

Political Economy

A Study Aid



**Progress Publishers
Moscow**

Guides to the Social Sciences

Translated from the Russian by *Yuri Sdobnikov*

Designed by *Yuri Davydov*

Group of authors: G. Kuznetsov (head), Z. Belyaeva, V. Gorlopanov, R. Iskandarov, L. Kazantseva, L. Kharcheva, A. Kochetkov, V. Koltunov, M. Koptev, A. Koryagin, N. Kosaryev, A. Kovalyova, M. Kovrigin, A. Kulikov, V. Kuvaldin, V. Lopatkin, L. Makarevich, V. Mantsev, V. Merguryev, V. Mitayev, Ye. Paushev, A. Ruban, I. Sergeyeva, B. Vakhlamov, Ye. Vashentseva, A. Vasilishina, S. Yakushkin, Ye. Zhalina, A. Zhitkova, P. Zlobin

ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ

Учебно-методическое пособие

На английском языке

© Издательство "Мысль", 1985

English translation of the revised Russian text

© Progress Publishers 1988

Printed in the Union of Soviet Socialist Republics

П 0603000000-383 44-88
014(01)-88

ISBN 5-01-000452-6

CONTENTS

Introduction	5
<i>Chapter One.</i> The Subject-Matter and Method of Political Economy.	9
<i>Chapter Two.</i> Pre-Capitalist Modes of Production	15
Part One. THE CAPITALIST MODE OF PRODUCTION	21
THE GENERAL PRINCIPLES OF THE CAPITALIST MODE OF PRODUCTION	21
<i>Chapter Three.</i> Commodity Production. Commodities and Money . . .	21
<i>Chapter Four.</i> Capital and Surplus-Value. The Basic Economic Law of Capitalism	28
<i>Chapter Five.</i> Wages Under Capitalism	35
<i>Chapter Six.</i> The General Law of Capitalist Accumulation	42
<i>Chapter Seven.</i> The Circuit and Turnover of Capital	48
<i>Chapter Eight.</i> Profit and Price of Production	54
<i>Chapter Nine.</i> Commercial Capital and Commercial Profit	60
<i>Chapter Ten.</i> Loan Capital and Loan Interest	65
<i>Chapter Eleven.</i> Ground-Rent. The Development of Capitalism in Agriculture	71
<i>Chapter Twelve.</i> The Reproduction of Social Capital. Economic Crises of Over-Production	77
IMPERIALISM AND THE GENERAL CRISIS OF CAPITALISM	82
<i>Chapter Thirteen.</i> The Concentration of Production and the Monopolies. Finance Capital and the Financial Oligarchy	82
<i>Chapter Fourteen.</i> The Export of Capital. The Economic and Territorial Partition of the World. The World Capitalist Economic System and the International Division of Labour	88
<i>Chapter Fifteen.</i> The Place of Imperialism in History	93
<i>Chapter Sixteen.</i> The General Crisis of Capitalism and its Present Stage. The Division of the World into Two Economic and Social Systems and the Struggle Between Them	99
<i>Chapter Seventeen.</i> The Collapse of Imperialism's Colonial System. The Less Developed Countries' Economy	103
<i>Chapter Eighteen.</i> The Scientific and Technical Revolution. The Growing Social Character of Capitalist Production and the Deepening of its Basic Contradiction	108
<i>Chapter Nineteen.</i> The Substance of State-Monopoly Capitalism . . .	114
<i>Chapter Twenty.</i> How the Law of Surplus-Value Operates under Capitalism Today	119
<i>Chapter Twenty-One.</i> Agrarian Relations in the Capitalist Society	124
<i>Chapter Twenty-Two.</i> Capitalist Reproduction at the Present Stage	127

<i>Chapter Twenty-Three. The Growing Unevenness of Capitalist Development and the Sharpening Crisis of the World Capitalist Economy</i>	132
<i>Chapter Twenty-Four. Critique of Bourgeois Theories of Capitalist Economics</i>	136

Part Two. SOCIALISM, THE FIRST PHASE OF THE COMMUNIST MODE OF PRODUCTION 140

<i>Chapter Twenty-Five. The Subject-Matter of the Political Economy of Socialism. Its Role as the Scientific Basis of the Party's Economic Policy</i>	140
<i>Chapter Twenty-Six. The Formation and Development of the Communist Mode of Production</i>	146
<i>Chapter Twenty-Seven. Social Property in the Means of Production. The System of Socialist Relations of Production</i>	158
<i>Chapter Twenty-Eight. Labour under Socialism</i>	164
<i>Chapter Twenty-Nine. The Basic Economic Law of Socialism</i>	171
<i>Chapter Thirty. The Balanced Development of the Socialist Economy</i>	178
<i>Chapter Thirty-One. Commodity-Money Relations under Socialism. The Law of Value</i>	185
<i>Chapter Thirty-Two. The Factors of Socialist Production. The Law of Steadily Growing Social Labour Productivity</i>	191
<i>Chapter Thirty-Three. Distribution by Labour. Social Consumption Funds</i>	197
<i>Chapter Thirty-Four. Accumulation and Consumption under Socialism</i>	204
<i>Chapter Thirty-Five. The Principles of Economic Calculus (Khozraschot)</i>	209
<i>Chapter Thirty-Six. The Circuit and Turnover of Production Assets</i>	215
<i>Chapter Thirty-Seven. The Costs of Socialist Enterprises. Net Income</i>	221
<i>Chapter Thirty-Eight. Differential Rent under Socialism</i>	227
<i>Chapter Thirty-Nine. Socialist Social Reproduction</i>	236
<i>Chapter Forty. Commodity Circulation in Socialist Social Reproduction</i>	247
<i>Chapter Forty-One. Finance, Credit and Monetary Circulation in Socialist Social Reproduction</i>	253
<i>Chapter Forty-Two. The World Socialist Economy</i>	259
<i>Chapter Forty-Three. Competition Between the Two World Systems and Communism's Inevitable Victory on an International Scale</i>	264
<i>Chapter Forty-Four. Critique of Bourgeois-Reformist and Revisionist Concepts of the Socialist Economy</i>	267

INTRODUCTION

Proletarian political economy has an exceptional role in providing the theoretical grounding for the goals, tasks and methods in the revolutionary struggle of the masses. It was worked out by Karl Marx and Frederick Engels as a profound expression of the vital interests of the working class and of all the other working people, which coincide with the progressive development of the productive forces. That is what makes proletarian political economy truly scientific, with the consistent Communist Party approach.

Marxism has gone beyond a comprehensive presentation of the system of economic laws and categories of the capitalist mode of production, so proving that it is historically transient. Marxism has established political economy in the broad sense of the term as a science studying the relations and ties which take shape between human beings in the production, distribution, exchange and consumption of the goods of life at various stages in the development of the human society.

Marx and Engels made a study of 19th-century free-competition capitalism, but at the turn of the century substantial changes occurred in its economics and politics, and it was most important to analyse and generalise them in Marxist terms as a guide for the proletariat's revolutionary activity, a task of paramount historical significance fulfilled by Lenin in his *Imperialism, the Highest Stage of Capitalism*, in direct continuation of Marx's *Capital*.

Lenin, leader of the world's proletariat and head of the world's first socialist state, ushered in a new stage in the history of Marxism, of which political economy is an organic component part. The key feature of the Marxist-Leninist doctrine is its constant creative enrichment through a comprehensive study and scientific comprehension of continuously changing reality. "We do not regard Marx's theory as something completed and inviolable; on the contrary, we are convinced that it has only laid the foundation stone of the science which socialists

must develop in all directions. If they wish to keep pace with life."¹

Marx and Engels used their dialectico-materialist method of cognition to analyse social phenomena, and to define the law-governed processes in which one formation gives way to another, so arming the working class with their theory of restructuring the society on socialist lines. Lenin examined the new concrete historical conditions taking shape under imperialism and drew the conclusion that the socialist revolution could win initially in a few countries, or even in one individual country.

