income" of entrepreneurs, Keynes says: "Since it is the entrepreneur's expectation of the excess of this quantity (i.e., income—*V. A.*) over his outgoings to the other factors of production which he endeavours to maximise when he decides how much employment to give to the other factors of production, it is the quantity which is causally significant for employment."¹

What is new here is only that Keynes admits that capitalists try to maximise their profits as compared with wages, since it is mainly wages he has in mind by "outgoings to other factors of production". Consequently, he regards maximisation of an indicator close to the rate of surplus value as a decisive factor in determining the employment level.

Keynes repeatedly expresses this notion of the dependence of conditions for ensuring employment on those for maximising bourgeois profits. In Chapter 6 of his *General Theory of Employment*, Keynes notes that effective demand is nothing more than a condition for guaranteeing maximum profits. As for employment it will be fixed at a level ensuring such profits. He writes: "The effective demand is the point on the aggregate demand function which becomes effective because, taken in conjunction with the conditions of supply, it corresponds to the level of employment which maximises the entrepreneur's expectation of profit."²

¹ *Ibid.*, p. 54.

² *Ibid.*, p. 55.

A Keynesian understanding of economic optimum is testimony to the fact that state-monopoly regulation of the economy has stringent constraints set by the laws of capitalism. By optimum state of the capitalist economy Keynes certainly does not mean full and efficient use of the whole sum of society's productive forces. His decisive criterion of optimality is the level of capitalist profit; "maximum profit" is the concept that essentially reflects what Keynes regards as the optimum state of the economy, even if unemployment and underemployment of production remain in force. What is more, he sees the "normal" unemployment level—to use his terminology "full employment"—as a condition for ensuring maximum profits, i.e., conditions for reaching the optimum state of the capitalist economy.

The dependence of the volume of employment on conditions of production and realisation of capitalist profits finds its expression within the Keynesian system also when we examine the influence on employment of other (besides "marginal efficiency of capital", i.e., direct capitalist profits) "independent variables".

He writes that "employment is a function of the expected consumption and the expected investment"¹—i.e., function of those very factors on which effective demand too depends. A fall in the "propensity to consume" which, as we have seen, leads to the undermining of "effective demand", has a "depressing effect" on employment too. At the same time, a fall in

¹ *Ibid.*, p. 98.

the rate of interest leads to an increase in profitability of capitalist production and employment. As noted above, these "independent variables" represent important conditions for shaping effective demand, i.e., maximising capitalist profits.

So here Keynes is identifying conditions for maximising profit with the volume of employment, although in several other places, as mentioned above, he sees employment as a function of the profit maximisation process. Here he regards both employment and profits equally as functions of "expected consumption and expected investment", i.e., effective demand.

Thus, the apologist tendency to identify conditions for maximising profit and employment in Keynes's theory is intertwined with a realistic interpretation of the dependence of the employment level on conditions which maximise profit.

Keynes establishes, too, a more specific dependence of employment on volume of investment: "...Employment can only increase *pari passu* with an increase in investment; unless, indeed, there is a change in the propensity to consume."¹ At the same time he treats consumption as a function of net income, which in turn is a function of net investment. Consequently, employment is in the final count interpreted as being dependent on the amount of investment.

This position is only a modification of Keynes's principal thesis on the dependence of employment

¹ *Ibid.*

on conditions for maximising profits. After all, the working of means of production under capitalism is subordinate to the objectives of extracting the largest profit. It follows that the volume of new investment, as well as of the actually functioning means of production, already contains within itself the effect of conditions for maximising profits.

In addition, the dependence of the employment level on the amount of investment is not so direct or in direct proportion as Keynes imagines. In the event of an increment in the actually functioning means of production, this dependence is very complex, insofar as the increment is normally accompanied by an increase in the organic composition of capital. Any increase in employment and parallel growth in investment are possible only if many conditions are present, above all unchanged organic composition of capital. At a time of scientific and technological revolution, a situation may also arise when increased investment, insofar as it goes to much more up-to-date means of production than hitherto, increases the organic composition of capital so sharply that employment, defined as the number of workers actually engaged in production, will inevitably fall. If, however increase in investment is seen from the viewpoint of expanding the market capacity for the sum being invested, the relationship between the volume of employment and investment will be even more intricate. However, in all conditions, an increase in the volume of employment will far from parallel a growth in investment. Never-

theless, Keynes encapsulates the very general dependence of employment level on investment: *ceteris paribus*, it actually does rise with an increase in investment.

Interpretation of employment as a phenomenon deriving from conditions for maximising profit has also another very important side. In Keynesian works, a certain level of employment or, rather, unemployment, is viewed as one of the most important conditions for boosting capitalist profit. In fact, by "full employment", which Keynesians declare to be the aim of their theoretical analysis and economic policy, Keynes really means the so-called "normal" unemployment level, and certainly not its complete elimination. It is that unemployment level that is sufficient for implementing the function of putting pressure on wages, yet at the same time does not present any serious danger to the existence of capitalism. Various Keynesian works nominate between 3 and 6 per cent unemployment level as "full employment".¹

This function of unemployment is very pertinently expressed by one of the prominent representatives of Keynesianism as follows: "Let us call the rate of growth of real income which would rule if there were more than 3 per cent unemployment the 'unconstrained' rate of growth

¹ J. Schlesinger writes, "The essential feature of the Keynesian vision was that ... no mechanism was envisaged which would tend to restore full employment" (J. Schlesinger, "After Twenty Years: the General Theory", *The Quarterly Journal of Economics*, November 1956, Vol. 70, No. 4, p. 584).

of demand."¹ An increase in unemployment (up to a certain level) has a favourable effect on growth in capitalist profits and is a condition for maximising them.

Keynes also arrives at this conclusion from the standpoint of his conception of effective demand. Effective demand, he avers, diminishes as a result of growth in expenditure on consumption lagging behind growth in income. We therefore need means that hold back growth in income (meaning, of course, wages), and sometimes even reducing it. He regards a rise in unemployment as one of these. "Yet the larger our incomes, the greater, unfortunately, is the margin between our incomes and our consumption. So, failing some novel expedient, *there is ... no answer to the riddle, except that there must be sufficient unemployment to keep us so poor.*"² Keynes tries to give this argument, as many others, a certain neutral character, although it is patently obvious that he is talking not about the impoverishment of society generally, or of the bourgeoisie in particular, but precisely about the lowering of the working class's living standards.

Keynes sees the employment level as the major factor regulating the level of wages. An increase in employment, in his view, is accompanied by a rise of the "wage-unit".³ Therefore, employment functions as an important,

¹ James S. Duesenberry, *Business Cycles and Economic Growth*, New York, 1958, p. 327.

² J. M. Keynes, *op. cit.*, p. 105 (my italics—V. A.).

³ *Ibid.*, p. 130. See also *Keynes: Updated or Outdated?*, ed. by N. Marshall, Lexington, Mass., 1970.

though also fairly contradictory factor, controlling the rate of profit. A growth in employment means an increase in the volume of labour being exploited. At the same time, an increase in employment creates more propitious conditions for boosting wages. It is therefore not fortuitous that Keynes should take a fall in real wages as an indispensable prerequisite for higher employment. He is thus trying to increase the volume of labour being exploited by capital only on the most favourable terms for the latter—i.e., with a growing rate of exploitation.

Keynes regards "full employment" even in the above-mentioned sense of these terms—i.e., as a minimum level of unemployment, as an undesirable situation. "When full employment is reached, any attempt to increase investment still further will set up a tendency in money-prices to rise without limit, irrespective of the marginal propensity to consume."¹

He assumes that full employment conditions produce a tendency to push up wages and, therefore, prices too. This tendency would be intensified very greatly if investment continued to rise under these conditions. Of course, with little unemployment workers find it much easier to fight for their economic interests and wage increases. However, this growth has nothing to do with a price increase. The "wage-price" spiral theory on which Keynes relies holds no water, since an increase in wages leads only to redistribution of value already created in favour of the

¹ J. M. Keynes, *op. cit.*, pp. 118-19.

workers, and not to its overall increase. What really bothers Keynes about full employment and what is here rather implied is the following: 1. full employment creates more favourable conditions for wage increases which are bound to signify a threat to the rate of capitalist profit; 2. a rise in investment in this situation that encourages a growth in demand for labour power strengthens the workers' position.

Here, in actual fact, is the cause of Keynes's adverse reaction to a rise in investment during full employment. In reality the point is to prevent the relationship between demand and supply of labour being favourable to the workers.¹ The employment policy advocated by Keynes is identical in all its basic aspects to the profit maximisation policy: in the event of a certain expansion of employment—there is increase in the sphere of exploitation of labour by capital; in the event of contraction of employment—an intensification of the process of exploitation of the working class. Thus, measures to regulate employment proposed by Keynes fluc-

¹ The use of unemployment as a means of putting pressure on wage levels is the usual method of contemporary state-monopoly "control" of relations between labour and capital and, in essence, stepping up exploitation of the working class. Walt Rostow describes and justifies this in writing that negotiation with trade unions on collective agreements "cannot be held when the level of employment is so high and demand for labour so strong that non-union labour can negotiate substantially higher wage increases than the wage-price guidelines would allow" (W. W. Rostow, *Politics and the Stages of Growth*, London, 1971, p. 237).

tuate between extensive and intensive methods of exploiting the workers.

From Keynes's point of view, the interests of the workers (at least in the part affecting the getting of a job) and the interests of the capitalists striving for larger profits are identical. The employment theory is the most important link in the Keynesian system for substantiating the "common interest" of labour and capital. This feature of Keynesianism was the major reason why in fact the whole of Right-wing Social-Democracy, which has seen its major social function in propagating "class peace" and ensuring bourgeois domination over the proletariat, has been using Keynes's theory in its own opportunist aspirations from the very first days it appeared.

Clearly, the concept of "full employment" does not constitute the essence of the Keynesian theoretical system and economic policy programme aimed at ensuring the stable growth of the capitalist economy through state-monopoly means of maximising capitalist profits; and the "full employment" policy—i.e., the policy of using unemployment in the interests of the bourgeoisie—occupies a key place within this system.

All the same, the employment theory represents that external form of Keynes's general theory of state-monopoly regulation of the capitalist economy, reflecting the specific historical conditions of the 1930s, which had shaped Keynes's theory and forced him to conclude that the capitalist economy lacked an automatic mechanism ensuring the restoration of its lost

equilibrium. This external form of the Keynesian theory, as well as Keynes's identification of conditions for ensuring "full employment" with those for maximising capitalist profits, which pursues the objective of justifying the concept of "class peace" between workers and capitalists, in turn explain why Right-wing Social-Democrats in imperialist countries have armed themselves with Keynes's theory and based their theories of "socialism" on it, theories intended to justify and safeguard the present-day forms of development of state-monopoly capitalism.

In its programme of economic regulation, Keynesianism relies on external manifestations of capitalism's basic economic law, on profit as the major stimulus of development of the capitalist economy, on means of state-monopoly policy (inflationary policy, wage reductions and freezes, forcing state spending, regulating the unemployment level, militarising the economy, etc.). This explains the certain limited effectiveness of Keynesian prescriptions. However, this regulation is inherently contradictory, since profit is not only an aim, it is also a limit of capitalist production; and state-monopoly control of the private capitalist economy is incapable of going outside that limit. State-monopoly control of the economy cannot do away with the basic contradiction of capitalism between the ever growing social nature of production and the private form of appropriation, although it does lend it new forms of manifestation and movement.

So, Keynesian analysis of functional, quantitative relationships of the capitalist reproduction

process is aimed at elaborating general principles and specific methods of state-monopoly regulation of capitalist production for the purpose of ensuring its stable growth by stimulating the policy of capitalist profit maximisation—i.e., at working out a state-monopoly form of exploiting the proletariat. It is this circumstance that explains the rip-roaring success that Keynesianism has had in bourgeois and Right-wing socialist circles.

It therefore follows that Keynes did not revolutionise bourgeois political economy or elaborate a theory which could help implement measures for attaining genuinely full employment for the community. The myths about Keynes spread by bourgeois propaganda have no basis in fact. In examining the general employment theory, we have seen that Keynes actually focuses attention almost exclusively on quantitative, functional relationships of capitalist reproduction and, as a rule, diverts attention from examining (even in an unscientific way) the socio-economic essence and historical trend of development both of individual phenomena of the capitalist economy and of the entire capitalist mode of production. It is indicative that in the latter, i.e., in the essential aspect, Keynes, whom bourgeois writing has placed on a pedestal as an economic "revolutionary", has actually elaborated not a single new economic category, leaving aside such phenomena so essential for understanding contemporary capitalism as capitalist monopolies, the socio-economic essence and historical trends of the development of

state-monopoly capitalism and so on.¹ All the same, it would be wrong to miss the point that Keynes had made a start in bringing about a new trend in bourgeois political economy with his functional macroeconomic analysis.

Keynes's ideas, with account for the economic and political features of the postwar situation, have been reformulated and concretised in the works of the neo-Keynesians.

¹ Axel Leijonhufvud sums up the result of a "neo-classical review" of Keynes's contribution to bourgeois economic theory in the following way: "From the standpoint of pure theory, Keynes's contributions were now considered trivial and not even original" (A. Leijonhufvud, *On Keynesian Economics and the Economics of Keynes*, New York, 1968, p. 32).

Chapter 3

CURRENTS IN BOURGEOIS MACROECONOMIC ANALYSIS AND THEIR GROWING SYNTHESIS

A whole number of schools and methodological approaches proliferate within bourgeois economic literature on macroeconomic analysis: Keynesianism and neo-Keynesianism, neoclassical growth theory, market conjuncture theory, econometrics and analysis through input-output method.

The multiplicity of schools and lack of a common methodological and theoretical foundation among bourgeois macroeconomic investigators is by no means a chance affair. The fact is that traditional bourgeois political economy, on the basis of which macroanalysis currents have arisen, does not represent a single, monolithic theory. It is therefore natural that schools of macroeconomic analysis should bear the imprint of those trends in traditional bourgeois political economy from which they came.

The issue of the theoretical sources of macroeconomic analysis is very complex. Moreover, the argument still rages in bourgeois economic literature about the priority in elaborating the

key propositions of macroanalysis, especially Keynesianism. Some authors also take note of the fact that interest of bourgeois political economy in macroeconomic problems had risen sharply as a result of the resounding successes made by Soviet economists in working out the principles of single economic planning, the practical application of those principles and also the creative generalisation of accumulated experience in that sphere.¹ All the same, despite this complexity, one may quite clearly trace the connection between the different trends in macroeconomic analysis and individual schools of traditional bourgeois economics.

The economic theory of John Maynard Keynes, for example, was influenced by the theoretical constructions of Alfred Marshall, as well as the theories of American institutionalism with the advocacy of the need for bourgeois state intervention in the economy. The neoclassical theory of economic growth bears the obvious imprint of the old "classical" theory of general equilibrium, the vulgar "three factors" of production theory that owes its origin to Jean B. Say, and a number of other currents.² Analysis using the input-output method has many

¹ See Evsey D. Domar, *Essays in the Theory of Economic Growth*, New York, 1957, pp. 17, 223.

² As Edmund Whittaker has put it, "much of what passes for neoclassical economics ... has incorporated some elements of the empirical and evolutionary approach which characterises institutionalism" (E. Whittaker, *Schools and Streams of Economic Thought*, Chicago-London, 1960, p. 315).

points in common with the mathematical school of bourgeois political economy (Leon Walras, V. Dmitriev).¹

The changes that took place in the initial post-war period within currents of bourgeois macroeconomic analysis did not diminish their multiplicity. They developed in a direction dictated by the requirements of analysis of contemporary capitalist reproduction in conditions of a new stage in capitalism's general crisis, fresh successes of socialism in its economic competition with capitalism, and a much higher level of state-monopoly capitalism.

1. TYPICAL FEATURES OF NEO-KEYNESIANISM

Neo-Keynesianism is a principal strand of present-day bourgeois theories of state-monopoly regulation of the capitalist economy and represents the development of Keynesianism as applied to the new historical situation of postwar capitalism. Neo-Keynesianism took shape as a specific trend in the early part of the 1950s under the impact of the deepening of capitalism's general crisis and the completion of the shift from monopoly to state-monopoly capitalism

¹ See Y. Vasilchuk, "Concerning W. Leontieff's Analysis of Reproduction", *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, 1969, No. 2, p. 127. It is noteworthy that this trend of bourgeois macroanalysis, too, has been considerably influenced by the theory and practice of socialist economic planning in the USSR.

associated with it, the scientific and technological revolution, economic competition between two socio-economic systems and the collapse of imperialism's colonial system.

Like Keynesianism, neo-Keynesianism investigates the functional, quantitative relationships of economic magnitudes in the capitalist reproduction process. But in the new historical situation, when the problem of the economic growth rate had begun to be seen as that of life and death for capitalism, neo-Keynesianism could no longer confine itself to examining mainly problems of "static economics". It has been forced to refute the thesis of stagnation of the capitalist economy. Neo-Keynesians have criticised those aspects of Keynes's theory which made it a "static" theory, i.e., oriented it on examining the quantitative relationships only of simple reproduction. Contemporary followers of Keynes, relying on the basic concepts and methodology of his theory, have placed problems of state-monopoly regulation of extended capitalist reproduction at centre focus. Neo-Keynesian theorists like Roy Harrod, Nicholas Kaldor, Evsey Domar and Alvin Hansen have focused attention on quantitative relationships of extended capitalist reproduction or, in the terminology of neo-Keynesianism, on the problems of economic dynamics and economic growth.

Being a vital theoretical basis of the economic policy of state-monopoly capitalism, neo-Keynesianism proceeds from the major premise of Keynesianism concerning the loss of a spontaneous mechanism for automatically restoring

equilibrium and the need for state regulation of the capitalist economy. A distinguishing feature of this school is that, in reflecting a more mature stage of state-monopoly capitalist development, it advocates the need systematically, and moreover in a certain measure directly, and not sporadically and indirectly, as in Keynes's theory, for the bourgeois state to influence the capitalist economy.

It is to this major objective that further development of Keynesianism has been devoted in the postwar period: elaborating Keynesian theory from the viewpoint of "dynamic economics", paying very close attention to questions of "saving" and of real accumulation of capital, working out a theory of the cumulative process based on combining the multiplier and accelerator concepts and intended to provide an explanation of quantitative relationships between growth in investment and national income, which might reveal the specific economic aspect of factors that had engendered relatively high rates of extended capitalist reproduction (in selected years after the war); yet it would blur its socio-economic aspects, the extended reproduction of capitalist contradictions in the course of capitalist accumulation.

The methodology of neo-Keynesianism shows a macroeconomic, national-economic approach to problems of reproduction and use of the so-called aggregate categories, like the following: aggregate demand, aggregate supply, aggregate investment, aggregate savings, national income, social product, etc. This enables the

theorists, on the one hand, to pinpoint certain of the most general quantitative relationships of the capitalist reproduction process or, rather, certain of the universal reproduction forms and relationships and, on the other, to conceal their class essence and antagonistic nature.

As with Keynesianism, neo-Keynesianism focuses attention mainly on specific-economic quantitative relationships of the simple labour process in its national-economic aspect, abstracting itself, as a rule, from capitalist relations of production or treating them in a vulgar-apologist way. At a time of scientific and technological revolution, neo-Keynesianism has had to reject the typically Keynesian abstraction from changes in the productive forces of bourgeois society and introduce into its analysis indicators of changes in the economy resulting from technical progress. For example, Roy Harrod came up with the notion of "capital coefficient", which he interprets as the "ratio of the value of capital in use to income per period"¹—i.e., as a unique indicator of the "capital intensity" of a unit of national income. At the same time, neo-Keynesianism raises the question of types of technical progress, singling out, on the one hand, technical progress which leads to an economy of living labour and, on the other, technical progress that ensures an economy of materialised labour in means of production (or, in the terminology of neo-Keynesians, capital).

¹ R. F. Harrod, *Towards a Dynamic Economics*, London, 1956, p. 22.

The form of development of technology which balances out these tendencies, i.e., does not alter the organic composition of capital, is declared to be "neutral". Analysis shows that this is not at all typical of contemporary capitalism. Despite the contradictory character of factors affecting the dynamics of the organic composition of capital, its major tendency during the present-day scientific technological revolution is to grow.

Neo-Keynesians, in supplementing Keynes's reproduction theory, in particular his concept of the "income multiplier" (according to which national income alters in harmony with a change in the volume of aggregate capital investment of the whole society), put forward the theory of the accelerator, which views the presence of inverse dependence of the aggregate volume of capital investment on changes in the magnitude of national income. By combining the theories of the multiplier and the accelerator, the neo-Keynesians have created a concept of "cumulative process", interpreting the mechanism of extended capitalist reproduction as a technical-economic rather than socio-economic process.

Another distinguishing feature of neo-Keynesianism is its elaboration of specific formulas for extended capitalist reproduction and models of economic growth. As a rule, their feature is that they contain no aggregate movement of component parts of the whole social product and of capital, which must be examined from the angle of natural-material and value structure. Usually the economic growth models of neo-Keynesian-

ism are concerned only with individual quantitative interrelations of the reproduction process, largely in its concrete-economic and not in its socio-economic aspect. Being the major means of theoretical substantiation of the economic policy of state-monopoly capitalism, neo-Keynesianism is unable to rid capitalism of its internal contradictions and antagonisms.

2. HARROD'S "DYNAMIC ECONOMICS" THEORY

The theory of state-monopoly regulation of the capitalist economy, whose major principles were worked out by Keynes in his *General Theory of Employment* under the direct impact of the world economic crisis and depression of the 1930s, became transformed after the war under the influence of new historical conditions—the formation and rapid progress of the world socialist system, a further growth in capitalist socialisation of production and deepening of the general crisis of capitalism¹—into a theory of state-monopoly regulation of capitalist production with the aim of attaining a stable rate of extended capitalist reproduction. It became a theory of dynamic economics or a theory of economic growth. This modification of the form of bourgeois macroeconomic analysis—from an employment theory to a dynamic econom-

¹ As Harrod says, "the sphere of nationalised production or planning is becoming enlarged" (R. F. Harrod, *op. cit.*, p. 5).

ics theory—is a reflection of the growth in contradictions in present-day capitalism at a time when economic competition between the two opposed world systems is heating up.

While Keynes formulated his objective as being to remove excessive unemployment, i.e., in a certain sense he set himself a particular short-term task, the dynamic economics theorists raise a more complex and general question: to find ways of ensuring stable rates of growth in the capitalist economy.

Typically, the idea of inevitability of economic crises is the point of departure of *Towards a Dynamic Economics*, the major work of the British bourgeois economist and Oxford Professor Roy Harrod, a prominent disciple of Keynes who played an important role in promoting neo-Keynesianism. He wrote this work, whose chief ideas were developed in late 1946 and early 1947, under the influence of the first postwar crisis of overproduction of 1945-46 that had commenced in the United States. Harrod was convinced that in any, even the most favourable, conditions the capitalist countries could not avoid "periodic depressions". In the Preface to his book, he wrote, "The idea which underlies these lectures is that sooner or later we shall be faced once more with the problem of stagnation, and that it is to this problem that economists should devote their main attention."¹

The subject of investigation of neo-Keynesian macroanalysts and their methodology are subor-

¹ R. F. Harrod, *op. cit.*, p. 5.

minated to the same major objective as the work of Keynes—a search for quantitative relationships in capitalist reproduction for making practical recommendations for state-monopoly regulation of the capitalist economy. But new economic tasks that have confronted them after the war have demanded further development of macroeconomic investigation and the working out of new economic problems, especially those of extended reproduction. Ben Seligman had this to say on contemporary bourgeois theories of economic growth, "The[ir] objective has been to reveal certain points of equilibrium over time which are consistent with the various dynamic pressures which impinge on the economy."¹

Harrod's methodology is close to that of Keynes. It differs in that it is more adapted to studying extended reproduction above all in the sense that Harrod does not abstract himself from changes in the productive forces. He includes techniques of production, man-power and per head output in the number of variables. Furthermore, he recognises changes in quantitative proportions in distributing national income. And yet the principal methodological standpoint of Keynesianism remains the same. He also abstracts himself from historical aspects of the laws of capitalism, focusing his efforts on their functional aspects, abstracting himself from processes of development of the capitalist

¹ Ben B. Seligman, *Main Currents in Modern Economics*, New York, 1963, p. 755.

mode of production as a special system of productive forces and relations of production as a whole.

The fact that Harrod comes closer than Keynes did to problems of development of the capitalist economy, having made extended reproduction a centre of attention, forces him to take a more negative attitude than Keynes to the "labour standard" of economic magnitudes, to those few elements of the labour theory of value that reflect functional aspects of economic phenomena which exist in Keynes's theory. The change in the subject of investigation made by Harrod—a shift from studying "static" to "dynamic" elements—has increased the danger for bourgeois apologists in approaching economic phenomena from the viewpoint of the "labour standard".

Harrod understands value as purchasing power of one commodity in relation to another, i.e., as exchange value: "...A constant value means a constant power of purchasing goods."¹ Exchange value is only an external manifestation of value. This means that exchange value does not give a direct idea of the magnitude of or of the change in the value of commodities. With a simultaneous and common direction of change in values of goods being exchanged, their exchange value, their purchasing power in relation to one another, may remain the same, although the values of the goods have altered.

In opposing the "labour standard", as if value

¹ R. F. Harrod, *op. cit.*, pp. 28-29.

is directly measured in labour hours, Harrod puts forward the following argument that is of some interest.

In the first place, relying on the wage fund theory, he maintains that the "labour standard" presupposes that "the average of money rewards paid to workers never rises, any increases in some part of the field being offset by equivalent decreases in others".¹ He replaces the labour theory of value, which provides a basis also for comprehending quantitative laws of economics, with the vulgar wage fund theory, which distorts them and has nothing to do with the labour theory of value. Moreover, in its application to labour power as a specific commodity, the labour theory of value reveals the complete futility of the apologist wage fund theory, its chief thesis of the unchanging nature of that fund and its division in proportion to the number of workers. The labour theory of value shows that wages depend ultimately on the value of labour power and not on the results of dividing some unchanging wage fund by the number of workers.

In the second place, Harrod explains use of the "labour standard" by "the power of past traditions over us". By "labour standard" he does not mean direct measurement of economic phenomena in hours of individual labour time; value is determined by the average, socially-necessary expenditure of labour on producing a commodity. As a result, he comes to the conclusion

¹ *Ibid.*, p. 29.

that if that measurement is used the mechanism of commodity-money, credit relations will be undermined. One can only agree with such a conclusion. But it does not in any way cast aspersions on the labour theory of value. In many of his works, Marx had opposed "labour" or "working money".

In rejecting the labour theory of value, Harrod writes: "In what follows I shall assume a goods standard of value."¹ This is a departure from Keynes's theory in that Keynes had taken an hour of work of an unskilled worker as unit of measurement.

Harrod, like Keynes before him, ultimately takes a dual position in relation to labour value. On the whole he rejects the labour theory of value. But, since without it an analysis of quantitative relationships of the capitalist reproduction process is impossible, Harrod is forced to recognise some of its aspects. We see that he relies on the exchange value of commodities. At the same time, he is forced to recognise also the equivalence of exchange relations. What is more, this aspect of the law of value is raised by him to the level of "basic law", "the most basic law of economics, namely that one cannot get something for nothing".²

Harrod's method, therefore, is rather contradictory. On the one hand, it is aimed at revealing quantitative relationships of capitalist reproduction and, on the other, it is oriented on disguis-

¹ *Ibid.*, p. 34.

² *Ibid.*, p. 36.

ing the socio-economic essence of capitalism and its historically transient character, since he shies away from an analysis of the reproduction of essentially antagonistic relations of production under capitalism.

PROBLEM OF "DYNAMIC ECONOMICS"

The primary difference between the theories of neo-Keynesians and the conception of Keynes himself lies in the way they discuss the problem of dynamic economics in opposition to and in supplementing static economics, to which Keynes gave his main attention. What do they mean by dynamic and static economics?

In bourgeois economic literature the concepts of statics and dynamics, borrowed from mechanics, were fairly widespread back in the last century, particularly in the works of John Stuart Mill (*Principles of Political Economy*) and John Bates Clark (*Distribution of Wealth*). We are faced here with yet another form of "non-economic" vulgarisation of political economy, since this is a direct introduction of categories of one science—physics—into the category classification of another science—political economy, and not the reflection of economic processes in terms adequate to these processes and taking their specifics into account.

Statics and dynamics are interpreted by Harrod as two components of economic theory, and only one, statics, had received adequate treatment of Keynes. As for dynamics, Harrod wrote,

"it hardly exists",¹ and yet it is with this that he links a radical reconstruction of economics. Harrod argues the need to advance a theory of dynamics because of the demands being made on bourgeois economic science by economic realities and by contradictions in the capitalist economy.

An analysis of Harrod's work shows that behind his distinction between statics and dynamics lies a distinction between simple and extended reproduction. Thus, his posing of the question of dynamics is nothing more than the advancing of the problem of extended reproduction, as distinct from Keynes's and in developing his ideas.

Bourgeois macroeconomic analysis, whose task is to study extended reproduction processes on behalf of postwar state-monopoly capitalist development, found itself in a dilemma. On the one hand, it could not directly borrow the concepts of simple and extended reproduction and an analysis of those processes of the capitalist economy from Marxist-Leninist political economy, since they are closely bound up with a Marxist analysis of the historical tendency of capitalism and with the revolutionary essence of Marxism; and on the other hand, bourgeois macroanalysis could not get by without these concepts. Hence the emergence of a theory of statics and dynamics that, to all external appearances, does not coincide with the division of reproduction into simple and extended, yet actually boils down precisely to that.

How does Harrod then define the static state

¹ *Ibid.*, p. 7.

of the economy? "...A static equilibrium by no means implies a state of idleness, but one in which work is steadily going forward day by day and year by year, but without increase or diminution. 'Rest' means that the level of these various quantities remains constant, and that the economy continues to churn over."¹

It is a well-known fact that the movement of production in a circle, its continual renewal on an unchanging scale, is nothing more than simple reproduction. The relation of the static state of the economy to accumulation of capital may serve as a criterion to judge the issue under discussion. Under simple reproduction there is no accumulation of capital. It is this circumstance that distinguishes Harrod's "statics" from economic dynamics.² "In the case of an economy stationary in numbers ... no new saving would be required."³ Consequently, there are no new "savings" in static conditions, and therefore no accumulation of real capital.

Harrod sees the difference between his analysis and that of Keynes, who had delved into the problems of statics, i.e., of simple reproduction, in the way he poses the question of dynamics. How, then, does he interpret this category? Dynamics is defined as "an economy in which the rates of output are changing", are growing or diminishing, and not episodically or even cyclically, but over a very long span.⁴

¹ *Ibid.*, p. 3.

² *Ibid.*, pp. 20-21.

³ *Ibid.*, p. 30.

⁴ *Ibid.*, pp. 4, 18.

At first glance, the term "dynamics" seems to be a wider concept than that of "extended reproduction", inasmuch as it includes any protracted changes in the level of production, including its lengthy curtailment. And yet there are grounds to affirm that behind the division of statics and dynamics lies a distinction between simple and extended reproduction. Harrod's major criterion in this distinction is actually the accumulation of capital, its absence in "statics" and presence in "dynamics". "In static economics we must assume that saving is zero."¹ He continues, that a steady allocation of a portion of income to saving "is essentially dynamic, since it involves a continuing growth in one of the fundamental determinants of the system, namely the quantity of capital available."²

Harrod writes that "positive saving ... is essentially a dynamic concept. *This is fundamental*".³ In fact, the dynamic process, by which he means extended reproduction, occurs when accumulation of capital takes place. "This must entail, even if none of the other determinants are subject to change, continued changes in the values of many of the dependent variables."⁴ The same idea is stressed by the American Keynesian Alvin Hansen when he notes that "dynamic economics must concern itself with 'the necessary relations between the rates of growth of the different ele-

¹ *Ibid.*, p. 11.

² *Ibid.*

³ *Ibid.* (my italics—V. A.).

⁴ *Ibid.*

ments in a growing economy".¹

The interpretation of Keynesianism as a "static" theory—i.e., confined to examining only problems of simple reproduction, requires explanation. Indeed, Keynes surely poses the question of the need for investment, its growth, etc. That is true, and Harrod remarks that such an important concept from Keynes as "positive saving" is a dynamic notion.

In Harrod's view, although Keynes does recognise the need for capital accumulation, he does not study its effect on the system as a whole, save growth in income (the multiplier principle). Therefore, his "marginal efficiency of capital" turns out to be independent of changes connected with the accumulation process.² On the other hand, Keynes does not analyse the effect of growth in income on accumulation—acceleration—either. Consequently, although Keynes's theory contains the decisive element of extended reproduction—accumulation, nonetheless Keynes confines himself to an analysis largely of simple reproduction.

It is of great interest to ask whether Harrod examines the system of relations of production as a "dynamic factor". Do neo-Keynesians recognise the inevitability of the *development* of capitalism's *relations of production*, and not only of productive forces, or if the subject of neo-Keynesian analysis is study of quantitative relationships of the reproduction process, does it

¹ Alvin H. Hansen, *A Guide to Keynes*, New York, 1953, p. 49.

² R. F. Harrod, *op. cit.*, p. 11.

include an examination of reproduction of capitalism's relations of production, at least in a quantitative, functional aspect? At first glance, one might imagine that neo-Keynesians do pose the question of studying capitalism's relations of production, and even from the viewpoint of their development. Indeed, Harrod, for example, writes: "The economist's first task being not to determine *how the product will be apportioned* among the factors at one time, but how progress successively reapportions the product among the factors."¹

However, it is noticeably typical of bourgeois macroanalysis to steer clear of investigating internal causal relationships between economic processes, in this case the processes of distribution, their socio-economic content. Bourgeois economists also approach the problem of distribution from the point of view of analysis only of quantitative relationships, although it is seen as an element in the general reproduction process that changes with any change in the latter. But in any case the preservation of the quality of capitalist relations of production is taken for granted. So with their functional macroeconomic analysis, neo-Keynesians who study quantitative aspects of extended capitalist reproduction have to admit the changeability of quantitative proportions in distributing the social product within the framework of the capitalist system of relations, while abstracting themselves from processes of development of these relations of production. This

¹*Ibid.*, p. 16 (my italics—V. A.).

approach not only moves out of sight objective processes of the capitalist economy, it also excludes from analysis any qualitative changes in the very system of capitalist relations of production. It is hardly surprising that neither Keynes nor his followers study such an important modification of capitalism's relations of production as the establishment of domination of capitalist monopolies, constituting the economic crux of imperialism.

In accordance with the tradition of bourgeois economic literature Harrod emphasises that the object of Keynes's analysis in the *General Theory of Employment* was full employment, and counterposes it with the idea of a stable rate of development in step with key conditions. We see here very clearly the difference between Keynes's static analysis and the orientation of dynamic economics on studying extended reproduction, and not simply the changes.

The accelerator concept plays an important part in the theory of extended reproduction of the neo-Keynesians. By contrast with the multiplier, which expresses the quantitative dependence of a change in national income on a change in the volume of aggregate investment, neo-Keynesian literature designates the accelerator to mean a dependence of changes in investment on a change in the amount of national income. By combining the multiplier theory with that of the accelerator, neo-Keynesians work out the concept of a cumulative economic process with the purpose, as they believe, of elucidating the internal mechanism of the reproduction process, although in

reality they go no further than describing certain general, concrete economic relationships of extended reproduction.

That which is singular about the subject of macroanalysis is very lucidly expressed in the following approach by Harrod to the problem of an "expanding economy": "In examining an expanding economy we may consider the inter-relationships between the expansion in three fundamental elements, viz. (1) man-power, (2) output or income per head and (3) quantity of capital available."¹

This is a purely quantitative approach to the problem of extended capitalist reproduction. We have here no reference to revealing any qualitative aspects of these economic growth factors, their socio-economic essence and the historical tendency of capitalist reproduction.

The question to which Harrod devotes particular attention boils down to defining the necessary volume of capital, sufficient for a corresponding growth in other major elements of reproduction—man power and output. Here Harrod makes it a condition that the rate of interest does not alter and introduces the concept of "capital coefficient", by which he means the "ratio of the value of capital in use to income per period",² i.e., the amount of capital being used per income unit, or $\frac{C}{D}$ where C is capital being used, and D is income.

Harrod examines the problem of determining the quantity of capital necessary for the normal

¹ *Ibid.*, p. 20.

² *Ibid.*, p. 22.

course of extended reproduction in several variants:

(a) given unchanged production technology and population growth in geometrical progression. In this situation the demand for capital, according to Harrod, will grow in the same proportion as population growth. This demand will be fully satisfied if the population continues to save the same proportion of its overall income. "The requisite fraction of income is equal to the increase of population in a period regarded as a fraction of the whole population multiplied by the capital coefficient."¹

(b) Harrod studies the second variant with an unchanged population and constant technological advance. He here puts forward the concept of "neutral" technical progress. He bases himself on the idea that technical progress leads to a saving of both labour and capital. Harrod believes technical progress to be "neutral" when the tendency to save labour counterbalances the tendency to save capital, as a result of which the quantitative relationship between labour and capital does not alter. In other words, "neutral" technical progress assumes no change in the organic composition of capital.

Although Harrod does not have a category of the organic composition of capital, he is nonetheless talking precisely of that, of its constancy given this type of technical progress: "I define a neutral advance as one which, at a constant rate of interest, does not disturb the value of the

¹ *Ibid.*

capital coefficient; it does not alter the length of the production process."¹ This definition "implies... that the productivity of labour embodied in machines is raised in equal measure with that of those engaged on minding machines".² Typically, in advancing the concept of different types of technical progress and providing a definition of "neutral" technical progress, Harrod emphasises that they correspond to the demands of quantitative analysis, to the demands of econometrics.³

At the same time, according to Harrod, a rate of increase of capital is equal to the rate of increase of income engendered by it. "If the stream of inventions requires capital to increase at a greater rate, then it is a labour-saving or capital-requiring; and conversely."⁴

From this argument it would follow that growth in the organic composition of capital is accompanied by a growth in capital intensity. It is however hard to concur with such an affirmation. Investigations of Soviet economists, including Professor S. L. Vygodsky, have shown just the opposite, that an increase in the organic composition of capital, being a manifestation of the growth in the productivity of social labour, leads

¹ *Ibid.*, p. 23.

² *Ibid.* This is a typical stance of present-day bourgeois political economy which, in an attempt to conceal the exploitation of the working class, regards the labour embodied in machines as an autonomous factor of production.

³ *Ibid.*, p. 27.

⁴ *Ibid.*, pp. 26-27.

to a drop in the capital intensity of production.¹

By the second variant (unchanged population, stable interest, neutral technical progress), the amount of new capital being required, i.e., amount of accumulation, would comprise, Harrod avers, "a constant fraction of income equal to the increase of income (or output) in any period considered as a fraction of total income multiplied by the capital coefficient".²

(c) The third variant of defining the amount of capital necessary for extended reproduction presupposes simultaneously both a growth in population and an increase in output under the impact of technical progress. This gives, according to Harrod, the value of capital being accumulated, coming close to the sum total of capital increments in the first and second variants taken together.

Thus, the development of Keynes's theory consists here in posing the problem of extended reproduction and examining the quantitative dependence of the volume of capital accumulation being required on a change in other principal factors of growth—increases in size of labour power and in per capita output or income.

HARROD'S SAVINGS THEORY

This theory occupies a central place in Harrod's notion of dynamic economics. The dynamic economics theory is a neo-Keynesian theory of extend-

¹ See S. L. Vygodsky, *Contemporary Capitalism (Experience of Theoretical Analysis)*, 2nd edition, Moscow, 1975, Chapter 13 (in Russian).

² R. F. Harrod, *op. cit.*, p. 28.

ed reproduction, focusing attention, like Keynes's "static" reproduction theory, on quantitative, functional relations of capitalist reproduction; but, by contrast to Keynes, it raises problems of conditions and prerequisites for extended reproduction. It is therefore understandable why Harrod should pay attention to problems of accumulating money capital and to capital investment.

Harrod strives to depict the capital accumulation process as an aggregate result of acts of individual saving. He sees corporate "savings", which are the main source of capital accumulation and whose source is, in turn, surplus value, as part of personal savings thereby drawing a veil over their socio-economic essence.¹ At the same time, he is bound to see that "additional capital" is the result of these savings. However, he reasons, this capital is used for satisfying "private needs of shareholders or entrepreneurs", so investment in a corporate enterprise is also a variety and part of personal savings. He writes that "corporate saving may not be additional to personal saving, but part of it".²

Thus, Harrod tries to erode the difference between individual saving, which has a consumer character, and "saving" which forms new capital, actually capitalist accumulation. Harrod's position pursues the aim of suppressing the obvious fact that "corporate savings" are made by only one class of bourgeois society—the capitalists,

¹ *Ibid.*, p. 47.

² *Ibid.*

and, what is more, out of incomes received from exploiting the proletariat. The purpose of identifying personal consumer savings and capital accumulation is to suppress the fact of capitalist exploitation and, further, the class contradictions of bourgeois society in the capital accumulation process.

The personal savings of working people, both short- and long-term, are used in contemporary bourgeois society through bank institutions for financing capital accumulation. In fact, all forms of saving in bourgeois society, personal and entrepreneurial, are not only not personal savings. on the contrary, they are only various forms of capital accumulation used only by entrepreneurs. This fact serves as a gnoseological basis for Harrod's apologist explanations of the nature of corporate savings. The fact that workers' personal savings are used also for financing capital investment by no means implies that capital accumulation by corporations is a form of personal saving.

At the same time, the sort of identification made by Harrod for apologist ends is obviously at variance with the tasks facing him of studying quantitative relationships of capitalist extended reproduction, whose core is capitalist accumulation. Therefore Harrod is confronted with the need somehow to distinguish capital accumulation proper from personal savings. He tries to do this by the category of "surplus corporate saving".

He regards corporate saving as personal only to the extent that it is done with the purpose of

personal provision. "Business ambition", as Harrod calls the capitalist profit motive, stimulates many individuals to invest in corporations "more than they would choose to, merely in order to provide for their private needs".¹ He calls "surplus corporate saving" an excess of corporate savings over and above the sum which is designated for ensuring the personal needs of the capitalists. He uses this term, therefore, to define investment which brings in the capitalised part of surplus value, its accumulated part, as distinct from investment the income from which goes to the needs of the personal consumption of capitalists. So, "surplus corporate saving" is that sum of investment which is in a certain quantitative relationship with the accumulated part of surplus value.

Harrod realises that capital accumulation which has the purpose of using received income for production differs from accumulation pursuing the consumer objectives of the capitalist. He writes of "surplus corporate saving" as follows: "We must add it to personal savings as determined by the fundamental private motives we have examined in order to reach the total saving by the community."²

The division of capital into two component parts—"capital for consumption" and "capital for new investment" ("surplus corporate saving") is of great significance in analysing quantitative

¹ *Ibid.*, pp. 47-48.

² *Ibid.*, p. 48.

inter-relations in the extended reproduction process. The purpose of these different parts of capital is not the same: only part of capital is directly associated with ensuring the needs of extended reproduction, while the other part of capital operates for the sake of producing surplus value, designated only for the capitalist's consumer needs.

Harrod takes a decidedly vulgar position on theoretical issues affecting the socio-economic essence of capitalism's economic relations, and not a purely quantitative expression of them. His views are particularly vulgar and apologist when he is obliged to consider the problem of sources of capitalist incomes, profit, interest, etc. So, he interprets loan interest as a reward for an "act of waiting" and profit as "payment for risk".¹ The question of origin of exploitative incomes, in line with traditions of vulgar bourgeois political economy, is replaced here by another question (which is also treated in an apologist way): how to justify such incomes.

He bends his main efforts to explaining whether the accretion of money given to credit is justified, rather than to establishing the source of that accretion, even though he apparently raises a decisive problem in that respect: how the emergence of interest is to be fitted into the law of value, of which the so-called law of compensation in Harrod's work is only a pale shadow. "If indeed there were no countervailing considerations to justify this accretion, the phenomenon

¹ *Ibid.*, p. 35.

of interest would not merely come up for moral judgement, it would violate the most basic law of economics, namely that one cannot get something for nothing."¹

The problem here too shifts from the economic to the moral sphere. The way the question is posed assumes that it is possible to justify interest, such "countervailing considerations" which could exclude violation of the "law of compensation".

This is also evident from Harrod's principle of "time preference" (which, incidentally, had been around for some time from the Austrian school). Its essence is that "present wealth" is valued more highly than "future wealth". "We do not see the future so vividly as the present and underrate the advantage of having money at a future date compared with that of having it now.... The desire to use the money now is reinforced by animal appetite."² He writes further that "greed may be thought to be as appropriate a name for this attitude as time preference".³

Relying on such a solid "foundation", Harrod comes to the rather surprising conclusion that the person receiving interest for lending his money not only "will not gain anything.... On the contrary he will almost certainly lose".⁴

How does that happen? First, says Harrod, a lender must have to cut his consumption by the sum and time of the loan. Second, a large sum of money in the future may have less value

¹ *Ibid.*, pp. 35-36.

² *Ibid.*, pp. 36-37.

³ *Ibid.*, p. 37.

⁴ *Ibid.*

than a smaller sum of money at the present. And a "paltry surplus" in the form of loan interest cannot compensate for that difference owing to the "law of the diminishing utility of income". Finally, the loss from making a money loan for interest will happen because people are not capable of foreseeing the future and determining the future value of income.

Thus, Harrod collects and systematises the old vulgar notions: Senior's "abstinence" theory, the Austrian school's concept of "present and future wealth", the "uncertain future principle"—in his attempt to justify one of the forms of surplus value—loan interest; moreover, he tries to suppress the very fact of financial exploitation of the working people.

This once again confirms the conclusion that bourgeois macroeconomic analysis invariably takes an apologist stand when it deals with questions relating to the essence of capitalist economic relations.

Powerful forces are at work in the private economy, Harrod thinks (meaning the unprofitable nature of gaining interest for credit), which substantially limit private savings. Hence his conclusion of the need for state control over savings. "And now at this moment we are living in a régime in which the volume of national saving is largely controlled by the government."¹

Harrod's imprecision in classifying savings as consumption and production makes it hard for him to examine the effect of a change in the inter-

¹ *Ibid.*, p. 41.

est rate on the size of savings. "It may be convenient here to consider the likely effect of a falling rate of interest on the supply of saving. Unhappily, it does not seem possible to give a definite answer."¹

There is nothing surprising about that conclusion, since "savings" react variously to a change in the size of interest depending on their own nature. The accumulation of capital in money form is stimulated at a declining rate of interest, insofar as the capitalist's entrepreneurial income rises. Personal savings, however, diminish with a fall in interest paid by the banks on customers' accounts. The point is that the capitalist will pay interest for money he has borrowed, while the consumer will *receive* interest for money he has entrusted to the bank and is saving for future consumption. Identification of the money form of capital and money as such lies behind this position.

Harrod, of course, notes this quantitative difference in the movement of the two forms of "savings". He writes that corporate saving, including surplus corporate saving, will tend to be stimulated by a fall in the rate of interest.² As far as personal savings are concerned, Harrod writes: "In every case it seems that saving will be less with a lower rate of interest."³ But he finds it difficult to give a definite answer to the question of how the volume of savings changes

¹ *Ibid.*, pp. 48-49.

² *Ibid.*, p. 48.

³ *Ibid.*, p. 49.

in the event of a fall in interest, since under the influence of the "abstinence" theory he attributes corporate savings too, at least part of them, to personal savings.

"The upshot of this analysis is indecisive," writes Harrod. "Surplus corporate savings are likely to rise in response to a falling rate of interest" while personal savings are likely to fall.¹ It is therefore apparent that it is the vulgar political economy concept of "abstaining" from consumption while capital is being formed that acts as a barrier to quantitative macroeconomic investigation of the dependence of volume of capital accumulation on a change in the interest rate.

At many points Harrod supports Keynes's interest theory, above all his interpretation of interest as a "psychological phenomenon". According to Harrod, interest is nothing but the "resultant of thoughts and opinions, hopes and fears ... not a physical phenomenon at all".² This last assertion is aimed at denying the objective nature of interest, at reducing it to a purely volitional act.

All the same, Harrod does not agree fully with Keynes on the interest theory. He criticises Keynes for ignoring "waiting" in his approach to interest and for linking interest only with "liquidity preference". The real basis of this criticism consists in Harrod's attempt to intensify the apologist orientation of "savings" theory, i.e., the theory of capital investment which loses one of its important apologist props without "waiting"

¹ *Ibid.*, p. 51.

² *Ibid.*, p. 66.

theory. "It must be agreed, surely he would have to agree, that two activities are necessary before capital can be provided, namely (1) waiting and (2) parting with liquidity."¹

Thus, Harrod explains the generation of capital by "waiting", which enables people to accumulate a certain sum of money, and by "parting with liquidity"—i.e., making the given sum available to credit. He does separate the acts of accumulating capital and giving credit, although also in a psychologised form. But he fully ignores the exploitative nature of capital accumulation, its ties with appropriation of surplus value; so he sees credit actually as "the borrowing of money" and not as a form of movement of loan capital.

Harrod criticises Keynes's interest theory on other grounds. He chides him with one-sidedness in interpreting the relationship between size of interest and volume of supply of loan capital: "There are two possibilities in regard to the relation of this to the supply of saving, only one of which Keynes appears to have considered."²

Keynes, says Harrod, was dealing with conditions in which the lack of capital and fear to invest it, owing to the deep-going crisis processes that gripped the capitalist economy in the 1930s, were typical. As a result, capital investment was lower than savings, and full employment was absent. Something else is now typical, says Har-

¹ *Ibid.*, p. 70.

² *Ibid.*

rod: the rate of interest is being fixed at such a low level that capital investment begins to overtake savings. Inflation results.

So it is evident that Harrod is drawing a distinction between the accumulation of money capital ("savings") and real capital investment ("capital investment"). What is important is that he stresses that these two magnitudes may not coincide. If savings exceed capital investment, unemployment occurs; if, conversely, capital investment exceeds savings, inflation occurs.¹

The urge to reach a balance between these two magnitudes which would be necessary for ensuring a "dynamic equilibrium" engenders, Harrod avers, the need for the state to control the economy. Speaking of the conditions of postwar inflation, he writes, "The present is precisely a situation in which the efforts of the Chancellor of the Exchequer are holding the liquidity preference rate of interest far below the level at which capital outlay would balance saving forthcoming at full employment. Hence the need for controls."²

The need for state-monopoly regulation comes, therefore, in Harrod's opinion, also from the contradiction inherent in the capitalist economy between capital accumulation and capital investment. The processes of socialisation that are embracing even this aspect of capitalist reproduction constitute the basis of "controls" about which Harrod writes. Consequently, he connects the need for "controls" over the economy with

¹ This issue is examined in more detail in Harrod's *Policy Against Inflation* (London, 1958).

² R. F. Harrod, *Towards a Dynamic Economics*, p. 71.

capital accumulation processes, i.e., with the need to ensure extended reproduction.

In this connection it is typical that Harrod pays considerable attention to the question of a possible "natural tendency" of the rate of loan interest to fall. He regards this as "the crux of the matter", the crux of the "modern economic situation".¹ Following Keynes, he holds that the capitalist economy is notable by its own resources to ensure the appropriate reduction in the interest rate. "There is a general agreement that this is the true remedy for unemployment. Unemployment has persisted for years and not been remedied. There is therefore a *prima facie* for a planned reduction in the rate of interest."²

Analysis shows that Harrod's savings theory is subordinate to the main objective of his economic concept—to analyse quantitative relationships of the capital accumulation process, i.e., extended reproduction. On the one hand, he is forced to single out the accumulation of capital as the key element in extended reproduction; this is the purpose of his category of "surplus corporate savings", as well as his actual division of capital into two parts, of which one operates for ensuring the capitalist an income for personal consumption needs, while the other guarantees him the accumulated part of surplus value. On the other hand, he masks the exploitative origin and use of "corporate savings" by the general concept of personal savings.

¹ *Ibid.*, p. 97.

² *Ibid.*, p. 99.

"DYNAMIC ECONOMICS"
EQUATIONS

A component part of Harrod's "dynamic economics" theory is "dynamic" equations—formulae for extended reproduction. One of the most important distinguishing features of these equations is that they do not represent, even in symbolic form, the movement of social capital or product as a whole. Harrod's dynamic equations are equations of capital accumulation that reflect the movement only of the part of the increment in output that is being accumulated; in fact this is a materialised form of surplus value, since the basis of extended reproduction is the capitalisation of surplus value. Harrod's ignoring of the reproduction laws in the movement of the entire social product comes from his class restricted position. Represented in total, the movement of the social product in the course of capitalist reproduction exposes the exploitative essence of capitalism, the fact of the monopolisation of the means of production in the hands only of the single subject—the bourgeois class, and the conversion of labour power into a commodity, into the object of exploitation.

The second feature of the equations is that each of them symbolises a special type of economic growth: the first equation is the actual growth of production; the second is the so-called "warranted growth", i.e., the rate of output that corresponds to the interests of the capitalists, guarantees maximisation of capitalist profits; and, finally, the third is a potential rate of growth

determined by the volume of production and labour resources.

There is no doubt that this approach is apologist, inasmuch as inherent in capitalism is the only determining motive of production—the greatest profit. But it is not surprising that Harrod should differentiate between various types of “dynamic economics”. This differentiation is the reflection of contradictions of modern capitalist reproduction. Indeed, the differentiation between actual and “entrepreneurial growth”, as distinct from potential, shows up capitalism’s inability fully to use its labour and production resources. The non-coincidence of actual growth of production and “entrepreneurial” growth bears witness to the fact that competition, which is typical for capitalism, undermines conditions for ensuring the largest profit. Harrod needed this classification of basic types of dynamic economics also for substantiating state-monopoly regulation of the capitalist economy.

Harrod’s first dynamic equation is the following:

$$G \cdot C = s,$$

where G “is the increment of total production in any unit period expressed as a fraction of total production”;

C (capital) “is the increase in the volume of goods of all kinds outstanding at the end over that outstanding at the beginning of the period divided by the increment of production in that same period”;

and s "is the fraction of income saved"¹:

$$C = \frac{C_2 - C_1}{G},$$

where C_1 is capital at the start, and

C_2 is capital at the end of the period.

So, C is the increment in capital over the period under review, the difference between the entire volume of capital at the start of the period and at its end—i.e., $C_2 - C_1$, divided by increment in output over the same period.

Thus, this equation may be written as follows:

$$\frac{G(C_2 - C_1)}{G} = s, \text{ or } C_2 - C_1 = s.$$

It follows that Harrod is actually claiming that the volume of saving of accumulated capital is equal to the volume of capital investment. "It can easily be seen, by the cancellation of common terms, that it is reducible to the truism that ex-post 'investment' is equal to ex-post saving.

"Let Y stand for income, I for investment and S for saving:

$$G \cdot C = \frac{\Delta Y}{Y} \cdot \frac{I}{\Delta Y} \text{ and } s = \frac{S}{Y}."$$

From the natural-material standpoint C —i.e., capital, is interpreted by Harrod as a certain volume of capital goods and consumer goods, subtracting unfinished production.

¹ *Ibid.*, pp. 77-78.

² *Ibid.*, p. 80 (footnote).

" C is the addition to capital, but need not consist exclusively or even mostly of capital goods. It is merely the accretion during the period of all goods (less those goods which are included in k). This equation does not make any explicit reference to goods in process."¹

We may note that Harrod denotes k as current accretions to capital (as a fraction of current income) that do not have direct relation to current requirements—i.e., k is capital investment of a long-term character.

In this case, Harrod interprets capital from the viewpoint of its commodity form rather than its productive form, as means of production. In his view, the accretion in capital over a certain period is the difference between the sum total of all goods at the start and end of the period. This, he writes, "is merely the accretion during the period of all goods".² Elsewhere he identifies capital with "the end product".³ It is for this reason that consumer goods as well as "capital goods" go into the composition of capital.

What does the formula $G \cdot C = s$ actually mean? The increment of total output for a certain period, taken as a fraction of total output, is multiplied by the increment in capital over the same period, divided by the increment in the whole output. All this is supposed to equal the sum total of savings.

So, the sense of Harrod's formula consists in the following. The entire increment in output

¹ *Ibid.*

² *Ibid.*

³ *Ibid.*, p. 70.

is multiplied by its portion going to production ends. This determines that part of the increment which goes to augment capital. To this natural mass of accumulating capital from the increment in output should correspond a certain sum of money savings out of individual profits and other incomes that are being used for financing capital accumulation through the banking system, shares, etc. The left side of the equation is that part of the increment in output that is being accumulated; the right side is the portion of "savings from income" which corresponds to it. Consequently, the problem which is presented in this equation is the relation between capital accumulation in money form and capital investment.

It is noteworthy that Harrod does not analyse the circulation of all capital during the social reproduction process. The problem was at least dealt with by Keynes in his costs theory, in his differentiation between fixed and circulating capital. What is more, Harrod ignores transferred value in the value structure of output increment; he does not examine the overall movement of that increment in terms of value and kind. $G \cdot C$ is, after all, only that part of increment in output which goes to accumulation needs. But what happens with that part which compensates for the constant capital that has been expended, and with that part which forms the increment in income going to the personal consumption of capitalists (personal consumption of workers is accounted for in C)? All that is unclear.

Harrod's extended reproduction equation is reduced merely to the relationship of the accum-

ulated part of surplus value in money form to the volume of capital investment in commodity form.

The following equation is supposed to reflect conditions for attaining "the equilibrium of a steady advance":

$$G_w \cdot C_r = s,$$

where G_w is "the warranted rate of growth" which satisfies producers¹—i.e., the rate of growth in output which creates conditions for its own continuation. The prerequisite for this is the proposition that capitalists will be guaranteed appropriate profits. "It is the line of advance, which, if achieved, will satisfy profit takers that they have done the right thing."² The possibility of unemployment is assumed at that rate of growth. C_r is defined "as the requirement for new capital divided by the increment of output to sustain which the new capital is required".³

A comparison of the first and second formulas brings Harrod to conclude that capitalism is inherently unstable and that it has a typical tendency to deviate from the "warranted" rate of growth.

He argues this conclusion as follows. If G rises, then C falls, i.e., if the rate of output rises, a smaller part of it is needed to cover requirement for new capital. From that he concludes that if G exceeds G_w , then C will be lower than C_r ,

¹ *Ibid.*, p. 81.

² *Ibid.*, p. 87.

³ *Ibid.*, p. 82.

i.e., if the actual rate of growth of output will be higher than the ideal rate which guarantees reproduction of conditions for its continuation, then the portion of that increment designated for new capital investment will be lower than that required for "warranted" growth. For that reason, orders for machinery will rise. And consequently, this deviation of growth rates upwards in relation to "warranted" growth engenders a tendency for them to deviate further. If the real rates are lower than the "warranted" rates, the portion of new capital C will be greater in the increment of output than is required for "warranted" growth, i.e., greater than C_r . For that reason, orders will fall and the rate of production will increasingly decline by comparison with ideal rates.

Hence Harrod comes to the conclusion that "if the aggregated result of trial and error by numerous producers gives a value for G which is different from G_w , there will not be any tendency to adapt production towards G_w , but, on the contrary, a tendency to adapt production still farther away from it, whether on the higher or lower side".¹

Instability is inherent in the capitalist system in which "warranted" growth, i.e., a growth in production that has a tendency to reproduce the conditions engendering it—may arise only fortuitously as a result of the spontaneous development of production by many hundreds of thousands and millions of private producers. Whether he likes it or not Harrod has to take this into

¹ *Ibid.*, p. 87.

consideration in his conclusion on the relation of "warranted" to normal growth. "This strikes me as an extraordinarily simple and notable demonstration of the instability of an advancing system."¹ He repeats this idea in his *Economic Essays*, where he writes of dynamic economics as follows: "A departure from equilibrium, instead of being self-righting, will be self-aggravating."²

The third equation advanced by Harrod is intended to describe the relationship between economic growth and "basic conditions", by which he means growth in size of population, a change in its requirements and technical progress.

$G_n C_r = \text{or } \neq s$, where n (for natural) emphasises the "natural" character of growth, G_n . G_n is the rate of economic growth which assumes full use of labour resources and technological improvements, i.e., coincides with potential production possibilities.

Typically, this rate of growth—"natural" according to Harrod's assessment—"has no direct relation to G_w ", i.e., to the rate of growth which is defined as "the entrepreneurial equilibrium"³ and at which some unemployment is assumed. This separation of "natural" and "entrepreneurial" rates of growth of production establishes the fact, long ago discovered and explained by Marxism-Leninism, of capitalist relations of production putting a brake on society's productive forces.

¹ *Ibid.*, pp. 85-86.

² R. F. Harrod, *Economic Essays*, London, 1952, p. 264.

³ R. F. Harrod, *Towards a Dynamic Economics*, p. 87.

Harrod attributes much importance to the relationship between potential, "natural" (G_n), and entrepreneurial rates of growth (G_w), since, in his opinion, the predominance of stimulation or depression in the economy over several years will depend on the nature of this relationship. He maintains that this relationship is paradoxical: the more the entrepreneurial rate exceeds the natural, the more there will be a tendency towards depression. "If the value of G_w is too great (greater than that of G_n) there will be a prevailing tendency for departures to be in a downward direction."¹

In fact, this position means recognition of the limited nature of the capitalist market, although this last factor does not figure in Harrod's scheme as a particular economic magnitude. He writes that "if G_w is above G_n saving is a force making for depression".² If production rises above what is potentially possible, i.e., if the drive for profits raises production above what is defined as "basic conditions", an economic crisis is inevitable. Owing to the growth in profitability of production, investment in it will mount, as a result of which "savings" will climb upwards, restricting consumption. So, excessive growth engenders economic crisis. Harrod emphasises this very point, noting, by the way, that he is not offering "a finished theory of the trade cycle".³

Evidently, these equations are not meant to

¹ *Ibid.*, p. 88.

² *Ibid.*, p. 89.

³ *Ibid.*

explain the socio-economic nature of those factors that determine economic development of capitalist production. He focuses attention on searching for quantitative relationships in the reproduction process, relying on which one could accord extended capitalist reproduction a certain stability. An illustration of that is Harrod's prescriptions for a wages policy as a regulator of economic growth.

He views the problem from two angles: first, from using a reduction in workers' wages as a means of "combating" chronic unemployment; and second, using this "medicine" for overcoming the cyclical economic downturn. The first is presented by Harrod as $G_w > G_n$. A reduction in wages in this situation, he writes, must only worsen the position, since it would increase the "commodity value of money", and this would lead to a growth in corporate savings. For this reason G_w would increasingly surpass G_n . "Thus the chronic tendency to depression would be intensified."¹ Consequently, Harrod expresses very serious doubts about the possibility of using a wage cut for removing chronic unemployment.

If we view this question from the standpoint of the business cycle, i.e., in Harrod's terminology, in connection with the departure of G from G_w , a reduction in wages, in his opinion, may well serve as a fairly effective means of overcoming an economic downturn. The jolt from a wage cut "might serve to restore the system to where it was before and thus enable it to proceed on

¹ *Ibid.*, p. 93.

a healthy line of advance".¹ Harrod's chief line of reasoning hardly differs from that of Keynes: reduction in wages will raise the marginal efficiency of capital—i.e., ultimately capitalist profit, which will bring about a growth in business activity. Contraction in market capacity as a result of a fall in wages (seen here, as differing from the former, as something episodic in character) is left out of consideration. Harrod asserts that it should not happen, since a fall in workers' consumption has to be compensated for by an appropriate rise in consumption by rentiers.²

All the fresh propositions that Harrod brings to a criticism and development of Keynesianism are intended to expand and detail a study of quantitative relationships of capitalist reproduction, and not simply to add to the old store of bourgeois apologetics. They include his ideas of "statics" and "dynamics", the "surplus corporate saving" that presupposes the division of operating capital into two parts, one of which ensures the consumption objectives of capitalists, while the other ensures that they receive the accumulating part of surplus value. His "growth equations", demand for econometric testing of theoretical propositions, the thesis of the need to take account of temporary lags, the "acceleration" principle, etc., also pursue the same end of examining the functional relationships of extended reproduction. At the same time, a study of quantitative relationships of capitalist reproduc-

¹ *Ibid.*

² *Ibid.*, p. 95.

tion is considerably limited precisely by the apologist nature of its overall conception. Hence, in particular, Harrod's rejection of the labour theory of value, his reduction of the problem of realising the social product only to realising the part of it that is being accumulated, and his confusion of personal and "corporate" savings, etc.

Harrod's dynamic economics theory testifies to the fact that he, like Keynes, ignores an examination (even from a vulgar economic standpoint) of the essence of socio-economic processes in capitalism and concentrates his efforts on studying quantitative relationships in the functioning of the capitalist economy, and not its development. This means that his theory represents a further isolation of bourgeois macroeconomic analysis into a particular trend of bourgeois economics.

3. DOMAR'S AND ROBINSON'S "ECONOMIC GROWTH" MODELS

Study of quantitative, functional relationships of extended capitalist reproduction from the viewpoint of Keynesian method has been the object of close attention by bourgeois economists. They have received considerable attention in the works of the American disciple of Keynes Evsey Domar, in particular in his *Essays in the Theory of Economic Growth*. The point of departure for Domar is the idea of investment's dual character. While sharing Keynes's view that "investment generates income", i.e., is the major factor influencing the volume of aggregate demand, Domar draws

attention to another side of the question: investment also leads to an increase in production capacity, and therefore to a rise in the supply of goods. The role of investment, therefore, is two-fold. On the one hand, it increases demand for goods, on the other, it leads to a greater volume of supply of goods.

Domar sees the main task of "economic growth" theory as determining the volume of investment necessary for such a growth in incomes, and therefore also in effective demand, that would cover the increment in supply of goods caused by expansion of production capacity. In his view, a rate of economic growth might be found which would guarantee equality of increment in incomes and increment in output and, therefore, equality of aggregate demand and aggregate supply in the process of economic growth.

He writes, "Because investment in the Keynesian system is merely an instrument for generating income, the system does not take into account the extremely essential, elementary, and well-known fact that investment also increases productive capacity. This *dual* character of the investment process makes the approach to the equilibrium rate of growth from the investment (capital) point of view more promising: if investment both increases productive capacity and generates income, it provides us with *both* sides of the equation the solution of which may yield the required rate of growth."¹

¹ Evsey D. Domar, *Essays in the Theory of Economic Growth*, p. 73.

The main growth equation formulated by Domar takes the following form:

$$I = I_0 e^{\alpha \delta t},$$

where $\alpha \delta$ is the equilibrium rate of growth.¹

The meaning of this equation, according to Domar, is that the annual rate of increment in investment ensuring a certain increment in supply of goods (I) should be equal to that volume of investment ($I_0 e^{\alpha \delta t}$) that is capable of ensuring an increment in demand for covering the given increment in supply.

We can see that the major traits of Keynesian method are also present in Domar's concept, above all in the way he abstracts himself from the internal contradictions of capitalist reproduction, not to speak of his equations lacking any reflection of the monopoly character of the contemporary capitalist economy. It is therefore hardly surprising that even bourgeois economists express perfectly justified doubts about the possibility of ensuring steady growth in the capitalist economy on the basis of recommendations from "economic growth" theory of the neo-Keynesians. In drawing attention to the fact that capitalist monopolies, in their drive for bigger profits, are not hindered by having to make enormous investment that generates excess capacity, Ben Seligman writes, "In situations engendered by a monopolistic economy, such excess capacity clearly would be a threat to continued growth and expansion."²

¹ *Ibid.*, p. 75.

² B. B. Seligman, *Main Currents in Modern Economics*, p. 751.

There is no doubt, however, that Domar's works represent a further development within bourgeois economic writing of the problem, first formulated by Keynes, of a quantitative, functional analysis of inter-relations of economic magnitudes in the process of capitalist reproduction.

The specific feature of Domar's viewpoint is that following Keynes yet differing from Harrod he tries to take account of the changing capacity of the market in the course of extended reproduction. But bourgeois limitation prevents him from fully depicting the laws of development of the capitalist market and its contradictions.

So-called left Keynesianism has also provided a certain elaboration of the problem of economic growth. The distinguishing feature of the class position of left Keynesians is that they safeguard the interests of the non-monopolised middle and petty bourgeoisie and, from a petty-bourgeois point of view, aspire to defend the interests of small- and medium-scale farmers, intellectuals, white and blue collar workers.

The social postures of left Keynesians are very contradictory. They are undoubtedly progressive in their criticism of the dominance of monopolies, in their emphasis on the danger to national interests of excessive concentration of economic power in the hands of the monopolies, of the arms race whipped on by the monopolies, in their demands for growth in the public's purchasing power and constraints on monopoly profits, and in their propagation of the idea of peaceful co-existence between the two world systems.

The anti-monopoly orientation of left Keyne-

sianism is nonetheless limited. Criticism of the monopolies is not taken to any conclusion about the need to do away with private ownership, which in fact generates capitalist monopoly and the acute economic and social contradictions associated with it. Left Keynesians subscribe to the utopian reformist theory of the possibility of progressive state regulation of the capitalist economy that would correspond to popular interests, and that would be devoid of overproduction crises, inflation and unemployment and, the main thing, of capitalist monopolies that cause these phenomena. This social position of left Keynesians is a reflection of the contradictory position of the non-monopolised bourgeoisie within contemporary bourgeois society.

No less intricate and contradictory is the theoretical basis of left Keynesianism: on the one hand, it is vulgar bourgeois political economy as a whole, and particularly Keynesianism; on the other, one can clearly see in it an orientation on the use of certain propositions of Marxist economic theory. Moreover, left Keynesianism makes an attempt to "combine" bourgeois and proletarian (Marxist-Leninist) political economy, distorting the content of both Keynesianism and Marxism. While left Keynesians try to give Keynesianism a certain democratic, petty-bourgeois colouring, they disarm Marxism of its revolutionary essence, as a result of which it is treated as some sort of academic reformist teaching. This aspiration to "supplement" bourgeois political economy with elements of Marxist economic theory reflects both the intermediate

class position of those social groups whose representatives left Keynesians are, and an obvious anti-scientific and anti-democratic nature of traditional bourgeois political economy.

A key point of left Keynesianism is the theory of underconsumption, which had been put forward by Jean Sismondi and John Hobson in defending the interests of the petty bourgeoisie (in the case of Sismondi) and the non-monopolised intermediate bourgeoisie (in the case of Hobson). A particular trait of this theory with the left Keynesians is its anti-monopoly orientation: monopolies generating extreme unevenness in distributing national income are declared to be the cause of underconsumption on the part of the general public and, at the same time, the cause of the calamities of contemporary capitalism which flow from that. They present exploitation of the working class from the standpoint of the underconsumption theory as a result of the low wage level (lower than the "marginal product of labour") generated by monopoly domination. Economic crises of overproduction, underemployment of production capacity and unemployment, low rates of economic development, appear as the consequence of a low level of incomes of the main sections of the population (their underconsumption) and the unwillingness of the wealthy to increase their consumption in step with the growth in incomes (their over-saving).

Such a position of left Keynesians is duplex. On the one hand, they stress the major contradictions in the capitalist economy and arrive at a number of essential progressive conclusions.

Their underconsumption theory brings them to conclusions about the need to curb or eliminate monopolies and the excessive inequality in income distribution that they cause, the need for an increase in real wages of workers in proportion to growth in their labour productivity, and for the stimulation of trade union action as a condition of normal development of the capitalist economy. On the other hand, it is not hard to see that in terms of method, the underconsumption theory holds no water, in that it leaves aside the major cause of capitalist contradictions—private ownership. This conception shows the illusion of the possible overcoming of contradictions inherent in capitalism within the framework of the capitalist mode of production and suppresses the objective link between the capitalist system and the monopoly domination it generates.

While advocating utopian, reformist positions in regard to prospects for socio-economic development, the left Keynesians nonetheless put forward several progressive practical demands that have importance in the popular struggle against monopolies. The anti-monopoly and anti-militarist orientation of works by left Keynesians meet the support of progressive circles in capitalist countries, including the labour movement.

Joan Robinson, an eminent representative of left Keynesianism, set forth her theory of economic growth in the book *The Accumulation of Capital*.

She expresses in fact her economic growth model in the following formulas:

$$W_1 + W_2 = P_2; W_1 = Q_2,$$

where W_1 is "the wages bill in the investment sector", i.e., in Department I of social production; W_2 is the wages bill in the "consumption sector", i.e., in Department II; P_2 is the products of Department II or, to use Robinson's terminology, "the sales value of consumption goods"; Q_2 is profit and depreciation in Department II ("quasi-rent" in her terminology).¹

From the above-cited equations, Robinson draws the conclusion that accumulation of capital, i.e., extended reproduction without technical progress, is only possible at the expense of cutting workers' wages. Wage reduction in both departments helps to release the means of production and consumer goods necessary for accumulation needs.

The principal conclusion she draws, that accumulation is possible only when there is a reduction in wages, is theoretically untenable. It ignores the decisive fact that accumulation of capital is nothing more than capitalisation of surplus value. Besides, this conclusion is not borne out by the facts of reality: accumulation of capital occurs also when real wages are rising.

Robinson's conclusion merits attention only because it contains, though in a very distorted form, clear reference to the antagonistic interests of the proletariat and the bourgeoisie in the process of capital accumulation. However, she refers this contradiction in class interests mainly

¹ Joan Robinson, *The Accumulation of Capital*, London, 1956, p. 75. See also Irina Osadchaya, *Criticism of Present-Day Bourgeois Theories of Economic Growth*, Moscow, 1963, p. 83 (in Russian).

to a situation where technical progress does not take place. Technical progress, in her view, on the contrary, produces a combination of class interests of the proletariat and the bourgeoisie: the accumulation of capital leading to higher labour 'productivity clashes with the corresponding 'growth in market capacity owing to higher wages.

For this reason, Robinson pays particular attention to the problem of relations between volume of capital and real wages. On the one hand, the accumulation of capital and priority development of the means of production make it hard to raise wages. This tendency to hold back growth in wages and even to reduce them intensifies owing to the emergence of monopolies. On the other hand, the lag between growth in real wages and the rate of increase in output hampers an increase in demand for goods, thereby undermines any possibility of capital accumulation and creates a threat of economic depression.

Robinson sees a way out of these contradictions in capitalist accumulation; this is in the trade union battle to raise real wages in line with the rate of growth of labour productivity. In her view, this circumstance alone is capable of ensuring volumes of capital accumulation and rates of growth of production which would correspond to the possibilities of technical progress. "The main defence against the tendency to stagnation comes from pressure by trade unions to raise money-wage rates."¹

¹ Joan Robinson, *op. cit.*, p. 94.

In her *The Accumulation of Capital* Robinson in fact is advocating the same idea as Keynes: the contradictions of capitalism can be resolved without its elimination. Just like Keynes, she focuses all her attention on examining quantitative relationships of capitalist reproduction, aspects of the functioning of the capitalist system, ignoring thereby its development and the inevitability of its revolutionary conversion into a socialist system.

As distinct from Keynes, however, Robinson sees the main way to ensure a trouble-free course of capitalist reproduction in the trade union struggle for higher wages and the expansion on that basis of market capacity. The crux of her utopian reformist position lies in reshaping the sphere of distribution in the workers' interests, while maintaining the private property, actually monopoly, nature of capitalist production.

The peculiar feature of Robinson's model reflecting her social position is that she does not abstract herself from the capitalist form of the reproduction process, although she erroneously depicts its mechanism. She distorts the value composition of the social product. A capitalist's profit, being part of newly-created value, in itself the surplus value, is combined by her with depreciation, which is part of old value transferred to a commodity as a result of the wearing out of instruments and means of labour; the two together are said to make up the overall category of "quasi-rent". However, it is well known that the laws of reproduction of these different components of value of the social product are certainly not the

same. In her approach, she omits several important elements of the reproduction process. In the value composition of the social product she leaves out of consideration the value of raw materials and that part of surplus value which is spent on the bourgeoisie's personal consumption.

This approach to the value composition of the social product does not provide any complete idea about it and precludes any possibility of seeing the major laws of the extended capitalist reproduction process. Robinson's economic growth models, like neo-Keynesian models in general, provide only a fragmentary reflection of those reproduction forms which the aggregate social product acquires in its movement.

Side by side with neo-Keynesianism, the important trend of bourgeois macroeconomic analysis is the neoclassical school in that part which studies the so-called production functions. The distinction of functional macroeconomic analysis is here manifest most clearly.

4. NEOCLASSICAL GROWTH THEORY

The neoclassical theory of economic growth as a particular trend in bourgeois macroanalysis stemmed from the old "classical" conception of vulgar political economy concerning "three factors of production". In line with this conception, labour, land and capital (identified with means of production) are independent sources of wealth in its value form, and therefore each owner of "factors of production" appropriates only that

portion of the aggregate product which the "factor" belonging to him had produced. Based on an identification of the simple process of labour and the process of growth in value, the "factors of production" theory has been used for many decades to conceal the exploitation of wage labour by capital. To these ends, factors of production of use value (concrete labour, land and means of production) are depicted by bourgeois economists as factors in the production of value, although value is created only by one "factor"—abstract labour.

The "factors of production" theory is not only a vulgar theory of the origin of incomes of the main classes in bourgeois society, but it is also a component of the reproduction theory of the neoclassical school. In accordance with the latter, the spontaneous play of market forces of capitalism is said to be able to ensure optimum use of all of society's production resources; there is therefore no need for state regulation of the capitalist economy. The role of the state, accordingly, should be confined to "institutional regulation" and reduced to influencing social institutions towards guaranteeing free competition. The reproduction theory of the neoclassical school leaves aside the socialisation processes in the capitalist economy and the objective tendency, associated with them, towards an exacerbation of contradictions in capitalist reproduction, and therefore the objective need in capitalist economic conditions for crises of overproduction, underemployment of production capacity, massive and chronic unemployment.

The most interesting aspect of the neoclassical reproduction theory is its analysis of the reproduction processes from a position of the production functions.

A production function is quantitative relationship between the expenditure of specified factors of production and the magnitudes of output. Or:

$$P_j = F(b_{ij}),$$

where P_j is output;

b_{ij} is expenditure of various factors of production.

"The idea of the macroeconomic production function is to view the economy as a whole as a single system operating according to the input-output principle."¹

Stressing the fact that the production function reveals only "technological proportions of production", the authors of the work *Forecasting the Capitalist Economy* conclude, "The production function describes only the process of technology and is analogous in its role to the technological coefficients within the inter-industry balance, with the only difference that it enables us to examine not necessarily linear relationships."²

Use of production functions in bourgeois political economy has two aspects to it. The apparent dependence of the volume of production on the expenditure of factors of production is used, first, for apologist purposes. Paul Samuel-

¹ *Forecasting the Capitalist Economy. Problems of Methodology*, Moscow, 1970, p. 57 (in Russian).

² *Ibid.*, p. 63.

son, for example, uses the Cobb-Douglas function for these purposes. Second, theoreticians of the neoclassical school, like the neo-Keynesians, try to find those quantitative relationships of the reproduction process which could be used in the economic policy of state-monopoly capitalism to ensure a more or less trouble-free process of reproduction of social capital, an increase in the efficiency of production and the forecasting of its results. The concrete-economic nature (as distinct from socio-economic or, rather, political-economic) of this sort of investigation is fairly clearly presented in Samuelson's definition of the production function, which he sees as "the technical relationship telling the ... amount of output capable of being produced by each and every set of specified inputs (or factors of production)".¹

The capitalist production process is two-sided. On the one hand, it is a simple labour process, a process of producing use value in which a number of factors take part—concrete labour, means of production, the matter and forces of nature. An analysis of this aspect of social production from the viewpoint of production functions has an objective basis behind it, since the physical volume of output being produced really does depend on the efficiency of concrete labour and the time it takes to operate, the quantity and the quality of the means of production being used. On the other hand, capitalist production is a process of increase in value, the real factor

¹ Paul A. Samuelson, *Economics. An Introductory Analysis*, 5th edition, New York, 1961, p. 570.

of which is only abstract labour of wage workers (manual workers, engineers, scientists, productive employees carrying out a particular function of an aggregate worker), since neither means of production nor nature are sources of value. An investigation of this aspect of the capitalist process of production, and precisely the process of value increase, from the viewpoint of production functions if factors other than abstract labour are being taken as factors producing the value of national income, has no objective basis behind it and cannot mean anything other than an apology for capitalism.

All that has been said certainly does not mean that no production function can be used to study the increase in value of national income. As we know, abstract labour, as source of value of commodities, quantitatively represents a sum total of several parameters, the relationship between which is not constant: the amount of labour time spent, intensity of labour and its complexity. The value of national income is likely to change, naturally, with one and the same volume of labour time spent, but with the changing intensity and complexity of labour, which in turn can alter in different directions and with varying speed. And on the other hand, given unchanging intensity and complexity of labour, a change in the amount of labour time will cause a change in the value of national income produced over the given period.

The production function as applied to an analysis of quantitative relationships of a change in the value of national income has scientific sense

only if it investigates the effect of the component parts of abstract labour on the magnitude of value of national income. This can be represented in the following form:

$$Y = F (T, I, C),$$

where Y is the value of national income;

T is the labour time;

I is intensity of labour;

and C is complexity of labour.

Investigations by bourgeois economists in the sphere of production functions are two-sided, as already mentioned. Being realistic when studying quantitative relationships of the simple labour process, they have an obvious apologist bent when examining the process of value increase from a "factors of production" position. In other words, these investigations have a cognitive value when studying factors of production of use values and, as a rule, are anti-scientific and apologist when studying quantitative relationships of the process of value increase.

In general form, the production function is depicted by neoclassicists as follows:

$$Y = F (K, L, N, t),$$

where Y is the social product or national income;

K is the stock of means of production being used;

L is the amount of labour;

N is the land involved in production;

and t is time.¹

¹ J. E. Meade, *A Neo-Classical Theory of Economic Growth*, London, 1961, p. 8.

The last factor, in the view of James E. Meade, a proponent of the neoclassical economic growth theory, should in some measure reflect the influence of technical progress on production, this progress being represented here as a function of time.

The Cobb-Douglas function may serve as an example of investigation of production functions of a macroeconomic nature in bourgeois writing; it was first advanced in the work of the American scholars, the economist Paul H. Douglas and the mathematician Charles W. Cobb, published in 1928.¹

The dependence of the physical volume of production of the US manufacturing industry on changes in expenditure of labour and fixed capital between 1899 and 1922 was the object of investigation. In studying this dependence, Douglas and Cobb adopted several assumptions. They assumed that the volume of production depends only on two factors of production—labour (in worked man-hours for white and blue collar workers) and capital (expenditure of fixed capital).

Economic literature shows that the formal structure of the Cobb-Douglas function is applicable to an analysis of quantitative relationships of a simple labour process: dependence of the dynamic of social labour productivity on capital per worker ratio.²

¹ C. Cobb, P. Douglas, "A Theory of Production", *The American Economic Review*, March 1928, Vol. XVIII, pp. 139-65.

² See S. M. Vishnev, *Economic Parameters*, Moscow, 1968, pp. 90-91 (in Russian).

Among other premises of this analysis the following ought to be noted: (a) allowing for the possibility of replacing one factor of production by another; (b) keeping the efficiency of units of labour and capital unchanged; (c) keeping unchanged the intensity of use of given factors of production; (d) having a linear character of dependence of the volume of production on changes in expenditure of labour and means of labour.

Douglas and Cobb put the following function at the basis of their analysis:

$$Y(L, C) = bL^k C^{1-k},$$

where Y is the physical volume of production;

L is the index of labour man-hours;

C is the index of fixed capital expenditure;

b is the proportionality coefficient;

$k, 1 - k$ are elasticity coefficients for labour and capital expenditure indicating the effect of these factors of production separately on the volume of output.

After estimating "b" and "k" the function acquired the following form¹:

$$Y = 1.01 \cdot L^{0.75} \cdot C^{0.25}.$$

The Cobb-Douglas function helped to provide computed indices for growth in production volume in the US manufacturing industry for 1899-1922, which turned out to be fairly close to the actual indices.

¹ *The American Economic Review*, p. 151. The reference-book *Mathematics and Cybernetics in Economics* (Moscow, 1975, p. 455, in Russian), gives the elasticity coefficient as follows: $Y = 0.01 \cdot K^{0.27} \cdot L^{0.73}$.

Table 1

The Relative Correspondence between the Actual Index of Production (P) and the Computed Index (P'), 1899-1922, US Manufacturing Industry

$$(P' = 1.01 \cdot L^{3/4} \cdot C^{1/4})^1$$

Year	Day's Index of Production (P) (1899=100)	Index Computed by Formula (P')	Deviation of Computed Index (P') from P ($P' - P$)	Percentage Deviation of Computed Index P' from P $\frac{(P' - P)}{(P)}$
1899	100	101	+ 1	+ 1
1900	101	107	+ 6	+ 6
1901	112	112	0	0
1902	122	121	- 1	- 0.8
1903	124	126	+ 2	+ 1.6
1904	122	123	+ 1	+ 0.8
1905	143	133	-10	- 7
1906	152	141	-11	- 7
1907	151	148	- 3	- 2
1908	126	137	+11	+ 9
1909	155	155	0	0
1910	159	160	+ 1	+ 0.6
1911	153	163	+10	+ 6.5
1912	177	170	- 7	- 4
1913	184	174	-10	- 5.4
1914	169	171	+ 2	+ 1.1
1915	189	179	-10	- 5
1916	225	209	-16	- 7.1
1917	227	227	0	0
1918	223	236	+13	+ 6
1919	218	233	+15	+ 7
1920	231	236	+ 5	+ 2.2
1921	179	194	+15	+ 8.4
1922	240	209	-31	-13

¹ Paul H. Douglas, *The Theory of Wages*, New York, 1934, p. 134. See also *The American Economic Review*, March 1928, No. 1, p. 152.

On the basis of the analysis of the table, Douglas came to the conclusion that the computed and actual indices closely correlate. The correlation coefficient between the two indices, he writes, is less than 0.97.

We have seen that the Cobb-Douglas function rests on several unrealistic premises and largely on a supposition that qualitative changes are absent in both labour and means of labour—i.e., technical progress does not take place. This circumstance is bound to produce erroneous conclusions in any attempt to use its parameters for analysing other technical conditions. The question is particularly acute at a time of accelerated technical progress in conditions of the scientific and technological revolution.