That theoretical conclusion was brilliantly borne out in practice: the Great October Socialist Revolution in Russia, the most outstanding event of the 20th century, abolished exploitative relations for good, and so brought about a radical change in the development of mankind as a whole. It had an immense effect on strengthening the revolutionary working class and national liberation movement. Proletarian revolutions triumphed in a number of countries, so giving rise to the world socialist system, which is now the crucial factor of our day. While capitalism still has considerable reserves, it is perfectly obvious that it is a society without a future. With the victory of the October Revolution, Lenin and the Bolshevik Party were faced with the immediate task of working out the ways and forms of building the new society.

In the light of the methodological principles first formulated by Marx and Engels, Lenin got down to the practical work of directing socialist construction, while theoretically summing up the experience of the early Soviet years, and developed a coherent system of knowledge which did much to amplify the Marxist doctrine and express in concrete terms the cardinal tenets of economic theory concerning the two phases of the communist society and the law-governed uniformities underlying the growth of socialism into communism.

Lenin determined the place of the socialist economic mechanism as a category of political economy by connecting it above all with planning and balanced development, both of which were made objectively possible only under social property in the means of production. He set the task of transforming "the whole of the state mechanism into a single huge machine, into an economic organism that will work in such a way as to enable hundreds of millions of people to be guided by a single plan."²

¹ V. I. Lenin, "Our Programme", *Collected Works*, Vol. 4, Progress Publishers, Moscow, 1977, pp. 211-12.

² V. I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B.), March 6-8, 1918", *Collected Works*, Vol. 27, 1977, pp. 90-91.

Lenin believed that the substance of the socialist economic mechanism lay in a social organisation of labour that entailed balanced cooperation on the scale of the society as a whole, with the economy efficiently run on the principle of democratic centralism, which gives full scope to the initiative of the masses, and allows work collectives to engage in emulation with each other. Under socialism, "for the first time in the history of civilised society, the mass of the population will rise to taking an independent part not only in voting and elections, but also in the everyday administration of the state".³

Political economy, a component part of the ever vibrant Marxist-Leninist doctrine, has been further developed in the documents of the Communist Party of the Soviet Union and all the other fraternal parties, as they sum up in scientific terms the practice of socialist and communist construction.

There is a profound continuity in the CPSU's theoretical activity and its practice in guiding the society. The Party does not regard this continuity as some abstract category, but as an actual and living endeavour whose substance is above all to keep advancing without halting on the way. It keeps advancing on the basis of earlier achievements, which are creatively enriched, with a concentration of the collective thinking and energies of the Communists, of the working class and the whole people on tackling the outstanding tasks and the key problems of the present and the future.

The Programme of the CPSU, a new edition of which was adopted by the Party's 27th Congress, emphasises that faster economic and social development can and will be ensured in the present internal and international situation through the Soviet society's all-round progress and its steady advance towards communism. This strategic course implies a qualitative transformation of every aspect of the country's life: a radical renovation of its material and technical facilities through the broad application of the achievements of the scientific and technical revolution, improvement of social relations, economic relations in the first place, deep changes in the content and character of labour, and the material and spiritual conditions of human life, and invigoration of the human factor and the entire system of economic and social institutions. The foreign policy, which springs from the humanistic nature of the socialist system (and it is a system without man's exploitation by man or classes and social groups benefitting from wars), is naturally and organ-

³ V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, 1977, pp. 492-93.

ically linked to the vital strategic tasks within the country, and is an expression of the Soviet people's inexorable urge to engage in constructive activity for the sake of its communist future, and to live in peace with all the other peoples.

This study aid sets forth only the basic propositions on the key problems of the Marxist-Leninist economic theory and is designed to help readers to comprehend the theory by studying original texts on their own, so as to perceive its class and party spirit, and to see that bourgeois-reformist and revisionist conceptions are methodologically flawed and unscientific. The authors highlight the current development of the relations of production in the capitalist, less developed and socialist countries and show the incontestable advantages of socialism over capitalism, which the historical record has so visually demonstrated.

Chapter One

THE SUBJECT-MATTER AND METHOD OF POLITICAL ECONOMY

Political Economy alone gives a scientific idea of the economic system existing in any country: "The anatomy of the civil society ... has to be sought in political economy," says Karl Marx.¹

Social Production and Its Role in the Development of the Human Society. The Productive Forces and the Relations of Production

A reading of Marx's *A Contribution to the Critique of Political Economy* and his *Capital* shows that the human society can exist only by producing material goods. As they produce these goods, human beings enter into definite relations, but these are only a part of the wide range of relations into which they enter in the process of social production, because social production is a wider concept than the production of material goods.

Social production is, on the one hand, man's interaction with Nature, i.e., the process of labour, which consists in purposeful human activity intended to modify and adapt the objects of the environment for the purpose of satisfying human needs. It implies the following necessary elements: the objects of labour, the instruments of labour, and labour itself as conscious action with the implements of labour on the objects of labour in order to obtain results useful to human beings. These ideas are elaborated in the first paragraph of Chapter 5 of Volume I of *Capital*, which also deals with the important economic category of the means of production, consisting of the objects of labour, and the instruments of labour, with the latter showing the extent to which human beings have come to understand the laws of Nature and put them to practical use. Economic epochs differ from each other not in *what* is produced, but in *how* it is

¹ Karl Marx, *A Contribution to the Critique of Political Economy*, Progress Publishers, Moscow, 1977, p. 20.

produced, with the use of *what kind of* instruments of labour. The means of production and human beings capable of using them add up to what is known as the society's productive forces.

The second aspect of social production is the whole range of economic relations between human beings which take shape in the production, distribution, exchange and consumption of material goods. Production is always social. Human beings interact with Nature and realise—simultaneously and independently of their will and consciousness—concrete economic relations, which are known as the relations of production. These are based on property in the means of production. Wherever the means of production are held as private property, the relations of production will likewise be relations of domination and subjugation, i.e., relations of exploitation. Where social property in the means of production is paramount, the relations between human beings in production are those of comradesly cooperation and mutual assistance.

We find, therefore, that ownership of the means of production tends to generate a specific type of social relations, namely, property relations, on which depend the relations between the classes in a society, and the distribution, exchange and consumption of the product.

The two aspects of social production—the productive forces and the relations of production—constitute a unity known as the mode of production.

The productive forces are the leading aspect of social production, and to every stage in their development there is a corresponding set of production relations in the society. The latter, for their part, have an active influence on the productive forces, provide the form in which these develop, and can either accelerate or slow down their development. The way in which the two aspects of social production interact is shown by Marx in the foreword to his work *A Contribution to the Critique of Political Economy*,² where he also formulates the law of correspondence of the relations of production to the character of the productive forces.

Definition of the Subject-Matter of Political Economy

The best way to start studying this question is to read Engels' *Anti-Dühring* (Part II, Chapter One) and Lenin's *A Characterisation of Economic Romanticism* (Chapter 11).

² Karl Marx, *A Contribution to the Critique of Political Economy*, pp. 20, 21.

Political economy is "the science of the conditions and forms under which the various human societies have produced and exchanged and on this basis have distributed their products".³ The following conclusions may be drawn from an analysis of that definition: the subject-matter of political economy is not the process of production itself (which is studied by technological disciplines), but the social relations into which human beings enter in the process of production, distribution, exchange and consumption.¹ The relations in the process of production are objectively predetermined by the mode in which labour-power is joined with the material elements of production, for on that depend the subsequent distribution, exchange and consumption of the material production of the society.

Every society has a definite system of production relations, or the economic basis, the economic system of the society, which rests on property relations. Political economy studies the relations of production in interconnection with the productive forces.

In every class-divided society, the economic relations between human beings express the substance of the relations between classes, and that is why political economy examines them in interconnection with such a form of class relations as the state, which is the political superstructure over the economic basis. When considering political economy in the broad sense of the term, the founders of Marxism saw it as a science of the relations of production in all the economic and social formations, including the communist formation.

Bourgeois economists did not analyse the sphere of production and ignored the connection between production, distribution, exchange and consumption, holding that the subject-matter of political economy lay in distribution or exchange, i.e., in the turnover of commodities. Marx gave a critical analysis of their views and went on to draw the conclusion that production has the definitive role to play with respect to distribution, exchange and consumption.

In an effort to renovate the methods for their apology of capitalism, many bourgeois economists now ignore the relations of production and lay emphasis only on the technical aspects of production. That is the origin of such theories as "the post-industrial society", "convergence" of the two economic and

³ Frederick Engels, *Anti-Dühring*, Progress Publishers, Moscow, 1975, p. 173.

¹ Nothing is said of consumption in the above quotation, and the reader is advised to turn to the following source: Karl Marx, "Economic Manuscripts of 1857-1858, Introduction," in: Karl Marx and Frederick Engels, *Collected Works*, Vol. 28, Progress Publishers, 1986, pp. 27-32.

Synthesis = the combining of the constituent elements of a separate material or abstract entities into a single or unified entity (opposed to analysis).

social systems, and the "mixed economy", all of which are designed to camouflage the ever fiercer exploitation under the capitalist system.

The Method of Political Economy

Here one would do well to read first of all the foreword to the first edition and the afterword to the second edition of Volume I of Marx's *Capital*, Engels' *Anti-Dühring* (the chapter on "Subject-Matter and Method"), and Lenin's "Review" of A. Bogdanov's *Short Course in Economic Science*.

The classics of Marxism-Leninism invariably applied materialist dialectics in their analysis of economic phenomena, for economic development proceeds in accordance with the basic laws of materialist dialectics: the development of quantity into quality, the unity and struggle of opposites, and negation of the negation. Marx used the method of ascending from the abstract to the concrete, a basic principle of dialectics, to formulate his system of economic laws and categories showing the origination, development and decline of the capitalist formation.

The method of analysis and synthesis is an important instrument of cognition, which helps to see the various facets of the object of analysis. Thus, when considering capitalism, one should identify such problems as capital, labour-power, wages, etc., each of which is then comprehended separately so as to grasp the formation of the most general concepts in a comprehensive manner. Synthesis completes the study of the phenomenon and helps to see the interaction between the elements brought out in the course of analysis, to clarify the contradictions, and to determine the ways of resolving them. Mathematical and statistical methods have an important place, for they help to bring out the quantitative aspect of economic phenomena.

The exposition of political economy is a blend of the historical and the logical methods. Political economy is a reflection of the objective reality in the historical sequence in which it develops, a reflection which occurs "in accordance with laws provided by the actual historical course".⁵

The cognition of the reality is a process which begins with practice and ends with practice, for practice is the key element of the method of the Marxist-Leninist political economy and the touchstone for the truth of its propositions.

⁵ Karl Marx, *A Contribution to the Critique of Political Economy*, p. 225.

Economic Categories and Economic Laws

These are clarified in the foreword to the first edition of Volume I of Marx's *Capital* and Engels' *Anti-Dühring* (Second and Third sections), which show the objective nature of economic laws and their specific operation under capitalism and under socialism.

The cognition of economic life runs from the surface of things down to their substance. As the process is deepened, logical concepts are formed as a reflection in generalised terms of the most essential aspects of individual economic phenomena of the reality which express the given relations of production. These are called categories of political economy (such as the category of "capital"). Economic categories are stable and solid causal connections and relations constituting the content of objective economic laws.

The character of economic laws is the basic question in the methodology of political economy. Bourgeois economists, reformists and revisionists deny the objective nature of economic laws, and apply their subjective idealist views to these laws or turn them into fetishes.

Economic laws do not operate on their own but constitute a system. Every mode of production has its own system of production relations and, consequently, its own system of economic laws. The crucial role within this system belongs to the basic economic law, which is an expression of the most essential features of the given relations of production.

There is a need to draw a distinction between general economic laws, which operate at every stage of world-wide historical development, specific economic laws, which operate only in a given economic formation, and economic laws which are to be found in several formations.

It is an important task of political economy to study the mechanism by means of which economic laws operate. Objective economic laws under socialism are cognised and consciously used in building the new society.

The Class and Party Spirit of Political Economy

"The most important problems of contemporary social life are intimately bound up with problems of economic science."⁶ Political economy has a class character, so that there are a bourgeois political economy, a petty-bourgeois political eco-

⁶ V. I. Lenin, "Review", *Collected Works*, Vol. 4, 1977, pp. 47-48.

not affected by human feelings or prejudices; based on facts, unbiassed.

nomy, and a proletarian political economy.

The Marxist-Leninist political economy stands up for the interests of the working people, and its party spirit consists in that it analyses the objective economic laws of the society's development to show the inevitable decay of capitalism, to show the grounds on which the working class carries on its struggle against the bourgeoisie, and to help determine the ways in building socialism. Its party spirit and scientific approach are closely bound up with each other, because the interests of the working class coincide with the forward march of history.

The party spirit of the Marxist-Leninist political economy is manifested in its relentless and principled struggle against all unscientific economic views and trends.

*Marx and Engels' Revolution in Political Economy.
Lenin's Development
of the Marxist Political Economy*

Marx's greatest discovery was his doctrine of the economic and social formation and its development as a natural historical process. Within all the spheres of social life, he identified the economic sphere, determined the economic basis of the society and showed that it consists not of an aggregation of things, but of an aggregation of relations into which human beings enter in the process of production. Marx and Engels were the first to formulate the idea that there are two aspects to social production, thereby also discovering the subject-matter of political economy, namely, the relations of production. Marx set forth the scientific grounds for the labour theory of value, which had its beginnings in the writings of the classics of bourgeois political economy.

Marx's most significant scientific discovery was his formulation of the theory of surplus-value, which became the cornerstone of his economic doctrine, as Lenin put it.

Marx and Engels provided the economic evidence for the inevitable decay of capitalism, identified the social force which is to carry out the revolution, namely, the working class, and gave the working class its own proletarian political economy. It was elaborated by Lenin in the context of the new historical stage in the development of capitalism, i.e., imperialism. He also formulated the basic propositions of the new department of political economy: the communist mode of production.

Chapter Two

PRE-CAPITALIST MODES OF PRODUCTION

It is of great theoretical and practical significance to have a knowledge of pre-capitalist modes of production, both for a scientific comprehension of the history of the human society, and for understanding various present-day phenomena. To this very day, a sizable part of the population in many less developed countries (LDCs), which have risen to political independence, lives under pre-capitalist, primarily feudal, relations, and their study helps to bring out the economic law-governed processes and specific development in these countries in our epoch, which is the epoch of transition from capitalism to socialism.

The most important original texts for studying this subject are Engels' *The Origin of the Family, Private Property and the State*, Marx's *Capital*, and Lenin's *The Development of Capitalism in Russia*.

The Primitive-Communal Mode of Production

Marxism has provided scientific proof for the crucial role of labour in the genesis of the society. Labour "is the prime basic condition for all human existence, and this to such an extent that, in a sense, we have to say that labour created man himself."¹ The making of the implements of labour is the crucial element which finally helped man to rise from the animal world.

The productive forces and the relations of production in the most ancient society is analysed in Engels' *The Origin of the Family, Private Property and the State* (Chapter One).