For that reason, one of the major directions taken by production function investigation after the war was the special study of the impact of technical progress on volume of output. Attempts were made to study the dependence of volume of production on qualitative changes taking place in both labour and the means of labour: technical progress as such, growth in production concentration level, higher professional and general educational level of workers, improved production organisation, etc., both taken together and taken separately. As a result, the Cobb-Douglas function assumed the following generalised form:

$$Y = bL^k C^{1-k} e^{\nu t},$$

where $e^{\nu t}$ is a temporal factor reflecting the effect of qualitative changes in production, including technical progress

(e is the basis of natural logarithms, v is the constant characterising the rate of development, and t is time).

Production function investigations spawned a vast literature of which we shall cite only two works: the article "Technical Change and the Aggregate Production Function", published in 1957 by the US economist Robert M. Solow,¹ in which he attempts, for the first time in American literature, to investigate the functional dependence of volume of production on technical progress (from materials of non-agricultural production in the USA between 1909 and 1949),² and the book *The Sources of Economic Growth in the United States and the Alternatives Before Us* by the American economist Eduard Denison, in which he analyses the effect of individual factors of technical progress on the aggregate volume of production.³

A study of quantitative relationship of the physical volume of production and the factors of the simple labour process does create a certain instrument for forecasting economic development and analysis of the economic efficiency of production.

¹ Robert M. Solow, "Technical Change and the Aggregate Production Function", *The Review of Economics and Statistics*, August 1957, Vol. XXXIX, No. 3, pp. 312-20.

² For details see Irina Osadchaya, *Present-Day Keynesianism*, Moscow, 1971, Ch. V; *Forecasting the Capitalist Economy*; V. E. Shlyapentokh, *Econometrics and Problems of Economic Growth*, Moscow, 1966 (all in Russian).

³ Eduard F. Denison, *The Sources of Economic Growth in the United States and the Alternatives Before Us*, New York, 1962.

5. SYNTHESIS OF SCHOOLS OF BOURGEOIS MACROANALYSIS AS REFLECTION OF THE COMMON OBJECT OF THEIR RESEARCH

During the 1960s there appeared in bourgeois economic literature a marked tendency towards a certain synthesis of currents of bourgeois macroeconomic analysis: neo-Keynesianism, neoclassical growth theory, market conjuncture theory, econometrics, and so on.¹ In examining the question of synthesis of neo-Keynesian and neoclassical growth theories, the British economic historian Eric Roll has written, "What is new is that in synthesising, or at least making possible a synthesis, between the economics of the aggregates and the marginal analysis of price movements within a market economy, Keynes immeasurably enlarged our area of understanding of the total economic process."²

In her description of this process of neoclassical synthesis, the Soviet scholar Irina Osadchaya writes that its basis is a combination of the Keynesian theory of "effective demand" and the neoclassical theory of production and distribution, i.e., the central points of both conceptions. As a first step towards a neoclassical synthesis,

¹ See R. F. Harrod, *Towards a Dynamic Economics*, p. 15; Yu. Y. Olsevich, *On Bourgeois Conception of "Neoclassical Synthesis"*. *Criticism of the Theories of Contemporary Bourgeois Economists*, Moscow, 1966 (in Russian); Irina Osadchaya, *Present-Day Keynesianism*.

² Eric Roll, *The World After Keynes*, London, 1968, p. 6.

she sees the emergence of a sort of division of labour between the neo-Keynesian and neoclassical theories of economic growth. "Keynesianism," she writes, "specialises' in investigating 'effective demand' and realisation conditions determining the real production level.... Neoclassical theory 'specialises' in factors determining the potential (optimum) production level."¹

What then is this common denominator on the basis of which the neoclassical and neo-Keynesian economic growth theories, which had waged war for so long, were able to converge or synthesise?

In the first place the denominator is the common object of research. The peculiar feature of the synthesised currents is, as we have seen, that the object of their research is quantitative, functional relationships of capitalist reproduction. Neo-Keynesianism, the neoclassical growth theory, econometrics, and the theory of market forces—all of them study the functional aspect of the reproduction process from different points of view.

The differences between them may largely be put down to their historical evolution. They were engendered by the peculiarity of those schools of traditional bourgeois political economy from which various trends of macroanalysis have split off and are still splitting off. The unity of these latter, however, is determined by the very essence of the object of their analysis, by its common

¹ Irina Osadchaya, *Present-Day Keynesianism*, pp. 13-14.

nature.¹ The US bourgeois economist Walt Rostow has also described the synthesis process between the neoclassical school and neo-Keynesianism, noting its connection with a study of capitalist reproduction: "As modern economists have sought to merge classical production theory with Keynesian income analysis they have introduced the dynamic variables: population, technology, entrepreneurship, etc."²

Sometimes they confine the synthesis to a merging of the neoclassical and neo-Keynesian schools.³ Meanwhile, the synthesis of bourgeois economic schools is a phenomenon that is wider, since along with the neoclassical school and neo-Keynesianism it embraces econometrics, the market conjuncture theory, investigations on the basis of balance of inter-industry relations, i.e., other schools which study quantitative, functional relationships in the economy. This shows that a unity of their object of investigation lies behind the tendency to synthesis.

The moving force of neoclassical synthesis is the tendency towards growth in socialisation of capitalist production and intensification of its

¹ "The term 'synthesis' indicates the main contention, namely, that Keynes's theory is in the end *quite consistent*... with the theory that he labelled and attacked as 'classical'" (Axel Leijonhufvud, *Keynes and the Classics*, London, 1969, p. 12; my italics—V. A.).

² W. W. Rostow, *The Stages of Economic Growth*, London, 1960, p. 13.

³ Thus, according to Paul Samuelson "neoclassical synthesis ... is a synthesis of the valid core of modern income determination with the classical economic principles" (P. A. Samuelson, *op. cit.*, p. vii),

contradictions, i.e., the need of the developing state-monopoly regulation of the capitalist economy for a more or less uniform theoretical basis. The tendency towards a neoclassical synthesis reflects, as Osadchaya puts it, "an attempt by bourgeois theorists to systematise their ideas about contemporary state-monopoly capitalism, in which the fusing of the monopolies with the State appears as a process of complex interaction of state regulation of the economy and the working of the market mechanism".¹

The synthesis of these currents is a process of detachment of the functional macroeconomic aspect of investigation from traditional bourgeois political economy. There could be no other way to form macroanalysis within bourgeois economics. Thus, the very fact of the synthesis of currents of macroanalysis is confirmation of the process of differentiation of bourgeois political economy into two main trends: historical conceptions (theories of "neo-capitalism", "transformation of capitalism", etc.) and functional conceptions (theory of state-monopoly regulation of the capitalist economy).

6. "NEOCLASSICAL SYNTHESIS" CRISIS

A major manifestation of the present stage in the crisis of bourgeois economics is the extensive revision that bourgeois economists are making to

¹ Irina Osadchaya, *Present-Day Keynesianism*, p. 13.

former theoretical positions and recommendations in the area of state economic policy. The inability of prevailing schools of contemporary bourgeois economics—whether neoclassical, neo-Keynesian or institutional—not only to work out measures to avert intensification of crisis processes in the present-day capitalist economy, but also to explain them in any realistic way is forcing their spokesmen to "reappraise values" both in economic theory and in economic policy.

The dashing of hopes at resolving capitalism's contradictions by economic growth policies, which have actually made them more acute, has been aggravated by the defeat of bourgeois theories of crisis prevention, especially during the world economic crisis of 1974-75. Typically, there has been the wrecking of the "grand neoclassical synthesis" of neo-Keynesianism and the neoclassical economic growth theory, which had combined all the contemporary potential of bourgeois economic thought in striving to mobilise the vital forces of capitalist reproduction both by using the automatic mechanism of market control and by state regulation of the capitalist economy. The downfall of the "neoclassical synthesis" on which bourgeois political economy had pinned such high hopes exposed with fresh force the undeniable fact that the automatic market mechanism for controlling the capitalist economy has lost its power, undermined by the now established supremacy of capitalist monopolies in the highly-developed countries; on the other hand, there is the undeniable fact that state regulation of capitalist reproduction, since it is ultimately

subordinate to the interests of monopoly capital and is aimed at preserving outmoded capitalist systems and maximising monopoly profits, is incapable of taking account of the social nature of contemporary productive forces in any satisfactory form.

Bourgeois theorists, too, sometimes admit to the crisis sources of their "reappraisal of values" of the "grand neoclassical synthesis". The US economist Walter Guzzardi writes that "since the collapse of that great expectation, economists have been sifting through the wreckage, looking for explanations and clues to better designs. *What* went wrong ... now seems clear enough. But it's not so clear just *why* all that had happened."¹ He sees the reason for the collapse of the "great expectation" in the acute intensification of crisis processes of capitalist reproduction, in "recurrent recessions, high unemployment, and systemic inflation".²

Indicative in this respect are the results of a survey of economics professors of the 55 largest universities in the USA conducted by *Fortune* magazine. They markedly testify to the deepening crisis in modern bourgeois political economy, the loss of confidence of bourgeois theorists in its ability to provide realistic recommendations in regard to state economic policy to which the "neoclassical synthesis" was largely oriented. To the question of "increasing doubt about the accuracy of macroeconomic models", 75 per cent an-

¹ Walter Guzzardi Jr., "The New Down-to-Earth Economics", *Fortune*, 1978, Vol. 98, No. 13, p. 72.

² *Ibid.*

swered in the affirmative. As many as 82 per cent said they had "less confidence in the ability of the government to fine-tune the economy" and 87 per cent admitted that they had "less confidence in government programs as solutions to economic problems".¹

It is noteworthy that the survey showed the broadest disillusionment of American economists with the results of state regulation of the capitalist economy and very serious doubts about the ability of the bourgeois state to play down the contradictions in capitalist reproduction in any significant way. In this situation, bourgeois economists are vigorously trying to fill the "vacuum" forming as a result of the bankruptcy of the "neoclassical synthesis", by creating new schools and aspiring to carry through a new "revolution" in bourgeois economics. The American economist Myron Sharpe, who had made a special study of the evolution of John Galbraith's economic views, makes the following evaluation of Galbraith's *Economics and the Public Purpose*: it "is a book of sweeping intent. It would consign existing economic theory and policy to the museum of antiquities and would replace them with new theory and new policy".²

No less indicative is that recognition of the crisis of bourgeois economics is being spread by its theorists to the conceptions of state-monopoly regulation of the capitalist economy, in which this crisis is most obviously manifest; the

¹ *Fortune*, 1978, Vol. 98, No. 13, p. 77.

² Myron E. Sharpe, *John Kenneth Galbraith and the Lower Economics*, 2nd edition, New York, 1974, p. 93.

economists, however, overlook the important fact that the crisis is no less severe in both the "neo-capitalism" and "transformation of capitalism" theories which are but different manifestations, so to speak, of the historical trend of contemporary bourgeois economics.

This fact goes to show once again that the "reappraisal of values" in contemporary bourgeois economics as a rule takes place not when a particular conception proves to be unable to provide a scientific explanation of major economic processes, but when it becomes patently obvious that this conception is incapable in the new circumstances of carrying out the ideological function of justifying the capitalist system and fighting against existing socialism, when the practical recommendations made on its basis demonstrate their obvious bankruptcy—that is, when its inability to perform the chief class functions of bourgeois political economy becomes clear.

This "reappraisal of values" is certainly not mitigating the crisis of bourgeois economics or making the latter less vulgar-apologist in character. On the contrary, this process demonstrates once again the futility of contemporary bourgeois economics in both a scientific and ideological sense, its forced adaptation to the advance of the world revolutionary process, to fresh phenomena in the development of present-day capitalism and to the achievements of existing socialism, whose interpretation in the interests of capitalist apologetics is the main moving force for the whole "reappraisal of values" process,

which appears, therefore, to be a specific manifestation of the crisis in contemporary bourgeois economics.

The rapid replacement of some concepts by others, the feverish search for new ideological means of combating socialism and the labour and the national liberation movements, the increasingly obvious lack of conformity of bourgeois economic theories with real life, the intensification of the inner contradictoriness of bourgeois economic theories and recommendations on their basis for the economic policy of bourgeois states, and the considerable enlivening of theoretical discussions and disagreements among bourgeois economists—they are all various manifestations of the "reappraisal of values" going on within contemporary bourgeois economics generally, and the "neoclassical synthesis" in particular.

The unstable and contradictory conglomerate of views and propositions of the "neoclassical synthesis" under the impact of objective facts began to disintegrate into separate components, i.e., essentially we can observe a return to the initial aims of neo-Keynesianism and the neoclassicists, but this time reformulated on the basis of the "neoclassical synthesis". Some propositions of the "synthesis" have served as the basis for specific theories which have proved incompatible with other theories using other elements of this school.

Having faced the fact that extended capitalist reproduction is being accompanied by extended reproduction of capitalist contradictions (which is an inevitable consequence of the exploitative

essence of capitalist property), contemporary bourgeois economists hasten to proclaim economic growth as such, that is, the development of society's productive forces, to be the reason for their aggravation. Yet they forget that the main cause of those contradictions, which brought the downfall of the "neoclassical synthesis", is the outmoded capitalist relations of production, the conversion of capitalist ownership of the means of production into a hindrance to progress of production. They therefore begin to seek a means of mollifying those contradictions in restricting, and sometimes even halting, economic growth. Such an approach is fairly clearly laid out in the "zero economic growth" and "limits of growth" theories put about by several of the Club of Rome theorists, the French economist L. Stolyar, by Sicco Mansholt and others. American economists Samuelson and Galbraith come close to them in raising the question of the need to slow down economic growth in the capitalist states.

The popularity of the "zero economic growth" theory signifies the actual recognition by bourgeois economists of the collapse of the "neoclassical synthesis", the neo-Keynesian and neoclassical economic growth theories that provided for rapid economic development in capitalist countries. This theory is also an involuntary recognition of the fact, long established by Marxism-Leninism, that the capitalist economy is not capable of developing at a rapid and stable rate without intensifying capitalist contradictions that are undermining the development of society's productive forces.

Typically, advocates of "zero economic growth" are in complete accord with the method and class aspiration of vulgar bourgeois political economy in striving to assuage capitalism's guilt for holding back economic growth, and they are blaming various non-economic factors (demographic, psychological, ecological, etc.) for making it necessary to renounce development of productive forces. Galvanising Malthusian ideas, they assert that the cause of worsening crisis processes in the capitalist economy lies in "surplus population" and its "excessive consumption", in the shortage of production resources.

Thus, the "zero economic growth" theory provides an apologist interpretation of sources of contradictions in extended capitalist reproduction. As such, it tries to depict the very development of productive forces, ignoring capitalism's relations of production and the capitalist form of appropriation of the fruits of wage labourers. Behind the "zero economic growth" theory is the desire to identify capitalist productive forces and relations of production; this testifies to its advocates' adherence to the general principle of vulgar political economy.

The "zero economic growth" theory has a clearly expressed anti-worker, anti-democratic bias. It serves to justify the policy of finance capital aimed at shifting the burden of capitalism's present crisis onto the shoulders of the working people. Proponents of this theory insist on a slow-down of nominal incomes of the working people allegedly to curb inflation, on the restriction of their personal consumption for the purposes of

releasing extra resources for the needs of productive consumption. In actual fact, this measure is nothing more than a means of additional exploitation of the working class. The "zero growth" theory corresponds only to the short-sighted and selfish interests of monopoly capital, calling on workers to tighten their belts even more, and especially to the interests of the transnationals, striving to transfer their activity to more profitable commodity and financial markets abroad and thus restricting and sometimes even curtailing production growth within their own countries down to "zero level" as long as the prospects for maximising capitalist profit within these bounds are not sufficiently favourable.

The inability of neo-Keynesianism to find a way of resolving the acute problems of capitalist reproduction is producing among contemporary bourgeois theorists an urge to review some of Keynes's propositions, ensconced in bourgeois economics and politics, and on that basis to mark out ways of further evolution for bourgeois political economy. In the opinion of the British economist Robert Skidelsky, Keynes's fame is due not so much to his contribution to economics as to the political results he attained. Noting that in the 1930s mass unemployment presented a direct threat to the very existence of capitalism, he maintains that before Keynes the question of unemployment sources was dealt with "outside the sphere of economic policy proper", since the neoclassicists, from a standpoint of market automatic functioning, had seen the cause of economic crises in political miscalculations and

the state's inability to preserve market equilibrium.

This approach *volens nolens* led, he says, to the exposure of acute internal contradictions in the capitalist system. The malfunctioning of the capitalist economy, according to him, was treated as a serious socio-economic problem. "Practically all the discussions of capitalist malfunctioning... concentrated on the question of the relative shares in the national income enjoyed by the different classes."¹

One can hardly agree with Skidelsky that the totality of neoclassical views paid much attention to class relations. Most members of that school replaced class concepts with those relating to different petty functional groups, and the question of redistributing incomes among them played a big part in neoclassical constructions.

In Skidelsky's opinion, Keynes proposed a radically different approach to the problem. He sees Keynes's service in that he was the first prominent Western economist to tackle the unemployment problem as a "technical problem"; it was from this standpoint that Keynes had tried to ensure for bourgeois political economy the possibility of resolving political issues. "Improvement in economic technique was the only alternative to undesirable political and social change."² Skidelsky attempts to depict Keynes's theory as being above classes, oriented on working out an "economic technique"; he says that

¹ Robert Skidelsky, "Keynes and the Reconstruction of Liberalism", *Encounter*, April 1979, Vol. LII, No. 4, p. 31.

² *Ibid.*, p. 29.

the "Keynesian system avoided having to choose between Capital and Labour".¹ But he forgets that Keynes's entire theory and the measures he proposed for state intervention in the capitalist economy have an anti-worker, pro-monopoly intent.

From this position Skidelsky outlines a path for the further development of bourgeois political economy after the downfall of neo-Keynesianism: it should move in a direction worked out by Keynes, increasingly becoming a unique technical-economic discipline intended to serve as an instrument for mitigating capitalist contradictions. He wrote, "Perhaps progress consists in precisely this: making technical what was previously political, thus gradually easing the burden on society's peace-keeping mechanisms."²

Above all, he believes, bourgeois economists should treat the problem of inflation not as a political and socio-economic problem, but as a technical one, and, to those ends, work out, so to speak, a "technical theory of inflation". He asked, "What would politicians give today for an *economic* theory of inflation—one which did not bring in politics and sociology?"³

Attempts to "depoliticise" economics are not new. However, no matter how hard Skidelsky tries to find a purely "technical" solution to the acute social and economic problems of contemporary capitalism, he does so basing himself on very definite class positions. And any class ap-

¹ *Ibid.*, p. 32.

² *Ibid.*, p. 34.

³ *Ibid.*

proach cannot but be political. He claims that the crisis processes of the capitalist economy stem from the highly developed working-class movement. "The working-class movement," he writes, "had been able to win advances in social services and wages which had made large sections of capitalist industry unprofitable: from which followed liquidations and mass unemployment."¹

The absurdity of this assertion is clear for all to see. According to Skidelsky's logic, it would seem that in countries with fascist regimes where the labour movement has been suppressed or driven underground there can be no mass unemployment and "large sectors of capitalist industry" are ensured prosperity and high profits. It is generally known, however, that in countries like Chile, the crisis processes of the capitalist economy are particularly strong, especially because of the narrow consumer market—a direct result of suppression of the labour movement, the restricting and lowering of workers' wages.

What obviously lies behind Skidelsky's theoretical arguments about the oversights of neo-Keynesians and the need for a "technical" approach to resolving socio-economic issues is an attempt to justify a policy that is meant to compensate for the costs of the crises at the expense of the working class. Fully distorting Marxist theory and masking the anti-worker orientation of his conclusions under the mantle of being "above-classes", Skidelsky declares that "classical economists' and Marxists alike attributed the Dep-

¹ *Ibid.*, p. 30.

ression to working-class pressure on capitalist profits". Therefore economic progress can be ensured either "by rolling back the working-class movement or by 'Expropriating the expropriators': in other words, by political and social change".¹

Skidelsky's theoretical exercises would not deserve attention if it were not for the fact that they are aimed—under the flag of revising neo-Keynesianism—at justifying the need "to roll back the working-class movement", that decisive force which is capable of finding a way out of the contradictions of capitalist reproduction in the interests of the whole people.

A marked manifestation of the crisis in neo-Keynesianism is the enhanced role of the neoclassical school, calling for renunciation of direct state intervention in the economy as a factor causing its destabilisation. Back in 1975, American economist Robert Eisner noted that "now the previously rearguard actions of separate groups of neoclassicists and monetarists have been seen by some as a full-fledged challenge to basic Keynesian theory".²

Indicative of this is the latest variety of neo-classicism—the "rational-expectations school"—which is close in its ideas and recommendations to Milton Friedman's monetarism. In the assessment of the head of this school, Professor Robert Lucas of the University of Chicago, neo-

¹ *Ibid.*, p. 32.

² Robert Eisner, "The Keynesian Revolution Reconsidered", *The American Economic Review*, May 1975, Vol. LXV, No. 2, p. 189.

Keynesian models of economic growth "drift too far from reality" and therefore cannot be corrected by introducing "additional factors" into them. "This condition, he wrote, cannot be remedied by modifications."¹ Neo-Keynesian models of growth can only be renounced completely.

Yet, on several essential points of method the "rational-expectations school" subscribes to propositions that are very close to neo-Keynesian models. Just like neo-Keynesianism, the "school" takes categories of mass psychology of economic subjects as the basis for its theoretical conceptions and recommendations affecting the economic policy of bourgeois governments, actually rejecting any examination of the objective economic laws of capitalism. As distinct from the neo-Keynesian interpretation of this psychology, and thereby of the capitalist economic mechanism, the "rational-expectations school" theorists held that the reaction of economic subjects to one and the same economic government measure implemented at a different time and in different conditions will not always be the same. They maintain that people, on the basis of their own experience, of "rational expectations" in relation to the consequences of a particular government economic measure, change their initial reaction if the government again resorts to the same economic policy in the next period, because they respond to changes "rationally and intelligently in their own interest".² At the same time, neo-Keynesians

¹ Walter Guzzardi Jr., *op. cit.*, p. 73.

² *Ibid.*, p. 72.

based themselves on the unchanging reactions of economic subjects to analogous measures of the government's economic policy.

Walter Guzzardi writes that on the basis of "rational expectations", "those sensible responses have an unforeseen collective effect: they forestall the very results that the government seeks when it tries to alter the economy's course by fiscal or monetary interventions".¹ If, he explains, initially confronted with a policy of increasing the quantity of money in circulation, "businessmen and consumers" react as if they have become richer (that is, they spend more and invest more capital, which stimulates the economy), subsequently in a similar situation people learn that their former evaluation of the consequences of government economic policy is wrong and the reaction of economic subjects becomes quite different. "When expansionary monetary policy is used repeatedly over time, Lucas says, it no longer accomplishes its purposes. The kick is lost. There is no stimulating effect on output. Expected expansions come out as inflation and nothing else."²

From this reasoning the "rational-expectations school" theorists draw important theoretical and practical conclusions. First, they assert that the theoretical propositions of Keynesianism, based on the assumption of constant reaction of economic subjects to similar economic situations, have lost their force, including also Keynes's "funda-

¹ *Ibid.*

² *Ibid.*, p. 73.

mental psychological law". Guzzardi writes about Keynes's conception that it "does not allow for the way people really behave in an inflationary environment".¹ And he goes on to say that "systemic inflation also greatly limits the usefulness of other long-accepted correlations".²

The principal fault of neo-Keynesianism, in the assessment of "rational-expectations school" theorists, is that it overlooks "the perplexing element of intelligence—in this case, the capacity of people to learn from experience".³ The "new approach" to the mass psychology of economic subjects, according to the theorists, has spotted the flaws and depreciated the concepts of neo-Keynesianism on which government economic policy has rested.

Second, basing themselves on their interpretation of the mass behaviour of economic subjects, the "rational-expectations school" theorists put forward several practical economic recommendations. They aspire to reveal "the reasons for the government's past mistakes" and to offer it "recommendations for an entirely different national economic policy".⁴

Owing to the unpredictability and uncertainty of reaction of economic subjects, of the "unforeseen collective effect" of their behaviour, an end must be put, say the theorists, to government intervention in the fiscal and monetary systems. From their point of view, the less govern-

¹ *Ibid.*, p. 74.

² *Ibid.*

³ *Ibid.*, p. 75.

⁴ *Ibid.*

ment intervention in the economy, the better,¹ inasmuch as it is precisely this intervention that undermines the stability of the economy, induces constant shock into it. The national economy should be "controlled not by government economic policy, whose consequences cannot be predicted, but by the "establishment of declared and permanent rules" which cannot be altered in the drive for short-term advantage.²

Lucas assumes that "stable prices" constitute the chief condition for the rational running of the economy. "He" says that we should ... fix an annual rate of growth for the money supply and stick with it. And we should set tax rates that would on average balance the budget."³ These rates should not be tampered with. Realising that the measures he is proposing may appear "discouragingly modest", Lucas unwittingly reveals the class essence of these recommendations when he "remarks that 'the main task of monetary and fiscal policy is to provide a stable, predictable environment, for the private sector'".⁴

The "rational-expectations school" strives to reduce government economic activity to the minimum necessary to ensure a "stable, predictable environment" for the working of private capital. This theory bears witness to the fact that a shift is taking place in the balance of power between the capitalist monopolies and the bourgeois state within the system of state-monopoly capitalism

¹ *Ibid.*, p. 78.

² *Ibid.*, p. 79.

³ *Ibid.*

⁴ *Ibid.*

in favour of the monopolies; they are gaining such considerable power that the previous forms of coalescence between the monopolies and the bourgeois state are now regarded as onerous.

The "rational-expectations school" is one of the latest manifestations of a particular trend in bourgeois political economy, namely, monetarism, which is a specific modification of the neo-classical school that arose under the influence of the deepening contradictions of capitalism as a whole and in the sphere of monetary, fiscal-credit relations in particular. A point of departure for monetarism has been the peculiar theoretical vacuum typical of the neo-Keynesian economic growth model, which actually had not left any place for monetary factors as a relatively independent element of capitalist extended reproduction. The Italian economist Antonio Pesenti has written that "the simplified Keynesian model neglects a whole range of phenomena, and in particular the importance of money".¹ It was all the more important to fill this vacuum since neo-Keynesianism, standing opposed to the neo-classical school, obviously had not used, as the monetarists thought, the most efficient means of influencing economic processes, viz., control of the quantity of money in circulation.

However, another extreme is typical of monetarism—the obvious absolutisation of money circulation processes within the framework of capitalist reproduction. Suffice it to say that the reasons for crisis processes in the capitalist econ-

¹ Antonio Pesenti, *Manuale di economia politica*, Vol. 2, Rome, 1972, p. 407.

omy, including the economic crises of overproduction, are seen by monetarists in alterations in the quantity of money in circulation. Therefore, they hope that the stabilisation of the money mass and its increase in step with the established "permanent rules" will ensure stable economic growth.

Typically, each school of bourgeois macroanalysis gives its own diagnosis of the ills in the capitalist economy. And none of them see their sources in the fundamental contradiction of capitalism, i.e., in the contradiction between the social nature of production and the private form of appropriation.

The "technology with a human face" theory, advocated by the British economist E. F. Schumacher, particularly in his *Small Is Beautiful*, published in 1975, is a petty-bourgeois reaction to the crisis in neo-Keynesianism. Formally, Schumacher dissociates himself from the "zero growth" theory, rebuking its proponents for their purely quantitative approach to complex economic problems. He writes that "instead of insisting on the primacy of qualitative distinctions, they simply substitute non-growth for growth, that is to say, one emptiness for another".¹ Nonetheless, his position is a striking manifestation of the "zero growth" idea to which he gives a petty-bourgeois and clerical colouring.

Like the "zero growth" theorists, Schumacher sees the way to mitigating capitalist contradictions, which he views largely through the prism

¹ E. F. Schumacher, *Small Is Beautiful*, London, 1975. p. 43.

of the ecological crisis, in reducing public needs and thereby slowing down economic growth. He thinks that a reduction of needs would lead to the easing of "those tensions which are the ultimate causes of strife and war".¹ Accordingly, economic growth should be oriented on attaining only limited goals. "There can be 'growth' towards a limited objective, but there cannot be unlimited generalised growth."²

Schumacher declares the teaching of Mahatma Gandhi, Buddhist morality, the "true faith" taken from the Gospels, etc., to be the theoretical basis of his "technology with a human face". The way to save humanity ought to be sought, he claims, in the Sermon on the Mount.³ This approach to contemporary problems of the capitalist economy strikingly exposes the futility typical of the petty bourgeoisie who are unable—by dint of their intermediate class status—to find the means of resolving capitalist contradictions in real life.

Schumacher's ideal is small production resting on small-scale technology. He is for "production by the masses, rather than mass production".⁴ To this end, he asserts, means of production and the land should be made available in price to everyone.

It is characteristic of Schumacher to give an anti-monopoly and sometimes even anti-capitalist tint to his petty-bourgeois interpretation of ways of resolving contradictions in contemporary

¹ *Ibid.*, p. 29.

² *Ibid.*

³ *Ibid.*, p. 145.

⁴ *Ibid.*, p. 68.

capitalism; this testifies to the extreme acuteness of the contradictions, to the intensifying antagonism of interest between the petty bourgeoisie and big monopoly capital. Thus, he is for renouncing concentration of production and economic power; he demands that people should strive for independence from bosses, that they should become their own bosses or members of self-governing cooperatives and reject the profit motive as a constraining criterion that does not take account of the part played by natural and social factors, etc. He condemns capitalist production which has been turned into "an inhuman chore" which empties a man.¹ "The technology of mass production is inherently violent, ecologically damaging, self-defeating in terms of non-renewable resources, and stultifying for the human person."² Here, as with the "zero growth" theory, the evils of the capitalist economic system are attributed to contemporary productive forces as such.

In complete accord with the traditions and social essence of petty-bourgeois political economy, Schumacher is unable to see the real forces that are capable of altering the socio-economic system of capitalist society. That is why he is forced to appeal for a "moral regeneration of society", "spiritual self-improvement", and suchlike.

Enhanced interest in microeconomics is one of the latest trends in bourgeois political economy, stemming from the obvious bankruptcy of macroeconomic models of a Keynesian and neo-

¹ *Ibid.*, p. 140.

² *Ibid.*, p. 143.

Keynesian type. As Guzzardi has written, "awareness of the weakness of conventional macroeconomics ... is moving students to study the economy's roots".¹ Owing to a sharp decline in the authority of the macroeconomic school, a certain vacuum has formed in university courses which bourgeois economists hasten to fill with microeconomic ideas and problems, paying particular attention to "labour economics". This, at first glance specific, issue in fact makes it possible to see the general tendency of bourgeois theory to investigate the social aspect of stabilising conditions for the exploitation of labour in new circumstances that are more difficult for capital.

The ever-growing attention of bourgeois theoreticians to the problems of state economic planning testifies to the bankruptcy of "neoclassical synthesis" ideas. Galbraith, referring to the contradictions in capitalist reproduction, wrote, "The solution is to recognise the logic of planning with its resulting imperative of coordination.... The sooner the need for such action is recognized, the less the inconvenience and suffering from the crises that are now predictable and for which there is no other remedy. There will have to be a public planning authority."² He maintains that the bourgeois state is able to ensure a purposeful control of the activity of the biggest monopoly capital. The capstone of his programme of reforms is "centralized planning of the planning system".³

¹ *Fortune*, December 1978, Vol. 98, No. 12, pp. 77-78.

² J. K. Galbraith, *op. cit.*, p. 318.

³ M. E. Sharpe, *op. cit.*, p. 117.

There can be no doubt that the increasing scale of capitalist socialisation is leading to an intensifying economic role for the bourgeois state, disposing of considerable material, financial and labour resources and therefore capable of exerting a certain influence on economic processes. However, one ought to distinguish between the absolute and comparative economic power of the bourgeois state. In absolute terms there is no doubt that it is increasing. But by comparison with the might of the big monopoly giants, whose activity has long since exceeded the bounds of national states, the economic role of the bourgeois state is diminishing. That is why within state-monopoly capitalism at the present time there is a comparative strengthening of the position of monopoly capital which is increasingly dissatisfied with the bourgeois state's control measures, even though they are carried out in the overall interests of monopoly capital. Herein lies a major reason for the increasing influence in the latter part of the 1970s of neoclassical school as it opposes direct state regulation of the capitalist economy. At the same time, the further aggravation of the contradictions of capitalist reproduction caused, in particular, by a return to "free enterprise" will make an increase in state interference in the economy even more necessary.

The main error of proponents of introducing centralised state planning of the economy under capitalism, however, is in ignoring the decisive fact that it presupposes the subordination of production to the interests of society as a whole,

and not to that of maximising capitalist profits, and this, as experience shows, is impossible to effect, without socialist nationalisation of the economy, the establishment of public socialist ownership of the means of production and, to these ends, the abolition of the economic and political rule of the bourgeoisie.

We should note that disintegration of the "neoclassical synthesis" certainly has not meant an end to the tendency towards the merging of various schools, currents and trends in bourgeois economics. Rather the opposite: orientation on working out new ways and means of state-monopoly regulation of the economy, an urge to enhance the effectiveness of this regulation have resulted in the tendency to the synthesis of a number of bourgeois conceptions—theories of economic growth and contemporary institutionalism, neo-Keynesian theories of economic growth and monetarism, etc.—which bourgeois economists more and more persistently advocate. The American economist Lawrence Klein, one of the first among bourgeois theorists to break the news of a "Keynesian revolution", raises the question of the need for the combination of "the Keynesian model of final demand and income determination with the Leontief model of inter-industrial flows".¹

The collapse of the main theoretical props of neo-Keynesianism has thrown into profound disarray proponents of state-monopoly regulation

¹ Lawrence R. Klein, "The Supply Side", *The American Economic Review*, March 1978, Vol. 68, No. 1, p. 1.

of the capitalist economy. The prescriptions offered by bourgeois theorists for a way out of this crisis bear witness to the helplessness of contemporary bourgeois economics. They reflect the fierce struggle that has developed between various finance-monopoly groups over the question of further evolution of state intervention in the capitalist economy.

Describing the situation that has developed in bourgeois political economy as a result of the obvious bankruptcy of neo-Keynesianism, Joan Robinson wrote at the height of the 1974-75 economic crisis: "Now, it seems that the bastard Keynesians' era is coming to an end in general disillusionment; the economists have no more idea what to say than they had when the old equilibrium doctrine collapsed in the great slump."¹ If the "Great Depression" of the 1930s buried the neoclassical theory of automatic market equilibrium, the most serious subsequent economic crisis of the mid-1970s made obvious the collapse of the neo-Keynesian theory of state-monopoly regulation of the capitalist economy. The mobilisation of all intellectual potential in contemporary bourgeois political economy, of the combined power of the capitalist monopolies and the bourgeois state appears to be helpless in resolving capitalism's fundamental contradiction; it cannot reconcile the principle of private capitalist appropriation with the contemporary development level of productive forces.

¹ Joan Robinson, "What Has Become of the Keynesian Revolution?", *Essays on John Maynard Keynes*, Bristol, 1975, p. 131.

Part three

**CRITICISM OF
"TRANSFORMATION OF
CAPITALISM"
THEORIES**

Chapter 4

CHANGES IN THE EPISTEMOLOGY OF TRADITIONAL BOURGEOIS ECONOMICS

The grandiose socio-economic transformations of the current epoch—the emergence and rapid development of the world socialist economic system, the collapse of imperialism's colonial system and the non-capitalist orientation of several newly-free countries, the deepening of crisis processes of present-day capitalism in the course of the scientific and technological revolution, have caused deep-going changes in present-day bourgeois economics. They have exploded the myth of the eternal nature of capitalism. Bourgeois economics has had to admit, if only indirectly, the historically transient nature of the capitalist system: the "transformation of capitalism" concept has become widely popular in bourgeois economic literature.¹

¹ See J. K. Galbraith, *Economics and the Public Purpose*, Boston, 1973; K. Boulding, *The Meaning of the 20th Century. The Great Transition*, New York, 1964; D. Bell, *The Coming of Post-Industrial Society. A Venture in Social Forecasting*, New York, 1973.

Yet even this semi-recognition by bourgeois economists is subordinate to the objectives of apologising for capitalism. They are trying to convince people that a change of capitalism to a new social system has already taken place or is taking place at the moment in the course of social evolution, so there is no need to fight to do away with it. Various types of "non-capitalist" systems which are supposed to have replaced capitalism (industrial, postindustrial, technetronic, postcapitalist, postcivilised, etc., societies) are actually nothing but contemporary state-monopoly capitalism.

The revolutionary nature of the contemporary epoch has had considerable influence on the whole system of economic conceptions of capitalism in the second half of the century: on the structure of its various schools, its fundamental arguments, methods of capitalist apology, etc. This influence has been so significant that it has also embraced the epistemology of contemporary bourgeois economies. It has exposed the crisis state of contemporary bourgeois economics, its inability to find an answer to the acute problems of present-day socio-economic development. As Galbraith has said about the state of contemporary bourgeois economics, "...criticism in general; ... the larger body of established theory is under extensive attack".¹

While investigating the epistemological basis of the bourgeois economics of his day, Marx not-

¹ John Kenneth Galbraith, "Power and the Useful Economist", *The American Economic Review*, March 1973, Vol. 63, No. 1, p. 1.

ed that its categories were normally based only on describing the commodity-fetish form of capitalism's economic relations which did not coincide with their essence and therefore provided a distorted idea of it. "The categories of bourgeois economy," he wrote, "consist of such like forms."¹

The deformation of the epistemological apparatus of bourgeois political economy, excluding the very possibility of a scientific investigation of the economic laws of the socio-historical process, is hardly surprising. It has been a reflection of the crisis state of bourgeois economics, brought about ultimately by the main trend in social historical development towards socialism (initially only in the form of the maturation of the objective and subjective conditions for socialism in the midst of capitalism) which was clearly apparent back in the middle of the last century and which was at odds with the vital class interests of the bourgeoisie. As the proletariat's struggle with the bourgeoisie has mounted, a scientific analysis of the laws of society's development from a bourgeois philosophical standpoint has become impossible. In this situation, commodity-fetish categories have been widely used by bourgeois economics for building apologetic theories.

At the same time, categories of several most recent schools in contemporary bourgeois economics (like, for example, the theories of industrial, postindustrial,² postcivilised, technetronic societies), which play a key role in the above-men-

¹ Karl Marx, *Capital*, Vol. I, Moscow, 1978, p. 80.

tioned theories, do not rest on commodity-fetish forms of capitalism's economic relations or rest only partly on them. They include such categories as "industrial society", the "industrial system", "technostructure", "mature corporation", "convergence", "planning system", and so on.

In fact, proponents of the "industrial society" theory, for example, give an interpretation of the socio-economic essence of present-day capitalism which leaves aside not only the capitalist form of ownership of the means of production and the socio-economic mechanism of production of bourgeois wealth, i.e., capitalism's relations of production, but also the material forms in which these relations manifest themselves. The categories that lie behind this concept rather establish particular (real or imagined) functions of socio-production relations and, moreover, general rather than specific functions. From the viewpoint of the "industrial society" concept both capitalism and socialism are various institutional forms of development of present-day large-scale production, varieties of an "industrial society". They seize on the idea that socio-production relations between people are a social form of development of society's productive forces; but they take the socio-production relations without their specific socio-economic content; what is more, they ignore the material forms of their manifestation inherent in them under capitalism.

The "industrial society" theory constructs its apology for capitalism largely not on the basis of describing the commodity-fetish form of capitalist relations of production and at the same time

does not provide a scientific interpretation of the socio-economic nature of contemporary capitalism and the historical trends in its development. This circumstance is typical also of several other schools of present-day bourgeois economics.

In this connection, we should explain the reasons for and the directions of the above-mentioned changes in the epistemology of contemporary bourgeois political economy. Above all, however, we must examine the properties of commodity fetishism, including its obviously limited possibilities as an epistemological basis for constructing apologetic theories.

1. COMMODITY FETISHISM AS AN EPISTEMOLOGICAL BASIS FOR VULGAR BOURGEOIS ECONOMICS

Commodity fetishism is an objective property of commodity-capitalist relations of production. Hidden from sight, the social nature of products of labour, commodities, is subjectively perceived by people as natural qualities of things. As Marx wrote, "it is value ... that converts every product into a social hieroglyphic".¹ For that reason, the commodity-fetish forms of capitalist relations of production possess a whole number of qualities facilitating their use as a basis for constructing vulgar apologetic conceptions of bourgeois political economy.

¹ Karl Marx, *Capital*, Vol. I, Moscow, 1978, p. 79.

The non-conformity of the material form of manifestation of capitalist economic relations and their actual essence constitutes the most important feature of commodity fetishism. In this connection, theoretical conceptions that correctly establish only the commodity-fetish form and go no further than perceive this external appearance of capitalism's economic relations provide a completely distorted idea of the essence of these relations. On the surface of capitalist relations, it would appear, for example, that a capitalist's profit is produced by capital, rent comes from land, although in reality the means of production do not create surplus value, which is the source of both profit and rent. The degree of effective use of means of production by a capitalist determines only the degree of exploitation of wage workers, the ratio between the paid and unpaid part of the working day. In present-day bourgeois economic literature, a commodity-fetish interpretation of the most important phenomena in the capitalist economy is fairly widespread. Capital, this relation of exploitation of wage workers by the bourgeoisie, specific to capitalism, is seen as a "factor of production" along with labour and land. The capital's ability to make a profit is seen as a natural quality of the objects which make up capital. Capital, bourgeois economists maintain, consists "of property from which an income is derived, expressed in terms of money".¹

¹ Harold S. Sloan, Arnold J. Zurcher, *A Dictionary of Economics*, Fourth Edition, New York, 1962, p. 46.

Another important aspect of commodity fetishism is that commodity-fetish forms are perceived directly and are therefore apparent, while the essence of economic processes is not perceived directly, in pure form, and can only be revealed through complex scientific investigation.

This produces the following essential trait of commodity-fetish categories which encourages the acquiring and spreading of erroneous, vulgar-apologetic views about the capitalist economy: commodity-fetish ideas mainly coincide with a commonplace awareness of subjects involved in relations of capitalist production. They present the same ideas which are constantly arising in commonplace awareness in the practice of economic relations only in an orderly, systematic form. Whereas scientific truths, not coinciding with the external form of economic processes and therefore contradicting the usual ideas, cannot be mastered without an often lengthy process of learning; however, class limitations is the main hindrance to cognising the essence of real economic processes.

In studying the commodity-fetish forms of thinking as objective "forms of thought" expressing ... the conditions and relations of commodity production,¹ Marx actually emphasised the capability inherent in these forms of constant reproduction. While a scientific understanding of economic phenomena cannot be attained without a special process of investigation, the vul-

¹ See Karl Marx, *Capital* Vol. I, Moscow, 1978, p. 80.

gar-apologetic ideas are reproduced of themselves, reflecting the process of reproduction of commodity-fetish forms of capitalism's economic relations.

Typical of commodity-fetish forms of expression of capitalism's economic relations is their great variety. The value of a commodity, for instance, is manifest in exchange value, in a market price, production price, etc. The multiplicity of commodity-fetish forms of manifestation of one and the same economic essence predetermines also a multiplicity of categories reflecting it within bourgeois political economy and, at the same time, a multiplicity of currents in the latter.

The construction of vulgar-apologetic theories through establishing commodity-fetish forms of capitalist relations is facilitated by the fact that these forms possess a certain degree of interconnection and inter-dependence and in that sense the quality of a system; this makes it possible to work out conceptions of individual issues as well as create whole systems of vulgar economics providing an apologetic interpretation of capitalism's economic relations in their totality. This aspect of commodity-fetish forms is apparent, in particular, in the fact that these forms, providing as they do a distorted picture of individual processes in the capitalist economy, seem to correspond to each other. Thus, wages of wage workers superficially seems to be payment for the whole of labour. At the same time, capitalist profit, too, has the outward appearance of being the result of the functioning of capital.

Thus, various commodity-fetish forms of manifestation of capitalist relations gloss over, from different angles, the socio-economic essence of the capitalist economy—the exploitation of wage labour by capital.

The objective basis of commodity fetishism as a matter of principle could do much to make it easier for bourgeois economists to act as apologists for the capitalist system. For a whole number of reasons, however, they are forced in many cases to depart from this indirectly objective basis for their theories, which once again demonstrates the depth of crisis processes in bourgeois political economy.

2. EXCHANGE THEORY AS METHODOLOGICAL PRINCIPLE OF VULGAR BOURGEOIS ECONOMICS

The exchange theory sees commodity circulation as a decisive sphere of society's economic life in regard to social production. The epistemological roots of this theory, which distorts the actual relation between production and circulation as particular stages of social reproduction, mainly lie in absolutising the act of commodity exchange. The conversion of value from its commodity into money form in the course of exchange is an expression of recognition of the socially necessary character of labour contained in a commodity and, consequently, cannot be reduced to a purely formal act, to a simple change of value form. This conversion is a change in the form of its

value that is the most complicated and dangerous for a commodity, its risky salto mortale, as Marx put it.¹ Superficially, the process of reducing the personal labour of a commodity producer to social labour, which determines the value of his commodity, acts as the power of money, domination of the market over production.

This commodity-fetish idea actually finds its reflection in the exchange theory, which elevates it to a method principle of primacy of the sphere of exchange over the sphere of production. "It is ... quite in keeping with the bourgeois horizon, everyone being engrossed in the transaction of shady business, not to see in the character of the mode of production the basis of the mode of exchange corresponding to it, but vice versa."²

In reality, it is production that plays the determining part in the relationship between social production and circulation. Society's wealth is created only in the sphere of production. Production is the only sphere of people's economic activity in which the objects and forces of nature, thanks to the effect of the purposive form of human labour, are adapted to human needs. It is in this sphere that both the means of production are created, which serve to reproduce the material elements of society's productive forces, and the articles of personal consumption which ensure the reproduction of the personal factor of the produc-

¹ See Karl Marx, *Capital*, Vol. I, Moscow, 1978, p. 108.

² Karl Marx, *Capital*, Vol. II, Moscow, 1978, p. 120.

tive forces. It is the development of social production that is the decisive factor in forming and furthering people's social needs. Production played a decisive part in the very emergence of human society.

The determining role of production in regard to the circulation sphere is apparent both at a material and socio-economic level. Only what has been previously created in the sphere of production can circulate. The function of the sphere of circulation is secondary—to bring to the consumer the products of labour created in the sphere of production. Even in the sphere of services, where the process of producing services and their consumption coincide in time, the production process is the primary and decisive moment. The character and nature of relations of circulation are determined by the relations of production, the specific form of ownership of means of production. In turn, these latter ultimately depend on the level of development and the nature of society's productive forces.

Thus, the exchange theory, which as a matter of principle recognises only the commodity-fetish form of capitalism's economic relations, is meant to remove the deciding qualitative element of economics—demarcation of the external form and essence of economic processes, explanation of the movement of the former proceeding from the laws of the latter.

Historically, the exchange theory is derived from the economic teachings of mercantilism, as the ideology of the emerging commercial-industrial bourgeoisie at the age of the primitive

accumulation of capital, during which process commercial capital played a considerable part, being a direct historical precedent of industrial capital.

Orientation on describing external forms of movement of commercial capital and ignoring the internal laws of capitalist production produced the theoretical impotence of mercantilism.

As opposed to mercantilism, classical bourgeois political economy reached an understanding of the determining role of production in the functioning of the economic mechanism of bourgeois society. In reflecting the interests of the bourgeoisie, above all the industrial bourgeoisie, in its contest with feudalism, the classical school endeavoured to uncover the inner relationships of capitalist production (to the extent that the limitation of the bourgeois outlook allowed) and to put them to the service of its class. The classical school established, for the first time in the history of political economy, the fact that society's wealth is created only in the sphere of production—agriculture, industry, etc. It therefore declared the sphere of production to be the object of its analysis. It regarded the sphere of circulation as subordinate to the sphere of production and caused by its movement. However, in the struggle with mercantilism, the classical school took an extreme position in actually ignoring the economic role of the sphere of circulation, whose function was interpreted as a rule purely naturalistically and reduced to exchange of various use values.

Though essentially different in their class orientation, the petty-bourgeois and utopian theories of socialism in the first part of the nineteenth century frequently had, in method, the exchange theory as their common basis. The utopian-socialist Ricardians like Robert Owen and John Francis Bray, and the petty-bourgeois economists like Proudhon studied the major phenomena of the capitalist economy from an exchange-theory point of view, and saw capitalism's major inadequacy in the non-equivalent exchange between labour and capital, between small commodity producers and commercial capital. They explained the exploitation of the working class by the "unjust" character of exchange, by violation of the law of value or simply by swindling by the capitalists. Proudhon, for example, declared that the capitalist never fully rewarded the worker, that precisely this fraudulent concealment led to the impoverishment of the working people, to the luxury living of idlers and to the inequality of living conditions. That was what largely constituted what had so rightly been called the exploitation of man by man.

Exploitation of the working class by the bourgeoisie appears from this viewpoint to be unconnected with the very nature of capitalism and therefore quite capable of being removed within its framework. For that reason, the petty-bourgeois economists and the utopian-socialist Ricardians were wrong to assume that through reform of the sphere of circulation (introducing "labour money", organising "equitable exchange bazaars", "exchange banks", etc.) they could remove

the exploitation of labour by capital and thereby ensure the replacement of capitalism by socialism. Behind this position lay a lack of understanding of the determining role of production, of relations of ownership of the means of production in the whole sum of capitalism's economic relations; all attempts to put these ideas into practice invariably ended in failure. Nevertheless, interpretation of exploitation of workers as not being inherent in capitalism and arising as a result of certain market situations have become quite widespread in bourgeois-reformist literature in this century (John Hobson, Jules Moch, Joan Robinson, etc.), particularly for justifying the practice of state-monopoly capitalism. As Joan Robinson has written, "The only remedy for exploitation is to control prices."¹

Exploitation of labour by capital cannot be eradicated by reforms in circulation, since behind that exploitation lies the separation of workers from the means of production and the concentration of means of production in the hands of only one class—the bourgeoisie. This separation remains in any transformation in the sphere of circulation, including through control over prices. It is this fundamental feature of capitalist production that produces the need for workers to sell their labour power to the capitalist, and therefore causes their exploitation.

In vulgar bourgeois political economy exchange theory did not immediately occupy an overtly

¹ Joan Robinson, *The Economics of Imperfect Competition*, London, 1948, p. 284.

dominant position. So, J. B. Say paid lip service to the deciding role of production, yet in practice the internal basis of his theory is the premise concerning the deciding role of the sphere of circulation. By purging capitalism's relations of production of their socio-economic (exploitative) essence and replacing this essence by material forms of their manifestation, Say reduces relationships between labour and capital to the exchange of "services" between workers and capitalists. This means that relations of the agents of capitalist production are identified with relations of simple commodity circulation, and the latter with direct exchange of products deprived of commodity form. As Marx wrote of Say's methods of apologising for capitalism, "This is a return not only to the time before capitalist production, but even before there was simple commodity production."¹

The increasingly wide use of the exchange theory as an apology for capitalism, initially on separate, though key, questions of political economy reflected the growing vulgar nature of bourgeois political economy as capitalist contradictions developed, and led in the 1870s and 1880s in the works of the Austrian school to a formal review of the classical method concerning the relationship between capitalist production and circulation. Social production, not only as a determining phase of capitalist reproduction, but also as a special sphere of society's economy,

¹ Karl Marx, *Theories of Surplus Value*, Part II, Moscow, 1975, p. 501.

was actually excluded from the theoretical constructions of this theory. The spheres of circulation and consumption were proclaimed to be paramount economic spheres and, what is more, actually exhausting the economic area. The deciding role went to a study of subjective-psychological evaluations of economic phenomena in a situation of market competition. The exclusion of the production sphere from the Austrian school's theoretical analysis was meant to suppress the real source of bourgeois wealth, namely the surplus labour of wage workers in the sphere of production.

The exchange theory received extensive treatment in the theories of German social democracy, as well as the so-called Austro-Marxism. Thus, Karl Kautsky's theory of imperialism which, as Lenin noted, detached the politics of imperialism from its economics and thereby produced an exceedingly one-sided interpretation of imperialism as the politics of industrially-developed powers, intended to seize agrarian territories, was based on the exchange theory. Kautsky saw imperialism as a means of replacing commodity exchange between industrial capitalist powers and backward agricultural countries, and aimed at appropriating the agricultural raw materials of the underdeveloped countries without an appropriate equivalence. Moreover, it is methodologically wrong to approach an analysis of imperialism, a special stage in the capitalist mode of production, characterised accordingly by changes in capitalism's productive forces (high concentration of production up to monopolies) and its rela-

tions of production (establishment of capitalist monopoly domination) from the point of view of the nature of interrelationship (commodity, equivalent and coercive, non-equivalent) between branches of social production, even such important ones as industry and agriculture.

Elements of the exchange theory found expression in the method of analysis of finance capital by the German social-democrat Rudolf Hilferding. Typical of his approach is a tendency to identify the whole system of economic relations of capitalism with relations of commodity exchange. Under capitalism, according to Hilferding, individuals "are associated in society only through acts of exchange"; the society becomes such only "through the process of exchange—the only social process known to that society as an economic process".¹ It is not surprising that he saw the object of political economy in "finding the law of exchange" that would make possible the vital process of bourgeois society. Hence he actually concluded that in socialist society in which, he believed, there would be no commodity relations, theoretical political economy is deprived of the object of its analysis and outlives itself.²

This position is based on a confusion of the commodity form of economic relations of the capitalist economy and their content, which cannot in the main be reduced to commodity relations. Hilferding declares his point of departure in analysing finance capital to be commodity

¹ Rudolf Hilferding, *Das Finanzkapital*, Vienna, 1923, pp. 4 and 5.

² *Ibid.*, p. 3.

relations.¹ What is more, the task of this analysis by no means consists in explaining general traits, features and laws of capitalism—which is the only correct approach. This was what Marx used to such excellent effect in *Capital*. To investigate imperialism as the “latest phase of capitalist development”, the point of departure is concentration of production and capital and the resultant domination of capitalist monopolies, i.e., those decisive changes in capitalism’s productive forces and relations of production which brought it to a new stage of development—imperialism, and predetermined all its basic peculiarities and features. The peculiarity of this stage in the development of capitalism comes directly not from commodity but from capitalist monopoly which, as Lenin said, is the “general and fundamental law” of imperialism.²

The exchange theory took extreme forms in the works of the theorist of so-called Austro-Marxism Karl Renner, who saw “socialisation of circulation” as the only means of moving to socialism. According to Renner, with the retention of all political power and the means of production and circulation in the hands of the bourgeoisie it is possible to cross over to socialism through the conscious, planned organisation of the sphere of circulation. Renner’s position is based on ignoring the major differences between capitalist and socialist economies, which exclude the possibility for the socialist system to arise within the framework of the capitalist economy; without destroy-

¹ See *ibid.*, p. 6.

² See V. I. Lenin, *Collected Works*, Vol. 22, p. 200.

ing the political power of the bourgeoisie, establishing the dictatorship of the proletariat, no real transformation of society's economy along socialist lines can begin. What is more, Renner traduces the actual link between capitalist production and capitalist circulation, suppressing the derivative, secondary role of circulation in contrast to production.

All the above-cited facts show that the exchange theory, being a fundamental principle of vulgar bourgeois political economy, has caused considerable damage to political economy as a science. At various stages of development of political economy, the exchange theory has taken the most diverse forms in relation to a wide range of economic issues. However, at every stage it reflected the bourgeois class policy in political economy. In the "great contest between the blind rule of the supply and demand laws which form the political economy of the middle class, and social production ... which forms the political economy of the working class,"¹ the exchange theory has always been on the side of the political economy of the bourgeoisie.

3. COMMODITY-FETISH CATEGORIES IN MODERN BOURGEOIS ECONOMICS

It would, of course, be incorrect to believe that contemporary bourgeois political economy utterly refrains from using, for apologetic purposes, com-

¹ *The General Council of the First International 1864-1866. Minutes*, Moscow, 1974, p. 284.

modity-fetish forms of manifestation of capitalist relations, including those which are established by the exchange theory. Present-day bourgeois economists frequently interpret capitalist monopolies, whose rule constitutes the economic essence of imperialism, not as the result of a growth in concentration of production and capital which at a certain stage of development makes inevitable the monopolisation of capitalist production, but as some "deviation" from "healthy" capitalism, as a result of particular market situations. Thus, Edward Chamberlin claims that the reason for the emergence of monopolies is "the differentiation of the product", i.e., the increase in multiplicity of real or fancied use properties of goods or services.¹ In his view, any firm, irrespective of the size of production and capital, acquires a monopoly character if even one of the use properties of the product it produces or the service it provides meets the approval and preference of the buyers. From this point of view all the successfully operating firms are monopolies.

As a consequence, the monopoly giants that actually dominate the capitalist economy fall out of the theoretical picture, and the economic essence of contemporary capitalism is utterly distorted. State-monopoly capitalism is a specific system of production relations of contemporary capitalism, and yet from the point of view of the exchange theory is presented as a special form of policy of the bourgeois state aimed at

¹ Edward Hastings Chamberlin, *The Theory of Monopolistic Competition*, Cambridge, Mass., 1956, p. 56.

regulating the capitalist economy through the market with the aid of fiscal-credit levers. Methodologically this theory is close to the Kautskian interpretation of imperialism as a special kind of policy of bourgeois governments.

The exchange theory approach to state-monopoly capitalism draws a veil over its exploitative essence, its very close association with the general crisis of capitalism, and therefore its historically transient nature. Keynes in his *General Theory*, as we saw, draws the need for state regulation of the capitalist economy from the limitation of the market both for means of production and for consumer goods; this emerges, he asserts, from certain psychological peculiarities of economic subjects and is therefore removable within the bounds of capitalism with the help of state regulation, primarily of the sphere of circulation—the amount of money in circulation, rate of interest, taxation, wages, credit, budgetary financing, etc. From the position of the exchange theory, Keynes and his numerous followers try to provide an apologetic interpretation to the many vital processes of development of capitalism's basic contradiction in the epoch of the general crisis of the capitalist economic system. They put down mass chronic unemployment, considerable underemployment of productive capacities, serious declines in production, etc., to lack of so-called effective demand. The crisis processes of the capitalist economy are therefore divorced from their basis—private ownership of the means of production, and their actual causes are veiled.

Contemporary exchange-theory apology for capitalism takes extreme forms in the notion of "consumer preference", a spokesman for which is the American economist Paul Samuelson. He maintains that "the consumer is, so to speak, the king" in the capitalist economy.¹ In actual fact the sphere of circulation is the most important area of additional exploitation of the working people by the monopolies. The mass consumer in the capitalist economy today suffers from the monopoly-induced rapid growth in prices for consumer goods and services, from constraint on, and often reduction in, incomes, which largely do not cover the mounting requirements of consumers, from the increasing tax burden, unemployment, uncertainty about the future, high intensity of labour and other manifestations of capitalist monopoly domination over the working people, both in the sphere of production and in that of consumption and exchange.

The tendency to undermine commodity relations, typical of monopoly capitalism, forces realists among bourgeois economists to admit that the market is exhausting its role as major guide to economic development under capitalism. Back in the 1930s, Keynes had noted that the market mechanism of the capitalist economy could no longer automatically restore economic equilibrium, which made necessary state regulation of the capitalist economy. During the 1960s and 1970s, bourgeois economists in the person, for example, of Galbraith came to the conclusion

¹ P. A. Samuelson, *op. cit.*, p. 60.

that the market mechanism was insufficient also for orienting capitalist production and that the future lay with economic planning. Galbraith was in fact against the exchange theory, its central idea of primacy of the circulation over the production sphere. However, in renouncing in several cases a commodity-fetish interpretation of economic phenomena in present-day capitalism, he does not provide them with any really scientific explanation. In constructing his notions he widely uses fetish forms that are typical of contemporary large-scale production as such.

No matter how vulgar bourgeois economic theories may be, they do not appear out of the blue. Their appearance cannot be totally explained by a need among the bourgeoisie to apologise for a particular aspect of capitalism. Behind them lie distorted ideas about real-live processes of capitalist economic development. For a particular bourgeois theory to have force as an apology for capitalism, certain conditions must take shape in the capitalist economy itself. For example, the "people's" capitalism theory would be out of the question without substantial development of the share form of capital.

The idea of "people's capitalism" does not attempt to resolve general questions of theory of the capitalist economy. It can therefore be viewed as a theory only in a very narrow sense. It only establishes a commodity-fetish appearance engendered by the share form of capital.

Theorists of "people's" capitalism endeavour to put at the service of ideological defence of capitalism the conversion of share capital into

a principal form leading to a certain depersonalisation of finance capital's domination over labour. The faceless shareholder of monopoly capital takes the place of the individual entrepreneur. But it is only the form of capital that changes. It becomes more flexible, mobile, allowing to mobilise part of the monetary resources of the workers and petty bourgeoisie and turn them into capital, enriching the monopolists. Consequently, there arise fresh opportunities for stepping up exploitation, which stem from the very form of capital. On the other hand, it encourages greater exploitation of the proletariat directly in production and masks this in an even greater measure than before.

The key apologetic task of proponents of the "people's" capitalism theory¹ is to convince the public of a certain democratic, popular nature of contemporary bourgeois systems.

Share capital has existed for several centuries and at no stage has it shown any tendency to do away with the exploitation of workers by capitalists. This is hardly surprising since a change in the form of capital, i.e., the form of exploitation of the proletariat, is incapable of eliminating the exploitation itself. It can lead, and really does lead, only to greater exploitation, insofar as the development of share capital is brought about by searches for fresh means of increasing capitalist profits.

Share capital by no means eliminates the

¹ See Adolf A. Berle, Jr., *The 20th Century Capitalist Revolution*, New York, 1954.

domination of big capital; on the contrary, it provides the most favourable opportunities for its implementation and strengthening. In present circumstances, it is sometimes enough to hold only a small percentage, and even a fraction of a per cent, of shares in a company to have a controlling interest. The American economist P. Sargant Florence has written, "A quarter of the American corporations, for instance, had a largest holding of less than 2.7 per cent of the total common stock, but another quarter had a largest holding of over 16 per cent of the total."¹ Share capital ensures an exceptionally rapid centralisation of capital. He goes on to say, "The joint stock firm, and the combination movement between firms, sets the stage whereon the concentration of power has almost unlimited possibilities."²

Exacerbation of the contradictions in present-day capitalism makes it increasingly difficult for it to masquerade as a "people's system", even being helped by fetishisation of share capital's phenomena. Being based on an apologetic description of phenomena associated with the distribution of small shares, the "people's capitalism" theory clashed with reality quite obviously during the 1970s, since the decade saw a substantial reduction in the number of shareholders. During the 1973-75 crisis their number fell by 7 million in the USA, largely that of the

¹ P. Sargant Florence, *The Logic of British and American Industry*, London, 1953, p. 192.

² *Ibid.*, p. 198.

small shareholders. Between 1970 and 1975 the number of shareholders with an annual income of less than \$5,000 fell by two-thirds.¹ Thus in the expression of the American economist Arthur Jones, "capitalism slashed one of its own arteries".² The major reason for this reduction in the number of shareholders was the spiralling inflation which actually led to a fall in real share prices and a sharp decline in the real incomes of small shareholders.

Such a turn of affairs is undermining the very foundation of the "people's capitalism" theory, which puts about the idea that the whole population can become shareholders and thereby do away not only with classes, but also with any serious property differences between members of the community, and induces its proponents to a sort of "reappraisal of values" and search for a way out of the impasse in which their theory has led them under pressure from the real facts of life.

Bourgeois theorists are trying to rescue the "people's capitalism" theory by citing the fact that the reduction in number of small shareholders is being accompanied by an increase in small depositors in banks, pension funds, etc. But this too certainly does not testify to any "democratisation" of capital. The concentration of the savings of small depositors in the hands of monopoly finance institutions is a modern form

¹ *Business Week*, March 14, 1977, p. 83.

² Arthur Jones, *The Decline of Capital*, New York, 1976, p. 148.

of capital accumulation, which developed because of people's insecurity and which is widely being used by the finance oligarchy for their own enrichment. In addition, as distinct from shareholders, the small depositors are formally not owners of part of the capital of big corporations, and therefore their existence can in no way bear witness to the "popular character" of present-day capitalism.

The narrowing of the social base of finance capital is engendering numerous projects for flooding the public with shares. According to the American economist James Albus, the establishment of some national investment fund out of people's deposits would enable every member of society to be a shareholder who over time would begin receiving most of his income from shares in this fund.¹ The compulsory allotment of fund shares to all members of society at their own expenses, of course, would lead, he maintains, on the one hand, to a wide diffusion of ownership and economic power and, on the other, to an intensive development of socially important branches of the economy based on the latest attainments of science and technology. Such an approach is highly contradictory and basically untenable. On the one hand, what lies behind it is the utterly untenable thesis that class antagonisms of the capitalist system are resolvable within the framework of that system by using purely capitalist methods. However, on the

¹ James S. Albus, *People's Capitalism*, Maryland, 1976, pp. 60-142.

other hand, recognising the need to change the goals of capitalist production, to subordinate it to socially important tasks, and stressing the need to attain economic equality of all members of society, Albus involuntarily notes the bankruptcy of the capitalist mode of production he is defending.

Adherents of various approaches of the "people's capitalism" theory, in their attempts to save capitalism from the narrowing of the social base which threatens it, are striving to embody their ideas in certain forms of state policy. Under their influence one of the US Congress Committees in 1976 ratified the idea of a national policy for "diffusing ownership of capital" behind which lay the "general capitalism" concept of Louis Kelso, which was a variant of the "people's capitalism" theory. The public could be flooded with shares, they felt, through credits offered to them by banks on certain conditions. These banks would hold the shares until the income from them was sufficient to pay off the money borrowed. Then the shares would pass into the hands of "people's capitalists".¹

The desire to attract bank credit resources for implementing the "diffusion of ownership" policy, and appeal to the bourgeois state as the guarantor and driving force of this policy shows that the market mechanism would seem to be

¹ Louis O. Kelso and Patricia Hetter, *Two Factor Theory: The Economics of Reality. How to Turn Eighty Million Workers into Capitalists on Borrowed Money and Other Proposals*, New York, 1967.

bankrupt in the view of the "people's capitalism" advocates. One can with confidence say that the problem of "diffusion of ownership" will not be resolved by involving either the banks or the bourgeois state. It is not only because they are, by their very nature, incapable of helping to establish equality in the area of economic relations. In fact, both the banks and the bourgeois state are a chief basis of the modern, increasingly monopolised capitalist economy. The point is mainly, however, that within the bounds of the capitalist economic system, there can be no economic equality of members of society as a matter of principle, since the essence of capitalism consists precisely in economic inequality, in the concentration of means of production in the hands only of a single class—the class of the bourgeoisie, while all other members of society are separated from the means of production and are therefore overwhelmingly obliged to sell their labour power. The theory under review sets its sights on extending the social base of monopoly capital by propagating the false slogan of "diffusion of ownership", speculating on the fetishist manifestations of share capital. But this objective too is unrealisable, since the objective laws of capitalist concentration and monopolisation, the competition of monopoly giants, are increasingly widening the gap between the handful of finance magnates and the millions of working people being exploited by them.

Of greatest interest is the use of the commodity-fetish category as an apologetic interpretation of

fresh phenomena in capitalism. The theory of so-called human capital is one such example.

"Human capital" is understood as the sum total of qualities of labour power (state of health, degree of education, training for production, etc.) which qualifies the worker for labour. In accordance with this concept, expenditure on promoting these qualities is depicted as "investment in human capital" which is intended, like investment in other forms of capital, to increase incomes for capital. An increase in workers' incomes bound with a rise in skill and complexity of their work serves bourgeois economists as "grounds" for viewing the ability of labour power to work as a special variety of capital.

From this point of view, the workers themselves are supposed to be responsible for their low living standards. According to the "human capital" theory, "low incomes are seen as resulting from an inadequacy in the individual's human capital which can be corrected simply by ... formal education, manpower training, and the like."¹ The author of these lines, the American economist Howard Wachtel, concludes that the poverty of workers is a necessary consequence of capitalism's social institutions.

The "human capital" concept is even more vulgar and apologetic than the "factors of production" theory. While the latter in substantiating the lack of exploitation of labour by capital

¹ Howard M. Wachtel, "Capitalism and Poverty in America: Paradox or Contradiction?", *The American Economic Review*, May 1972, Vol. LXII, No. 2, p. 193.

nonetheless admits their difference as particular factors of production, the "human capital" theory reduces the antagonism between labour and capital merely to different forms of capital, distinguishing "human capital" whose owner is said to be a worker, and "non-human capital" which is understood to be capital of the bourgeois class.¹ This is one of innumerable examples of the growing vulgarness of contemporary bourgeois political economy.

Methodologically, the ideas of "human capital" are based on the commodity-fetish form of manifestation of those changes in wage labour power of bourgeois society which are bound mainly with the scientific and technological revolution, on the confusing of processes in the productive forces and phenomena of capitalist relations of production.

Labour power as a person's ability to work is the most important element of society's productive forces from the viewpoint of the material content.² But from the point of view of social form, labour power is a commodity, not capital, as far as the worker under capitalism is concerned. The worker receives his income—wages, through realising the value of the commodity that is labour power belonging to him, and not through appropriating someone else's unpaid work which is typical of capital.

Like many other conceptions of contemporary bourgeois political economy, the "human capital"

¹ See *Voprosy Ekonomiki*, 1971, No. 11, pp. 84-92.

² Karl Marx, *Theories of Surplus Value*, Part III, Moscow, 1975, p. 382.

theory is based ultimately on identifying use value and value of the commodity. In fact, what bourgeois economists mean by "human capital" is a worker's ability to work, i.e., the use value of the commodity that is labour power. Labour power is, moreover, a source of income for the worker in its quality of being value, and not use value. It is for this reason that a rise in a worker's wages is linked with an increase in complexity of work and, consequently, with changes taking place in the value of labour power. The only "grounds" for identifying labour power with capital is precisely a rise in wages with an increase in expenditure on reproduction of labour power, i.e., a rise in the price of a commodity that is labour power with an increase in its value.

Labour power thus becomes capital only in the hands of a capitalist and for a capitalist, since it is he who uses labour power for producing surplus value.

It is absolutely vital to emphasise that the "human capital" theory, like other commodity-fetish ideas in bourgeois economics, rests on those aspects of capitalism's productive forces (after all, the use value of labour power is called the worker's "human capital") which are connected with their socio-economic role as a material form of capitalism's relations of production (after all, the use value of labour power, the ability of labour power to work, act as the material form of manifestation of variable capital which creates surplus value for the capitalist).

Consequently, the foundation for the fetishisa-

tion of relations of exploitation in this type of theory is not technical and economic qualities of labour power as such, but its socio-economic qualities as the material form of manifestation of capitalist relations of production.

Given all the above-mentioned features of the commodity-fetish categories of vulgar bourgeois political economy, they represent an internally limited, and therefore also insufficient in certain historical conditions, means of apology for capitalism. In the first place, these categories do not fully remove the possibility of cognising (albeit superficially) capitalism's economic processes. Second, the vulgarisation of political economy based on the use of various, increasingly superficial, commodity-fetish forms for elaborating apologetic theories has, in the most superficial economic form, a certain objective limit beyond which, without leaving the bounds of the economic theory proper, the process of vulgarisation cannot develop.¹

The contradiction between limited possibilities of apology for capitalism by using commodity-fetish forms and the mounting need for bourgeois political economy to improve methods of its ideological defence of capitalism, owing to exacerbation of capitalist contradictions, is ac-

¹ Vulgarisation of the labour theory of value of the classical school, for example, occurred by replacing the value of a commodity first by the price of its production (for example, Malthus, defining the value as "purchased labour", provided a commodity-fetish description of the price of production), then by costs of production (John Stuart Mill), exchange value (S. Bailey) and, finally, as price (the German historical school).

quiring a dual form of movement: first, elaboration of new apologetic ideas by using the new commodity-fetish forms of manifestation of capitalist relations of production; second, the limitation of a commodity-fetish (economic) form is leading to extensive development of non-economic forms of vulgarising political economy, resting on non-economic phenomena and portraying precisely them as reasons for the socio-economic processes of capitalism (for example, legal phenomena in the socio-legal school, phenomena of psychology in the subjective-psychological school of bourgeois political economy, etc.).

The difficulty of the problem lies in the fact that contemporary institutionalism (concepts of "industrial", "postindustrial", etc., societies) does not rely in its basic categories on commodity-fetish forms of economic phenomena occurring in capitalism or it relies only partly on them, provides no scientific analysis of these phenomena and, at the same time, makes an economic interpretation of them, which is widely used as an apology for contemporary capitalism and tendencies of its development. In what, then, does the specific feature of the epistemology of latter-day institutionalism consist?

4. SOME FEATURES OF PRODUCTION FETISHISM

Institutionalism, which arose at the turn of the century and is presented by the works of Thorstein Veblen, J.R. Commons and Wesley Mitchell,

considerably differed from the preceding schools of bourgeois economics. Being a product of the imperialist epoch with its colossal social shifts, institutionalism was no longer able, like the historical and particularly the Austrian school, to ignore the social character of capitalism's economic processes. Being at the same time a specific trend in bourgeois economics, institutionalism was unable to reveal the law-governed connection between the socio-economic processes of capitalism and the growing social character of its productive forces, to expose the antagonistic essence of capitalism.

This contradiction found its typical resolution in the principal concept of institutionalism, the so-called institution by which adherents of the school understand any social phenomenon: family, state, taxes, trade unions, corporations, custom's duties, the money system, etc.

In reflecting the above-mentioned contradiction (between the mounting need to cognise the socio-economic processes and the limited possibilities for bourgeois political economy), the concept of institution has a clearly-expressed dual nature. First, typical of it is the desire to replace the specific socio-production relations of capitalism by general sociological relations, thereby to dissolve political economy in sociology. Along with the resolution of a whole number of apologetic tasks, this trait of the institution category allows a certain reflection of the social character of capitalism's economic processes at the imperialist stage. A study of the economic psychology of atomic economic subjects, which is

typical of the Austrian school, gives way among institutionalism theorists to an examination of relationships between various institutions, for example, corporations, state, tax and money systems, etc. This aspect of the "institution" category, establishing the social character of phenomena in the capitalist economy, might be termed a form of institution. Second, the institution category possesses a content distinct from this form. And representatives of the different trends of institutionalism fill the form of one and the same institution with a different content. Thus, for example, the category of corporation is seen by some theorists as an expression of the group psychology of entrepreneurs, by others as the result of legislative acts, and by yet others as a consequence of certain psychological preferences among people, etc. The content of an institution receives, therefore, an unscientific, uneconomic interpretation—psychological, legislative, biological, etc. Consequently, the objective law-governed connection between a social phenomenon like a corporation and the development level of society's productive forces is lost; the socio-economic essence of this salient phenomenon of the capitalist economy in the imperialist epoch is completely distorted.

The duality of the institution category allows, on the one hand, to establish and describe the most important socio-economic processes of the imperialist epoch, many of which are ignored by theorists of bourgeois macroeconomic analysis and, at the same time, on the other hand, to interpret their nature and development trend in

an apologetic way, divorcing them from the prevailing mode of production, from the capitalist character of relations of production.

These same features of the method of institutionalism are basically immanent also in its contemporary schools, including that of "industrial society".

An important feature of present-day institutionalism, however, is that it can no longer completely ignore such an obvious dependence of social relations on the level of development of production, as had been done by the old institutionalism proponents. At the same time, it cannot elucidate this relationship in a genuinely scientific way, since this invariably leads to conclusions about the historical inevitability of socialism and communism. For that reason, the actual nature of the dependence of social processes on the level of development of productive forces is glossed over in the sense that social changes in the economy (appearance and promotion of "mature corporations", intra-firm planning, merger of corporations and the state, etc.) are seen as a direct consequence of the development of "technology" and production as such, without reference to the socio-economic essence of capitalism's relations of production.

This approach predetermines the unscientific interpretation by present-day institutionalists of the socio-economic nature and trends in development of both capitalist and socialist modes of production. Abstraction from the prevailing system of relations of production of a particular mode of production prevents them from under-

standing the dependence of social phenomena in the economy on society's relations of production that determine their nature and development.

Thus, the categories used by proponents of the "industrial society" notion, like those of former trends of institutionalism, establish the major social forms of the capitalist economy, capitalist relations of production; they also strip them of their socio-economic content, portraying them as a direct manifestation of "technology" of production, of society's productive forces as a whole.

However, the essential forms of capitalism's relations of production, of course, directly depend not on productive forces as such, but on the socio-economic content of the relations of production themselves. So-called capitalist economic planning, for example, is always a function of the prevailing capitalist form of ownership of the means of production and naturally takes account also of the technical-economic peculiarities of production being planned. Under capitalism various forms of economic regulation are subordinate to the objectively-determined goal of capitalist production—maximisation of capitalist profit. And this aspect of planning which determines its socio-economic essence, the scope, forms and methods of implementation, etc., flows not from "technological" requirements as such, but from the nature of the prevailing relations of production.

The categories of "industrial society" are depicted as a direct reflection of society's productive forces as such. But it is well known that the commodity-fetish categories of bourgeois political

economy also rest on external phenomena related to the development of the productive forces. What, then, is the difference between the commodity-fetish categories and those fetishist forms that lie behind the categories of present-day institutionalism?

An analysis of categories of present-day institutionalism allows to conclude that they are based on another, distinct from commodity fetishism, form that is typical of the contemporary capitalist economy.

Marx saw commodity fetishism as being the domination "of materialised labour over living labour, of the labourer's product over the labourer himself".¹ A form of this product are material elements of the productive forces which, in capitalist conditions, are a productive form of industrial capital. A machine, for example, being an element of society's productive forces, acts as a material form of manifestation of capitalist relations of production, which creates the basis for various types of commodity-fetish ideas about the sources of capitalist incomes. On the surface, it appears that the machine as such (capital, in the terminology of bourgeois political science) is actually the source of capitalist profit.

Consequently, the categories of commodity fetishism rest not on material elements of the productive forces as such, but on material elements of the productive forces in their role of

¹ Karl Marx, *Theories of Surplus Value*, Part I, Moscow, 1975, p. 390.

external forms of manifestation of capitalist relations of production.

It is different with fetishism that is peculiar to the concepts of contemporary institutionalism. It tries to substantiate the distinguishing features of the nature and development trends of the socio-economic phenomena it is studying by the general traits of contemporary large-scale production as such; consequently, by the technico-economic aspect of bourgeois society's productive forces rather than by the socio-economic.

Here lies one of the important distinctions of those fetishist forms, which contemporary institutionalism uses and which can be defined as production fetishism, from commodity fetishism. Another distinguishing feature of production fetishism is that it is engendered by the productive form of industrial capital, while commodity-fetish forms are typical of the whole system of material manifestations of capitalism's relations of production in the sphere both of production and of distribution and circulation.

Like commodity fetishism, production fetishism is engendered by the rule of capitalist relations of production. However, it is typical of another historical stage of capitalist development when the market mechanism of the capitalist economy, as is now also recognised by many bourgeois economists, is undermined, when direct production ties are widely developing, thereby reflecting the developing division of labour in singular or in detail, when the determining role of the productive form of industrial capital in the movement of entire social capital is evi-

dent with increasing clarity on the surface of phenomena, when science is becoming a direct productive force of society. In this situation it becomes possible to depict present-day capitalism's principal socio-economic phenomena as a direct result of the development of production as such, and strip them thereby of their specific capitalist content.

It is characteristic of production fetishism that relations directly in the process of production are identified with socio-economic specific production relations of capitalism. A typical example is the technostructure category of Galbraith, by which he actually means the apparatus of monopoly management and to which he ascribes dominant positions in the "mature corporation", as if they are ousting the capitalists. Management in capitalist conditions is of a dual nature: on the one hand, it is management of the simple labour process (aspects connected with productive forces), and, on the other, it is management of the process of capitalist exploitation (aspects connected with capitalist relations of production). Identification of relations of managing the simple labour process and relations of managing capitalist exploitation creates the illusion that enables Galbraith to assert that capitalists are being pushed out of the big corporations, which have turned into some sort of non-capitalist institutions.

From an epistemological viewpoint, production fetishism is closely bound up with the capitalist form of production, with a new stage in the development of the productive forces as a result

of the scientific and technological revolution, including in the relations of direct production appertaining to people's purposive activity in influencing nature. Production fetishism expresses the apparent domination of social relations of direct production (requirements of "technology" as such) over people which, in actual fact, is a reflection of the domination of capitalist relations of production.

The common roots of commodity and production fetishism are to be found in the general principle of vulgar political economy.

5. GENERAL PRINCIPLE OF VULGAR BOURGEOIS ECONOMICS

Vulgarisation of political economy is most profoundly based on the use of deliberately distorted concepts and categories relating to productive labour. This is why vulgarisation, based on this distortion, is a general principle of unscientific political economy.

Productive labour constitutes the principal content of society's economic life. For that reason, all economic categories upon which political economy relies are only different designations of the labour process in the wide sense of the word, its consequences and results, its material content and socio-economic form.

As Marx first established with complete certainty, labour by its very nature is a two-fold phenomenon. On the one hand, it is a useful purposeful form of human labour activity (con-

crete labour); on the other it is expenditure of human labour power in the physiological sense irrespective of the useful form of labour (historical form of this aspect of labour typical of conditions of commodity production is called by Marx abstract labour). The labour of a worker engaged in producing a commodity is a contradictory unity of concrete and abstract labour.

Hence a conclusion of great importance for economics: if productive labour is the basis of all economic processes and, at the same time, labour possesses an intricate structure and acts as a two-fold phenomenon, then all economic phenomena without exception are obviously also two-fold by their nature. On the one hand, they all represent various manifestations of concrete labour; on the other, they simultaneously express processes of abstract labour, which together comprise the whole sum of economic phenomena and processes of the capitalist mode of production. By the results of concrete labour we mean the sum total of all economic phenomena directly associated with the functioning of concrete labour. Such, for example, are a commodity's use value—its usefulness created by the useful, concrete form of expended labour; the simple process of labour as a process of creating use values which is a particular aspect of the production process; the process of transferring the value of expended means of production to a new commodity, which is effected through the useful form of expended labour, etc. Accordingly, by the results of abstract labour are here denoted all phenomena

directly determined by the qualities of abstract labour. Such, for example, is the value of a commodity which is the objectification of abstract labour expended on producing that commodity; the process of growth in value as the second aspect of the process of commodity production, whose content is the creation of new value by abstract labour, etc.

Using objective reality, the conception of the two-fold character of labour is a powerful methodological means of analysis used by scientific economics, inasmuch as this conception enables one to reveal the two-fold character of all phenomena in the commodity capitalist economy, to draw a clear distinction between material content and the socio-economic form of economic processes, to reveal the specific economic laws of a particular historically definite mode of production as distinct from general economic laws.

Insofar as the conception of the two-fold character of labour establishes the general properties of the two classes of economic processes, it contains definite information both of the studied economic processes and of those which have not yet become objects of study. In this respect it performs a role similar to the Mendelejev Table of Elements.

Marx ascribed exceptional importance to examining the two-fold character of labour embodied in a commodity, seeing it, alongside discovery of the law of surplus value, which is the economic law of the movement of the capitalist mode of production, as the most important

attainment of his economic theory.¹ He regarded the two-fold character of labour embodied in a commodity as the "pivot" of a scientific analysis of capitalism, on which turns a clear comprehension of all political economy, the whole sum of facts of the economic life of society.²

This Marxist proposition has another side to it: a lack of understanding of the two-fold character of labour and its special role in the capitalist mode of production presupposes a lack of understanding of the nature and structure both of individual economic phenomena and processes, and of the whole system of economic laws of the capitalist economy. At the same time, it means that a critical analysis of bourgeois political economy from the viewpoint of the conception of a two-fold character of labour allows to expose the real content both of its individual tenets and theories and of their sum total.

The inability of bourgeois political economy, because of its class limitation, to draw a distinction between processes caused by the manifestation, on the one hand, of concrete and, on the other, abstract labour, creates the basis for distorting the socio-economic essence of phenomena it investigates, leads to a replacement of the socio-economic nature of those phenomena by their external forms of expression.

The historical demise of capitalism emanates

¹ Marx and Engels, *Selected Correspondence*, Moscow, 1975, p. 180.

² See Karl Marx, *Capital*, Vol. I, Moscow, 1978, p. 49 and V. S. Afanasyev, *Karl Marx's Great Discovery*, Moscow, 1980 (in Russian).

from its basic contradiction: the mounting discrepancy between the capitalist relations of production and the increasingly growing social character of productive forces. It is for that reason that bourgeois political economy, at all levels of the process of cognition, devotes special efforts to blocking the way to an understanding of this contradiction; what is more, it tries to prevent an understanding of the very differentiation between productive forces and relations of production of capitalism, being the generalised, final expression of the difference between the results of concrete and abstract labour. The exceptional cognitive possibilities contained in the conception of the two-fold character of labour do not correspond, therefore, to the ideological aims of vulgar bourgeois political economy. Typical of it is not a differentiation, but, on the contrary, an identification of phenomena and processes of concrete and abstract labour, and there lies the essence of the general principle of vulgar political economy.

This principle is general for vulgar political economy in the sense that this identification constitutes a characteristic feature of any unscientific theory, category or system of political economy, no matter what forms they take. It is a general principle also in the sense that it embodies the whole methodology of unscientific political economy (the metaphysical approach to economic phenomena and their idealistic or vulgar-materialist interpretation).

The critical analysis made by Marx of vulgar political economy of the first half of the last

century indicates that it widely relied on an identification of the processes of abstract and concrete labour. Such, for example, is Senior's "last hour" theory, which had included as part of working time both "time of transfer of old value" (depreciation of machinery, equipment, factory buildings, transfer of value of used objects of labour), and also the time of creating new value ("net profit"). In actual fact both these processes—the transfer of old and the creation of new value—occur *simultaneously* owing to the two-fold character of labour of commodity producers: the value of means of production expended on production is maintained in the new commodity through the purposeful form of labour (that is, with the aid of concrete labour), while the new value is created by expenditure of abstract labour.¹

Such is the "factors of production" theory that has come down to us and raised to the level of an academic canon, according to which the means of production, including land, are alleged to be independent sources of the value of commodities, along with human labour.² The special tenacity of this theory in vulgar bourgeois political economy stems from the fact that its purpose is to prove the wrong thesis that there is no exploitation of wage workers by capitalists. One of its latest variants is an attempt to depict automated instruments of labour as not simply a factor of production of use value of commodities (which

¹ Karl Marx, *Capital*, Vol. I, Moscow, 1978, pp. 215-16.