The characteristic thing about the primitive-communal mode of production is the extremely low development of the productive forces, with chipped stones and sticks being the prime implements of labour, as an artificial extension of the human hand.

¹ Frederick Engels, *Dialectics of Nature*, Progress Publishers, Moscow, 1974, p. 170.

distribution equal among all men.

With the productive forces at such a low level, the means of production were held in common property, labour was collective, and distribution egalitarian. The equality of all the members of the society with respect to the means of production meant that there was no division into classes, or man's exploitation by man. The labour of primitive men was so unproductive that it did not create any surplus-product over and above the bare necessities.

The primitive-communal economy was a subsistence (natural) economy: everything that was produced and extracted was consumed within the commune itself, while the exchange of produce within the communes was no more than casual.

With the passage of time, the implements of labour were improved, even if very slowly, as they were adapted to definite labour operations. Men began to fashion composite implements of labour (stone axe and wooden haft), and invented the bow and arrow. Man himself developed as he gained in experience. Women concentrated on gathering the edible gifts of Nature, and men, on hunting. Gathering and hunting led to the emergence of agriculture and the herding of cattle, and this caused the further development of the productive forces. With the discovery of fire came the use of metal implements of labour and the invention of the plough and the wheel. Then followed the art of spinning and weaving, which led to the production of a surplus over the bare necessities. Then came the first major social division of labour, as livestock-breeding hived off from agriculture. The communes began to exchange a part of their product.

That was the basis for the emergence of a new type of economic relations. Families engaged in labour based on private property were now able not only to feed themselves, but also to exchange a part of their product, and these processes were accelerated by the second major social division of labour, the hiving off of the handicrafts.

With the establishment of private property in the means of production, the growing exchange of the products of labour, the property inequality and man's exploitation by man led to the disintegration of the primitive-communal system and its replacement by the slave-holding mode of production, as Engels shows in *The Origin of the Family, Private Property and the State* (Chapter Nine).

The new relations of production—slave-holding relations—first originated in the form of patriarchal slavery, and were not the dominant relations for a long time. Only when slave-labour became the dominant form of labour in the society

the transition to the slave-holding formation was effected, the first antagonistic formation in human history.

The Slave-Holding Mode of Production

To study it, use Engels' *The Origin of the Family, Private Property and the State* (Chapter Four), and *Anti-Dühring* (Part II, Chapter Four), and also Lenin's lecture *The State*.

Engels' works show the origination of classes on the basis of the developing productive forces, the emergence of a surplus-product, and of private property in the means of production. He also gives a critique of the bourgeois theory of force. Lenin's lecture *The State* will help to clarify the substance of the state, and forms of man's exploitation by man in the various antagonistic formations.

The transition to the slave-holding system was historically progressive, for it marked a stride forward in the development of the productive forces. The cooperation of the labour of vast masses of slaves helped to make labour more efficient and to carry out much larger works (such as the building of major irrigation systems).

Under the production relations in the slave-holding system in its most elaborate form, the slave-owners had complete property in all the means of production: land, implements of labour, objects of labour, and those who worked in production, the slaves. The slave-holding economy was at root a subsistence (natural) economy, the purpose of production being the satisfaction of the slave-owners' parasitic requirements through the predatory exploitation of the slaves.

Alongside the large slave-holding farms, there was also the simple commodity production based on private property in the means of production and the personal labour of the commodity producers, the handicraftsmen and the peasants. Although it did attain considerable proportions, especially with the third major social division of labour (the emergence of merchants), it did not have the crucial role to play in the economic life of the slave-holding society.

The point to start at in clarifying the causes for the decline of that system is that slavery, as a definite form of production relations, had worked itself out and had become a constraint on the development of the productive forces. The slave, the society's chief productive force, had no stake in raising labour productivity, while the slave-owners had nothing but contempt for work, believing it to be an occupation unfit for free men,

and so led a parasitic way of life. The use of slave labour began to make less and less economic sense. The productive forces entered into conflict with the relations of production, and among the striking forms in which this contradiction was manifested was the slaves' struggle against the rule of the slave-owners, a struggle which eventually led to the collapse of slave-ownership. It was hastened towards its end by the conquest of Rome by the Gallic and Germanic tribes. The disintegration of the slave-holding society led to the establishment of the feudal mode of production.

The Feudal Mode of Production

Its study should be started with a clarification of the conditions in which feudalism emerged, as Engels shows in *The Origin of the Family, Private Property and the State* (Chapter Eight). A point to note here is that elements of feudalism first originated within the entrails of the slave-holding system in the form of the colonatus. *→ colonial farmers*

When getting down to an examination of the characteristic features of the productive forces and the relations of production in the feudal society, one should turn to Chapter 47 of Volume Three of Marx's *Capital*, which shows that the economic substance of feudalism consisted in the domination of large-scale landed property and the feudal lords' exploitation of dependent peasants, who were allowed by the feudal lords to have a small parcel of land, and who worked their farms a part of the time with rudimentary implements of labour. This gave them something of a stake in developing the productive forces. Marx shows the substance of feudal exploitation and the ways in which the feudal lord appropriated the surplus-product of the serf in the form of feudal rent: labour-rent (corvee), rent in kind (quit-rent), and money rent.

Under labour-rent, the immediate producer, the serf peasant, used his own implements of labour to work a part of the week on the landowners' estate, and the rest of the week, for himself on his own farm. The forced labour on the feudal estate had a low productivity, for the peasant was interested in raising labour productivity only when he worked on his own farm, a fact which ultimately induced the landowners to give up the practice of enforcing labour-rent and to switch to rent in kind under which the peasant had to deliver to the feudal lord a definite quantity of produce raised on his own farm.

Money-rent becomes the dominant form as feudalism decays and capitalist relations take shape. Its distinctive feature is that

the immediate producer has to pay the landed proprietor the price of his product—the receipts from the sale of his produce—instead of delivering the product itself. But money-rent implies the development of trade, urban industry, commodity production and the currency of money. The prevalence of money-rent led to deep changes in the immediate producer's condition: his individual dependence was gradually relaxed, and the social stratification of the peasantry intensified. The result was the formation of the conditions for the transition from feudalism to capitalism.

It is also necessary to have a clear idea of the specific craft-guild organisation of handicraft production in the towns, and here Chapter XXIV of Vol. I and Chapter XLVII of Vol. III of Marx's *Capital* will help.

Once the characteristic features of the productive forces and the relations of production have been studied, one should clarify the causes for which the feudal form of exploitation gave way to the capitalist form. That is explained in Lenin's *The Development of Capitalism in Russia*.

The growth of the productive forces was the main and crucial factor in the decline of feudalism and the formation of capitalist relations, and that was manifested in the contradiction between growing commodity production and the existence of the subsistence (natural) economy, which acted as a constraint on the volume of the domestic market and slowed down the development of commodity-money relations.

Antagonistic contradictions emerged between the developing productive forces and the dominant feudal relations of production. The spread of large-scale commodity production for satisfying the growing demand came up against the limited potentialities of small-scale peasant and handicraft production units. The prevalence of small-scale peasant and handicraft enterprise limited the possibilities for introducing advanced techniques and raising labour productivity. Personal dependence and extra-economic coercion kept the peasants and handicraftsmen within the system of feudal relations, limited the influx of labour-power to the towns and delayed the advance to more progressive forms of production. The feudal mode of production was disintegrating under the impact of the developing productive forces, as the capitalist sector of the economy took shape and gained in strength. That was followed by the bourgeois revolutions, which abolished the feudal order and enabled the bourgeoisie to assert its political domination.