² P. Samuelson, *Economics*, New York, 1961, p. 595.

is what these instruments of labour are in reality), but also of their value and, consequently, their surplus value. The French sociologist Roger Garaudy, for example, refers to automated production and calls for renunciation of the central tenet of Marxist value theory about living abstract social labour being the only source of value. Citing by way of illustration a large-scale automated workshop at an oil refinery with only six employees, he writes, "Is it still possible to say that the surplus value that has been created comes exclusively from the 'human' toil of these six workers?"¹ And he goes on to say, "To revise the value theory..., will our 'orthodox theorists' have to wait until fully automated factories appear?"² According to Garaudy, this "revision" should boil down to recognition that means of production also have the ability to create new value, and therefore also surplus value, that is, to a shift to the standpoint of the vulgar-apologetic theory of "factors of production".

It is surprising that Garaudy, in claiming to further the economic theory of Marxism, should get bogged down in the very elementary question posed by Sir William Petty many years ago in his cogitations on the "equation between Lands and Labour". In his *Political Anatomy of Ireland* published back in 1672 (exactly three hundred years before Garaudy's "discovery"), Petty was confronted by the fact of the means of production, in the form of land, participating in the process

¹ Roger Garaudy, *L'Alternative*, Paris, 1972, p. 183.

² *Ibid.*, p. 195.

of creating use value (for him—the natural growth of cattle), and he arrived at the erroneous conclusion that both land and labour are sources of value.¹ To be fair to Petty he did try to find a way out of this contradiction along the lines of the labour theory of value.² But Garaudy veers towards the unscientific theory of “factors of production”, glossing over the exploitation of labour by capital.

The bankruptcy of the “factors of production” notion lies in that, without any grounds for doing so, it portrays the factors of the simple labour process—means of production (including land) and the useful form of labour (concrete labour), participating only in creating the use value of a commodity, as sources of value, although only abstract labour is such in reality. If that conception were true and the means of production were a source of new value, then the use of more efficient machinery, technological systems, production equipment and more fertile land would not lead to a lowering of costs of production of commodities, would not engender a tendency of the value of a unit of commodity and, therefore—in certain conditions—of its price to fall. Yet, all those processes are necessary consequences of a growth in the social productive power of labour as a phenomenon of concrete labour, through using more efficient means of

¹ Sir William Petty, *Political Anatomy of Ireland*, Shannon, 1970.

² Karl Marx, *Theories of Surplus Value*, Part I, Moscow, 1978, p. 362.

production directly unaffected labour in its quality as a source of value.¹

As far as automated production is concerned, means of production in this case, of course, do not become a source of new value and surplus value. The economic effect of automated production comes from the following circumstances. First, giving automated means of production, through the useful form of human labour (concrete labour), the quality of a purposeful form of influencing the object of labour implies that these means of production can be a source of the commodity's use value. Second, this very purposeful form of influencing objects of labour given to automated production by the concrete labour of workers and engineers ensures the transfer of the value of automated means of labour—to the extent of their depreciation—to newly-produced commodities. Third, the high productivity of labour being attained through applying automated means of labour leads to a considerable increase in degree of exploitation of workers, since it sharply diminishes socially-necessary working time spent on reproduction of labour power. However, the matter is not confined to intensification of exploitation of workers engaged in automated means of labour. Automation of production under capitalism leads to an increase in exploitation of the working class as a whole. Fourth, a lower individual value of commodities being produced with automated means of labour enables their owner to appropriate the difference

¹ Karl Marx, *Capital*, Vol. I, Moscow, 1978, p. 53.

between the individual and social values of these commodities and therefore redistribute to his own benefit part of value created by workers at less automated or completely non-automated factories in that industry. Fifth, the law of average rate of profit, which ensures capitalists an average rate of profit on capital, invested in automated production as well, redistributes for their benefit part of surplus value produced by wage workers in other areas of the economy. Surplus value *produced* at a given capitalist factory, and surplus value *appropriated* by the capitalist of a given factory on the basis of the law of average rate of profit certainly do not always coincide. Sixth, automated production usually presupposes a high level of concentration and monopolisation of production and capital, which enables capitalist monopolies through monopoly-high prices (redistributing part of the aggregate surplus value for their own benefit) to receive a higher rate of profit than the average for the capital they are using.

Thus, a high rate and mass of profit at automated factories is the result of enhanced exploitation of both the workers employed at those factories and the whole working class generally.

Given all the modifications which vulgar political economy has experienced over the years, its adherence to its general principle has remained inviolate. One example is the interpretation of such an important category as "economic system". As Galbraith has put it, "The purpose of economic system would seem, at first glance, to be reasonably evident, and it

is commonly so regarded. Its purpose is to provide the goods and render the services that people want."¹

It is not hard to see that this instrumental approach to the socio-economic system, which sees it only as a sort of means in people's hands for attaining their objectives of direct consumption, is extremely limited and one-sided. Such an approach leaves aside the fact that the socio-economic system is an objective product of historical development; it also neglects the fact that the economic system produces both material goods and services, and human beings themselves, shaping their special social type corresponding to the system. Moreover, it imposes on people the major aim of their economic behaviour. Under capitalism, therefore, which is characterised by private ownership of the means of production, the aim of economic activity is not consumption as such. It is the maximisation of capitalist profit which is the direct goal of capitalist production.

Just the lack of coincidence of aims of direct consumption and that imposed on production by the "economic system" bears witness to the fact that the socio-economic system, together with productive forces that create material goods and services which people need, contains within itself also the system of socio-production relations which determine the socio-economic nature of society, its class structure and

¹ J. K. Galbraith, *Economics and the Public Purpose*, p. 3.

the socio-economic objectives of production.

It should be clear, therefore, that the contemporary bourgeois economics is quite wrong to reduce "economic system" to society's productive forces alone, which are a generalised expression of the processes of concrete labour, and that it ignores the second aspect of "economic system", namely, the socio-production relations of people, which are under capitalism a generalised expression of the processes of abstract labour. Disregard of the two-fold character of the "economic system" category is a major manifestation of the general principle in present-day bourgeois economics.

* * *

An analysis of categories of contemporary institutionalism, their differences from commodity-fetish categories of bourgeois economics and those of previous trends in institutionalism, shows that contemporary institutionalism, despite the fact that it provides a more realistic description of several peculiar traits of present-day large-scale production, is a specific tendency of vulgar bourgeois economics, which ignores the socio-economic content of people's socio-production relations, and the specific forms of ownership of means of production. The use of production-fetish forms as the basis of categories of contemporary institutionalism, signifying an important change in the epistemology of bourgeois economics today, is incapable nonetheless of overcoming the crisis state of contemporary bourgeois economics.

Chapter 5

BANKRUPTCY OF "ECONOMIC SYSTEMS" THEORIES IN CONTEMPORARY INSTITUTIONALISM

1. CRISIS CHARACTER OF "TRANSFORMATION OF CAPITALISM" THEORIES

"Transformation of capitalism" theories consist of unscientific bourgeois and right-wing socialist ideas proposing the thesis that in industrially-advanced capitalist countries there has been, or is going on at present, an evolutionary conversion of capitalism into some form of "non-capitalist" system ("consumer society", "industrial society", etc.) or even into a "socialist society". The theories came into being in the form of right-wing socialist tenets of capitalism being reformed into a "socialist system", particularly the "democratic socialism" theory of the late 1920s and early 1930s. By the 1960s and 1970s, however, they became a leading current in bourgeois economics, which testifies to increasing reformist tendencies in bourgeois economic theory reflecting the maturation of crisis processes of the capitalist mode of production. The "transformation of capitalism" theories include notions of "industrial", "postindustrial", "technetronic", "superindustrial", "postcapitalist", "postbour-

geois", "programmed", "multidimensional", "post-civilised", "cognising" society, "consumer" society, "the welfare state", "the high mass consumption age" and all manner of bourgeois and right-wing socialist views of "socialism" ("democratic socialism", "pragmatic socialism", "pension-fund socialism", "participatory socialism", "municipal socialism", "new socialism", and so on).

As distinct from the "neocapitalism" theories (ideas of "people's", "organised", "managerial", "human", "humane", etc., capitalism) that recognise the capitalist character of Western society and advocate the possibility of eliminating the contradictions inherent in the capitalist mode of production (mass unemployment, production anarchy, worker alienation, property gap between the working class and the bourgeoisie, etc.) within its own bounds, the "transformation of capitalism" theories proclaim a non-capitalist orientation of present-day socio-economic development, and are obliged to admit the historically transient nature of capitalism. But their admission tends to be formal and declarative. In fact, these theories, like the "neocapitalism" concepts, defend the eternal and everlasting nature of the capitalist system. The theories became widely popular in bourgeois and right-wing socialist economic and sociological literature at the third stage of capitalism's general crisis, when the world socialist economic system had formed and the world revolutionary process had made considerable gains, and when it was evident that the "neocapitalism" theories were incapable of counteracting the ideological

impact of socialism on the working people of the capitalist countries. The emergence of the "transformation of capitalism" theories is a vivid expression of the deep-going crisis of contemporary bourgeois economics in fulfilling its ideological function, over many decades being directly and overtly based on the dogma of the eternal nature of the capitalist order. The appearance of these theories is the result of the forced adaptation of bourgeois economics to the onward development of the world revolutionary process.

In a situation of rapid progress of the world socialist economic system, the high level of the worker and communist movement within the industrially-advanced capitalist countries, the collapse of imperialism's colonial system and the development of a considerable number of newly-liberated countries with a socialist orientation, bourgeois economics, above all in the form of the "transformation of capitalism" theories, has been obliged to renounce open defence of dogmas which it had stuck to over the centuries about the "naturalness" and "everlastingness" of the capitalist system. Yet in reality, the "transformation of capitalism" theories constitute a masked defence of these apologist dogmas, which testifies to a change only in the methods of ideological defence of imperialism being adapted to the changing conditions of the class struggle between the working class and the bourgeoisie, and the preservation of the former class essence of bourgeois economics. The proponents of the theories advocate "transformation of capitalism" in forms, on terms and by means that presuppose

preservation of the immutable nature of the socio-economic foundations of contemporary capitalism. They bend their main efforts to sowing the illusion that the capitalist system in Western countries is being transformed into a "non-capitalist" system, as a result of some form of automatic evolutionary process which has been taking place directly under the influence of the current scientific and technological revolution, changes in forms of administration of capitalist production, the process which allegedly precludes the need for the revolutionary fight of the working class to remove the economic and political domination of the bourgeoisie, and the system of the capitalist exploitation and to build a socialist society. The reactionary nature of the "transformation of capitalism" theories is clearly apparent in the desire of their proponents to suppress the objective and long mature need for revolutionary transformation of capitalist relations of production into socialist, to replace a socialist revolution by a scientific and technological revolution, although the latter is not able by itself to resolve the antagonistic contradictions of the capitalist economic system, and, what is more, is leading to a sharp intensification of these contradictions (class polarisation of bourgeois society, increased unemployment, economic instability of capitalism, etc.).

Methodologically, the "transformation of capitalism" theories have taken shape in conformity with the basic principles of vulgar bourgeois political economy and sociology. They are based on abstraction from the major qualitative differ-

ences between the systems of relations of production of capitalism and socialism, and they rest on absolutising phenomena of society's productive forces (comprising only one aspect of the social mode of production), external forms of people's direct economic activity. Without any practical examination of the socio-economic essence of the capitalist system, the conclusion is drawn that this essence is changing.

Two major currents may be singled out from the "transformation of capitalism" theories, depending on how the "new society" that is supposedly replacing capitalism is described. While the first current's description stops short at "non-capitalist", yet non-socialist, calling itself "industrial", "postindustrial", etc., societies, the second views that society as "socialist", reflecting the more developed form of the "transformation of capitalism" theories corresponding to a higher degree of exacerbation of capitalist contradictions.

The first current of the theories relies mainly on an apologist description of phenomena that find expression in the specific-economic side of people's mode of living, in their consumer and directly production activity, which is reflected in the theories in a distorted way. In turn, the ideas of the first current fall into two main branches, depending on which aspect of the specific-economic side of people's mode of living is considered by the bourgeois theorists as the basis for an apology for contemporary capitalism. The first is characterised by its "consumer version" of capitalism's "transformation". Its advocates

try to prove the conversion of capitalism into one or another variety of some non-capitalist "consumer society". They include the theories of "consumer society", "welfare state", "affluent society", "quality of life stages", "sovereignty of consumer", "high mass consumption age", etc. The distinguishing feature of this branch of the theories lies in that its proponents try to depict contemporary state-monopoly capitalism as some socially-limited system oriented on the general public maximising personal consumption; they seek "transformation of capitalism" criteria in changes in personal consumption, thereby fully distorting the socio-economic essence of contemporary capitalism, as also the inherently-connected goal of capitalist production. The "consumption" version of the theories is based on a false abstraction—on veering away from the socio-economic essence of the goal of production under capitalism, i.e. maximisation of capitalist profit, to which the dynamic of personal consumption is ultimately subordinated. It is aimed at replacing the goal of capitalist production with that of production in general, which is supposed to be consumption. Development of forms of personal consumption, in particular the mounting role of services, the concessions won by workers in capitalist states in implacable struggle with the bourgeoisie over wages, social insurance, etc., are portrayed by these theorists as stages in the "transformation" of capitalism into consumer society. The socio-economic characteristics of capitalist society which, naturally, remain basically intact in preserving capitalism, are

replaced by "transformation" theories as a specific-economic characteristic of change in the form of consumer activity among people so as to create the illusion of replacing the "old" society by a "new" one.

The second branch of this current advances the "production" version of capitalism's "transformation"; it is meant to show important changes taking place under the impact of the scientific and technological revolution, changes in the productive forces in bourgeois society, as testimony to the "radical transformation" of the socio-economic essence of that society and its seeming conversion into a particular brand of "industrial" society. In addition, this strand may be said to include the theories of "industrial", "postindustrial", "superindustrial", "programmed", "technetronic", "postcivilised", etc., societies. The gnosology on which such theories are based in a certain respect differs from the commodity fetishism common to vulgar bourgeois economics, which results in a more profound degree of vulgarisation of these "transformation of capitalism" theories. While the commodity fetishism categories are based on a description of material elements of the productive forces in their role as external forms of manifestation of capitalist relations of production (so, means of production, being one of the material forms of capital, are depicted as sources of capitalist profit), what is typical of the "industrial" society theory is an attempt to deduce an explanation of various types of socio-economic phenomena, primarily of the socio-economic nature of society, directly

from general traits of contemporary large-scale industrial production as such, from features of contemporary means of production, which they acquire through scientific and technological revolution, without any relation to the prevailing system of capitalism's relations of production. While commodity fetishism categories rest on a description of phenomena of the socio-economic aspect of society's productive forces, the "industrial" society categories rest on their technical-economic aspect. Technological determinism typical of "transformation of capitalism" theories is augmented by vulgar sociologisation—an attempt to replace analysis of the system of socio-production relations of capitalism by a vulgar-apologist description of socio-organisational forms of contemporary large-scale production generally, which are presented as the socio-economic essence of a particular variety of "industrial" society.

The second current of "transformation of capitalism" theories deals with the "new society", something that is supposed to be emerging in the course of the seeming "transformation" of capitalism, as a "socialist" rather than a "non-capitalist" society. It includes theories of "democratic socialism" and "municipal socialism" put about by right-wing socialists, as well as theories of "new socialism", "pension-fund socialism", and suchlike, bandied about by bourgeois economists. Proponents of these forms of the "transformation of capitalism" theories portray processes that testify only to the maturation of objective conditions for socialism as processes concerning the emergence and development of

socialism as such. They depict partial manifestations of capitalist socialisation, including the various forms of nationalisation and sometimes generally the various changes in forms of manifestation of capitalist relations of production, in the role of a socialist transformation of society. The bourgeois class character of these notions is patently obvious in the attempt by their adherents to divorce socialism from the worker and national liberation movements—those very forces which are in fact capable of eliminating the system of capitalist exploitation and building a real socialist society; the bourgeois class character is apparent, too, in the attempt that goes against the clearly-expressed historical experience of the revolutionary struggle of the working class for constructing real socialism in the twentieth century, to conjure up a socialism that is supposed to be the result of evolutionary changes in bourgeois society, but which are in fact designed to bolster the economic and political supremacy of monopoly capital and the capitalist system as a whole. Thus, Galbraith's "new socialism", which has already made its entry in the USA, or so he believes, although in an extremely unsatisfactory form, goes no further than those or other forms of socialisation of house building, farming, war industry firms, transport, health, communal services, the arts, etc., which are being tackled by the bourgeois state for shoring up finance capital groups which dominate politics and the economy. "Pension-fund socialism" which is advocated by the prominent American economist P. F. Drucker, is nothing more than

an unjustified attempt to depict the mounting role of pension funds for financing capital investment (in this sphere pension funds in the USA now occupy second place after undistributed corporation profits) as evidence of the conversion of the US economic system into a variant of "decentralised market socialism". In fact, the development of pension funds in the USA, formed from contributions mainly of workers, has led to their conversion into a specific form of loan capital, having become a source of capital formation, all the benefits of which are enjoyed by monopoly finance capital.

"Transformation of capitalism" notions are a striking expression of the pseudo-historicism of contemporary bourgeois political economy. At the third stage of capitalism's general crisis, bourgeois political economy cannot in fact defend the eternal nature of the capitalist system without recognising verbally its historically transient character. The "transformation of capitalism" theories admit the historical necessity of changing all the elements of the social structure of present-day capitalism—the productive forces being affected by the current scientific and technological revolution, the specific-economic and managerial forms of their organisation, the concrete forms of expression of capitalism's relations of production, its legislative institutions, forms of morality, etc.—save the holy of holies of bourgeois society: the supreme status of private and state-monopoly capital within the economy and politics of bourgeois society.

Politically, the "transformation of capitalism"

theories are aimed at preventing the development of a revolutionary awareness among the working people in capitalist countries, preventing the activation of their struggle against the capitalist system of exploitation and for a real revolutionary transformation of the capitalist system into a socialist mode of production. They therefore propagate the false thesis of some spontaneous "transformation" of capitalism that has taken place or is at present underway into some kind of "non-capitalist" system, thereby making outmoded the organised, mass revolutionary struggle for overthrowing the domination of capital and for building a socialist society.

2. ROSTOW'S THEORY OF "STAGES OF ECONOMIC GROWTH"

The distinguishing features of Rostow's theory, what makes it different from functional macro-economic investigations of other bourgeois economists, are that it is not meant to study real quantitative relationships of capitalist reproduction and is therefore unable to serve as a theoretical basis, even in a limited degree, for the economic policy of state-monopoly capitalism. His work focuses on the problems concerning the economic essence of contemporary capitalism and currents within contemporary socio-economic development to which he gives a primitive-apologist interpretation. This means that the objective subject of study is historical aspects of capitalism's economic laws. Of course, we will

not find in Rostow such a definition of the object of his "stages of growth" theory. Being concerned with the history of the capitalist economy and especially with the problems of contemporary capitalism, Rostow actually does not recognise the capitalist essence of present-day bourgeois society, treating it as a "consumer" society.¹

In his theory of "stages of economic growth" Rostow turns to the theme, dangerous for bourgeois economics, of the historical social process, the history of the social economics, a theme which bourgeois economists have long preferred to avoid. At the very outset of his work, Rostow underlines that his theory is attuned to the present and the future of society. He states that he is creating a "general theory of the whole of modern history", that this theory is to answer the question of where this growth is taking us.² What is more, he emphasises strongly the anti-Marxist orientation of his theory, whose conclusions, he writes, "constitute an alternative to Karl Marx's theory of modern history".³

Rostow singles out the following five stages of "economic growth" which, he believes, embrace the whole of the economic history of humanity: (1) traditional society, (2) transitional society, (3) take-off stage, (4) rapid mature stage, (5) the age of high mass consumption.

¹ "Capitalism ... is an inadequate analytic basis to account for the performance of Western societies" (W. W. Rostow, *The Stages of Economic Growth*, Cambridge University Press, 1960, p. 150).

² *Ibid.*, p. 2.

³ *Ibid.*

A study of Rostow's position brings us to the conclusion that behind this historical scheme of things are signs referring primarily only to one of two objectively-necessary aspects of the mode of production—to society's productive forces.

In fact, "traditional society", to which he actually refers the three modes of production preceding capitalism and the early stages of capitalism's development, is described as a society in which there is an absence or lack of systematic use of contemporary science and technology, the level of production is low, the economy bears an agricultural stamp and simple reproduction ("economic growth" is absent) is typical. The character of social relations of production, their content and differences at various stages of "traditional society" are not considered. What Rostow writes about the social structure of traditional society provides no idea of a system of production relations of primitive-communal, slave-owning and feudal modes of production. They simply do not exist as far as he is concerned. In describing the historical framework of "traditional society", he writes, "In terms of history then, with the phrase 'traditional society' we are grouping the whole pre-Newtonian world: the dynasties in China; the civilisation of the Middle East and the Mediterranean; the world of Medieval Europe. And to them we add the post-Newtonian societies, which, for a time, remained untouched or unmoved by man's new capability...."¹

¹ *Ibid.*, p. 5.

Rostow's second stage, "transitional society", appears first in Western Europe at the end of the 17th and beginning of the 18th centuries. It has the following features: the penetration of scientific discoveries into production, expansion of national and world markets, accumulation of capital, the coming forward of a "new type of enterprising men", political shifts, the creation of a sole national power, etc. But "all this activity proceeds at a limited pace within an economy and a society still mainly characterised by traditional low-productivity methods..."¹

So we see that even when describing "transitional society" Rostow ignores all those criteria which come from the dominant system of relations of production of a particular mode of production. This means he turns a blind eye to the decisive qualitative, socio-economic differences between historical phases of social production. He also gives no definite qualitative criteria for making "transitional society" a special stage of "economic growth" from the standpoint of level of the productive forces.

The third stage, that of the take-off, which applies to Britain, Rostow maintains, in the late 18th-early 19th centuries is typical for being a society in which growth becomes a normal phenomenon, the technological level of industry and agriculture sharply climbs, capital of a general economic designation takes shape (transport, communications, roads, etc.), the

¹ *Ibid.*, pp. 6-7.

number of factories grow, as do towns and a new entrepreneurial class, etc.

In fact, Rostow here confines himself to external description of the industrial revolution taking place in the late 18th-early 19th centuries. But its description lacks any definite character; he does not even refer to the fact that the content of that revolution had been transition from manufacturing production based on handicraft techniques to factory production based on machine techniques.

At the end of the 19th century Western Europe, Rostow thinks, goes through the fourth stage of growth—the stage of rapid maturity. He also views this stage only on the basis of using criteria characterising the level of development of productive forces, yet almost wholly abstracting himself from the essence of relations of production. This fourth stage is said to have the following traits: a country's economy becomes part of the world economy; some 10-20 per cent of the national income is invested, permitting output regularly to outstrip the increase in population; there may be a shift in focus from the coal, iron and heavy engineering industries to machine-tools, chemicals and electrical equipment; this is the stage in which an economy demonstrates that it has the skills to produce anything that it chooses to produce.¹

His fifth stage is the "age of high mass consumption".

He tries to portray the economy of contempo-

¹ *Ibid.*, pp. 9-10.

rary capitalism both in structure and in objectives as fully subordinate to the tasks of personal consumption. In his conception there is no drive for maximum profit, no growth of concentration of production and capital, no domination of capitalist monopolies, or exploitation of the working class. Contemporary capitalism is said to be identical with "the age of high mass consumption". Generally speaking, he says, the major interests of society in its drive to maturity and beyond shift from production problems to those of consumption and welfare. So it is revolution in consumption that, he believes, distinguishes this stage in the development of society from those before. What is typical of it, he says, is a high level of personal consumption and a substantial change in its structure towards growth of the proportion of durable consumers' goods, including household equipment and, above all, automobiles. He writes that "the leading sectors shift towards durable consumers' goods and services... The decisive element has been the cheap mass automobile."¹ Other characteristic features of this stage include the moving to single-family houses in the suburbs, a sharp rise in birth rate, consumption of high quality tinned and bottled produce, establishment of a system of

¹ *Ibid.*, pp. 10-11. Insistence on the sectors principle in classifying the historical process is typical of Rostow in his *Politics and the Stages of Growth*, published in 1974, where he writes of "the service sub-sectors ... associated with the stage of high mass consumption" (*Politics and the Stages of Growth*, Cambridge University Press, 1974. p. 231).

social insurance—the type of social policy that coined the name “the welfare state”.

As a result of these changes, says Rostow, a “new middle class” appears (specialists, technologists, skilled and semi-skilled workers) which aspires to share in the fruits of this “mature economy”.

The picture of the “consumption stages” outlined by Rostow in accordance with the general methodology of stages of economic growth is completely abstracted even from a description of capitalist relations of production, and therefore completely traduces the paramount features inherent in the economy of contemporary capitalism.

An analysis of Rostow's theory shows that we are dealing with a bourgeois apologist conception close in its methods of defending capitalism to the German historical school of the mid-19th century. Typical of Rostow's theory, as of the historical school, is an attempt to obscure theoretical political economy by a vulgar-apologist description of the specific process of economic evolution. Like the “historicists”, Rostow relies on an abstract historical scheme (five stages) whose aim is to portray more graphically not only the uniformity of stages of modernisation of the economy, but to a no lesser extent the peculiarity of experience of each nation. The “historicists”, too, advocated the thesis of a national character of political economy.

The major purpose of Rostow's historical scheme is to reject the objective inevitability of replacing capitalism by socialism, the inevit-

ability of socialist revolution. Like the "historicists", he tries to justify the false thesis of the eternal nature of capitalism by "historical arguments".

For that reason Rostow's scheme is distinguished by the following three characteristics.

First, it is constructed so that the presentation of economic development excludes the very possibility of posing the question of transition from one formation to another, of the revolutionary character of that transition. Indeed, within the framework of the first stage—"traditional society"—Rostow actually includes the three pre-capitalist modes of production and the first stages of capitalist development. As regards the remaining four stages of Rostow's scheme, they all apply to a single, namely the capitalist, mode of production, within the bounds of which, of course, there is no problem of transition from one formation to another. Rostow's very periodisation of economic development is meant to remove the problem, so unpleasant for the contemporary bourgeoisie, of inevitability of social revolution. Rostow falsifies the historical process because a scientific analysis of this process flies in the face of the essential interests of the bourgeoisie.

Second, Rostow's conception is built, as we have seen, on an abstraction from socio-production relations as a whole as an important factor of the historical process and one of the deciding elements of social structure. Therefore his historical scheme bypasses those collisions, conflicts, class battles which have shaken humanity through-

out its history, especially in periods of sharp lack of conformity of the system of relations of production to the character of productive forces of society.

Economic history, in Rostow's view, is merely a constant process in which humanity increasingly masters the forces of nature, and this uninterrupted process is interpreted as its only law-governed pattern. This approach, in turn, also enables Rostow to avoid posing any question of the objective inevitability of social revolution as a form and means of transition from one mode of production to another, to gloss over the inevitability of a socialist revolution. A prevailing superficial description of the history of productive forces, while ignoring the system of society's relations of production, is another example of the way Rostow falsifies the socio-historical process determined by the class interests of the bourgeoisie.

The third feature of Rostow's conception is that it is intended to preclude any comprehension of the inevitability and scope of growth of socialisation of capitalist production, which is a decisive objective prerequisite for socialism.

Rostow does not deny the very fact of the existence of the capitalist economic system, although he does not recognise capitalism as a law-governed stage of social development replacing feudalism and preceding socialism. Above all he fights for changes in signs. What follows "traditional society" (as he calls all the modes of production preceding capitalism) is, he thinks, not capitalism but several "stages of growth".

Capitalism is thus erased from history and, along with it, all the objective economic conditions for socialist revolution that it engenders. But if one were to take a closer look at the "post-traditional" stages one would see that they are all the capitalist economic system.

Rostow tries to prove that even if these stages are similar to the capitalist system, at any rate society's economy does not play any essential role in determining people's behaviour. There are no economic prerequisites for socialist revolution, he asserts, if only because the economy is only a partial aspect of social life: "the central phenomenon of the world of post-traditional societies is not the economy—and whether it is capitalist or not—it is the total procedure by which choices are made."¹ He needs this proposition to reject the objective progress of human history, and above all the inevitable transition from capitalism to socialism. In fact he does write that this proposition "does not lead to a series of rigid, inevitable stages of history. It leads to patterns of choice made within the framework permitted by the changing setting of society."² It turns out that people can of their own volition choose a particular system of social relations of production independent of the objective laws of social development. The need to defend what has long outlived its age, to defend capitalism, obliges Rostow to reject a scientific approach to socio-economic processes.

¹ *Ibid.*, p. 150.

² *Ibid.*, p. 149.

However, even his assertion that the economy plays no essential role in social processes seems to him insufficient for refuting the Marxist-Leninist theory of objective prerequisites for socialism. Within those narrow limits which he grants the economy, it actually "behaves", he says, quite differently than Marx and Lenin supposed. Here Rostow distorts both the Marxist theory of objective preconditions for socialist revolution and the development of that theory by Lenin as applied to the imperialist epoch. This is how he explains it: "Capitalist industrial societies, Marx predicted, create the conditions for their destruction because of two inherent characteristics: because they created a mainly unskilled working force, to which they continued to allocate only a minimum survival real wage; and because the pursuit of profit would lead to a progressive enlargement of industrial capacity, leading to a competitive struggle for markets...."¹

Rostow here presents an extremely simplistic view of the capitalism-engendered conflict between productive forces and relations of production, reducing it only to the physical poverty of the workers and exacerbation of the problem of markets, thus ascribing to Marx his own primitive understanding of the question. The fundamental contradiction of capitalism inherent in the system at all stages of its development and having a marked tendency to worsen, is replaced only by a few of its external manifestations of an

¹ W. W. Rostow, *The Stages of Economic Growth*, p. 146.

often transient nature. Thus, one of the major economic preconditions for socialism—growth in socialisation of production—is removed.

From Rostow's approach, it appears that the more skilled workers become, the higher their real wages and the less acute the battle for markets, the objective conditions for socialist revolution disappear. We know that with the development and growing complexity of production, especially in the era of the scientific and technological revolution, the average skill of labour power does grow, and in certain periods (under the pressure of the strike movement) real wages increase as well. But can we say that these processes eliminate "conditions for destroying" the capitalist mode of production?

The entire history of recent times provides a resounding "no" to that question. Even in the 1890s Lenin had indicated the action of the law of enhanced requirements, in fact that "the development of capitalism inevitably entails a rising level of requirements for the entire population, including the industrial proletariat". Exposing the mechanism of the law's action and its manifestation in different countries, he wrote further, "This same law operates in Russia, too: the rapid development of commodity economy and capitalism in the post-Reform epoch has caused a rise in the level of requirements of the peasantry, too: the peasants have begun to live a cleaner life (as regards clothing, housing and so forth)."¹ But these changes could not stop

¹ V. I. Lenin, *Collected Works*, Vol. 1, "On the So-Called Market Question", pp. 106, 107.

the revolutionary process, for within Russia there arose extremely acute social contradictions which were eventually resolved in the socialist revolution.

Rostow does not see that the rising living standards which workers manage to attain in stubborn battle with the bourgeoisie usually lag considerably behind the mounting requirements and act ultimately not as a factor mitigating the class contradictions, but as a factor that exacerbates them.

He essentially resurrects the old, historically rejected notion of socialism as a phenomenon inherent only in weakly-developed countries at a certain stage of their development. In his view, communism is a particular method of modernising the economy that is at the "transitional society" stage and only prepares "preconditions" for a "take-off".¹ From this point of view he sees the lack of development of capitalism as one of the determining preconditions for a transition to socialism.

Thus, socialist revolution, he believes, is possible only in those countries in which the transition of industry to the stage of machine production has not yet taken place. He sees the "historical place of communism" in that "societies in the transition from traditional to modern status are peculiarly vulnerable to such a seizure of power".² Socialist revolution, then, is only a possible, and

¹ W. W. Rostow, *The Stages of Economic Growth*, pp. 163-64.

² *Ibid.*, pp. 162-63.

definitely not an objectively inevitable process, and even then only for a short historical stage of "transitional society".

In his subsequent book, *Politics and the Stages of Growth*, he is actually forced to admit that his earlier scheme did not correspond to the real historical process. He talked of the Soviet Union where the Communists "had the advantage of coming to power after the economy had moved beyond take-off".¹

His main thesis, that developed societies which had overstepped the take-off stage were incompatible with communism, is involuntarily rejected by Rostow himself. Communism, he nonetheless continues to maintain, is not an objective stage in human development following capitalism; it is a specific product of a weakly-developed economy of transitional society. Here he refers to the circumstance that socialism initially triumphed in countries with an average and even low level of capitalist development, and not in the most developed capitalist countries, while Marxism-Leninism maintains that the most important material basis for socialist revolution is contradiction between the social character of productive forces (presupposing a high level of their development) and private capitalist appropriation.

It is on this seeming lack of coincidence of theory and practice that bourgeois propaganda, including Rostow's theory, is built. Ideologists

¹ W. W. Rostow, *Politics and the Stages of Growth*, p. 289.

of anti-Communism affirm that Marxist-Leninist ideas about the objective preconditions for socialist revolution are wrong, and revolutions that have triumphed in countries with an average and low level of capitalist development are the result of utterly different causes, that what Marxism-Leninism has to say about the conditions of maturation and the causes of socialist revolutions do not apply to highly-developed capitalist countries. Rostow writes, "the direction of Communist expansion (by which he means transfer of the centre of the revolutionary movement of the proletariat from West European countries to countries at a lower level of capitalist development, including Russia—*Vl. A.*) was turned away from the advanced countries to the underdeveloped areas, following Lenin's prescription and, indeed, his practice. In effect, Marx's judgement about the sequence of history, and the inevitable passage of mature capitalist societies to Socialism, was abandoned in favour of the Leninist formula".¹

Rostow treats Marxist-Leninist ideas on the objective preconditions of socialism as some primitive scheme establishing a direct relationship between level of development of a country's productive forces and the degree of its readiness for socialist revolution. In conformity with this scheme, which opportunist leaders of the Second International had actually adopted, socialist revolutions could triumph only in highly-

¹ W. W. Rostow, *The Stages of Economic Growth*, p. 160.

developed capitalist countries. Its opportunist orientation was manifest in that it precluded most countries of the capitalist world and their populations from the number of active fighters for socialism.

With the formation of the world capitalist economy, functioning as a more or less integral, uniform mechanism, the question of economic preconditions for socialist revolution cannot be seen only from the point of view of contradictions between productive forces and the relations of production of individual countries. During this period economic prerequisites for socialist revolution are ensconced above all in contradictions between world productive forces and world relations of production, whose specific manifestation is national contradictions between these two aspects of the mode of production in a particular country. Socialist revolutions are taking place precisely where the contradictions of the world capitalist economy are particularly acute.

Towards the end of the 19th century, capitalism's productive forces had reached a very high level. But their development had taken place in an antagonistic social form inherent in capitalism. It was precisely the capitalist relations of production that were leading to a situation where the world capitalist economy was taking shape as a system of two groups of countries (advanced imperialist and weakly-developed colonies and semi-colonies). A large majority of countries in the capitalist world in this situation were destined to come under imperialist exploitation. Hence the inevitability of their economic backwardness

in relation to imperialist states, which in turn was a cause also of the political dependence of the under-developed countries on the imperialist powers. This is the reason why a large group of states within capitalist society cannot ensure any integral development of their economy and enjoy the fruits of that development themselves without breaking out of the vice of the world capitalist system. So it is not fortuitous that each state in which a socialist revolution has triumphed should see its prime task in all-round economic take-off, which for most of the countries was precluded within the framework of the world capitalist economy.

Relations of the world capitalist economy, reflecting a relatively high level of capitalist production, were like an insurmountable (within the bounds of capitalism) obstacle to further development of productive forces in the part of the world represented by the exploited and dependent countries. The antagonistic nature of the world capitalist economy was apparent here in that it made it possible for some economic progress only for the dominant imperialist countries, which in turn were unable to see the potential resources of society in any complete way.

Thus, the economic relations of the world capitalist economy clash with the requirements of development of world productive forces, which is most acutely obvious in countries with a low level of development of productive forces, where their growth is held back particularly vigorously. The people of these countries are, moreover, subject to double exploitation, internal and external.

And the fact that the world socialist revolution occurred for the first time in countries with an average level of development of productive forces testifies to the fact that behind the contemporary world revolutionary process lie primarily contradictions in the world capitalist economy, between world productive forces and world capitalist relations of production which no longer correspond to them. The triumph of socialist revolutions predominantly in countries with a low level of capitalist development is the best proof that capitalism as a whole has matured as a mode of production for socialist transformation.

The question of contradiction between productive forces and relations of production is one of their relative contradictions. The fact that the development of productive forces in a given capitalist country is higher than in another by no means implies that in the first country the contradictions between the two aspects of the mode of production are also bound to be greater than in the second, where both the productive forces and the capitalist relations of production may be considerably less advanced, and therefore the conflict between the productive forces and relations of production will be more acute.

The relative nature of the contradiction between productive forces and relations of production may be seen clearly from comparing the two bourgeois revolutions that took place in different epochs: the English bourgeois revolution of the 17th century and the bourgeois-democratic revolution in Russia in the early 20th century. The very fact of the English revolution speaks of a suffi-

ciently high degree of antagonism inherent in the country's economy of the time. However, the level of development of the country's productive forces, which had come into conflict with feudal relations, was relatively low. Small commodity manufacturing based on artisan techniques was the predominant form of production. Only after more than a century did Britain experience an epoch of industrial revolution. The bourgeois-democratic revolution in Russia, which is separated from the English revolution by about two and a half centuries, took place in essentially different conditions. The level of development of productive forces in Russia at the beginning of the 20th century was immeasurably higher than that of England in the 17th century. Suffice it to say that the bourgeois-democratic revolution broke after an industrial revolution had occurred in Russia. This means that the degree of lag in relations of production behind the level of productive forces in Russia by that time was incomparably greater than that at the corresponding period in England. Therefore, the socio-economic changes that were engendered by the socialist rather than the bourgeois-democratic revolution were much more profound.

It is typical in this connection that in all states in which socialism has triumphed (with the exception of the GDR and CSSR), not only the level of productive forces was relatively low; even less developed were the capitalist relations of production by contrast with the leading imperialist powers. All these countries had to eradicate semi-feudal and sometimes even feudal relations

whose presence testified also to the low level of development of capitalism's relations of production in those countries. Here is the basis of the particularly acute antagonism between the two aspects of the mode of production precisely in these countries.

In September 1917 Lenin wrote, "Owing to a number of historical causes—the greater backwardness of Russia, the unusual hardships brought upon her by the war, the utter rottenness of tsarism and the extreme tenacity of the traditions of 1905—the revolution broke out in Russia earlier than in other countries."¹

In describing the reasons for the triumph of socialist revolution in Russia, Lenin said, "We ... bear in mind that the vanguard role of the Russian proletariat in the world working-class movement is not due to the economic development of the country. On the contrary, it is the backwardness of Russia, the inability of what is called our native bourgeoisie to cope with enormous problems connected with the war and its cessation that have led the proletariat to seize political power and establish its own class dictatorship."²

Thus, the reasons leading to the triumph of socialist revolutions in capitalist countries with a relatively low level of development of productive forces may be reduced to the following:

¹ V. I. Lenin, *Collected Works*, Vol. 25, "The Impending Catastrophe and How to Combat It", p. 364.

² V. I. Lenin, *Collected Works*, Vol. 27, "Report Delivered at a Moscow Gubernia Conference of Factory Committees", p. 545.

1. a double exploitation of the working people in these countries (by internal exploiters and the bourgeoisie of imperialist countries);

2. the impossibility of eliminating backwardness within the bounds of the world capitalist economy and, moreover, the growing backwardness as a result of the continuing exploitation of these countries by imperialism and widening of the gap in economic development of the two groups of countries in the world capitalist economy;

3. a rather greater exacerbation of contradictions between productive forces and relations of production in these countries since they retain pre-capitalist, semi-feudal and sometimes even feudal relations right up to socialist revolution;

4. relative weakness of the ruling classes in those capitalist countries economically, politically, organisationally and otherwise. At the same time, in the most advanced imperialist countries where economic preconditions for socialism had matured to the greatest extent, it is harder to begin revolution than in the dependencies and countries exploited by imperialism, since here "the working class is in a state of cultural slavery".¹

Speaking at the Second All-Russia Congress of Communist Organisations of the Peoples of the East held on 22 November 1919, Lenin said that after the triumph of the proletarian revolution in Russia the bourgeoisie took several measures

¹ V. I. Lenin, *Collected Works*, Vol. 27, "Fourth Conference of Trade Unions and Factory Committees of Moscow", p. 464.

complicating the development of world revolution. It forcibly armed itself against the proletariat in their countries. At the same time, it was joined by right-wing socialists propagating class peace. Therefore, the future socialist revolution would unite the civil wars of workers of the advanced countries against the bourgeoisie with the struggle of imperialism-oppressed nations. "Hence," he said, "the socialist revolution will not be solely, or chiefly, a struggle of the revolutionary proletarians in each country against their bourgeoisie,—no, it will be a struggle of all the imperialist-oppressed colonies and countries, of all dependent countries, against international imperialism ... the civil war of the working people against the imperialists and exploiters in all the advanced countries is beginning to be combined with national wars against international imperialism. That is confirmed by the course of the revolution, and will be more and more confirmed as time goes on."¹ So we see that even at that time the operation of the law by which the world socialist revolution at its first stage will develop mainly in the imperialism-exploited countries, which certainly does not preclude its victory also in the advanced capitalist countries. This found expression, for example, in the revolutionary events of Germany in 1918-1919.

In his speech at the opening of the April Party Conference in 1917, Lenin said, "In the nineteenth century Marx and Engels, following the

¹ V. I. Lenin, *Collected Works*, Vol. 30, "Address to the Second All-Russia Congress of Communist Organizations of the Peoples of the East", p. 159.

proletarian movements in various countries and analysing the possible prospects for a social revolution, repeatedly stated that the roles would, in general, be distributed among these countries in proportion to, and in accordance with, their historically conditioned national features. They expressed their idea briefly as: The French worker will begin, the German will finish it."¹ Consequently, Marx and Engels had differentiated the role played by different countries in the revolutionary process with account for the peculiarities of historical development of each of them.

After the October Revolution, Lenin developed this thought in explaining, "Today we see a different combination of international socialist forces. We say that it is easier for the movement to start in the countries that are not among those exploiting countries which have opportunities for easy plunder and are able to bribe the upper section of their workers.... Things have turned out differently from what Marx and Engels expected and we, the Russian working and exploited classes, have the honour of being the vanguard of the international socialist revolution; we can now see clearly how far the development of the revolution will go. The Russian began it—the German, the Frenchman and the Englishman will finish it, and socialism will be victorious."²

¹ V. I. Lenin, *Collected Works*, Vol. 24, "Speech Delivered at the Opening of the Conference, April 24, 1917", p. 227.

² V. I. Lenin, *Collected Works*, Vol. 26, "Third All-Russia Congress of Soviets of Workers', Soldiers' and Peasants' Deputies", p. 472.

The course of world socialist revolution confirms the decisive truth of Marxism-Leninism on the inevitable collapse of the capitalist mode of production and its replacement by a socialist system, on the conflict between the two aspects of the capitalist mode of production as the objective basis of socialist revolution. It shows that the revolutionary process depends on a complex nexus of causes, and that preconditions for socialist revolution cannot be reduced only to the level of national productive forces.

Rostow is particularly energetic in opposing any recognition of direct manifestation of growth in socialisation of capitalist production. He maintains, for example, that capitalism does not show a tendency to increase concentration of production and capital, and therefore shows no tendency either to the establishment of the supremacy of monopolies in the economy. Here Rostow relies particularly on denying the growth of concentration of production and domination of monopolies in the USA. But his arguments contradict the entire course of history, they are even flatly contradicted by bourgeois statistics. Thus, while in 1909 US manufacturing firms with an annual output of over a million dollars comprised only 1.1 per cent of the total number of manufacturing concerns, they accounted for 30.5 per cent of all employees and 43.8 per cent of output; in 1937, however, they employed 57.9 per cent of the work force and produced 70.4 per cent of the output.¹ Concentration of production reached

¹ Data based on *Statistical Abstract of the United States 1940*, Washington, 1941, p. 803.

even greater proportions after the last war. In 1960, just 500 of the biggest US industrial corporations, comprising only 0.3 per cent of their total number, employed 54 per cent of the industrial work force and accounted for 57 per cent of the sales of all industrials.¹ By 1967 these figures had grown to 67.9 per cent, and 66.9 per cent respectively, while the volume of sales of only the ten largest industrial corporations was worth the astonishing sum of \$82,169 million. Only those who would not see can claim that this gigantic concentration of production is unconnected with the domination of monopolies in the capitalist economy.

How does Rostow picture future society and the direction of contemporary socio-economic development? Let us note that this problem is a central point of the ideological battle between the bourgeoisie and working class, the latter seeing the future of humanity on the road to socialism and communism.

It turns out that the "stages of growth method" equally has nothing to offer for an understanding of this problem. As Rostow confesses, "*Beyond consumption* ... it is impossible to predict."² All one can do is guess. Rostow's principal conclusion on this problem boils down to the idea that communism "is not the only alternative. There are babies and boredom, the development of new inner human frontiers, outer space and trivial pleasures—or, maybe destruction, if

¹ *Fortune*, July 1961, Vol. LXIV, No. 1, p. 167.

² W. W. Rostow, *The Stages of Economic Growth*, p. 11.

the devil makes work for idle hands."¹

There might be communism, or there might be babies and even boredom—that seems to be the answer according to the “stages of growth method” which the bourgeois economist Rostow provides. Does this not clearly show the bankruptcy of contemporary bourgeois political economy?

Nor does Rostow's book devoted to problems of “politics and stages of growth” throw any light on the matter. He is forced to admit that the “age of high mass consumption” has not brought satisfaction to the mass consumer, actually the working people. The rapid growth in consumer prices, unemployment, low rate of economic growth, worsening pollution, the increasing problem of large cities, growth of crime and other phenomena have become characteristic features of the “stage of high mass consumption”. It is for this reason that national minorities, above all Blacks, the poor and youth have begun to fight against the institutions of the “consumer society”.²

All these circumstances have actually provoked Rostow to wonder about the transition of American society to a new sixth stage which he calls that of “the politics of the search for quality”³ of life. The branch principle similarly lies behind this particular stage of growth. Its characteristic features are said to consist in changing the structure of the services sphere: a slow-down in

¹ *Ibid.*, p. 156.

² W. W. Rostow, *Politics and the Stages of Growth*, pp. 239, 248.

³ *Ibid.*, p. 230.

growth of that part which serves the "automobile-durable consumers' goods" complex, and extension of services in medicine, leisure, religion, tourism, etc. Thus, Rostow is no longer putting forward changes in the branch structure of the economy, but intra-branch changes as his periodisation criterion.

Rostow's theory vividly demonstrates the extreme limitedness of cognitive possibilities of those currents in contemporary bourgeois political economy which adhere to the most reactionary class positions, and expose most overtly anti-communism.

However, the relatively progressive positions taken up by certain bourgeois economists, although they somewhat extend the cognitive possibilities of economic analysis certainly do not remove those limitations on the process of cognition which emanate from the class interests of the bourgeoisie. A striking example of this is the "industrial society" theory of the American bourgeois economist John Kenneth Galbraith.

3. GALBRAITH'S "INDUSTRIAL SOCIETY" THEORY

In his theory Galbraith provides a picture of the economy of contemporary capitalism that differs substantially from that conjured up by Rostow in his "stages of economic growth" theory. Suffice it to say that Galbraith recognises the decisive fact that what is typical of present-day Western society is the domination of large corpo-

rations which actually occupy a monopoly position.¹

In his approach to contemporary capitalism as a "new industrial society", he regards its main component as being the so-called industrial system, by which he means "the part of economy which is characterised by the large corporations".² This is the first decisive feature of the "industrial society".

What exactly is this mature corporation that constitutes the basis of an industrial system? According to Galbraith it is a large business enterprise occupying strong positions, virtually dominating, in a particular economic sphere. A large corporation is interpreted as an oligopoly that is an "imperfect" monopoly. Galbraith sees a corporation as a direct offspring of modern technology, of present-day large-scale production, as such, irrespective of its socio-economic essence. The mature corporation concept is a vivid expression of production fetishism generally typical of Galbraith's method.

He shows that the "industrial society" has a typical routine tendency to boost the economic positions of the large corporations. "Seventy years ago the corporation was still confined to those industries—railroading, steamboating, steel-making, petroleum recovery and refining, some mining where, it seemed, production had to be on a large scale. Now it also sells groceries,

¹ J. K. Galbraith, *The New Industrial State*, Boston, 1967, p. 60.

² *Ibid.*, p. 21.

mills grain, publishes newspapers and provides public entertainment, all activities that were once the province of the individual proprietor or the insignificant firm."¹

Large corporations not only extend the sphere of their activity, they actually dominate the economy taken as a whole. "The five hundred largest corporations produce close to half of all the goods and services that are available annually in the United States."²

Galbraith cites statistics testifying to the extension of the dominating positions of the large corporations to the sphere of scientific and technological progress. In 1960, 384 firms with 5,000 employees or more accounted for an estimated 85 per cent of all industrial research-and-development expenditure. Firms employing fewer than 1,000 people, though numbering 260,000, accounted for only 7 per cent of such expenditure.³

The picture of omnipotence of the large corporations painted by Galbraith is very striking. They hold sway not only in the sphere of production, they also monopolise the market. Corporations determine not only what is to be produced, they decide at what price output is to be sold and raw materials and labour power are to be purchased. According to Galbraith, "size allows General Motors as a seller to set prices for automobiles, diesels, trucks, refrigerators and the rest of its offering and be secure

¹ *Ibid.*, pp. 13-14.

² *Ibid.*, p. 14.

³ *Ibid.*, p. 43.

in the knowledge that no individual buyer, by withdrawing its custom, can force a change."¹ And he goes on to say that "along with prices and costs, consumer demand becomes subject to management."² The consumer must adapt himself to the needs of the producer, says Galbraith. The corporations do all they can to affect consumer habits and tastes so as to impose their goods upon them. Galbraith's ideas on the domination of corporations over consumers tear to shreds the apologist notion of consumer sovereignty.

The processes of capital accumulation and capital investment also become objects of control by the corporations. "The decisions on what will be saved are made in the main by a few hundred large corporations. The decisions as to what will be invested are made by a similar number of large firms...."³

The impact which the large corporations have on all aspects of society's economic life is becoming so all-embracing that it is actually equivalent to undivided sway over it. "I am led to the conclusion ... that we are becoming the servants in thought, as in action, of the machine we have created to serve us."⁴ That is how Galbraith sums up his description of the first important trait of the industrial society economy.

Galbraith's second typical economic feature of the new industrial society is the considerable take-off in state economic activity. He notes

¹ *Ibid.*, pp. 40-41.

² *Ibid.*, p. 17.

³ *Ibid.*, p. 53.

⁴ *Ibid.*, p. 19.

that while in 1929 the services of Federal, state and local governments accounted for about eight per cent of all economic activity, during the 1960s it had increased to between a fifth and a quarter.¹ The economic functions of the state have become very varied. It regulates the total income, prices, wages, trying to ensure the realisation of all output produced in the country, and affects the volume of employment; the state is used "to provide the balance between savings and their use that the industrial system cannot provide for itself".²

Many of Galbraith's thoughts have a ring of truth about them when describing contemporary state-monopoly capitalism. Thus, he quite rightly underlines the militarist orientation of state control of the capitalist economy. He writes, "a very large part (between one-third and one-half) of public activity is concerned with national defence and the exploration of space."³

Typically, he tries to explain away the increase in economic functions of the bourgeois state not in the growth of scope of capitalist socialisation of production and of its contradictions, but in the requirements of modern technology as such. "Modern technology thus defines a growing function of the modern state,"⁴ he writes.

The third characteristic feature of the industrial society economy is said to be its planned nature.

¹ *Ibid.*, p. 14.

² *Ibid.*, p. 54.

³ *Ibid.*, p. 14.

⁴ *Ibid.*, p. 17.

Galbraith draws a distinction between two types of corporation—the entrepreneurial and the mature, which he sees as being of overriding importance. While the former which was typical of old capitalism was in the grip of market forces and was governed by motives of maximising capitalist profit, the modern mature corporation, in Galbraith's view, has subordinated the market mechanism to its own ends which have nothing in common with capitalist profit. As distinct from the entrepreneurial corporation which sold its goods for prices spontaneously formed in the market, the mature corporation, he thinks, establishes prices itself, trying not to increase its own profits but to ensure its own autonomy, attain certain social objectives, etc. A mature corporation, therefore, eliminates competition and, at the same time, the competitive forces of market relations. What is more, it tries to eliminate the market as such and ensure planned economic behaviour.

Thus, the two types of corporation, according to Galbraith, signify two different stages in the development of Western society, its transition from capitalism to industrialism, which, he says, lost the features of a capitalist economy.

Stressing that big corporations adapt to their needs a system of consumer values and attitudes, that it is precisely the corporations that determine what has to be produced, he writes, "We have an economic system which ... is in substantial part a planned economy."¹

¹ *Ibid.*, p. 18.

It is characteristic of him, further, in line with his general method to interpret planning carried out by mature corporations as a direct expression of the requirements of modern technology, and modern large-scale production and, therefore, as a phenomenon of a technical order unconnected with any form of ownership of the means of production. Consequently, the need to plan the economy is said to come from the requirements of development of present-day productive forces. "The need for planning..." he writes, "arises from the long period of time that elapses during the production process, the high investment that is involved and the inflexible commitment of that investment to the particular task."¹

He stresses that the vast scale of production and capital spent on production, the length of the production process, the sharp rise in production interrelationships, the greater requirement for specialised labour power and other processes, that are an actual expression of the growth in socialisation of production, make the spontaneous market mechanism unreliable. "Planning exists because this process has ceased to be reliable."²

Of course, the trend towards production regulation on a national and even international scale arises already under capitalism, reflecting the mounting social character of contemporary productive forces. But the realisation of this trend

¹ *Ibid.*, p. 31.

² *Ibid.*, p. 34.

depends above all on the scope and especially nature of ownership of the means of production. The capitalist nature of the modern mature corporation, and the whole industrial society precludes the very possibility of all-embracing planning of the entire economy in the public interest. The objectively-necessary trend towards planning, being a modern form of movement of the fundamental contradiction in capitalism, occurs in contemporary capitalist conditions only partially and to the benefit of finance capital magnates. This circumstance is most clearly evident in analysing US economic development, viewed by Galbraith as the most characteristic feature of the "industrial society".

A study of this aspect of "industrial society" demonstrates that Galbraith is trying to justify his central thesis of transition from capitalism to some non-capitalist industrial society—i.e., a proposition concerning a radical change in the socio-economic essence of Western society, by reference to changes taking place in reality only within the bounds of the productive forces in bourgeois society, as well as partial changes in capitalist relations of production which not only do not remove their previous exploitative essence but, on the contrary, are a form of its contemporary development.

The production fetishism serves Galbraith here too as a method basis for his theoretical positions.

The fourth salient feature of industrial society is the process of merging of the industrial system, the world of big corporations with the state,

which is said to carry out considerable economic functions. It is not difficult to see that these propositions of Galbraith's theory contain a certain reflection of the process of development of state-monopoly capitalism, which had been observed many decades ago and investigated by Marxist-Leninist science.

It is indicative that Galbraith takes the merger of the state and corporations directly out of the requirements of modern technology. Noting that the need for economic planning has a tendency to go beyond the framework of individual firms and that therefore there is a need for state economic regulation, he writes, "Technology, under all circumstances, leads to planning; in its higher manifestations it may put the problems of planning beyond the reach of the industrial firm. Technological compulsions ... will require the firm to seek the help and protection of the state."¹

A characteristic feature of Galbraith's conception is an attempt to link all the above-mentioned traits of industrial society to those demands which the contemporary development of technology are making. The dominating positions of large corporations in the economy, economic planning, the considerable growth in the state's economic role, and the merger of the corporations and the state, etc., are all supposed to be a reflection of the requirements of technological progress.

Galbraith has therefore based his study of latter-day capitalism, which he entitles "industrial

¹ J. K. Galbraith, *The New Industrial State*, p. 32.

society", on an examination of modern technology. "In examining the intricate complex of economic change, technology, having an initiative of its own, is the logical point at which to break in."¹

What does he mean by technology to which he attributes such a paramount role in his "industrial society" system? By technology he "means the systematic application of scientific or other organised knowledge to practical tasks."²

Such a wide interpretation of technology contains no direct indication of its connection with production. Similarly, it could be applied both to processes of consumption, exchange, and to the process of production, material or spiritual. Moreover, such a wide interpretation embraces non-economic spheres as well. But the whole context of his work bears witness to the fact that this definition of technology is closely bound up precisely with production.

What elements does technology then include, according to Galbraith? Above all, there is science. Second, the labour of workers and engineers, included directly in the production process, and it is they that apply systematised knowledge in resolving practical tasks. Third, there is machinery: "The word technology," he writes, "brings to mind machines; this is not surprising for machinery is one of its most visible manifestations."³ Fourth, there is the division of social

¹ *Ibid.*

² *Ibid.*, p. 24.

³ *Ibid.* p. 26.

labour, insofar as it is assumed that production tasks can be resolved only if they are divided up into their component parts which become an object of special branches of production and science (metallurgy, chemistry, mechanics, etc.). "Nearly all of the consequences of technology, and much of the shape of modern industry, derive from this need to divide and subdivide tasks."¹

So we see that Galbraith's understanding of the term technology goes far beyond the bounds of characteristics of only instruments of labour and approaches the category of society's productive forces. Let us note that he includes in technology not only specialised knowledge as such, but also its material embodiment in machinery, labour power, etc.

Here we therefore are coming to yet another salient aspect of Galbraith's ideas. We see that in fact he strives to base his theory on a study of technological requirements which, actually, are synonymous with productive forces. It is from the position of requirements made by "contemporary technology" that Galbraith tries to explain the socio-economic phenomena of his "industrial society".

Technology thus understood determines, Galbraith says, many peculiarities of "industrial society", in particular the growing scale of concentration of production and property in the hands of the biggest corporations. Here he comes close to elucidating the decisive fact, established by Lenin more than half a century earlier, that

¹ *Ibid.*, p. 25.

capitalist monopoly is a product of a high level of development of productive forces under capitalism, the product of a high level of concentration of production and capital. What is more, this also refers to his understanding that such social phenomena as a large corporation, state economic activity, the process of their merging and many other similar processes, are in some way naturally dependent on the level of development of society's productive forces. It only needs a high level of development of state-monopoly capitalism, the formation of a world socialist economic system and the collapse of imperialism's colonial system for the dependence of the system of society's production relations on the nature of its productive forces to receive a certain (though distorted) reflection and recognition in the works of bourgeois economists.

An analysis of Galbraith's theory shows that, despite a whole number of realistic features typical of it, Galbraith holds a vulgar-apologist position on the most salient problems of political economy, which are at the centre of the present-day ideological class struggle.

In his theory he admits that which is not possible to pass over in silence, the thing that is obvious to all today: domination of the monopolies, the mounting economic role of the state, the merger of monopolies with the state. But here Galbraith utterly distorts the socio-economic content of the phenomena of modern capitalism he is describing.

Suffice it to say that Galbraith, while recognising the supremacy of the largest corporations in

the economy of industrial society, denies the capitalist character of these corporations and, at the same time, also the bourgeois nature of contemporary Western society. "One should expect, from past experience, to find a new shift of power in the industrial enterprise, this one from capital to organised intelligence." And straightaway he adds, "It has, indeed, occurred."¹ In his view, capital is no longer dominant in the corporations of industrial society. "The eminence of capital is a relatively recent matter."²

He claims that Marx was right about this past, but nowadays the situation has markedly changed and capitalists have lost their supremacy status. "In the last three decades there has been steady accumulation of evidence on the shift of power from owners to managers within the modern large corporation."³

This attitude means that Galbraith, while recognising what is obvious to everyone that monopolies rule, a fact that lies today in some sense on the surface of things, at the same time acts as an apologist in suppressing the capitalist essence of the economy of the modern bourgeois society. The economic essence of imperialism, that paramount issue of capitalist economics, is distorted by Galbraith on its most important point.

What are the arguments he uses to prove his exceedingly important statement? Are there

¹ *Ibid.*, p. 68.

² *Ibid.*, p. 62.

³ *Ibid.*, p. 61.

grounds for maintaining that actual power in the large corporations has shifted to managerial experts—the so-called technostructure?

His argument in support of the major proposition of his theory on the non-capitalist character of the industrial society is utterly unconvincing. Having noted that capitalists have already been squeezed out of the dominant positions over the last fifty years, he cites what he calls "A dozen matters of commonplace observation—the loss of power by stockholders in the modern corporation, the impregnable position of the successful corporate management, the dwindling social magnetism of the banker, the air of quaintness that attaches to the suggestion that the United States is run from Wall Street, the increasingly energetic search for industrial talent, the new prestige of education and educators—all attest to the point."¹

This statement merits attention because it represents the total of all arguments which he can adduce to support his proposition of the non-capitalist character of large corporations. Typically, further, a whole number of propositions in this statement, though far from all, fully accord with reality. And nevertheless, his thesis of the non-capitalist nature of corporations in "industrial society" is completely untenable.

The fact is mainly that several commonplace observations cited by Galbraith simply have nothing to do with the issue under review concerning the socio-economic nature of large corporations.

¹ *Ibid.*, pp. 68-69.

Such, for example, is the idea of the increasingly energetic search for industrial talent. It may accord with reality, but it testifies not to the fact that large corporations have stopped being capitalist (it has no relation to this question at all), but only to the fact of rapid changes in the occupational structure of the aggregate worker under the impact of the ongoing scientific and technological revolution and the growing requirements for a level of skills for industrial workers. Typical of contemporary capitalist countries is the situation where considerable unemployment among industrial workers coexists with often no less considerable vacancies in industry. Workers deprived of work as a result of a growth in the organic composition of capital cannot find work any more not only because the demand for labour power is falling relatively, but because the job and educational skills of redundant workers frequently do not correspond to the requirements of industry. Consequently, Galbraith's argument proves nothing. It reflects the inability of capitalism to cope with the vital consequences of the present-day scientific and technological revolution.

Galbraith's point about the "new prestige" of education and educators belongs in the same category of arguments. It, too, bears no relation to the question of the social essence of the large corporations and also reflects the processes of scientific progress.

If we leave aside the words about the air of quaintness that attaches to the suggestion that the United States is run from Wall Street (this

has meaning only in the sense that powerful finance groups located not only on Wall Street do run the country), we note that all the other "arguments" testify not to the dethronement of private capital, but, to the contrary, to the enormous growth of its omnipotence.

Galbraith begins his "commonplace observation" by citing the loss of power by shareholders in the modern corporations. This may well be true for small shareholders, since they do not possess any power within capitalist corporations. But what does this show? Only that real power in these corporations belongs to a few very big shareholders, the owners of controlling shares, while the vast bulk of shareholders have been completely removed from having any influence on the course of affairs of a joint stock company. Consequently, this argument rather defeats his purpose than proves his case.

In another work he writes, "Voting in the corporation is weighted pro rata with ownership. Such is the distribution of share ownership that the votes of the few and very rich invariably outweigh those of the many."¹ This exposes the futility of the "people's capitalism" theory and his own concept.

On the other hand, Galbraith refers to "the impregnable position of the successful corporate management". Typically he underlines the link between the position of corporate management with how successfully it operates. This alone

¹ J. K. Galbraith, *Economics and the Public Purpose*, Houghton Mifflin Company, 1973, p. 218.

shows up the unsubstantiated claims of the non-capitalist nature of the corporations. If dominating positions in the corporation do belong, as he maintains, to management, its managerial apparatus, then how can they be affected by the circumstance that the technostructure has begun to manage the corporations less successfully? It is all a matter—and here Galbraith is right—that only a successful management (i.e., one that ensures rising profits for the owners of the corporation) can count on any stable position. If it does not act successfully—i.e., does not ensure sufficient profit for the corporate owners, the technostructure is either shuffled around or simply removed from business and given the sack. And that means that those who assess the degree of success of management—those having controlling interest in these corporations—are the real bosses.

In trying to prove the non-capitalist character of corporations, Galbraith refers to the "dwindling social magnetism of the banker". With the growth of concentration of capital in the hands of very powerful people in the finance oligarchy, with its increasingly rapid circulation, the monopolies are able to a large extent to satisfy their requirements for capital investment from their own resources. The profits of monopolies are so high and the temporarily released resources of their own companies so great that they often experience no need to resort to bank loans, they carry out their capital investment through self-financing. This circumstance, evidently, is the basis for Galbraith's contention about the dwindl-

ing of the banker's importance, which has to be understood, of course, relatively. Yet this certainly does not bear witness to the loss by corporations of their capitalist character; on the contrary, it shows the tremendous enhancement of the position of the largest monopoly capital.

Thus, while showing much insight and correctly noting many general manifestations of real processes, Galbraith nonetheless is far from reliably evaluating their essence, providing a sufficiently profound understanding of their internal motive forces. The most important thing consists in him trying to abstract himself from the essence of relations in the economic sphere, from questions concerning the ownership of instruments and means of production, which has decisive importance for characterising any society.

What Galbraith calls the technostructure is actually the working body for running finance capital—i.e., that system of institutions and experts through which the finance oligarchy manages the process of capitalist reproduction and appropriation. This working body carries out not only the functions of managing capitalist production relating to the process of exploiting the proletariat, but also those functions of management which flow from the production process as such, the labour process. So to identify the "technostructure" with the finance oligarchy is nothing more than a special ploy to apologise for the latter, based on distortion of the new phenomena in running the capitalist monopolies.

Galbraith's apologist aspirations are patently apparent in his explanations of how power passes

within corporations to certain people. He writes that it does not extend to the labour force. But at the same time he notes that power is concentrated in the hands of groups of working people, white and blue collar workers, included in that organisation of a corporation which receives, evaluates and processes information and takes decisions. Talking of the technostructure Galbraith is ready to include workers in it, but to exclude the bourgeoisie: "It extends from the leadership of the modern industrial enterprise down to just short of the labour force and embraces a large number of people and a large variety of talent."¹ Private ownership in that situation, he avers, stops being the basis of society's economy. Meaning the large corporation, he writes, "those who run it no longer depend on property ownership for their authority."²

He portrays in an obviously apologist way the separation of management functions of large-scale capitalist production from the functions of appropriation. The shift of the management function to groups of hired employees testifies only to the sharp stepping up of the parasitical nature of the finance oligarchy, and by no means to the loss of its dominant position both in the economy and in the state apparatus.

It is evident that, despite the entire external realism of Galbraith's propositions in describing the principal features of industrial society he is actually defending a version of the vulgar-apolo-

¹ J. K. Galbraith, *The New Industrial State*, p. 69.

² *Ibid.*, p. 399.

gist notion of the transformation of capitalism into some kind of non-capitalist system.

He provides a realistic description of several essential external (frequently organisational) forms of manifestation of economic relations of contemporary state-monopoly capitalism, but carefully suppresses and utterly distorts the socio-economic essence of these relations. He admits only those existing forms of manifestation of economic relations of contemporary capitalism that can no longer be denied if one is to take account at least of the apparent trustworthiness of economics.

In Galbraith's view, the bourgeoisie is vanishing from the historical arena. At the same time, a component part of the "industrial society" theory is the notion of the "deproletarianisation" of the working class. The same old device is used that is customary for vulgar bourgeois political economy. Changes in the external forms of manifestation of the class structure of bourgeois society are being passed off by industrial society theorists as radical qualitative changes, as if testifying to the transformation of capitalism into some other society. As grounds for his "deproletarianisation" idea, Galbraith uses the change in the structure of the working class, related to the development of the modern scientific and technological revolution and expressed in the substantial growth in proportion of hired workers engaged in a smaller or greater measure in skilled mental work. Referring to this true fact, he then makes the absolutely false conclusion that the working class is being eroded since an increas-

ingly large part of it is beginning to latch on to the so-called middle class and is disappearing from the scene as one of the major social classes. Behind this idea is the theory that the working class consists of unskilled workers engaged largely in physical labour—i.e., a characteristic that had been valid only for the initial stages of machine industry in the early nineteenth century.

From that he draws the conclusion that an antagonism of interests previously typical of relations between the working class and the bourgeoisie has now disappeared, especially as the bourgeoisie is supposed to be removed from the dominant positions in the economy, and the technostructure that has replaced it is pursuing social objectives.

The bankruptcy of Galbraith's theory on "deproletarianisation" is made clear from the changes going on in the structure of the contemporary working class in capitalist countries which do not directly affect or transform the principal qualitative peculiarity of the class structure of that society. An increase in the proportion of skilled and mental work within the working class is above all a particular form of development of the division of social labour owing to the latest technical and scientific changes, primarily in the sphere of productive forces, and certainly not in that of relations of production in bourgeois society. At a given stage this is purely a technical division of labour.¹ Both the more skilled and

¹ See Karl Marx, *Capital*, Vol. 1, p. 396.

mental work by no means obviates the need for workers to sell their labour power to the capitalist, as previously, and be an object of capitalist exploitation. Changes in the structure of the working class, which are being accompanied by a considerable increase in labour productivity and a certain rise in real wages, actually alter nothing in the relations of ownership that predominate in capitalist society. As hitherto, a worker is deprived of ownership of the means of production. Thus, changes taking place in the structure of the contemporary working class of capitalist countries are changes in the composition of the aggregate wage worker, and certainly not a radical transformation in the class structure of society. An alteration in the form of manifestation is presented here too as deep-going transformations of quality. Changes taking place only in the society's productive forces are portrayed by Galbraith as a radical change in the socio-economic essence of capitalist relations of production.

An increase in the proportion of employees concerned with fulfilling functions of managing production also does nothing to alter in any way the class structure of bourgeois society. Production management under capitalism is of a dual nature owing to the dual nature of the very process of production. On the one hand, it is management of the labour process, the process of producing use value; on the other, it is management of the process of increase in value, the process of exploiting the working class. It therefore follows that work in running contemporary capi-

talist production is the result of separating a particular function of the production process into a single area of applying human labour. It therefore follows, too, that this labour is productive labour, since it is a component part of the aggregate worker producing both use value and surplus value. If we take into consideration that labour in management is hired labour selling its labour power to the bourgeoisie, it is evident that management employees are an integral part of the aggregate worker, a specific detachment of the working class.¹ Any increase in the proportion of ordinary management in the composition of the working class does not give grounds for affirming any disintegration or "deproletarianisation" of the working class. Just the opposite, the rapid growth in the size of hired employees concerned with administering production is evidence of acceleration of the process of proletarianisation of bourgeois society taking place in a new situation in somewhat unusual forms.

What is it exactly that the "industrial society" theorists are asserting? Capitalist monopolies that hold sway over the whole of society and which exploit it do not exist, in their view. The dominant positions in the economy are taken by the big corporations pursuing social objectives and managed by independent and competent experts. Consequently, the monopoly bourgeoisie

¹ We exclude the very top management whose status in both production and society brings them closer to the bourgeois class.

which dominates contemporary capitalist society is excluded from the "industrial society" model. Also out of the picture goes the working class which, in line with the scheme of things, is eroded and deproletarianised, turning into an overall insignificant social group. Out of the two main classes of bourgeois society conducting a fierce struggle against one another, there have remained just misty figures integrated into the "industrial society" system. The fundamental contradiction of bourgeois society, the major class contradiction of that society, therefore, is said to be non-existent.

On the other hand, the major difference between the socio-economic systems of capitalism and socialism is also said to be insignificant. The future, according to Galbraith, lies with convergence, the coming together and merging of the various systems representing only particular varieties of "industrial society". This therefore removes, too, the fundamental contradiction of the modern world: that between socialism and capitalism. This suppresses the objective inevitability of replacement of the capitalist by the socialist system.

Thus, the basic class meaning of Galbraith's "industrial society" theory is to justify the idea that capitalism has already experienced radical socio-economic changes which bring it close to a classless society of abundance, that a substantial part of the chief tasks of this sort of transformation has already been resolved in the course of scientific and technological revolution; therefore, there is no need at all for socialist change.

The subjectively honest and progressive position taken up by Galbraith on a number of acute social issues does not alter the objectively apologist essence of his "industrial society" theory. The theory serves the interests of the finance oligarchy, even though he frequently condemns the most odious, anti-social aspects of its domination.

The years that have passed since Galbraith's *New Industrial State* appeared in 1967 have shown that the socio-economic process is proceeding far from the way he outlined it in his "industrial society" theory. Hence the interesting amendments that he made to his theory in the subsequent book *Economics and the Public Purpose*, which came out in 1973. They are all the more interesting since they represent an indirect and involuntary recognition of the theory's flaws.

The mounting contradictions of contemporary capitalism have forced him to admit that the "industrial society" consists not only of an "industrial system", which he calls "planning" in this work, but also includes a so-called market system. He endeavours to explain the many manifestations of crisis processes of contemporary capitalism as contradictions between these two sectors of "industrial" society.

Galbraith includes in the planning system those few hundred very large monopolies which hold sway in the American economy. As far as the "market system" is concerned, it includes the millions of non-monopolised commodity producers dependent (in financial, technological and other respects) on the "planning system" and exploited by it. Unable to secure a modern level

of technical progress, since it is in the power of market forces, the "market system", whose thousands of firms annually go bankrupt and rise again, exists on the basis of ruthless exploitation of workers and self-exploitation of small entrepreneurs.¹

The difference between the "planning" and the "market" systems reflects the polarisation of monopoly and non-monopoly capital—a paramount contradiction of contemporary capitalism. It is this that Galbraith tries to depict as the central contradiction of "industrial society" so as to explain away exacerbation in recent years of the crisis processes in the capitalist economy. In his view, the non-equivalent exchange between "systems", the inequality of incomes that leads to impoverishment of the "market system", the unevenness of economic development internationally (where he puts underdeveloped countries in the "market system" category and the advanced imperialist powers in the "planning" system category), the unprecedented rise in prices, etc., are all results of relations between the two "systems" of industrial society. But Galbraith's contradictions in this area too expose to some extent the real source of the crisis processes of the capitalist economy. "In its mature form the corporation can be thought of as an instrument principally for perpetuating inequality."²

Let us note that Galbraith is not original in his attempt to replace the fundamental contra-

¹ See J. K. Galbraith, *Economics and the Public Purpose*, Boston, 1973, p. 74.

² *Ibid.*, p. 271.

diction of capitalism by that of monopoly and non-monopoly capital. It exists in the works of institutionalism's progenitor Thorstein Veblen in his notion of "industry" and "business".

The ultimate cause of crisis processes in modern capitalism is certainly not to be found in contradictions between monopoly and non-monopoly capital. It goes deeper—in the capitalist character of ownership typical of both "planning" and of the "market" system. Galbraith focuses attention on contradictions between monopoly and non-monopoly capital so as to distract attention from any understanding of the real source of these crisis processes—contradictions between the social character of contemporary productive forces and the capitalist appropriation of the results of their functioning.

This approach lets him proclaim a programme of reforms for present-day state-monopoly capitalism aimed at mitigating contradictions between the "systems" and the crisis processes typical of them, without affecting the fundamental contradiction of capitalism.

What is nonetheless indicative of the reform programme laid out in his *Economics and the Public Purpose* is that it is in some measure aimed at the monopolies, at their "technostructure". It presupposes nationalisation of several multinationals and monopolies that are part of the military-industrial complex, removing monopolies from their dominant positions in the state apparatus, ensuring a guaranteed income for working people, eliminating discrimination in work payment according to sex, age, colour of

skin, etc., substantially improving nature preservation and a number of other measures which in one way or another affect the interests of the monopolies. At the same time, he suggests that this programme of reform can be carried through by means of an appropriate well-organised election campaign in selecting the US President and Congressional members capable of invigorating the country's economic and political life.

The reform programme he is suggesting, despite its utopian nature, serves as vivid illustration of the mounting contradictions in contemporary capitalism.

The unprecedented inflation of the 1970s showed that the "planning system" is incapable of ensuring price stability. What is more, as Galbraith notes in his *Economics and the Public Purpose*, the system is itself a cause of inflation. While in his *New Industrial State* he showed that stable prices are the essential precondition of economic planning for any reasonable period ahead, in his new work he has to confess that his "planning system" cannot create that precondition.

Hence the economic instability of the "planning system" in "industrial society". "The planning system, in the absence of state intervention, is inherently unstable. It is subject to recession or depression which is not self-limiting but which can become cumulative. And it is subject to inflation which is also persistent, not self-correcting."¹

¹ *Ibid.*, p. 179.

Here Galbraith actually rejects the thesis of "industrial society" having a planned economic character. The so-called planning system as presented by Galbraith is in the grip of economic instability, crisis recessions, slump and inflation.

What is of significance here is that he is not advancing the large corporation as a factor stabilising the economy; he normally relates his ideas on planning character of the "industrial system" with the large corporation. But here it is the state. Despite all the contradictoriness of the economic role of the bourgeois state, this standpoint of Galbraith's nonetheless is approaching reality much more than the idea of the large corporation as a planning factor in ensuring the planning of the whole national economy.

In his *Economics and the Public Purpose* he gives a more detailed description of the composition of the technostructure, including in it "a complex of scientists, engineers and technicians; of sales, advertising and marketing men; of public relations experts, lobbyists, lawyers and men with a specialised knowledge of the Washington bureaucracy and its manipulation; and of coordinators, managers and executives."¹

There would seem to be at least two new ideas here worth considering. First, although Galbraith provides in this work a more detailed description of the technostructure, it is no longer stretching "almost to the main mass of labour power", including primarily managerial and en-

¹ *Ibid.*, p. 82.

gineering-technical people. Second, the new, more detailed description of the technostructure clearly reflects the ongoing process of fusion of monopolies and the bourgeois state. Now the technostructure includes people "with a specialised knowledge" of the state bureaucracy as well as executives.

And yet, as hitherto, the technostructure, which has dominant positions both in corporations and in the state machinery, excludes the monopoly bourgeoisie that is effectively dominant in all spheres of life in the bourgeois society.

In his *Economics and the Public Purpose* he more sharply formulates his ideas concerning the confluence of the world of corporations and the "planning" system with the state, reflecting a further growth in state-monopoly trends which are a product of deepening capitalist contradictions. If we recall that Galbraith actually dissolves the finance oligarchy into the technostructure category, the book presents quite a few admissions of some importance. He sums up his attitude to the interaction of the technostructure and the state as follows: "The modern state ... is not the executive committee of the bourgeoisie, but it *is* more nearly the executive committee of the technostructure."¹

So we see that even on his own admission, the whole of the power in "industrial society" belongs to the monopolies and, no matter how much he tries to obscure it, to the bosses of the finance oligarchy.

¹ *Ibid.*, p. 172.

Realists among American economists give convincing criticism of Galbraith's assertions about the non-capitalist nature of the state in "industrial society". J. G. Gurley has written that, "the overriding objective of all capitalist governments is the preservation and strengthening of capitalism—that is, of the private enterprise system."¹ In defending the capitalist system, contemporary bourgeois governments are safeguarding the interests of the whole class of capitalists generally. But in other aspects these interests are being defended by bourgeois governments only to the extent that they coincide with the interests of capitalist monopolies, that have fused with the state machinery and dominate it. Bourgeois administrations, continues Gurley, "in the final reckoning have been principally, though not exclusively, engaged in promoting the welfare of the few hundred industrial, commercial and financial giants that define and shape the US economy. Since the welfare of these huge corporations is best measured by their profits, one basic concern of US administrations has been the establishment of as favourable an environment as possible for corporate profitmaking, both here and abroad."²

Galbraith's position in regard to the role of trade unions in defence of the economic interests of the working class has shifted too. While in his *The New Industrial Society* he assumed that

¹ *The Quarterly Review of Economics and Business*, Vol. 12, No. 3, Autumn 1972, p. 7.

² *Ibid.*

there was no need for unions to defend these interests and that the unions were losing their position in any case, in his *Economics and the Public Purpose* he remarks on the essential role of the unions in reducing economic inequality typical of "industrial society".

In principle, Galbraith's division of the capitalist economy into two systems—the "planning" and the "market"—has in a certain sense an objective basis.

In essence, it is the singling out of two sectors of the capitalist economy—monopoly and non-monopoly—long known to Marxists and non-Marxists alike. Despite all their qualitative difference, however, they do represent different forms of one and the same social relationship—capitalist relations of production. The attempt to absolutise differences between these two sectors or "systems", a striving to prove that the "planning" system does not have anything in common with the "market" is nothing more than a new refined version of the "transformation" of capitalism theory.

In regard to the "planning system", Galbraith continues to assert that the world of the largest corporations is not part (and, as we all know, the determining and dominating part) of the capitalist system. Yet even Galbraith's own interpretation of the economic objectives of the "planning system" leaves no doubt that it represents an integral part of the contemporary capitalist economy.

In his *The New Industrial Society* Galbraith had defended the proposition that in the "indus-

trial society" (as he calls contemporary capitalism) "profit maximisation—the only goal that is consistent with the rule of the market—is no longer necessary".¹ "Maximisation of income for the technostructure is neither needed nor sought."² And he goes on to say that "The primary affirmative purpose of the technostructure is the growth of the firm. Such growth then becomes a major purpose of the planning system and, in consequence, of the society in which the large firm is dominant."³

From these notions of the changing goal of social production in contemporary capitalism, bourgeois economics draws far-reaching conclusions about the social structure of the "industrial society", its moving forces, the nature of economic relations inherent in it and the prospects for current socio-economic development. A vulgar-apologist interpretation of the aims of contemporary capitalist production is thus becoming a key point in the latest anti-Marxist campaign.

Although Galbraith does try to convince his readers that the main aim of the technostructure, that is supposed to be dominant in the "planning system", is to ensure the growth of the firm, and not that of profits, he is unable to mask the determining capitalist motives of the "planning system". Indeed, his counterposing of "growth of the firm", and "growth in profits", is devoid

¹ J. K. Galbraith, *The New Industrial State*, pp. 121-22.

² *Ibid.*, p. 148.

³ J. K. Galbraith, *Economics and the Public Purpose*, p. 100.

of economic sense. The inherent tendency in capital to self-growth stemming from its exploitative essence is realised most strikingly in the growth of capitalist profits. Yet the "growth of the firm"—i.e., accumulation of productive capital—in turn is also the result and the condition of growth of capitalist profits. "Growth of the firm" is only another expression of the growth of capitalist profits.

If Galbraith's idea of a change in the objective of economic activity of the corporations had been right, there would undoubtedly have been essential changes in the dynamics of capitalist profits. They would have stopped growing. But a mass of statistics on profit movements tell a very different story: of an obvious tendency towards growth in their absolute magnitude.

Table 2

Profits of US Corporations¹
(before taxes, in billions of dollars)

1959	52.1	1970	75.4
1960	49.7	1971	85.1
1961	50.3	1972	98.0
1962	55.4	1973	122.7
1963	59.4	1974	126.9
1964	66.8	1975	123.5
1965	77.8	1976	155.9
1966	84.2	1977	173.9
1967	79.8	1978	223.3
1968	88.7	1979	255.3
1969	84.2	1980	245.5
		1981	233.3

¹ Compiled from statistics given in *Federal Reserve Bulletin* for appropriate years.

The table shows that profits of American corporations are climbing decisively upwards. And their rate of growth is on the up as well. While it took thirteen years to double the profits the first time (from 52.1 in 1959 to 98.0 billion dollars in 1972), it took only six years to double them a second time (from 98.0 in 1972 to 223.3 billion dollars in 1978). Altogether over the twenty years, profits increased 4.6 times. In just one year, 1978-79, the profit increase was 14 per cent. These statistics enable us to gain an impression of how great is the scale and how high the rate of growth of exploitation of labour by capital, the unrequited appropriation of surplus value by the bourgeoisie, yet produced by the working class.

At the same time, the table shows that in certain years the size of profits of American corporations declines, as compared with the previous year, although it considerably exceeds the level of previous years. In what years does this decline occur? We see that it was in 1960-61, 1967, 1969-70 and 1975 which were all characterised by crisis recessions in the US economy. Consequently, profit diminished only in those periods when monopoly competition, induced by the drive for monopoly-high profits, inveigled the country into the mess of economic crisis and made it impossible for capitalist profits to grow. Profits fell in certain years not because the socio-economic nature of the capitalist corporations altered, but because the anarchy of capitalist production in the crisis years undermined the conditions of maximising profits.

The mass of statistics on profit movement for US corporations therefore refutes any notions of the transformation of capitalism into some kind of non-capitalist "industrial" system and a change in the objective of social production in Western countries. On the other hand, if changes in the objective of capitalist production were really to occur in those countries in the direction mentioned by Galbraith, there would be no such crisis phenomena of the capitalist economy, engendered by the drive for maximising profits and being an external expression of the fundamental contradiction of capitalism, as underemployment of productive capacities, chronic unemployment, economic crises of overproduction, the militarisation of the capitalist economies, the relatively low rate of capitalist economic growth, etc. But all these phenomena are typical of the economy of Western countries.

The fact that Galbraith tries to classify two major objectives which entrepreneurs pursue in their economic activity: "protective" and "affirmative" does not help either. "In the most elementary sense these purposes are the same for all firms, large or small. The small entrepreneur seeks first of all to protect his position or authority—to stay in business and keep himself in his job. This ... may be called his protective purpose. Then, having reasonably secured his existence, he seeks to advance his interests—to pursue his *affirmative* purposes."¹

¹ G. K. Galbraith, *Economics and the Public Purpose*, p. 92.