Two conditions are necessary for the establishment of the capitalist mode of production: 1) the transformation of the

mass of producers into proletarians who have personal freedom but who are deprived of any means of production; and 2) the concentration of money wealth and the means of production in the hands of a minority in the society. These conditions and the formation of the proletariat and the bourgeoisie are created in the process of what is known as the primitive accumulation of capital, a prerequisite of which is expropriation: the peasants lose their land and are forcibly deprived of their instruments of production.

The problems, substance and forms of the primitive accumulation of capital are presented in detail in Chapter XXIV of Vol. I of Marx's *Capital*.

England was the classical example of the primitive accumulation of capital. From the 15th to the 17th century, the English lords forcibly drove the peasants from common plough lands and peasants holdings, and used brutal methods to deprive the peasants of their lands, left them without hearth and home, and even wiped out entire villages.

A large part of the lands so "enclosed" was leased by the lords to big sheep-breeders, who began to operate as capitalist farmers. The landless peasants were forced to sell their labour-power and to work for a wage.

The expropriation of the peasantry's lands in England was paralleled by the accumulation of money in the hands of a minority, which they used to buy the means of production and labour-power. Another major source of enrichment was the plunder and exploitation of the peoples of the colonies and the slave-trade. "Capital comes dripping from head to foot, from every pore, with blood and dirt."² Marx says that trade wars, the public (national) debt, and a system of protectionism were also among the methods used in the primitive accumulation of capital.

It is now one of the vital problems facing the countries newly liberated from the yoke of colonialism to do away with pre-capitalist relations, above all with the remnants and survivals of feudalism, for their economic and social progress largely depends on the radical solution of this problem.

² Karl Marx, *Capital*, Vol. I, Progress Publishers, Moscow, 1978, p. 712.

PART ONE

THE CAPITALIST MODE OF PRODUCTION

THE GENERAL PRINCIPLES OF THE CAPITALIST MODE OF PRODUCTION

Chapter Three

COMMODITY PRODUCTION. COMMODITIES AND MONEY

Marx's doctrine of commodity production is of abiding significance. It is the basis for understanding capitalism and its relations of production "in their inception, development and decay".¹

The Substance of Commodity Production. Simple and Capitalist Commodity Production

Commodity production as an economic category is comprehensively examined in the first two chapters of Vol. I of *Capital*.

The substance of commodity production was summed up by Lenin: "By commodity production is meant an organisation of the social economy in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) in the market."²

It follows from Lenin's definition that commodity production originates from the social division of labour and the separation of producers as proprietors. It emerges back in the

¹ V. I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, 1974, p. 59.

² V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, 1977, p. 23.

period in which the primitive-communal system disintegrates under the first major social division of labour.

There is a difference between simple and capitalist commodity production. Under simple commodity production, commodities are produced by individual labour with the use of the means of production that are the commodity producers' own private property. Simple commodity production has existed under different modes of production.

As simple commodity production develops, the commodity producers are polarised: some are ruined, while others are enriched, and this leads to the formation of capitalist commodity production. The reader is advised to turn to Chapter XXIV of Vol. I of *Capital*, which deals with so-called primitive accumulation that accelerated the ascendancy of capitalism.

The next thing to clarify is the similarity and difference between simple and capitalist commodity production, noting the important point that both are based on private property in the means of production. But capitalist commodity production differs from simple commodity production in that under the former everything is turned into a commodity, including labour-power, while the commodity is created by the labour of the exploited wage-worker.

*The Commodity and Its Properties.
The Two-Fold Nature
of the Labour Embodied in Commodities*

The commodity and its properties were described by Marx in Chapter I of Vol. I of his *Capital*. Here are the points he made concerning this basic category of commodity production: a) an immense accumulation of commodities constitutes the wealth of those societies in which the capitalist mode of production prevails; b) the commodity is the elementary form of this wealth, which expresses the most elementary economic relations in the society; c) simple commodity production precedes capitalism, the commodity historically precedes money, and money precedes capital; and d) the commodity includes in embryonic form the contradictions which develop into the basic contradictions of capitalism.

Lenin's work, *Karl Marx* (the section entitled "Marx's Economic Doctrine") opens with a definition of commodity: "A commodity is, in the first place, a thing that satisfies a human want, in the second place, it is a thing that can be exchanged for another thing".³

³ V. I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, 1974, p. 59.

niques and the results.

Abstract labour is labour in general abstracted from its concrete peculiarities. "On the one hand, all labour is, speaking physiologically, an expenditure of human labour-power, and in its character of identical abstract human labour, it creates and forms the value of commodities."¹⁰ Abstract labour characterises, therefore, the "identical" and homogeneous character of any type of labour, but ever since man began to work, he has expended his labour-power in the physiological sense, while abstract labour tends to emerge only in definite conditions. Hence, this conclusion: abstract labour is a historical category proper only to commodity production.

Only when commodities begin to be exchanged, the expenditures of concrete labour are reduced in the market-place to some quantity of labour in general (abstract labour) as the basis on which the exchange takes place. In this way, the labour of isolated producers separated by private property in the means of production is given recognition as a part of the aggregate social labour, and is included in the social division of labour.

The two-fold nature of labour is a reflection of the contradiction of simple commodity production, its substance being that the commodity producers' labour is simultaneously private and social, a contradiction which is outwardly expressed in the contradiction between concrete and abstract labour, and ultimately in the contradiction between use-value and value.

Simple labour is one of the actual forms in which abstract labour is manifested, and it is the average socially necessary labour of the unskilled worker. Any labour by a skilled worker is multiplied simple labour, from the standpoint of the formation of value.

We find, therefore, that the magnitude of the value of a commodity presents itself as an expenditure of socially necessary abstract simple labour.

All these Marxist propositions have helped to formulate a truly scientific labour theory of value.

*The Development of Forms of Value.
The Genesis, Substance and Function of Money*

These questions are dealt with in a part of Chapter I and in the whole of Chapter III of Vol. I of *Capital*. Marx traces the historical development of exchange to establish that

¹⁰ *Ibid.*, p. 53.

value has been successively expressed in the following forms: a) the simple, or accidental, form of value relating to the time in which exchange originated; b) the total, or expanded, form of value; b) the universal form of value, and d) the money form of value.

Marx completes his examination of the forms of value with the money form of value.

Money did not originate as a result of some understanding between men, as bourgeois economists would have us believe, but resulted from the development of commodity production and exchange.

Money is a commodity, but a specific type of commodity. It is the universal equivalent. It helps to resolve the contradiction between use-value and value, but in doing so produces new contradictions. In definite conditions, money becomes an instrument of exploitation and is converted into capital.

Money represents social labour, the immediate social form of value. Money has no price, because price is the money expression of value.

The substance of money is manifested in its functions. They have different degrees of development depending on the historical conditions. Its first and initial function is to operate as a measure of value, in which money expresses the expenditure of socially necessary labour in the production of all commodities. The standard of price (the weight content of gold in a unit of money established by the state) is used to measure money itself. Money operates ideally in its function of measure of value.

The second function of money is to operate as a medium of circulation. With the origination of money, the exchange of one commodity for another gives way to the circulation of commodities, i.e., the purchase and sale of commodities by means of money. The formula of simple commodity circulation is $C-M-C$.

Marx was the first to formulate the law of the currency of money, according to which the quantity of money required for circulation depends on the sum-total of the prices of commodities (CP) divided by the velocity of currency of one and the same monetary unit (VC). In view of these functions of money the full formula for the quantity of money required for circulation (Q) is as follows:

$$Q = \frac{CP - Cr + P_a - PW}{VC}$$

where C_r is the sum-total of the prices of commodities sold on credit; P_a , the payments fallen due; and PW , the amount of

mutual payments write-offs (clearance).