At first glance, it may seem that these purposes have nothing in common with the motive of capitalist profit. But Galbraith realises that the entrepreneur cannot defend his position and consolidate himself in business unless he secures sufficient profit for himself. "In the small firm both purposes involve earnings. The protective purpose is served by a certain minimum of return; if the entrepreneur does not have this, he loses his capital and therewith his right to continue in command of the enterprise. And his affirmative purpose, it is commonly assumed, is to make as much more than the minimum as may be possible without excessive risk, i.e., without jeopardising too gravely the minimum return that serves his protective goal."¹

Galbraith links the entrepreneur's "protective" purpose with the need to obtain a certain minimum profit without which capital cannot reproduce and consolidate itself. As far as the "affirmative" purpose is concerned, its realisation already presupposes maximisation of capitalist profit, although Galbraith does not, in fact, use this term. Indeed, in order to shore up his position in the world of business, says Galbraith, the entrepreneur has to ensure such an increase in his profits over their minimum, which is possible without threat of bankruptcy and loss of capital.

Let us now turn to Galbraith's interpretation of the purposes of the technostucture—i.e., the managerial apparatus of the large corporations.

¹ *Ibid.*

In his view, it also pursues both "protective" and "affirmative" purposes. "The technostucture has two protective needs. It must, like the small entrepreneur, secure its existence. ... It must minimise the danger of external interference with its decisions."¹

Explaining this last circumstance, Galbraith notes the complexity and special nature of decisions of the technostucture, therefore any incompetent interference in the decision-making process may be fatal for a corporation as a whole. There are, he says, four possible sources of such interference: from owners and creditors, and from workers, consumers and government. "It is uniquely the right of the owner of the capital, in what is still called capitalism, to control the operations of the firm—the basic legal prerogative of the capitalist is to command."²

How in that case can management defend itself from interference of owners in the decision-making process? The very posing of this question, which very profoundly interests Galbraith, reveals the subordinate, servile status of the technostucture within the bounds of capitalist corporations, its dependence on the owners of capital. "The basic strategy by which the technostucture protects its decision-making process from owners or creditors consists in ensuring a certain minimum (though not necessarily a low) level of earnings. Nothing else is so important."³

¹ *Ibid.*, p. 93.

² *Ibid.*

³ *Ibid.*, p. 94.

His idea is as follows: the technostructure has to secure a sufficient level of income for the owners of capital, and in that situation it is given independence in taking managerial decisions. But what then is the purpose of these economic decisions? They are meant to keep the corporations going in such a way as once again to assure the owners of capital "sufficient income" in the interests of supposed "independence". The management of corporations possesses independence in taking managerial decisions only within the framework of maximising capitalist profits—that actually is what follows from Galbraith's arguments about the motives of the activity of the technostructure.

Galbraith actually sees the main "protective" purpose of the technostructure in ensuring a "decisive and constant flow of income" into the coffers of the owners of capital of the corporations. In fact, the whole activity of the technostructure is subordinate to guaranteeing conditions necessary for maximising capitalist profits. "Whatever serves this purpose," he writes, "—the stabilisation of prices, the control of costs, the management of consumer response, the control of public purchases, the neutralisation of adverse tendencies in prices, costs or consumer behaviour that cannot be controlled, the winning of government policies that stabilise demand or absorb undue risk—will be central to the efforts of the technostructure and corporation."¹

¹ *Ibid.*, pp. 95-96.

So, whether Galbraith likes it or not, he is actually obliged to admit that the technostructure is subordinate to the same purposes as the private entrepreneur, and that the large corporations, so as to maintain their positions and seize new ones, subordinate all their activity to a drive for the biggest profits. Separation of the management function of corporations and its transfer to hired managers changes nothing in the socio-economic essence of these corporations.

Galbraith, therefore, is unable to suppress the capitalist nature of large corporations and, at the same time, the bourgeois essence of the "industrial society".

It is noteworthy that Galbraith identifies the economic objectives of large corporations, which he combines in his concept of industrial or planning system, with the objectives of state economic activity, thereby including this latter in the system of maximising capitalist profits. He writes of large corporations that "the planning system pursues its own purposes and accommodates the public thereto. The government, through its procurement and in providing for the various needs of the planning system, plays a vital role in advancing the purposes of the planning system. Central to this function is the belief that what serves the purposes and needs of the planning system serves identically the public interest."¹

At the same time, he is far from identifying the interests of the "planning system"—i.e., the interests of the largest monopolies—with those

¹ *Ibid.*, p. 241.

of society. "The subordination of the state to individual purpose which makes producer and public interest identical is a disguising myth... Conflict is the general not the specific case."¹ Thus he writes of the conflict of interests of the public and the producer, by which he means the same old corporations.

Contradictions in Galbraith's economic theory, being salient testimony to the crisis state of current bourgeois political economy, play an essential part in exposing the bankruptcy of his notion of the transformation of capitalism into some kind of industrial, non-capitalist system.

4. CRITICISM OF BELL'S "POSTINDUSTRIAL SOCIETY" AND TOFFLER'S "SUPERINDUSTRIALISM"

The multiplicity of concepts in contemporary bourgeois economics and sociology has always been seen by Marxism as a paramount manifestation of crisis in bourgeois ideology. This aspect of bourgeois ideology is acquiring particularly acute forms today.

Alongside the "industrial" society theory a whole pleiad of "postindustrial" society concepts appeared with the most varied names: "postindustrial society" (Daniel Bell), "superindustrial society" (Alvin Toffler), "postcivilised society" (Kenneth Boulding), the "programmed society"

¹ *Ibid.*

(Alain Touraine), the "postcapitalist society" (Ralf Dahrendorf), the "postbourgeois society" (George Lichtheim), the "multimeasured society" (Clark Kerr), and so on.

All these theories try to prove that contemporary bourgeois society, interpreted in the spirit of a non-capitalist "industrial society", in which dominant positions belong to industrial corporations as such, is capable in its development of solving all its social problems and contradictions on the basis of the scientific and technological revolution, by creating a kind of "postindustrial" society. Consequently, their common feature consists in striving to replace a socialist revolution, whose need is ever insistently being felt by workers in capitalist states, by a scientific and technological revolution which, in the opinion of bourgeois theorists, is able by evolutionary means to eradicate all the inherent contradictions in the capitalist mode of production.

This attitude is all the more evident in the concepts of "postindustrial" and "superindustrial" society which see a "superindustrial" revolution as a panacea for all the ills and contradictions of contemporary capitalism.

"SUPERINDUSTRIAL" REVOLUTION

Alvin Toffler calls the scientific and technological revolution which, he claims, lies behind the transition from "industrial" to "superindustrial" society, a "superindustrial" revolution. In his view, this revolution is caused by the extremely rapid development of science and technology and,

in turn, produces a rapid change in the whole tenor of life in society.

"A revolution shatters institutions and power relationships," he writes.¹ He points to student unrest around the campuses, Negro rebellions in the ghettos, strike movement advance, the "open violation of old laws of private property" and certain other contradictions of capitalism. "These are indisputable signs of a sick social structure, a society that can no longer perform even its most basic functions in the accustomed ways. It is a society caught in the agony of revolutionary change."²

Thus, even bourgeois economists cannot overlook the aggravation of the internal contradictions in the capitalist system. But they see only external manifestations of the deep-lying processes and try to give them a vulgar-apologist interpretation. The main task they set themselves is to find means of refuting the inevitability of socialist revolution.

"What is occurring now is not a crisis of capitalism, but of industrial society itself, regardless of its political form... In a word, we are in the midst of the super-industrial revolution."³ Toffler tries to convince his reader that this crisis embraces both capitalism and socialism and flows not out of the socio-economic nature of capitalism, but out of the specific features of the scientific and technological revolution as such.

¹ Alvin Toffler, *Future Shock*, New York, 1970, p. 185.

² *Ibid.*, pp. 185-86.

³ *Ibid.*, p. 186.

Yet all the facts in contemporary social development testify to the groundlessness of such assertions. Toffler thinks that unemployment is the main manifestation of the crisis in "industrialism". Certainly, unemployment as a social phenomenon is the result of contradictions only in the capitalist economic system. It is non-existent under socialism. Moreover, the reasons for unemployment lie in the very essence of the capitalist mode of production—separation of the direct producer from the means of production, the latter's concentration in the hands of only one class—the bourgeoisie, and the subordination of production to the aims of maximising capitalist profit. The worker, and in contemporary conditions the engineer or the manager as well, is soon shown the door if he becomes superfluous. A rise in the organic composition of capital, which is the capitalist form of development of the productive forces, is leading to a relative decline in demand for labour power, pushing it out of production, while the relatively low rate of production expansion, confined within the narrow bounds of capitalist profit, is unable to draw the redundant worker into production.

It is not industry as such but its bourgeois form, its subordination to the objectives of private capitalist profit, that produces unemployment. The same may be said for other manifestations of the "crisis of industrialism", which are in fact an expression of the crisis in the capitalist economic system.

According to Toffler, the factor of decisive importance in a socio-economic sense in the tran-

sition to "superindustrialism" is the increase in "transience"—i.e., "the rate of turnover of the different kinds of relationships in an individual's life".¹ There is an increase, for example, in the trend towards the once-only use of things. As an illustration Toffler cites the once-only use of paper wedding dresses. As a result of a sharp acceleration in the tempo of life "transience" embraces all aspects of an individual's life. As a result of the increasingly frequent contact between people there is a shortening of the time of those contacts, a "transience" develops in human relationships. Greater migration weakens attachment to a particular place, and the comparatively rapid change in man's production functions and the character of labour is leading, says Toffler, to a rapid change in man's place in the system of social organisations in superindustrial society. In people's lives, he says, "things, places, people, ideas and organisational structures all get 'used up' more quickly".²

Toffler ascribes a major role in the increasing "transience" of people's everyday lives to the "superindustrial" revolution; he notes also several important socio-economic reasons for the speeding up of the tempo of life, which ultimately come from the drive, inherent in capitalism, to maximise profits. He writes, "There is no doubt that some businessmen conspire to shorten the useful life of their products in order to guarantee replacement sales."³ Elsewhere the reason for

¹ *Ibid.*, pp. 45-46.

² *Ibid.*

³ *Ibid.*, p. 68.

"transience" is supposed to be poverty and insecurity of working people: "Thus we once more find high turnover rates among some of the least affluent, least skilled groups in society... They are the last hired and the first fired."¹

Fundamental changes in ownership relations occur with the growth of "transience", in Toffler's view. Interpreting ownership in the traditional-vulgar way, as human relationship to things, Toffler notes the loss of attachment to things that emanates from the greater "transience", a development of a trend towards once-only use of things. Hence the far-going conclusions about socio-economic changes in the course of the "superindustrial revolution". With the increase in 'transience' in people's attitude to things, he writes, "we develop a throw-away mentality to match our throw-away products. This mentality produces, among other things, a set of radically altered values with respect to property."²

According to Toffler, ownership in any form disappears with the growth in "transience" and the increase in society's wealth, as a result of which the purpose of people's economic activity radically alters. "What happens to an economy," he asks, "when, as is likely, the entire concept of property is reduced to meaninglessness?"³ "Economic factors," he maintains, "are declining in importance."⁴

¹ *Ibid.*, pp. 111-12.

² *Ibid.*, p. 54.

³ *Ibid.*, p. 220.

⁴ *Ibid.*, p. 306.

In such circumstances, he says, the purpose of economic activity becomes not maximisation of profits, but "psychological satisfaction"; at the same time, "as rising affluence and transience ruthlessly undercut the old urge to possess, consumers begin to collect experiences as consciously and passionately as they once collected things".¹

Is it really so that acceleration in the tempo of life, the "torrent" of changes, the "transience" of people's attitudes to things cause some sort of serious change in capitalist ownership relations?

Expansion of output with a once-only use—paper napkins, cups, plates, dresses, etc.—does produce considerable changes both in the consumer psychology (including also a waning attachment of people to things), and also in the very process of consumption. However, they have no relation to the problem of property. A cut in service time for a particular product, all things being equal, means less time for consuming a capitalism-produced commodity, which leads to a faster turnover of capital and an expansion of the capitalist market, and thereby to an increase in profits. It is for this reason that capitalists, as Toffler points out, frequently cut the quality of goods made at their firms so as to shorten their lives. The switch to production of rapidly-consumed commodities, including single-use goods, is also among the consequences of benefit to capitalists. In this situation, the consumer's de-

¹ *Ibid.*, p. 226.

pendence on the capitalist market considerably increases: the consumer has to turn to the market in completing the one and only act of consumption, while previously a commodity could be used several times before its moral or physical wearing out.

Despite all this, a change in the time of consumption of output in no way alters the nature of the dominant form of property, the socio-economic content of people's relations of production, it does not diminish the role played by economic factors and economic motives in the life of society. A dwindling attachment to things because of a substantial shortening of their consumption time, to which Toffler refers in his justification of the dwindling role of economic factors, including property relations, alters absolutely nothing in the social form of appropriating the results of labour, which also comprises the economic content of property. As hitherto, with a change in consumption time the wage worker appropriates part of the national income he has produced through selling the only commodity that belongs to him—labour power. And this form of appropriation does not depend, of course, on any change in consumption time and associated changes in the consumer's psychology. In exactly the same way, less time for productive consumption of means of production, constituting the property of only one class—capitalists—in no way alters the socio-economic essence of that property, in no way weakens the role of bourgeois property in the economic life of capitalist countries. On the contrary, an acceleration of the

moral and physical wear and tear of means of production, being a paramount factor in accelerating the turnover of capital, leads to a growth in the mass of surplus value appropriated by the capitalists and, in certain conditions, its rate as well, which is a decisive condition for the growth of bourgeois property and of concentration and centralisation of capital.

So Toffler tries to portray, without any grounds, changes in the form of personal and productive consumption as processes leading to a radical change in property relations within bourgeois society, with all the far-reaching consequences that ensue.

The dissolution of property into growing "transience" in people's attitude to things actually leads, according to Toffler, to an end to class struggle between the proletariat and the bourgeoisie and, at the same time, also removes the contradiction between capitalism and communism. "The issues raised by it (i.e., the "process of 'psychologisation'" — V. A.) will reduce the great conflict of the twentieth century, the conflict between capitalism and communism, to comparative insignificance."¹

Thus, the increase in changes and the acceleration of the tempo of life in the conditions of a scientific and technological revolution are capable, Toffler thinks, of producing radical alterations in the property relations between people, in the socio-economic structure of society.²

¹ *Ibid.*, pp. 220-21.

² See *ibid.*, p. 187.

Toffler's main thesis, consequently, consists in an appeal to social forces to retain the socio-economic and political foundations of capitalism and to wait for the "superindustrial revolution" (i.e., contemporary scientific and technological progress) to create a paradise on earth. "The super-industrial revolution can erase hunger, disease, ignorance and brutality... It will radiate new opportunities for personal growth, adventure and delight. It will be vividly colourful and amazingly open to individuality."¹

Such expectations are directly meant to substantiate a renunciation of revolution in removing the contradictions of the capitalist system. He thinks that a "revolutionary new approach to goal-setting is needed", but that it is not likely "to come from those who play-act at revolution".² He tries to convince his readers that the working people in capitalist countries are not inclined towards a revolutionary struggle against the capitalist system either. "The working masses in the high-technology societies are totally indifferent to calls for a political revolution aimed at exchanging one form of property ownership for another."³

So Toffler and other theorists of "postindustrial" society pin their hopes on a scientific and technological revolution as such fulfilling those functions which in reality can be carried out only by a socialist revolution. The main idea behind

¹ *Ibid.*, p. 187.

² *Ibid.*, pp. 473-74.

³ *Ibid.*, p. 475.

the "superindustrialism" concept is to replace the socialist revolution by a scientific and technological revolution.

SOCIO-ECONOMIC ESSENCE
OF "SUPERINDUSTRIAL SOCIETY"

A characteristic feature of contemporary institutionalism, to which the "industrial" and "postindustrial" society theories belong, is a claim that changes in the productive forces are a radical transformation of the socio-economic foundations of bourgeois society leading to its conversion into a non-capitalist system.

Galbraith depicts the dominant positions of large-scale industry—whether capitalist or socialist—as the basis of the economy of "industrial" society. Stressing the leading role of industry in the development of the contemporary productive forces, he strives to play down the domination of the monopoly bourgeoisie in the capitalist economy, and generally distorts the socio-economic essence of the relations of production in bourgeois society.

The same device is widely used by theorists of "postindustrial society". Daniel Bell maintains that the Western economy has entered the first stage of "postindustrial" society, arguing that at the present time this economy is no longer fundamentally industrial, since more than half of those employed in it are concentrated in the services sphere, including in the field of science.

Moreover, Bell tries to provide a methodological justification for his interpretation of modern

capitalism as the first step of "postindustrialism" in his "axial principle". Bell proceeds from the idea that the most varied phenomena may be arbitrarily taken as the basis for periodising a historical process: concentration of administrative functions in the hands of the state, the spreading of democratic tendencies in society, the process of rationalising the various spheres of social life, development of commodity production, progress in machine technology, etc. "Conceptual prisms are logical orders imposed by the analyst on the factual order. But since the factual order is so multifarious and complex, many different logical orders—each with its own axial principle—can be imposed on the same time or social frame, depending on the questions one has in mind."¹

In proclaiming complete arbitrariness in selecting the "axial principle" for each epoch and social system, what is more—each "system of facts", Bell actually ignores that decisive moment for science when the logical system has to be a theoretical reproduction of reality, and therefore cannot be arbitrary. Further, a logical system must establish in some theoretical form as determining factor (the axial principle, in Bell's conception) that process which is also determining in reality. And this circumstance utterly demolishes the idea of arbitrarily selecting an "axial principle".

In Bell's view, the "axial principle" may be declared to be organisational, political, econom-

¹ Daniel Bell, *The Coming of Post-Industrial Society*, New York, 1973, p. 11.

ic, technological, etc., phenomena, while it is well known that the role of these processes in social development is far from having equal import. Typically, Bell's own position inclines towards taking economic processes as the "axial principle". Nonetheless, this does not bring him any closer to a realistic interpretation of the question.

In practice we can observe here the general theoretical foundations of bourgeois political economy. Neopositivist conceptions referring to the relationship of subject and object in investigations, and claiming that economic categories and conceptions are nothing but the arbitrary organisation of "experience", are being used above all by proponents of the non-classical theory and particularly by monetarists. There can be no doubt that the thesis on possible use of any "axial principle" comes close in its philosophical essence precisely to such neopositivist principles. Thus, we see clearly the community of the philosophical views of the neoclassicists and the institutionalists. The above-mentioned neopositivist principle essentially is the basis of theoretical arbitrariness, to which many bourgeois investigators have drawn attention.

As has been noted, all economic phenomena and processes are double-edged owing to the dual nature of labour that lies behind them. They reflect, on the one hand, the material content of economic phenomena and, on the other, their socio-economic form. What does Bell rely on in his notion of "axial principle"?

He says, "the terms feudalism, capitalism, and

socialism are a sequence of conceptual schemes, in the Marxist framework, along the axis of property relations. The terms pre-industrial, industrial and post-industrial societies are conceptual sequences along the axis of production and the kinds of knowledge that are used".¹

Significantly, out of the multiplicity of possible phenomena that Bell thinks could be taken as "axes" for periodising the socio-historical process, he indicates only two economic phenomena—property and "production and the kinds of knowledge that are used". The latter phenomenon symbolises the type of production prevailing in any one epoch—agricultural, industrial or scientific. The two "conceptual sequences" contrasted by Bell rest on "property relations", on the one hand, and "production and the kinds of knowledge that are used"² on the other; they thus reflect the dual nature of any historically-determined mode of production—productive forces and relations of production.

We see that Bell makes an attempt to underpin his periodising of the socio-historical process with a one-sided principle—only phenomena of society's productive forces, ignoring the qualitative definiteness of the prevailing system of relations of production in various societies, at various stages of their development. As a result, the "axial principle" actually acts as an economic sector principle. Indeed, the three stages of social development recognised by Bell are in-

¹ *Ibid.*, p. 11.

² *Ibid.*

terpreted as stages whose characteristics depend on the economic sector of production dominant in them: agriculture in "pre-industrial" society, industry in "industrial", and science and services in "postindustrial". This is, in fact, the economic sector approach to the periodising of the socio-historical process behind which actually stand different types of concrete labour—agricultural, industrial and labour in the sphere of services and science. This is how Bell tries to dissolve qualitative socio-economic differences existing between socio-economic formations from the point of view of the forms of ownership of means of production prevailing in them into sectoral differences of direct productive activity which people engage in.

It is not hard to see that such an approach is scientifically unsound since it throws out determining criteria for periodising the socio-historical process and, at the same time, is blatantly apologist. Bell singles out only individual phenomena of the productive forces, as such criteria, from the two aspects of the mode of production—productive forces and relations of production, in whose contradictory unity can be found the major moving forces and collisions of social development and, at the same time, also the decisive criteria of periodisation. Thus Bell manages to work out a theoretical scheme suited to big capital, in which there remains no place for conflict between capitalism's productive forces and relations of production, let alone socialist revolution overthrowing capitalism. Therefore, property relations are not taken as the "axis" of

the historical process. Being comforting for bourgeois circles, the scheme has nothing in common with reality, which dictates the need for a revolutionary switch from capitalism to socialism—i.e., the objectively-determined replacement of capitalist ownership of the means of production, which no longer corresponds to the contemporary level of development of the productive forces, by public socialist ownership.

Socialism puts an end to contradictions typical of capitalism—underemployment of the production apparatus, mass unemployment, low rate of economic development, economic crises, inflation, poverty among the working people, etc.; it demonstrates the tremendous historical advantages of the socialist planned economy. It is a system corresponding to the vital interests of the working people, to the requirements of contemporary scientific, technological, social and economic development. The world socialist economic system is the main factor for securing peace. So attempts to exclude socialism from the contemporary socio-historical process, to which the essence of the "axial principle" is reduced, are profoundly reactionary as well as utterly futile.

Interpretation of historical stages in social development from the standpoint of determining spheres or economic sectors actually means that society's economy is described only from the viewpoint of society's productive forces or, rather, from the standpoint of a particular form of purposeful labour activity, the simple labour process, i.e., from the point of view of concrete

labour: agricultural, industrial or labour in the services sphere, etc. It leaves out or gives no illumination to the entire system of relations of production in a given society, its socio-economic nature. It is very important to emphasise that "postindustrial" society theorists endeavour to portray the changes occurring on one side of the capitalist mode of production, on the side of the productive forces, as changes taking place on its other side, in the system of its relations of production: shifts in the development of capitalism's productive forces are depicted as a process of capitalist "transformation" into non-capitalist society.

Methodologically, this means ultimately an identification of processes taking place on the side of concrete labour with processes occurring on the side of abstract labour. This peculiarity of the method of "postindustrial" society theory provides complete justification for interpreting it as a vulgar-apologist conception, insofar as an identification of the above-mentioned two sides of the economic processes is a universal methodological principle of vulgar economics.

At the same time, there can be no doubt that a description of historical stages of social development from the viewpoint of the leading economic sector does not provide an idea not only of the dominant forms of property or system of relations of production, but also of the character and level of development of society's productive forces. Indeed, can one really put on the same footing the "agrarian society" of Ancient Greece and the "agrarian society" of me-

dieval France or nineteenth-century tsarist Russia?

It is methodologically wrong to approach a periodisation of the socio-historical process from the viewpoint of the determining economic sector, since such an approach does not provide any full general understanding either of the level of development of society's productive forces, or of the nature of its relations of production. For that reason, Marx saw as the basis of such a periodisation large qualitative shifts in the development both of the productive forces, and of society's relations of production. He viewed the productive forces, moreover, in their social totality—totality of economic sectors and spheres.

A critical examination of the sector principle approach to periodising the socio-historical process, aimed really at glossing over the socio-economic essence of contemporary capitalism and distorting the content of the modern epoch, is of considerable interest in the sense that this view is typical for many present-day bourgeois economists, even though this view may take many different forms. Rostow uses this approach in constructing his "stages of economic growth". In particular, he asserts that the present epoch, which he describes as the age of high mass consumption, is characterised by a state where "in time, the leading sectors shift towards durable consumers' goods and services".¹ As in his following book the *Politics and the Stages of Growth*

¹ W. W. Rostow, *The Stages of Economic Growth*, p. 10.

in which he maps out prospects for social development interpreted as searching for quality of life, he openly proclaims here economic sector shifts to be the major criteria for periodising the historical process.

Galbraith, too, shares this approach in effect in his "industrial" society conception, although his position is not so primitive and vulgar as Rostow's in dragging out the apologist methods of the old German historicist school of the last century; Galbraith suggests that historical development depends on what role a particular "factor of production" plays in a particular epoch. "Power goes to the factor which is hardest to obtain or hardest to replace."¹ Initially that factor, he thinks, was land, which predetermined a whole era of agrarian economy; then capital became that factor, which led to the transition to an "era of capital"; and, finally, the "techno-structure" began to play that part—i.e., the management of large corporations, thereby ensuring transition to an "industrial" society.² The criterion here is portrayed as specific characteristics of people's purposeful productive activity (although it is distorted), including managerial work, while actually ignoring the radical differences between historical epochs from the viewpoint of forms of ownership of the means of production.

The history of political economy indicates that

¹ J. K. Galbraith, *The New Industrial State*, p. 67.

² *Ibid.*, pp. 67-69.

the sector approach to the problem of periodising the socio-historical process, to an interpretation of the socio-economic essence of society, is a characteristic feature of vulgar bourgeois economics, including certain tendencies in institutionalism.

Toffler is very sparing in describing the socio-economic form of his "superindustrial" society. However, even those few traits which he ascribes to this society provide an opportunity of drawing very definite conclusions about the political orientation of Toffler's conception. As we have seen, he assures us that "superindustrial" society essentially differs from capitalism. It is, he says, "a new society".¹ The ownership of material goods in that society is supposed to have lost its significance; the objects of economic activity are now largely different—"posteconomic"; class struggle is over, and division into classes has also vanished, giving way to an era of abundance and general welfare. We are assured that the technically highly-developed countries of the West have already entered upon the first stage of the "superindustrial" society.

What exactly is the "superindustrial" society in a socio-economic sense?

As Toffler explains, the society retains a labour power market, although requirements for characterising labour power are changed: while hitherto the designation of a worker's occupation had a wholly sufficient characteristic in the production process, with faster economic devel-

¹ A. Toffler, *op. cit.*, p. 185.

opment that requires a worker to change jobs more than once during his working life, this characteristic may be obtained only in determining the "trajectory" of his career, the subsequent chain of jobs replacing one another. As he writes, "such labels are more appropriate to the super-industrial job market."¹

Leaving aside the somewhat interesting argument about changes in the characteristic of labour power through the scientific and technical revolution, we may note that retention of the labour market in the "new society" means that it keeps the commodity character of labour power inherent only in capitalism. We already know that labour power becomes a commodity only when the direct producers are deprived of the means of production and when the latter are monopolised in the hands of the bourgeoisie. At any event the use of labour power as a commodity presupposes the division of society into two opposing classes—the working class, deprived of means of production and therefore obliged to sell its labour power, and the bourgeois class which, as owner of the means of production, buys that labour power and uses it in production. Toffler recognises the fact that "superindustrial" society retains corporations, so it is not the bourgeoisie, but the monopoly bourgeoisie that is typical for this society.

Against a background where society is divided into the working class and the bourgeoisie, the economic relations between them cannot be

¹ *Ibid.*, p. 110.

anything else but relations of exploitation of hired workers by the capitalist class, by owners of the means of production; the final aim of economic activity cannot be anything but the maximisation of profit. Typically, Toffler says, economic motives and above all an aspiration for economic profitability play a central part in Western countries which, he believes, have already entered the first stage of "superindustrial" society. "In the West, the basic criterion for filtering out certain technical innovations and applying others remains economic profitability."¹

All this shows that in actual fact the "superindustrial" society is certainly not "new", it is the same old capitalism, although at a new technical level, with all the repulsive characteristics typical of it. It retains the danger of unleashing devastating wars with the use of weapons of mass destruction, including chemical and bacteriological. The manipulation of weather, Toffler writes, may also become "an awesome potential weapon of war".² It retains hunger for many millions of people. That is why Toffler speaks of the desirability of launching "a fifty-year campaign to erase hunger from the world".³ It retains underground business carried on by the vast corporations armed with up-to-date technology, including "robots, advanced computers, personality-

¹ *Ibid.*, p. 441.

² *Ibid.*, p. 191.

³ *Ibid.*, p. 235.

altering drugs, brain-stimulating pleasure probes, and similar technological goodies."¹

It is hardly surprising that Toffler should describe sometimes his "superindustrial" society only as a completely new stage in technical and economic development. Even he admits that this signifies that "superindustrialism" is the capitalism of tomorrow. His conception is nothing more than an attempt at justifying the eternal nature of the capitalist order under the cover of discussion about a torrent of changes and sharp acceleration of development.

Toffler's book is generally interesting in that although the author does not intend it, it shows how dreadfully dangerous capitalism can be for humanity even during peacetime. The latest attainments of science and technology within bourgeois society are subordinated to the ends of private profit and uncontrolled by society. Let us take, for example, the author's cogitations about the possibility of creating a race of "morons" and "supermen", the brain insertion of portable electronic gadgets directing the whole of a person's behaviour according to a particular programme. One can agree with the author that under capitalism "the horrifying truth is that, so far as much technology is concerned, no one is in charge."² Against his will, Toffler's book exposes the anti-human essence of present-day capitalism which he cannot mask by his "superindustrial" society.

¹ *Ibid.*, p. 232.

² *Ibid.*, p. 432.

THE REFORMIST NATURE OF THE
"TRIPLE REVOLUTION THEORY"

The critical elements in Toffler's book provide sufficient grounds for refuting the "triple revolution" theory—a bourgeois-reformist notion of the contemporary scientific and technological revolution, and its socio-economic consequences in capitalist conditions, which is a variety of "transformation of capitalism" theories. The "triple revolution" theory is set out in most concentrated form in the "Programme" of the Committee on Triple Revolution Problems, whose members were American scientists (like Nobel Peace Prizewinner Linus Pauling), publicists, trade union leaders and businessmen. The well-known Swedish economist Gunnar Myrdal adheres to the "triple revolution" theory as well.

Advocates of the theory maintain that society is currently experiencing three interconnected revolutions: a cybernetics revolution which began in the 1960s, a revolution in armaments and a revolution in human rights. The cybernetics revolution is seen as the result of combining computers and robots bringing a new era in production, pushing back the frontiers of possible development of the productive forces and reducing, and then almost completely excluding, labour costs in production; the revolution in armaments had meant the creation of such powerful forms of arms that they make a military victory impossible, and are, at the same time, capable of destroying the whole of human civilisation; the revolution in human rights is evident

in the demand for full human rights to become a universal phenomenon.

Proponents of the "triple revolution" theory provide an extremely contradictory interpretation of the social consequences of the scientific and technological revolution under capitalism. On the one hand, they recognise the existence of acute contradictions between the enormous potential of current productive forces, which have increased sharply under the impact of the scientific and technological revolution, and the conditions for realising them under a capitalist system. On the other hand, the theory's adherents take a utopian attitude towards the possibilities of overcoming these contradictions within the framework of the capitalist mode of production.

They actually state that the powerful development of production, the introduction of cybernetics and automation, are clashing in an irreconcilable way with the economic mechanism existing in the United States of America; the development of latest techniques is coexisting with mass and chronic unemployment; the possibilities of a country's production apparatus capable of ensuring a high level of consumption for all members of society are not being used; and the poverty of wide sections of working people is intensifying. The central issue arising over the cybernetics revolution in the USA is that it sharply reduces opportunities for ensuring employment and worsens the people's position as consumers. The theory's proponents see the major reason for such acute contradictions in the incompleteness of the "industrial system",

and especially in the distribution system typical of it. They are really replacing the main contradiction of capitalism, consisting in the contradiction between the social nature of production and the private form of appropriation, by some mythical contradiction between unlimited opportunities for production emanating from the cybernetics revolution, and the impossibility of securing an abundance of material and spiritual goods in a situation where the principle of income through labour prevails. They see the basic economic problem of the cybernetics revolution in how to distribute the abundance arising as a result of development of cybernetics, not in how to increase production. As a result, they come to the conclusion that all such contradictions are leading American society to a certain historical frontier which requires a radical review both of the established concepts and of the existing social institutions.

The "triple revolution" theory contains a not entirely unrealistic description of the acute social contradictions which accompany the present-day scientific and technological revolution under capitalism. Adherents of the theory talk of the need for a cardinal reform of the economic system of American society which is incapable of resolving the social problems caused by scientific progress. However, on the whole they take an untenable, utopian stance on the question of how to overcome these contradictions. They claim it is possible to set up a welfare state within the bounds of the capitalist mode of production. And they view as means of shaping that society

the development of economic planning and a change in the system of distribution which would make right to income not depend on expenditure of labour. They assume that abundance would be achieved for all members of society freed from monotonous and heavy labour; citizens would freely choose their trade and comprehensively develop creative capacities in conditions of a "genuine democracy" and planned economic development, implemented by social agencies which would direct capital investment into the social sector with the aim of securing general welfare.

The Action Programme for the transitional period includes the following propositions:

1. A call for existing legislative and government institutions to guarantee every member of society the right to a "sufficient income", "necessary economic security" irrespective of whether he is in work or on the dole. The implementation of that right would be the first step in the transformation of society into a new society—an "affluent society".

2. Broad recommendations to promote education.

3. Proposals to carry out social work projects on a sizeable scale, house-building at reasonable rent, city and inter-city transport development, and the setting up of a public energy supply system.

4. Drafting of tax reform intended to implement a just distribution of the financial burdens of the transitional period over all members of society and especially envisaging extensive taxation on super-profits.

5. Stimulation of trade union activity aimed at mitigating the social consequences of cybernetics development for the general public.

6. Introduction of government regulation of the rate and direction of cybernetics development, which would lead to an enhanced role of the state in the economic life of the country.

It is clear that the Action Programme generally does not go beyond the bounds of bourgeois reformism, and is palpably incapable of dealing with that acute aggravation of capitalism's socio-economic contradictions which inevitably flows from the antagonistic forms of contemporary scientific progress typical of capitalism.

Methodologically, the "triple revolution" theory is based on technological fetishism, which leads its proponents to ignore the role of social production relations when they examine the causes of social contradictions in the development of the scientific and technological revolution under capitalism. Typical of them is the way they considerably overestimate the possibilities of scientific and technological progress and underestimate those barriers which capitalism places in the way of their realisation in the public interest. While they correctly note the typical capitalist tendency to squeeze labour power out of production as a result of automation, they draw the utterly unjustified conclusion that the complete exclusion of human labour from production of goods and services may be just around the corner. While declaring the major hindrance to scientific and technological progress for the working people to be the "incomplete-

ness" of the "industrial system" sphere of distribution, they divorce it from the capitalist mode of production, although it is the latter that necessarily determines the antagonistic character of the capitalist system of distribution.

The untenable and utopian nature of the "triple revolution" theory is also apparent in that it claims the possibility of attaining an "affluent society" for everyone within the bounds of the capitalist system, without the class struggle of the working class and its allies—the only social force really able to do away with the capitalist system and make use of the awe-inspiring possibilities of the current scientific and technological revolution for the benefit of the working people under a new social system—a socialist economy; the introduction of the communist principle of distribution—from each according to his ability, to each according to his need—is reckoned to be possible, by the "triple revolution" theorists, by means that presuppose the retention of the socio-economic and political foundations of bourgeois society: capitalist ownership of the means of production, and the dominating positions of capitalist monopolies in both the economic and the political field. At the same time, it is generally known that capitalism limits public consumption, the consumption of hired workers, to the value of the labour power they sell, which at best corresponds to the requirements of reproduction of that labour power, and certainly not to the requirements of full and all-round development of the human personality.

All these features of the "triple revolution"

theory testify to the fact that, despite individual critical attacks on capitalism, as well as certain practical recommendations that sometimes go beyond the bounds of the usual bourgeois reforms, on the whole the theory is a special form of "transformation of capitalism", actually aimed at a bourgeois-reformist interpretation of the processes of development of modern scientific and technological progress and its socio-economic consequences under capitalism.

CAN A REVOLUTION IN
CAPITALIST PRODUCTIVE FORCES
REPLACE A REVOLUTION
IN BOURGEOIS PROPERTY RELATIONS?

It is a false premise for the "postindustrial" society to claim that scientific and technological progress as such can overcome the social contradictions and antagonisms immanent in contemporary capitalism within the framework of the bourgeois system. This is refuted by the whole sum of statistics and scientific conclusions concerning the development of capitalist society.

In this connection, one is struck by the important fact that the launching of the world socialist revolution, begun by the Great October 1917 Revolution in Russia, coincides in time with the commencement of the contemporary scientific and technological revolution. It is significant, further, that the break in the world chain of imperialism and the emergence of the first socialist state occurred as the world capitalist economic system had finally taken shape, which

testified to the substantial growth in the social character of capitalist production while the private form of appropriating the fruits of production was retained. Capitalism which, despite the acute social contradictions and immense economic losses, still coped with the function of the socio-economic form of development of society's productive forces within the bounds of national states, displayed its complete bankruptcy in that function as soon as the world capitalist economy had taken shape. At the same time, the socio-economic roots of scientific and technological progress, which had begun the scientific and technological revolution, lie within the economic processes of shaping the world capitalist economy on the basis of machine industry, which makes technical use of science an objectively necessary principle. The German natural historian Friedrich Herneck writes: "The atomic age has a long pre-history. Its social and economic foundations lie in the development of social relations from the turn of the century. From the standpoint of natural science and technology it was prepared through discoveries in physics which had shaken the world since the 1890s."¹

The decades of the present century, during which the scientific and technological revolution has steadily gained ground and subjected an ever-increasing part of society's productive forces to its transforming influence, have been marked

¹ Friedrich Herneck, *Bahnbrecher des Atomzeitalters*, Berlin, 1965, p. 9.

by deep-going socio-economic transformations over a considerable part of the globe.

The beginning of the twentieth century saw the undivided sway of capitalism within the world economy and its entry into the monopoly stage of development—imperialism, meaning the oppression and exploitation of the bulk of the world's population by a handful of imperialist powers; it also witnessed an upsurge in the labour movement and the awakening of the national liberation movement. The 1970s were marked by important results in a decisive break in the historical process over the previous decades. The world socialist economic system developed rapidly. It is having an ever-mounting impact on the course of world history, forcing imperialism to accept the policy of peaceful coexistence and business cooperation between the two world socio-economic systems. The labour and communist movement in advanced capitalist countries has attained a high degree of organisation and mass membership, and it is conducting a persistent battle against monopoly dominance, and for a democratic and socialist transformation of society. After the defeat of fascism in World War II, the political system of colonialism crumbled under the pressure of the national liberation movement, and over seventy new states came into being out of the previous colonies and semi-colonies. The trend towards non-capitalist development in the newly-liberated countries is increasingly apparent.

The objective inevitability of a sharpening of class antagonisms in bourgeois society with

the growth in capitalist production and scientific and technological progress is rooted in the very nature of the capitalist mode of production. The unrequited appropriation by capitalists of surplus value produced by workers, necessarily stemming from the fact of only one class, the bourgeoisie, monopolising the means of production, and of the conversion of labour power into a commodity—this objective dependence of the aim of capitalist production on the nature of ownership of the means of production, which constitutes the content of the law of surplus value as the fundamental economic law of capitalism, causes the most deep-going antagonism, irredeemable within the bounds of capitalism, between working class and bourgeois interests.

The development of production and the growth in exploitation of the working class under capitalism are, for that reason, two interrelated aspects of a single process of capitalist production.

From the table (p. 503) we can see two results of capitalist production development: a growth in labour productivity and, consequently, in efficiency of social production, on the one hand, and simultaneously, an increase of capitalist exploitation of the workers and, consequently, an intensification of the antagonism between the main classes in bourgeois society, on the other.

In this connection, it is worth drawing attention to the mechanism of development of capitalism's contradictions revealed by Lenin, an understanding of which enables us not only to establish the fact of the aggravation of these contradictions with scientific accuracy, but also to determine

Table 3

**Dynamics of Output and Rate of Surplus Value in
US Manufacturing Industry¹**

	1899	1909	1919	1929	1939	1947	1955	1965
Output per Man-Hour (1967=100)	17.1	19.4	22.1	38.2	48.9	54.8	73.7	92.9
Rate of Surplus Value	145	155	146	181	180	182	239	309
	1970	1971	1972	1973	1974	1975	1976	1977
Output per Man-Hour (1967=100)	104.5	110.3	117.6	118.8	112.6	118.2	123.4	127.2
Rate of Surplus Value	365	382	377	389	416	417	428	432

¹ Calculated from *Statistical Abstract of the United States* (Washington, 1972, pp. 232, 234, 697; 1975, p. 726; 1976, p. 757; 1977, pp. 405, 793; 1980, pp. 416, 805; S. L. Vygodsky, *Contemporary Capitalism*, Moscow, 1969, p. 242 (in Russian); for the method of calculating the norm of surplus value see Vygosky's book, pp. 240-43.

their extent and causes. In examining the process of differentiation of peasant households in the course of capitalist development through analysing the data of German agrarian statistics, Lenin noted in "The Agrarian Question and the 'Critics of Marx'", that this process leads to an erosion of intermediate groups of households and a strengthening of extremes: the rural proletariat, on the one hand, and the rural bourgeoisie, on the other. "We see therefore, *the disappearance of middle groups and the growth of the extreme groups*: the intermediary group is disappearing, *capitalist contradictions* are becoming *more acute*."¹

The significance of this conclusion goes far beyond the analysis of agrarian relations under capitalism. Lenin's formula characterises the general features of the aggravation of contradictions, enabling us not only to see the main trend of development of those contradictions, but also in a number of cases to express them quantitatively.

The development of technology under capitalism far from weakening, actually stirs up a whole set of social antagonisms, leading, in particular, to a differentiation of small commodity-producers and a growth in concentration and centralisation of production and capital, as well as class polarisation of bourgeois society.

This circumstance is borne out by a mass of statistics from capitalist countries over long periods of time, including material on the growth

¹ V. I. Lenin, *Collected Works*, Vol. 5, p. 219.

Table 4

**Dynamics of Size of Hired Labour and its
Proportion in the Gainfully-Employed Population
of Advanced Capitalist Countries¹**

	1900	1950	1960	1965	1970	1973
Number of Hired Workers in All Advanced Capitalist Countries (mln.)	82	163	190	210	225	235
Proportion of Hired Labour in Gainfully-Employed Population (%)	53	69	73	76	78	80

¹ *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 7, 1970, pp. 152, 154; No. 2, 1975, p. 147.

of the proportion of hired labour in the gainfully-employed population.

It is noteworthy that, while the entire gainfully-employed population in advanced capitalist countries grew from 1900 to 1973 by 90 per cent (from 154.4 mln. to 293 mln.), the number of hired workers virtually trebled over the same period (from 82 mln. to 235 mln.) and their proportion in the gainfully-employed population climbed from 53.3 to 80 per cent.

The trend is taking even more vivid forms in the most advanced capitalist states, as the following table shows.

Altogether over a quarter of a century (from 1950 to 1980), the number of hired workers

Table 5

**Number and Proportion of Hired Workers
in Economically-Active Population
of USA, Britain, France and West Germany¹**

Years	USA		Britain		France		West Germany	
	mln.	%	mln.	%	mln.	%	mln.	%
1950	47	74	21	92	12	65	17	72
1960	55	77	23	91	13	70	20	78
1970	71	82	23	91	16	77	22	82
1974-1975	78	83	24	93	17	81	21	85
1980	92	86	23	92	18	83	22	86

¹ *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 6, 1979, p. 37; *Eurostat. Employment and unemployment 1974-1980*, Luxemburg, 1982, pp. 88, 95; *Handbook of Basic Economic Statistics*, March 1982, pp. 12, 13, 64, 65.

in the USA, Britain, France and West Germany taken together increased nearly two-fold (from 97 mln. in 1950 to 155 mln. in 1980), while their proportion in the economically-active population exceeded the corresponding average index for all advanced capitalist states, having reached 83 per cent in France, 86 per cent in West Germany, 86 per cent in the USA and 92 per cent in Great Britain. These statistics irrefutably show the extremely high degree of class polarisation in advanced capitalist countries, in which from 83 to 92 per cent of the gainfully-employed population is deprived of the means of production and forced, therefore, to sell their labour power.

Another side of the class polarisation of bourgeois society is the ever-increasing concentra-

tion of means of production and exchange in the hands of the biggest monopoly capital. While in 1909 only 1.1 per cent of the biggest American companies provided 43.8 per cent of the country's industrial output, in 1970, 102 of the largest US corporations with assets of between a milliard dollars and over, whose proportion in the total number of US corporations constituted only 0.05 per cent, owned 48 per cent of all assets and received 53 per cent of total profit. At the same time, 98.7 per cent of all corporations in the American manufacturing industry accounted in the same year, 1970, for only 13 per cent of the assets and 9 per cent of the aggregate net profit. According to the estimate of Prof. S. L. Vygodsky, the degree of concentration of capital in the US manufacturing industry grew more than 22 times between 1909 and 1970.¹

An analysis of the class polarisation of bourgeois society shows, therefore, consolidation of extreme groups—substantial increase in mass and proportion of hired labour within the gainfully-employed population of advanced capitalist states which hold a leading place in scientific and technological progress within the world capitalist economic system, on the one hand, and growth in concentration of production and capital in the hands of the largest monopoly capital, on the other. One of the fundamental features of this process is the squeezing out of small and medium capitalist entrepreneurs, small commodity-

¹ See S. L. Vygodsky, *Contemporary Capitalism*, p. 12.

producers, i.e., erosion of intermediary groups, which is vividly confirmed by a host of official American statistics.

Table 6

Business Failures (thous.)¹

1950	1955	1960	1965	1970	1975	1976	1977	1979	1980	1981
9.2	11	15.4	13.5	10.7	11.4	9.6	7.9	7.6	11.7	14.5

¹ *Statistical Abstract of the United States*, 1972, p. 485; 1973, p. 487; 1977, p. 570; *Economic Report of the President*, Washington, Feb. 1982, p. 338; Supplement to *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 8, 1982, p. 98.

The annual number of bankruptcies attains considerable proportions—on average over 10,000. In crisis years, this figure rises substantially. The scale of bankruptcies is increasing as well.

In the postwar period, when the scientific and technological revolution had begun vigorously to affect production, creating the prerequisites for essentially increasing the productivity of labour, bourgeois political economy widely advertised the neo-Keynesian policy of economic growth, seeing it as a means capable of resolving all the contradictions of contemporary capitalism. Growth was supposed to solve all problems. It was to remove inequality in distributing wealth, poverty in the midst of plenty, and antagonistic contradictions between labour and capital.

But, alas, all the hopes were built on sand. Bourgeois theorists and politicians ignored the

exploitative essence of economic relations of the capitalist mode of production, which means that any progress in the productive forces under capitalism ineluctably causes an exacerbation of class and other social antagonisms in that system. They actually reduced "economic growth" only to the development of the productive forces as such, imagining them to be existing outside the system of capitalist relations of production. However, real "economic growth" cannot be reduced only to progress of the productive forces, it necessarily presupposes also a certain evolution of the relations of production of the corresponding mode of production. In capitalist conditions, development of society's productive forces ("economic growth") is actually synonymous with growth in monopoly wealth, obtained at the expense of exploiting workers, and an increase in domination over society, which invariably leads to an exacerbation of antagonistic contradictions in capitalism. In the Report to the Twenty-Fifth Party Congress it was noted that capitalism has tried "to apply various methods of economic regulation. This made it possible to stimulate economic growth, but, as the Communists foresaw, it could not remove the contradictions of capitalism."¹

In a situation of economic growth shaped by state-monopoly control measures, including the arms race, exploitation of the working class has

¹ *Documents and Resolutions, XXVth Congress of the C.P.S.U.*, Novosti Press Agency Publishing House, Moscow, 1976, p. 33.

been stepped up, class polarisation of bourgeois society has increased, property inequality has grown considerably, inner city problems have grown worse, crime has burgeoned, unemployment and inflation have got worse, and uneven economic development of imperialist countries has escalated, accompanied by aggravating contradictions between them.

Uneven economic development was particularly evident in the USA during the 1960s, which began with the economic crisis of 1960-61 (decline in industrial production by 8.1 per cent) and included a period of high rate of economic growth in 1962-66, and ended with the new crisis of 1969-70 (the decline was in the order of 7.5 per cent). This obviously bore witness to the inability of the capitalist economy to secure a stable rate of economic growth and obviate economic crises, despite the high level of state-monopoly control, the joining of forces of the major schools of bourgeois economics within the neoclassical synthesis, and despite the opportunities which are obviously opened up by the scientific and technological revolution. Suffice it to say that while the average annual rate of increment in US industrial production comprised 7.3% between 1962 and 1966, it was only 1.3% between 1967 and 1971. The high rate of economic growth, unprecedented in the USA this century (apart from the period of the Second World War) gave way to real economic stagnation and then to an economic crisis.

At the same time, the development of American economics in the 1960s convincingly showed

that even the attainment of a high rate of economic growth for such a long period (1962-66) does not remove, but actually exacerbates the socio-economic contradictions of the capitalist system. It was precisely the 1960s that were marred by social disorders in the United States—Negro riots, student unrest, anti-war demonstrations, the strike movement, etc. During these years the gap in property inequality grew much wider, forcing the American government to accept a national "poverty action programme", which turned out to be so ineffectual that, according to an American economist, "two-thirds of slum residents had never heard of ... the war on poverty."¹

It is noteworthy that, during the 1960s inflation acquired a galloping character, and prices continued to rise rapidly even during economic crises. The latter part of the 1960s and first part of the 1970s played a particular role in that process. While the average annual increment in retail prices in the USA amounted to 1.7 per cent between 1956 and 1966, it climbed to 5.1 per cent between 1966 and 1974. In the crisis year 1970 consumer prices in the USA increased by 5.9 per cent; subsequently, even this rate was surpassed in 1974, when retail prices increased by 11.1 per cent. However, it was in the latter part of the 1960s that a sharp price increase and a rise in unemployment first occurred simulta-

¹ Otis L. Graham, Jr., *Toward a Planned Society. From Roosevelt to Nixon*, New York, 1976, p. 148.

neously, exposing the utter futility of the so-called "Phillips curve".

It has long been established that development of technology under capitalism enables the bourgeoisie to use cheap female and child labour, leading to a relative overpopulation—unemployment, to periodic crises of overproduction, and other crisis phenomena engendering generally a trend towards a deterioration of the condition of the working class and other sections of the working people. The very first Party Programme (1903) stated that, "Crises and periods of industrial stagnation in turn impoverish even more the small producers, increase even more the dependence of wage-labour on capital, lead even more rapidly to a relative and sometimes even absolute worsening of the condition of the working class."¹

This is a classical Marxist formula characterising the condition of the working people under capitalism and backed up by a mass of official statistics covering the decades of capitalist development from the beginning of the era in all countries of the capitalist world without exception.

It is noteworthy that objectively-thinking bourgeois economists are being forced today, under pressure from the facts, to agree with this Marxist-Leninist formula. Joan Robinson, for example, who is one of the most influential contemporary bourgeois economists, stressed in her speech at the opening of the annual session

¹ See *CPSU in Resolutions and Decisions*, Vol. 1, Moscow, 1970, p. 61 (in Russian).

of the American Economics Association in December 1971 that nowadays not only an economic crisis of overproduction, but also economic growth in the capitalist countries is causing an increase in poverty among the working people. "Not only subjective poverty is never overcome by growth, but absolute poverty is increased by it... As growth goes on at the top, more and more families are thrown out at the bottom. Absolute misery grows while wealth increases."¹

Unemployment, as a natural consequence of the capitalist application of technical progress, is not only a principal means of subordinating labour to capital, and consequently, intensifying exploitation of the working class, but is also a major weapon of racial oppression of national minorities in capitalist countries, as borne out by official American statistics, which normally underestimate the scale of unemployment.

What is striking is that unemployment among the non-White population is continually exceeding the average unemployment indicators; it is sometimes virtually double. Consequently, we are dealing with discrimination against the non-White population on the most vital of all issues—the means of existence and development. This irrefutable fact of American reality reveals the whole falsity of the hypocritical "human rights" campaign conducted by the American administration.

¹ Joan Robinson, "The Second Crisis of Economic Theory", *The American Economic Review*, May 1972, Vol. 62, No. 2, p. 7.

Table 7

Unemployment Dynamics in the USA ¹

	1950	1955	1960	1965	1970	1975	1976	1977	1980	1981
Unemployed (mln)	3.3	2.9	3.9	3.4	4.1	7.9	7.3	6.9	7.6	8.3
% of gainfully employed	5.4	4.4	5.5	4.5	4.9	8.5	7.7	7.0	7.1	7.6
Unemployment among non- White men (%)	—	8.2	10.7	7.6	7.3	14.7*	13.1	13.1	13.1	14.2

* May 1975

Meanwhile, the mass scale of unemployment testifies to capitalism's inability to use the attainments of the contemporary scientific and technological revolution in the interests of the working people. What is more, the introduction of up-to-date technology into production intensifies the crisis processes of the capitalist economy, which leads to a considerable worsening of the position of the working people. The economic crisis that started in 1974 led to a reduction in real wages by 9.7 per cent over two years.²

In summing up the part played by scientific

¹ *Statistical Abstract of the United States*, 1972, p. 216; 1977, pp. 387, 388; 1980, p. 407; *Economic Report of the President*, February 1982, pp. 268, 269, 271.

² See *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 2, 1976, p. 11.

and technological progress in exacerbating the social contradictions of bourgeois society, the International Meeting of Communist and Workers' Parties of 1969 stated that, "The scientific and technological revolution accelerates the socialisation of the economy; under monopoly domination this leads to the reproduction of social antagonisms on a growing scale and in a sharper form. Not only have the long-standing contradictions of capitalism been aggravated, but new ones have arisen as well."¹

The aggravation of class contradictions of bourgeois society, the processes of deterioration of the condition of the working class, are causing growing popular resistance, inspiring the working people to determined struggle against the tyranny of capital. The postwar period is characterised, even according to official bourgeois statistics, by an upsurge in the strike movement of virtually every advanced capitalist country.

Thus, statistics on development of social antagonisms in contemporary capitalism under the impact of scientific and technological progress convincingly expose the bankruptcy of "post-industrial society" concept of the possibility of overcoming contradictions in the capitalist mode of production by using the fruits of the scientific and technological revolution and thereby substituting socialist revolution by a revolution in science and technology.

¹ *International Meeting of Communist and Workers' Parties, Moscow, 1969, Prague, 1969, p. 19.*

Table 8

Strike Movement In Economically-Advanced Capitalist States ¹

	1951-55	1956-60	1961-65	1966-70	1971-75	1976-79
Number of strikes	13,211	12,790	15,323	13,510		
Number of strikers (mln., aver. per annum) . .	9.2	7.8	10.4	16.0	25.9	31.6
Number of strike man-days (thous.)	55,706	56,624	47,776	111,720	223,734	105,753

¹ *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, No. 9, 1971, p. 151; 1976, No. 2, p. 12; 1981, No. 3, p. 47.

5. IDEOLOGICAL CRISIS IN MODERN BOURGEOIS ECONOMICS

A study of the concepts based on the "transformation of capitalism" thesis, which is the main trend of development of bourgeois socio-economic theories which are intended to provide answer as to the ways of development for human society, leads us to the conclusion that contemporary bourgeois political economy is suffering an ideological crisis as part of its general crisis. Western economists and sociologists today have to admit that bourgeois ideology is unable to create an integral system of views on the trends in society's historical development that would be capable of standing up to the ideas of scientific socialism. The American sociologist Bernard Eissenstat has written that "The present global crisis appears as a political crisis, and it must be faced as such. But it is also, and ultimately, a crisis of ideas and values. It involves a crisis in our attitude toward the Communist forces..."¹

Being a form (and a very important one at that) of bourgeois ideology, economics reflects the internal contradictions of contemporary capitalist society, and in equal measure also the peculiarities of its existence as a world system opposed to the system of world socialism.

The crisis in economics is expressed in the growing inability of contemporary bourgeois political economy to advance ideas which provide a scientific elucidation of new socio-economic processes and phenomena, encouraging the development of the productive forces and relations of

¹ Bernard W. Eissenstat (ed.), *The Soviet Union: The Seventies and Beyond*, Lexington, Mass., 1975, p. 15.

production or social progress as a whole.

It is becoming increasingly clear that bourgeois economics is unable to provide a scientific interpretation of present-day trends in social development. Therefore, bourgeois economics is obliged to use certain propositions which many decades ago had been scientifically elaborated by Marxism-Leninism, trying to adapt them to their own ideological ends, and thereby distorting and vulgarising them, sometimes even concealing the real source of their origin. Speaking of the "two aspects" of Marx's theory of mode of production—a society's productive forces and relations of production—Daniel Bell uncovers the secret of construction of the "industrial society" theory, omitting to note that it is based on absolutising the processes of development of the productive forces and divorcing them from the development of relations of production, and therefore provides a distorted view of the nature and trends of the present-day historical process. "The theory of industrial society, which has been advanced most notably by Raymond Aron, takes off from the second of these two aspects of Marx's theory of the mode of production."¹

Bourgeois ideologists, while waging a persistent struggle against Marxism-Leninism, have to admit that Marxist ideas enjoy enormous popularity. The American Sovietologist and politics professor at the University of California, R. G. Wesson gets helplessly bogged down in the very problem he has dreamed up—Why

¹ Daniel Bell, *The Coming of Post-Industrial Society*, p. 41,

Marxism? He claims that Marxism is long and many-times bankrupt, and yet finds increasing success; so he has grudgingly to recognise the mounting popularity of Marxist ideas. "No other non-religious works have been so widely discussed and analysed as those of Marx."¹ Even such a virulent critic of everything associated with socialism, Zbigniew Brzezinski, has admitted that Marxism is "a unique intellectual tool for understanding and harnessing the fundamental forces of our time."²

The "riddle of Marxism" which bourgeois economics has to unravel is a vivid manifestation of the ideological crisis such economics is experiencing. On the one hand, as bourgeois economists, they are bound to "refute" Marxism and claim that it is "outmoded" and "untenable", since the ideological function inherent in bourgeois economics is objectively realised in this point of view. On the other hand, they are bound to recognise the obvious fact of the wide popularity and mounting authority of Marxist economic theory, which they are unable to explain denying as they do the enormous scientific significance of this theory.

Present-day bourgeois political economy is incapable of putting up any justified alternative capable of meeting public support and sympathy to the actually-existing and developing socialist economic system. Hence the feverish search for new conceptions, the constant change of sign-

¹ R. G. Wesson, *Why Marxism?*, New York, 1976, p. 4.

² Z. Brzezinski, *Between Two Ages. America's Role in the Technetronic Era*, New York, 1970, p. 123.

boards for bourgeois economic theories, the urge to find a non-existent "third way" of social development, to portray contemporary state-monopoly capitalism as some sort of "new society", supposedly having done away with antagonisms of the bourgeois system. It is here that we can find an answer to the paradox, that a deepening of the ideological crisis of contemporary bourgeois political economy takes the form of regular "revolutions" that it goes through, which signify a change primarily only in the methods of defending capitalism.

Realists among bourgeois economists today have to admit that the source of socialism's historical achievements is its socio-economic system. Of some interest in this regard is the following statement by the American "Soviologist" Allen Kassof, "The secure place of the Soviet Union as a ranking world power is only an outward reflection of the maturation of social institutions at home." Describing further socialist attainments in the USSR, he concludes: "The magnitude of the Soviet accomplishment, however uneven and flawed, is underscored by the fact that comparable levels are still beyond the reach, if not the dreams, of most people of most of the world."¹

The breakdown of capitalist relations and the progress of socialism have become so self-evident and so wide-ranging that contemporary bourgeois political economy has had drastically to change the front of ideological defence of capital-

¹ Allen Kassof (ed.), *Prospects for Soviet Society*, London, 1968, pp. 3-4.

ism—now formally recognising the non-capitalist trend of the present socio-economic development. However, the bourgeois conceptions of capitalism's "transformation" into some sort of non-capitalist system have received extensive publicity (the "welfare state", "industrial", "post-industrial", "superindustrial", "technetronic", "postcivilised", etc., society theories, as well as bourgeois concepts of "socialism") and now exist in even more masked form, yet still propagate the same old dogma about the eternal nature of the capitalist order bearing witness to the ideological bankruptcy of current bourgeois political economy.

In an interview with the periodical *Rinascita* the politics professor Wolf-Dieter Narr of West Berlin used the "welfare state" concept as an example to express very clearly the real purpose of the "transformation" of capitalism theory as the perpetuation of the capitalist system. "The conception of the welfare state must be straightaway linked to capitalist society. It is not an alternative to capitalist society, only a modified form of existence of free competition... Thus, the welfare state is a form of capitalist society."¹

The cause of the ideological crisis in contemporary bourgeois economics therefore has an objective character. It is rooted in the class nature of bourgeois economics, precluding the possibility of a scientific analysis of present-day trends in historical development. In one way or another this truth is beginning to force its way into Western economic writings, especially

¹ *Rinascita*, No. 33, 1979, p. 23.

those of a radical orientation. The American economist Robert Heilbroner answers the question why the "academic economists" are unwilling to tackle acute problems concerning the social essence of the capitalist system. "This is because economists tend to be located in the upper echelons of the pyramid of incomes and thus tend to share, consciously or otherwise, the conserving attitude that is characteristic of top echelons in all societies."¹ Like all other social groups, he explains, economists recognise the values and standards of the socio-economic stratum to which they belong.

The "postindustrial" society conception is a striking expression of the ideological crisis of contemporary bourgeois social science; it outlines the contours of a society of the future so as to counterpose it to the actual process of building a future communist society in the socialist countries. At first glance, there is much in their approach that is casual and arbitrary. They create the impression that different variants of this conception represent only a realisation of the vulgar-subjective theory of "free choice" of the direction of social development, of the determining role in social development of the ideas of scientists and politicians, which had received probably the clearest expression in "Economics as a Moral Science" by the American economist Kenneth Boulding. Applying the traditional method of denying the very possibility for social sciences of objectively cognising

¹ Robert L. Heilbroner and Arthur M. Ford, *Is Economics Relevant?*, California, 1971, p. XII.

reality, he claims that science not only affects the object of its investigation in the process of that investigation, but, what is more, it creates that object: "as science develops it no longer merely investigates the world; it creates the world which it is investigating."¹ He applies this principle to social sciences and, on that basis, tackles problems of forecasting the trend of social development and possible changes in that orientation. He asserts that social sciences not only study "social systems" but also create them. "In the social sciences one can defend the proposition that most of what we can really know is what we create ourselves and that prediction in social systems can be achieved only by setting up consciously created systems which will make the predictions come true."² The pinnacle of a subjectivist interpretation of the trend of social development fully refuting its determinism is Boulding's proposition that what science creates "becomes a problem of ethical choice",³ which actually boils down to affirming the arbitrary choice of the trend of socio-economic development.

Boulding, therefore, actually denies the objective economic character of contemporary socio-economic development, and consequently its definite orientation. His scientifically untenable viewpoint nevertheless has a certain significance: it is intended methodologically to substantiate the bourgeois idea of "transformation of capi-

¹ Kenneth E. Boulding, "Economics as a Moral Science", *The American Economic Review*, March 1969, Vol. 59, No. 1, p. 3.

² *Ibid.*

³ *Ibid.*

talism", proclaiming a multiplicity of paths for the contemporary historical process, so as to find new means of glossing over the objective need for the transition from the capitalist system of production to the socialist. At the same time, Boulding's position is of interest in the sense that it contains a general formulation of the partisan principle in present-day bourgeois economics. According to Boulding, the theoretical constructions which economics creates have to be oriented not on an objective reflection of reality, but on certain ethical norms which have a class character—i.e., actually the class interests of the bourgeoisie.

Acquainting himself with the features of the future society in the concept of "postindustrial society", the reader has a certain feeling of *déjà vue* about it. It seems that these ideas were expressed somewhere else, rather more clearly and having a completely different social sense. In other words, the theorists of "postindustrialism" have been obliged to embellish their future society with features close to those of the communist system, so as to snatch slogans from the communist movement that enjoy sympathy and support among the mass public and reflect real trends of historical development that have markedly shown themselves in the socialist countries. Here the theorists of "postindustrialism" strive to snap the link between these features of the future society and the communist formation, pretending that their attainment is possible without the building of communism. This trait of "postindustrialism" theories is a most obvious

manifestation of the ideological crisis of contemporary bourgeois economics and sociology. The onward march of socialism is creating such an ideological situation that the bourgeois ideologists have actually to reproduce the scientific truths long discovered by Marxism-Leninism, trying to use them, in distorted and debased form, in their struggle against the scientific ideology of the working class and against socialism. The ideological barrenness of "postindustrialism" engendered by its reactionary position is given out by its theorists as some sort of innovation in social science.

"Postindustrial" society is depicted, for example, as a society of intellectuals "cognising society". As Bell writes, in that society theoretical knowledge plays a central role "as the axis around which new technology, economic growth and the stratification of society will be organised"¹. "Intellectual technology" will take the place of machine technology; the chief problem of the society will be the organisation of science, the primary institutions instead of industrial corporations will be universities and research institutes.²

All this means that in the future society the fruits of the scientific and technological revolution will be enjoyed, that it will remove both the contradiction and the essential distinction between mental and manual labour, and will take a big step towards the all-round development of the individual. All these are long known ideas.

¹ Daniel Bell, *op. cit.*, p. 112.

² *Ibid.*, p. 116.

Such problems were not only posed, they were long ago resolved by social science. It was Marxism-Leninism which first provided a justification for the need of historical paths for converting science into a direct productive force of society, and the all-round development of the individual. Marxism-Leninism revealed what the theorists of "postindustrialism" are doing their best to gloss over, namely the objective need for a revolutionary transformation of bourgeois society into the socialist one as a socio-economic prerequisite for solving these problems.

A characteristic feature of "postindustrial" society is declared to be that attempts are being made to refute the role of private ownership of the means of production as the "central institution". Bell claims that "a post-industrial society is based on services... and amenities"¹—the tertiary sector, which operates outside the sphere of business and government and pursues no profit. In the transition from capitalism to "postindustrial society", there is a change in the axial principle determining the socio-economic nature of society. "In capitalist society the axial institution has been private property and in the post-industrial society it is the centrality of theoretical knowledge."² We see here again that Bell is only describing a historical trend of abolishing private capitalist ownership, investigated by Marxism-Leninism and revealed in various forms in the emergence of the socialist mode of production; yet he gives this trend the character of some

¹ *Ibid.*, p. 127.

² *Ibid.*, p. 115.

automatic process, ignoring the irrefutable fact that only socialist revolution, the socialist transformation of society can actually put an end to private capitalist ownership which has become an enormous brake on social development.

With the development of socialism, the class differences between people will increasingly disappear and the prospect of a classless communist society will become ever more evident. Even bourgeois "Sovietologists" have to admit that "Soviet society will become more homogeneous."¹ Against a background of an ever-growing social and property inequality typical of present-day capitalism, this real trend towards a disappearance of class distinctions under mature socialism acquires a tremendous attractive force for the working people in capitalist countries. The working people of the whole world see in the historical experience of the USSR and other socialist countries the realisation of their long-cherished aspirations for genuine equality, the elimination of human exploitation, and the monstrous property difference between various classes of bourgeois society. The most far-sighted bourgeois economists link the advantages of socialism with its inherent tendency to attain socio-economic equality between people. Galbraith, commenting on the draft Tenth Five-Year Plan in the USSR, in a conversation with a TASS reporter, said that "one can see from it how grandiose are the consumer requirements of the socialist economy based on the principle of equality. It is easy to plan an economy which guarantees a high living standard

¹ Allen Kassof, *op. cit.*, p. 500.

to a minority of the population... A problem arises only when you have to do that for all. Then requirements really are colossal. I believe that this is the chief problem which the planning agencies of the Soviet Union have set out to tackle."

Bourgeois economists and sociologists do all they can to play down this revolutionising influence of socialist economic development. To these ends they try to portray the trend towards classless society as some sort of "universal" trend typical also of contemporary bourgeois society. According to Bell, for example, it is not the differences with regard to ownership of the means of production, but occupation that is "the most important determinant of class and stratification in the society."¹ It is on that basis that he divides up classes in future society: "the creative elite of scientists and the top professional administrators"; "the middle class of engineers and the professorate"; and "the proletariat of technicians, junior faculty, and teaching assistants."² So future society is actually depicted as classless society, the difference between its members being only related to a varying degree of technical and other knowledge. The only riddle left to unravel is how, in shifting across from capitalism to "post-industrial society", a transfer can be effected from one "axial principle" of class division, i.e., ownership of the means of production, to another—degree of knowledge. The "post-industrial society" theory is based on evolution and automatic movement of transition. Yet histor-

¹ Daniel Bell, *op. cit.*, p. 15.

² *Ibid.*, pp. 213-14.

ically we only know one way of making such a transition—the revolutionary overthrow of outmoded bourgeois property relations producing a class society with antagonistic contradictions and exploitation, and the transfer to socialist property relations, creating the necessary socio-economic preconditions for developing towards a classless communist society.

As a paramount feature of the future society, bourgeois economists and sociologists declare the planned nature of its economy. In the face of chronic crisis troubles that afflict the capitalist economy, bourgeois economists are with more and more insistence posing the question of the need to reject the dogma of “free enterprise”, which had actually exhausted itself a century ago, and move to organising a system of national planning of the capitalist economy. In 1975, the American economist Leontief made just such a proposal. And Galbraith talks of creating a “capitalist Gosplan”. For the purpose of coordinating development of different parts of the economy, he writes, “there will have to be a public planning authority”.¹ It is indicative that even the business circles of capitalist countries are now beginning more fully to appreciate the wastefulness of the “automatic” market regulation of the capitalist economy. In an article in *Fortune*, T. Bradshaw, President of the Atlantic Richfield oil monopoly, which in selling capacity takes fifteenth place among the top 500 biggest American corporations, stated: “I advocate such

¹ J. K. Galbraith, *Economics and the Public Purpose*, p. 318.

planning as a means of saving the very market system so often considered to be inconsonant with it."¹

Despite their utopian nature (inasmuch as national economic planning is impossible while retaining private capitalist ownership, the so-called market economy), such ideas in contemporary bourgeois economics are considered innovative and national economic planning is seen as a feature of the future society. Yet Marxism, which had provided scientific proof of the objective need for economic planning more than a century ago, demonstrated that the socio-economic prerequisites for realising that need consisted first of all in putting an end to the private capitalist economic system and establishing public socialist ownership of the means of production. And a planned economy has already existed for sixty years or more in the Soviet Union, enabling its people to secure a rapid and crisis-free development of the economy in the interests of the whole people.

The "postindustrial society" theorists, describing the future society's traits in the way they do, only testify to the deep-going ideological crisis gripping present-day bourgeois political economy and sociology. They are being forced by stern logic of the contemporary historical process, the laws of which were discovered by Marxism-Leninism and applied in practice in the course of revolutionary transformations in the socialist countries, to recognise, though in a distorted and reactionary form, certain real historical trends

¹ *Fortune*, May 1977, p. 100.

in the development of contemporary society towards socialism and communism. This is, however, done so as, by traducing them and severing their internal connection with the revolutionary struggle of the working class for socialism, to turn this recognition against the actual historical process of social development towards socialism, against the interests of the working people, and for the perpetuation of the capitalist system of exploitation and oppression.

The ideological crisis of present-day bourgeois political economy is determined, therefore, by the lack of historical prospects for the capitalist mode of production and by the progress of the socialist economic system which is replacing it. It emanates from that decisive circumstance that the real course of historical development of society is contradicting the vital class interests of the bourgeoisie. For that reason, bourgeois political economy and sociology are unable to come up with fresh scientific ideas generalising the socio-historical process. The development of the world revolutionary process and the great gains being achieved by the world socialist economic system are steadily cutting the ground from under the feet of bourgeois apologists and with increasing clarity confirming the scientifically correct analysis of the trend of the socio-historical process provided by Marxism-Leninism.

The results of social development throughout the world over the last three quarters of a century markedly reveal the growth of contradictions under capitalism inexorably leading to the replacement of capitalism by the socialist system. On

the one hand, we see an acceleration of the rate of capitalist production, substantial growth in its volume and rapid scientific and technological progress in the capitalist countries; on the other, we see the historical defeat of the capitalist mode of production in the world: the loss of its monopoly position, and then of its decisive influence on the course of world development as against the rapid and steady progress of the world socialist economic system. It is noteworthy that capitalism loses one historical position after another even when the general tendency of capitalist production is towards growth and not economic stagnation; this bears out its profound internal contradictoriness, testifying that it is ready and more than ready for socialist transformations.

The history of capitalism in the twentieth century has fully borne out the correctness of Marxist-Leninist propositions of political economy that the development of capitalist production and the progress of technology under capitalism signify, at the same time, the development of contradictions and antagonisms inherent in capitalism. Scientific and technological progress generally and the scientific and technological revolution in particular are not only incapable of resolving the contradictions of the capitalist mode of production and thereby removing the inevitability of socialist revolution, but on the contrary, they are leading to an aggravation of all kinds of social contradictions of capitalism and paving the way for revolutionary socialist change in bourgeois society.

CONCLUSION

Contemporary bourgeois political economy has two major trends, differing in the objective subject of their analysis and principal objectives, and embracing essentially all its multifarious tendencies. They are, first, the functional school—i.e., bourgeois theories of state-monopoly control of the capitalist economy represented by neoclassical and neo-Keynesian theories of economic growth and analysis on the basis of input-output method, econometric investigations, “neoclassical synthesis” and “zero economic growth” theories, etc.; second, there is the historical school which includes “neocapitalism” theories, as well as the bourgeois theories of “transformation” of capitalism, represented by “new industrial society”, “postindustrial”, “postcivilised”, “post-bourgeois”, “superindustrial”, “technetronic”, “programmed”, etc., societies.

This classification (relative, of course) is dictated by the duality of objectives which contemporary socio-economic development places before bourgeois political economy.

1. Elaboration of theories and programmes of economic policy of state-monopoly capitalism, necessarily emanating from the contradictory character of present-day capitalist socialisation of production and the processes of intensification of the general crisis of capitalism.

2. Apology for the capitalist system at a time when the socialist orientation of contemporary socio-economic development is patently apparent, and which is being expressed in the ever-increasing maturity of objective and subjective prerequisites for socialism in capitalist countries, and

chiefly in the formation and rapid development of the world socialist economic system.

These two direct historical results of capitalist socialisation of production—development of state-monopoly capitalism, creating objective and subjective conditions for socialism, on the one hand, and the rapid progress of the socialist social system, on the other—appear as the historical basis for dividing contemporary bourgeois political economy into two main schools. The closely-associated differences in objective subjects of investigation of both schools (irrespective of the extent of awareness of this difference among bourgeois economists)—the functional (bourgeois theories of state-monopoly regulation of the economy) and the historical (bourgeois theories of “neocapitalism” and “transformation” of capitalism) aspects of capitalism’s economic laws exist as primary criteria for classifying the trends of contemporary bourgeois political economy. In turn, different approaches to the above-mentioned objective subjects of investigation provide secondary criteria of classification, enabling us to differentiate within the framework of the two main schools of contemporary bourgeois political economy individual orientations (for example, theories of “industrial”, “postindustrial”, “postcivilised”, etc., societies within the bounds of the overall school of “transformation of capitalism”).

If we bear in mind that the above-mentioned two major schools in contemporary economics totally exhaust the entire content of the objective subject of investigation within political economy (although they largely interpret it in their

own vulgar-apologist way), we may apparently arrive at the conclusion that they are actually including all the trends of present-day bourgeois political economy.

This approach facilitates an analysis of the state and tendencies of development of the above-mentioned two major schools of contemporary bourgeois political economy, which creates certain prerequisites for determining the possible change in these schools in the future, insofar as it enables generally to embrace the sum total of trends of bourgeois political economy in their law-governed manifestation.

The possibilities of forecasting the evolution of the main trends in contemporary bourgeois economics depend also on the fact that the main course of development of their objective subjects of investigation is generally known to Marxist-Leninist science.

The objective need for transition from capitalism to socialism, revealed by Marxism back in the middle of the last century, is acquiring ever more visible and distinct forms as the general crisis of capitalism deepens, and as the world socialist economic system emerges and develops. At the same time, the evolution of bourgeois concepts of "neocapitalism" and "transformation" of capitalism is bound up precisely with this historical need; the objective subject of investigation of these concepts (which receives a vulgar-apologist elucidation in them) is the historical aspects of capitalism's economic laws or, in other words, the socio-economic essence and direction of capitalism's historical development.

In assessing the prospects for the development of bourgeois historical theories, we must start by realising that these theories change their form under the impact of the world revolutionary process so that they can continue to fulfil their ideological apologetic function in a historical situation that is changing in favour of world socialism. The most general direction of evolution of these concepts has been expressed in the transition from viewing the capitalist system as "eternal" to the "neocapitalism" theories which advance the thesis that, although the social system remains capitalist, it has radically altered its nature and become a social system free of the contradictions and antagonisms inherent in the old capitalism; and there has been a shift towards the concepts of "transforming" capitalism into some sort of non-capitalist system.

Having started out with the idea that capitalism was eternal, by the 1920s and 1930s these concepts had begun to move to "neocapitalism"—the theory of self-elimination of the major contradictions of capitalism within its own framework ("organised capitalism" theory, claiming that capitalism had overcome the anarchy of production, the cyclical nature and inevitability of economic crises; the theory of "people's capitalism", claiming that bourgeois society can overcome the antagonism between its main classes by converting all its members into capitalists; the "employment" and "welfare" theories asserting the possibility of removing unemployment and attaining a high level of popular welfare under capitalism, and several other theories).

During the 1960s there was a shift from "neocapitalism" theories, which continue to play a certain part even today, to "transformation of capitalism" theories ("consumer society", the "new industrial", "postindustrial", "postcivilised", "technetronic", "programmed", "superindustrial", etc., society theories), whose aim is to portray the transition from capitalism to a non-capitalist (but non-socialist) society as already having taken place in the course of social and, above all, scientific and technological progress, without a social proletarian revolution, in order to replace the socialist by a scientific and technological revolution. Yet analysis shows that the concepts of "transformation of capitalism", the most important of which are the contemporary theories of institutionalism, are only an ideological cover for state-monopoly capitalism, reflecting the search for new means of apologising for capitalism.

Thus, the development of the objective historical process of revolutionary change from capitalism to socialism, the ever-increasing socialist orientation of social development, have forced bourgeois apologists to shift from advocating the everlasting nature of capitalism to elaborating the concepts of "neocapitalism" and then "transformation of capitalism".

On those grounds, one may suppose that the further development of the world revolutionary process, the transition of more and more new countries to socialism, the development and strengthening of world socialism will all lead to an increase in the role of bourgeois concepts of "transforming capitalism", and then of "socialism", in the

arsenal of ideological weapons of contemporary imperialism. Bourgeois theorists will recognise even more than now (but only in form) not only the non-capitalist, but precisely the "socialist" orientation of contemporary socio-economic development so as to continue to defend the interests of the bourgeoisie, especially of very big capital, using pseudo-socialist terminology.

It goes without saying that this process is bound to take certain transitional forms of bourgeois theories, underscoring the growth of social functions of the bourgeois state, the "mixed" ("social" and private) nature of the capitalist economy, etc. This element is fairly clearly represented in the "neocapitalism" and "transformation of capitalism" theories even now (in the idea of "social market economy", whose proponents talk of some "third" way for social development, in the theories of "industrial" and especially "postindustrial" societies, etc.). However, the importance of this "social" element is evidently likely to grow. What is more, the part played by bourgeois theories of socialism, including those of the "democratic socialism" type, are likely to increase with time.

The above-mentioned evolution of bourgeois theories of "transformation of capitalism" reflects the development of a crisis in the ideological function of contemporary bourgeois political economy, expressed in the enforced rejection by its theorists of traditional slogans and forms of defending capitalism and, at the same time, the search for new forms; consequently, this is not an ideological disarmament, but an enforced

adaptation of the methods of defending imperialism in conformity with the consistently developing world revolutionary process. The multiplicity of "transformation of capitalism" concepts reflects the search for the most effective forms of bourgeois theories capable of fulfilling the ideological function of bourgeois political economy in present circumstances.

A study of the nature and evolution of the objective subject of investigation of the second major school of contemporary bourgeois political economy—those of state-monopoly control of the capitalist economy—does much to facilitate an understanding of the "neoclassical synthesis" perspective. From the viewpoint of defining the objective subject of investigation of this school—quantitative, functional relationships of capitalist reproduction—one can comprehend both the very possibility of convergence of the neo-Keynesian and neoclassical theories that had been competing with one another (by virtue of studying the same subject), and the content of the present stage in the crisis of the neoclassical synthesis.

Already at the start of the 1960s one could clearly see that recommendations for state-monopoly control of the capitalist economy based on ideas of the neoclassical synthesis were not saving the capitalist system from the aggravation of social contradictions even at a time of economic growth. At the same time, it was becoming more and more clear that the prescriptions of neo-Keynesianism and the neoclassical school were incapable of securing a stable rate of economic growth and averting the crises of overproduction.

The economic crisis which began in 1974-75 testified to the fact that bourgeois economics was not only unable to work out an effective programme ensuring stable economic growth, but that it did not have sufficiently reliable means of forecasting economic development.

The peculiarity of the neoclassical synthesis from a methodological point of view is that its theorists (owing to the class limitation of their position), being unable to investigate the specific laws of capitalist reproduction, its exploitative nature and the inevitable aggravation of capitalist contradictions in the course of economic growth, have been forced to confine their study merely to certain quantitative, functional and, moreover, universal reproduction ties and relationships. Therefore, the bourgeois growth theories cannot provide any realistic idea of the motive forces, and often also of the short-term socio-economic consequences of economic growth, not to speak of its historical tendency.

A characteristic feature of the concepts of neoclassical synthesis is the reliance on technical-economic, universal reproduction relationships and, in large measure, an abstraction from the specifically capitalist laws of extended capitalist reproduction. For that reason it came as a surprise to bourgeois political economy that capitalism's social contradictions can worsen not only at a time of crisis recession, but also at a time of economic growth, which was expressed in the aggravation of the problem of impoverishment, cities' problem, crime increase, the environment, Negro riots, student unrest, rapid rise in inflation,

and the currency and energy crises.

The limited nature of the analysis, stemming from the class nature of the "neoclassical synthesis", in studying only quantitative relationships of the capitalist reproduction process, has served as a major reason for calls for a new synthesis of trends of bourgeois political economy.

The crisis in the "neoclassical synthesis" has brought a certain reconstruction of the trends of bourgeois political economy and a certain change in the ideological situation generally.

In this connection the following circumstances are worthy of consideration.

1. The crisis in bourgeois theories of economic growth, no matter what acute forms they may take in bourgeois literature, by no means signifies a rejection by bourgeois economics of an elaboration of both theoretical principles and practical recommendations for the economic policy of state-monopoly capitalism. It is a matter only of reshaping these theories in line with the new requirements of the economic and political situation, insofar as bourgeois political economy retains its objective task of working out the theory and practical methods of state-monopoly capitalism, retains the objective subject of investigation for the given major school of contemporary bourgeois political economy. One of the key directions of this reconstruction of bourgeois theories, whose aim is to take into consideration in a certain measure the socio-economic conditions and consequences of economic growth, is the new synthesis of the trends of bourgeois political economy, the synthesis of the theories of economic

growth and contemporary institutionalism, the synthesis of neo-Keynesian theories of economic growth and monetarism, the synthesis of neo-Keynesianism and "input-output" theories, etc.

2. The enhanced role of the concepts of contemporary institutionalism, which reflects—by contrast with the neoclassical synthesis—certain social aspects of modern capitalism, but only those of them (for example, growth in economic importance of big corporations, the state, their merger, etc.), that do not contradict the ideological function of contemporary bourgeois political economy. At the present time, institutionalism is the major direction among the bourgeois theories of "transformation of capitalism". But it, too, by virtue of its bourgeois limitations, goes no further than describing certain essential forms of manifestation of capitalist relations of production, the socio organisational forms of the present-day productive forces, several external manifestations and the social contradictions of contemporary capitalism, and does not expose the antagonistic essence of contemporary capitalism and its historically transient character that lies behind it.

3. Ignoring by the neoclassical school of the social aspects of economic processes of capitalism and the apologist stance on these issues expressed in the "transformation of capitalism" concepts have been a prerequisite for shaping the so-called radical economics in the mid-1960s (as a special variety of institutionalism). It poses acute social issues on the condition of the working people under capitalism (problems of pover-

ty amid plenty, discrimination against national minorities, women and young people), on imperialist policy, etc. But it criticises contemporary capitalism from the viewpoint of petty-bourgeois and bourgeois radicalism and reformism.

Such are certain structural forms of the manifestation of the current stage of the crisis in bourgeois political economy, which require special investigation for proper analysis.

The deepest and most acute economic crisis since the war, 1974-75, its intertwining with such serious shocks to the world capitalist economy as the currency, energy and raw materials crises, unprecedented inflation that caused a considerable deterioration in the position of the working people, strikingly expose the bankruptcy of both the theories of state-monopoly regulation of the capitalist economy, and the "transformation of capitalism" concepts. As was pointed out in the Central Committee Report to the Twenty-Fifth Party Congress, "The instability of capitalism is becoming more and more apparent. Promises to make capitalism "sounder" and to create a welfare society within its framework have obviously failed."¹

"A further aggravation of the general crisis of capitalism was witnessed during these years. To be sure, capitalism has not stopped developing. But it is immersed in what is already the third economic recession in the past ten years."²

¹ *Documents and Resolutions, XXVth Congress of the CPSU*, Novosti Press Agency Publishing House, Moscow, 1976, p. 34.

² *Documents and Resolutions. The 26th Congress of the CPSU*, M., 1981, p. 26.

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Criticism
of Bourgeois
Ideology
and
Revisionism

The selection of the historical period examined in this work by the renowned Soviet researcher of bourgeois political economy Professor V. S. Afanasyev was not incidental. The most severe economic crisis which shook the entire world capitalist economic system at the beginning of the 1930s laid bare the profound internal contradictions of bourgeois economic science.

The swift development and dissemination of a series of new economic theories—primarily that of Keynesianism—to a significant degree changed the face of bourgeois political economy. Yet, these new theories failed to offer a scientific explanation of how the capitalist economy does and should function. The practical recommendations on how to regulate the economic processes which were devised on the basis of these theories proved equally futile.

Based on an indepth analysis of the works of leading bourgeois theoreticians, the author traces the evolution of the theories of the main trends in contemporary bourgeois political economy and uncovers the reasons for its still deepening crisis.



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