The appearance of paper money is connected with money's function as medium of circulation. Paper money is issued in place of full-value money, and circulates in accordance with the value laid down by the state. The excessive issue of paper money into circulation (excessive money supply) results in inflation, which has now become chronic in the capitalist countries.

The third function of money is the formation of hoards, and here only full-value money, namely, gold and silver coins, gold and silver ingots, and articles made of gold and silver, and other precious metals, are involved. This function springs from the urge to speed up the sale of commodities, but to delay their purchase, "the passionate desire, to hold fast the product of the first metamorphosis ... the transformed shape of the commodity or its gold-chrysalis ... The money becomes petrified into a hoard, and the seller becomes a hoarder of money."¹¹

With the development of commodity circulation there emerges a peculiar form of it: the sale of commodities may be removed in time from the realisation of their price, i.e., commodities may be sold on credit, and the discrepancy in time gives rise to the fourth function of money, that of means of payment. Credit transactions lead to the appearance of promissory-notes (or debt obligations), and when the debt is paid off, the money operates as means of payment. Special credit institutions, banks, are set up under capitalism.

The functions of money as a medium of circulation and means of payment create the possibility of economic crises of overproduction.

The fifth function of money is to act as world money, and here money appears in its initial form of precious metal ingots, fulfilling all its functions but now within the framework of world trade and the international settlement of accounts.

The Law of Value and Its Role in the Emergence and Development of Capitalism

The law of value is an objective economic law of commodity production. It manifests itself in the exchange of commodities at value, which is measured by the socially necessary labour they contain. The sale and purchase of commodities at value, as equivalents, operates as a law. Value has its concrete expression in the price of commodities. "Value is the law of

¹¹ Karl Marx, *Capital*, Vol. I, pp. 130, 131.

price, i.e., the generalised expression of the phenomenon of price."¹² The law of value is the regulator of commodity production, including capitalist production. First, as prices fluctuate above and below value, there is a redistribution of the means of production and commodity producers among the various industries. Second, the operation of the law of value leads to a rise in the productivity of social labour. Third, as prices fluctuate over and above value, there is a differentiation among the commodity producers: some are ruined, and others are enriched in the course of competition, and that creates the conditions for transition to capitalism.

Commodity production generates commodity fetishism. The relations of production between commodity producers assume the form of relations between things, that is, these relations are reified. Commodity fetishism disappears only when production is carried on by "freely associated men, and is consciously regulated by them in accordance with a settled plan".¹³

¹² V. I. Lenin, "Socialism Demolished Again", *Collected Works*, Vol. 20, 1977, p. 201.

¹³ Karl Marx, *Capital*, Vol. I, p. 84.

Chapter Four

CAPITAL AND SURPLUS-VALUE. THE BASIC ECONOMIC LAW OF CAPITALISM

The law of surplus-value is the keystone of Marx's economic theory, and that is what makes it central to the whole course of the political economy of capitalism.

The Conversion of Money into Capital. The General Formula for Capital and Its Contradiction

In Chapter IV of Vol. I of *Capital*, Marx gets down to analysing capitalism. In the preceding three chapters he examines simple commodity production, but his analysis is for the time being confined to the sphere of circulation. He starts by clarifying the similarity and differences between the formula for simple commodity circulation and the general formula for capital.

Money is the product of simple commodity circulation, and is, simultaneously, the first form in which capital appears. But money is not in itself capital. It becomes such only in definite historical conditions. Marx looks at the movement of money as money: $C-M-C$, i.e., under simple commodity circulation, and the movement of money as capital: $M-C-M$.

Under simple commodity circulation, a thing is sold for the purpose of buying another. The peasant, for example, sells corn in order to use the receipts to buy cloth. In that case, the "renewal of the act of selling in order to buy"¹ is designed to satisfy the buyer's wants. Money operates as a mere medium in the exchange of commodities and is expended for good. Its function is to help in the exchange of different use-values.

In contrast to simple commodity circulation, the movement of money as capital, or the general formula for capital,² begins with the purchase of a commodity and ends with its sale. Here

¹ Karl Marx, *Capital*, Vol. I, p. 149.

² The term "general" is used because it applies to any type of capital—industrial, commercial or loan capital—and also to the "antediluvian" forms of capital—merchant's and usurer's capital. In any of these spheres, capital begins its movement with money and ends with money.

money is not expended, but is merely advanced by the capitalist, who "lets the money go, but only with the sly intention of getting it back again".³

The ultimate objective of the movement $M-C-M$ is not use-value—not consumption—but money itself, which is why the formula (assuming the exchange of equivalents, i.e., similar values) at first sight appears to be absurd and meaningless. It ceases to be meaningless only if the capitalist obtains a larger amount of money than he advanced as a result of the sale of the commodity. That is why the general formula for capital may be presented as follows: $M-C-M'$, where M' equals $M + \Delta M$, i.e., the initially advanced amount plus a definite increment, which Marx calls surplus-value. Since capital begins with money and ends with money, its movement knows no bounds. Consequently, capital is value which begets surplus-value, or self-expanding value.

What then is the origin of surplus-value? Bourgeois economists strain to prove that it is created in the sphere of commodity circulation, when commodities are bought and sold. Marx showed that this kind of operation makes no sense for the class of capitalists as a whole, since those who gained as sellers would lose as buyers. According to the law of value, only the form of value is modified in the sphere of circulation—the money form is converted into the commodity form, and the commodity form into the money form—but the exchange of commodities and money is performed in accordance with the expenditures of socially necessary labour-time. Consequently, value cannot expand in circulation, where there is an exchange of equivalents.

Nor can it expand without circulation, since the capitalist buys various commodities in the market-place and sells his own products.

The examination of the general formula for capital shows that it contains within itself a glaring contradiction.⁴ The capitalist buys commodities at value and also sells them at value, but he extracts from the circulation more money than he advanced. If the contradiction is to be resolved, it is important to clarify the genesis of surplus-value on the basis of the law of value without infringing the law.

The secret increase in his money can be explained only if the capitalist finds in the market-place a commodity whose use-value has the property of creating a greater value than it itself has. Labour-power is just such a specific commodity.

³ Karl Marx, *Capital*, Vol. I, p. 147.

⁴ *Ibid*, pp. 162, 163.

Labour-Power as a Commodity and Its Properties

In Chapter IV of Vol. I of *Capital*, Marx also shows the meaning of the concept of "labour-power", and the conditions necessary for its conversion into a commodity: "By labour-power, or capacity for labour, is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description."⁵

Labour-power becomes a commodity only under capitalism: first, the owner of the labour-power, the worker, must be juridically free, and second, he must be deprived of the means of production.

Like any other commodity, labour-power has value and use-value.

The value of labour-power is determined by the labour-time necessary for its production and reproduction. That requires a definite quantity of means of subsistence, which is why the value of labour-power is determined by the value of the means of subsistence necessary for its reproduction. The value of labour-power includes the value of the means of subsistence required for members of the worker's family, and also the cost of his occupational training.

When considering such a specific commodity as labour-power, one has to note that the quantity and nature of the worker's requirements depend on a country's historical development, the peculiar formation of the working class, and its cultural and technical standards.

The commodity labour-power also has use-value, which consists in the fact that by his labour the worker is capable of creating a new value that is greater than the value of his labour-power.

When defining the substance of the commodity labour-power, one should draw a clear distinction between the concept of labour-power as the human capacity for labour, and the concept of labour as the process in which labour-power is used and consumed.

Once the capitalist has bought labour-power in the marketplace he makes the worker expend more labour in the process of production than is necessary for reproducing his labour-power. The source of surplus-value for the capitalist lies in the exploitation of the wage-workers, or in the appropriation of their unpaid labour. The capitalist and the worker are not equivalent

⁵ *Ibid.*, p. 164.

seller and buyer, as it may appear at first sight in the market-place. There can never be any equality between them, because the worker is deprived of the means of production, and is, for that reason, forced to sell his labour-power and be subjected to exploitation.

The Peculiar Process of Labour Under Capitalism

Labour is a process in which human beings interact with Nature. Considered outside the context of its social form, it is intended to create use-values and implies three necessary elements: 1) purposeful human activity, or labour itself; 2) the object of labour, and 3) the instrument of labour. The object of labour and the instruments of labour together constitute the means of production.

In every social system, however, the labour process has its own specific features. Under capitalism, it has the following: first, the worker works under the control of the capitalist; and second, the product of his labour also belongs to the capitalist.

The purpose of capitalist production is not the satisfaction of social wants, but the making of a commodity for sale and the extraction of surplus-value. The capitalist has little interest, if at all, in use-value itself, for he needs it only to the extent to which it is the material repository of value. The capitalist organises commodity production because surplus-value can be extracted only in the process of production. That is made perfectly clear by Marx's doctrine of the two-fold character of the labour embodied in commodities.

The wage-worker's concrete labour creates new use-values and transfers the value of the means of production to the newly created commodity. Meanwhile, abstract labour creates the new value on which the capitalist has his eye, because it is the source of a greater value than that which he himself expended. The new value includes the equivalent of the value of labour-power and surplus-value, which the capitalist appropriates without giving anything in return. Here the two-fold character of labour presents itself as the two-fold character of capitalist production: on the one hand, it is the creation of use-value, and on the other, of value and surplus-value.

In order to obtain surplus-value, the capitalist lengthens the working day beyond the time required for the reproduction of labour-power. The working day falls into two parts: the necessary labour-time, and the surplus labour-time. Surplus-value is produced and appropriated in complete accordance

with the requirements of the law of value. Even when the capitalist fully pays for the value of the labour-power, surplus-value is still created in the surplus labour-time. That is how the contradiction of the general formula for capital $M-C-M'$ is resolved.

*The Substance of Capital.
Constant and Variable Capital*

Capital is examined as an economic category in all the four volumes of *Capital*, which contain a number of definitions of its substance. Marx proved that bourgeois economists were wrong in regarding capital as man's relation to things, instead of being a set of production relations, which is why they insisted that any material wealth was capital, and failed to see the transient nature of capital: "Capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character."⁶ The important point to understand is that this production relation between the capitalist class and the working class is a relation of exploitation, or the capitalist's appropriation of the unpaid labour of the wage-workers. From the standpoint of its material content, capital may present itself as a definite amount of money in the hands of the capitalist, as means of production, as commodities made at the capitalist's enterprise, and so on, but its substance is always one and the same: the exploitation of the workers.

The various factors of the labour process—the means of production and labour-power—have a different role to play in the creation of surplus-value (See Chapter VI of Vol. I of *Capital*). That part of capital which is embodied in the means of production whose value remains unchanged when it is transferred to the product as it is used up was designated by Marx as constant capital (c). That part of capital which is expended on the purchase of labour-power changes its value in the process of production—it increases—and Marx called it variable capital (v). He designated surplus-value by the letter " m " (from the German Mehrwert). The value of a commodity created at a capitalist enterprise may be presented as follows: $W = c + (v + m)$, where c is the transferred value, and $(v + m)$ is the newly created value. Surplus-value is that part of newly created value which remains once the equivalent of the value of labour-power has been subtracted.

⁶ Karl Marx, *Capital*, Vol. III, 1977, p. 814.

As to only a
short time. Surely.

The whole mass of surplus-value appropriated by the capitalist is its absolute magnitude, while the relative magnitude of surplus-value, or the degree to which variable capital increases, is determined as a ratio of surplus-value to variable capital: $\frac{m}{v}$. This ratio, expressed as a percentage, Marx says, is the rate of surplus-value, $m' = \frac{m}{v} \times 100$. "The rate of surplus-value is, therefore, an exact expression for the degree of exploitation of labour-power by capital."⁷

However, the rate of surplus-value does not in itself indicate the absolute proportions of capitalist exploitation. In order to show what these are, Marx introduced a category he called the mass of surplus-value (M), which is calculated in accordance with this formula: $M = \frac{m}{v} \times V$, where m is the average surplus-value produced by one worker in the course of a day; v , the variable capital daily advanced to buy one unit of labour-power, and V , the total amount of variable capital.

As capitalism develops, the rate and mass of surplus-value keep growing.

*Two Ways of Increasing the Degree
of Exploitation of the Working Class.
Absolute and Relative Surplus-Value*

This problem is dealt with in Vol. I of *Capital* (Part III-V). Absolute surplus-value is the overall basis of capitalist exploitation, and its extraction is connected with the lengthening of the working day. The part of the working day in the course of which the worker toils for the capitalist without compensation, or the surplus-labour time, can be increased through an absolute lengthening of the duration of the working day.

At the initial stages in the development of capitalism (simple cooperation, manufacture) surplus-value was increased above all through a direct lengthening of the working day, first because of the shortage of labour-power, and second, because production was based on manual labour. In that period, the working day was lengthened by state legislation, that is, in effect, the first way of increasing surplus-value. But the urge to lengthen the working day comes up against its social and physical limits.

The struggle of the working class for its rights has now led to a situation in which a 40-hour working week has, as a

⁷ Karl Marx, *Capital*, Vol. I, p. 209.

rule, been legislatively enacted in the developed capitalist countries.

Part V of Vol. I of *Capital* shows just how the capitalist obtains absolute surplus-value.

The second way of increasing surplus-value is the production of relative surplus-value, and the mechanism of its extraction is shown in Part IV of Vol. I of *Capital*.

The peculiar thing about this way is that surplus-value tends to increase with a reduction in necessary labour-time, and a corresponding increase in surplus-labour-time, while the working day remains unchanged, or is even shortened in some cases. That results from a growth of labour productivity in industries turning out consumer goods and means of production for consumer goods industries. Let us note that Marx examined three stages of capitalist development in industry: simple cooperation, manufacture, and large-scale machine industry. Each of these marks a stage in the growth of labour-productivity and the increase in relative surplus-value. The production of relative surplus-value is characteristic of the later stages of capitalist development, at which large-scale machine production has been fully established by capitalism as an adequate material and technical base for itself.

*The Basic Contradiction of Capitalism.
The Basic Economic Law of Capitalism*

The capitalists develop their production with the object of increasing surplus-value. The result is that production becomes social, with a growing concentration and a deepening and widening social division of labour and its cooperation. A deeper comprehension of the socialisation of labour will be obtained from a reading of Lenin's *The Development of Capitalism in Russia*. The basic contradiction of capitalism and its phenomenal forms are shown in Engels' *Anti-Dühring* (Part III, Chapter of "Outline of Theory"). It is a contradiction between production that is social and the appropriation of its results that is private and capitalist.

The basic economic law of capitalism expresses the substance of the last exploitative social formation, and defines the purposes for which production is run on capitalist lines, namely, the extraction of surplus-value by the capitalists, and indicates the main lines of economic development. The objective operation of this law tends to deepen and sharpen the basic contradiction of the capitalist system, and inevitably leads to a revolutionary replacement of it by the socialist mode of production.

Chapter Five

WAGES UNDER CAPITALISM

The function of wages reflects the working people's exploitation, on the one hand, and obscures it, on the other. Wages express the fact that the capitalist relations of production are fetishised. The problem is dealt with in Part VI of Vol. I of *Capital*.

The Substance of Wages under Capitalism

The first thing to note is Marx's formulation of the substance of wages, not a simple question by any means, because of the discrepancy between the substance of wages and their phenomenal form. Marx brings out the following main lines of analysis: wages as the converted form of the value of labour-power in the capitalist society; the objective conditions helping to camouflage the true substance of wages; and the difference between labour-power and labour. Labour-power being a commodity, it is sold and so has a price, so that the value of labour-power expressed in terms of money is its price, which assumes the form of wages. But wages appear at first sight not as the price of labour-power, but as the price of labour, an illusion produced by these circumstances: a) the worker's labour is the means for receiving wages, which is why wages outwardly appear to be the payment for his labour; b) the worker receives his wages after the entire labour process has ended, and not for the necessary labour-time; and c) the magnitude of wages is fixed in accordance with the quantity of time worked or the quantity of the product. All of these circumstances create the impression that the worker sells his labour, and that the whole of that labour is paid for by the capitalist.

Those were precisely the conclusions reached by bourgeois economists, who denied the existence of exploitation under capitalism. It was Marx who first proved that the worker's labour cannot be a commodity. For a commodity to be sold, it needs to be freely alienated and to exist before the sale. However,

an effect regarded as having magical power

when the capitalist hires the worker, labour does not yet exist. Labour is the process which requires the conjugation of labour-power with the means of production, and it is a fact that the latter do not belong to the worker. No surplus-value would be produced at all if labour were a commodity and were fully paid for. Capitalist production being commodity production, it is governed by the operation of the law of value. Labour creates value, but has no value of its own. The assumption that what is sold is labour leads to an absurdity: the value of labour is determined by labour.

The substance of wages is that under capitalism wages are a converted (i.e., camouflaged) form of the value and price of labour-power. Marx says that "wages are not what they appear to be, namely, the value, or price, of labour, but only a masked form for the value, or price, of labour-power."¹

Marx's doctrine of the substance of wages helps to dispel the illusion that workers and capitalists are equal as sellers of commodities, and that there is no exploitation of wage-labour under capitalism. Marxism deals a crushing blow at all the bourgeois theories of "equality" and "equal opportunities" under capitalism.

Forms and Systems of Wages; Their Evolution under Capitalism Today

Time-wages and piece-wages are the basic forms of wages, and these are analysed in Vol. I of *Capital* (Chapters XVIII and XIX).

Time-wages express in money terms the value of labour-power as calculated in accordance with the time worked, with the price of a working hour as the unit of measurement. That is calculated by dividing the daily value of labour-power by the number of daily working hours.

It is more convenient for the capitalist to fix the price of one working hour, leaving the duration of the working day to be established arbitrarily, depending on the economic situation. That largely explains why some workers in capitalist production do overtime, while others work less than a full week, and receive lower wages. Indeed, many are not employed at all.

Time-wages are advantageous to the capitalists because their profits grow steadily with the rising productivity and intensity of labour.

¹ Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works*, in Three Volumes, Vol. Three Progress Publishers, Moscow, 1973, p. 23.

Piece-wages are determined by the quantity and quality of the articles turned out in a unit of time and the piece-rate. Under capitalism, that is a more camouflaged form of labour exploitation, which creates the impression that the worker is fully paid for each product unit.

The introduction of piece-wages enables the capitalist to cut the costs of supervision, and more easily to step up labour intensity and lengthen the working day.

As the workers' labour productivity rises, the capitalist lowers the piece-rates, and that is why Marx held that "piece-work has therefore a tendency, while raising individual wages above the average, to lower this average itself."²

Some other, slightly modified forms of wages are used alongside time-wages and piece-wages, and these include "sweatshop" schemes based on the idea first put forward by Frederick Taylor. Operations are timed to target a high rate of output, with higher piece-rates set for fulfilment and overfulfilment, and penalties for non-fulfilment or lower fulfilment. Lenin described these as a "scientific" sweatshop system, for they are based on labour organisation principles which result in a sharp increase in the intensity of labour and a reduction in the overall employment of workers.

The overt methods of extra-economic coercion, stepped-up assembly line speeds, and the threat of dismissal—all still being widely used in the capitalist world—have ceased, however, to be as successful as they once were in stimulating labour activity. Accordingly, new methods of exploitation have been invented on the basis of various pseudo-scientific doctrines of "human relations" and "humanisation" of labour functions.

There are three groups of forms in which wages now appear in the capitalist countries: 1) "profit-sharing" schemes, 2) "bonus" schemes, and 3) "analytic workplace assessment" schemes.

"Profit-sharing" schemes entail a division of wages into basic and additional, the latter being distributed at the end of the year as a "share" of the enterprise profits. In actual fact, the worker receives the same basic wage, because it was initially fixed at a lower level. It is a system which creates the illusion that the working people and the bourgeoisie have common interests, and that the workers participate in sharing out the profits.

"Bonus" schemes induce the workers to work hardest to overfulfil assignments, toughen up the demands to economise on materials and improve product quality, for which output rates and cash payments are offered over and above the basic

² Karl Marx, *Capital*, Vol. I, p. 520.

rate. Such schemes are designed to increase the exploitation of labour through its ruthless intensification.

"Analytic workplace assessment" schemes include job classification according to the factors reflecting working conditions, effort and a responsible attitude on the part of the performer. The various operations are assessed in points which are then awarded to draw up a rate scheme on the basis of the operations assessed at the lowest number of points. Wage-rates are subsequently calculated by means of correction coefficients (often combined with assessments of "merit", "general reliability", "willingness to cooperate" and "company loyalty"). Under these schemes the performance of operations is paid for regardless of skill standards, and considering the widespread unemployment, the workers are forced to do any kind of lower-paid jobs available.

A multiplicity of individual job rates are set under the pretence of painstaking calculation of wages, and that is used by the capitalists not only to step up the intensity of labour but also to divide the working class.

All these systems are most widespread in the FRG and the United States.

Wage Levels Under Capitalism

The level and movement of wages are determined by the movement of the value of labour-power, the demand for and supply of it, and the acerbity of the class struggle carried on by the working people. *Harshness*

Two opposite trends influence the changes in the value of labour-power. One of these determines the lowering of the value of labour-power in connection with growing labour productivity in consumer goods industries, improvement of production processes, increases in the share of labour not requiring high skills, and involvement of women and teenagers in production; the other determines the rise in the value of labour-power owing to the ever greater intensification of labour and the growing wants of the worker and his family. Those are the two trends which have an effect on changes in wages, but there is ultimately a widening gap between the value of labour-power and the level of wages.

The level of wages should be determined on the basis of its nominal magnitude, i.e., the amount of money paid to wage-workers, and real wages, the sum-total of the consumer goods and services which a worker can buy with his nominal wages at the given level of prices (after tax and other deductions).

The present state of capitalism bears out the Marxist view that the overall tendency in capitalist production does not lead to a rise, but to a fall in the average level of wages, which is caused by the mass unemployment, the chronic inflation, the growth of taxes and the price of services, etc.

As the cost of living grows, there is a marked decline in real wages. In the United States, for instance, real wages in the 1980s dropped by more than 11 per cent.

Meanwhile, under various pretexts, the monopolies and the bourgeois state conduct a policy of keeping down, "freezing" wages and undermining the indexation (sliding scale) of wages, a practice designed to compensate a section of the working people for the inflationary depreciation of their incomes.

The monopolies use national wage differentials to transfer their capitals to countries with lower living standards in order to boost their profits.

Exploitation is also stepped up through direct discrimination in wages: women, young people and foreign (immigrant) workers are paid less for equal work.

We find, therefore, that wage levels under capitalism are a reflection both of the way wage-labour is exploited in production, and the traditional techniques of additionally plundering the masses, including tax oppression, the high cost of the vital goods and services, usurious consumer credit, ever higher rents and housing costs, education and public health care, all of which are vast sources for the essentially parasitic incomes of the ruling class.

Critique of Bourgeois and Reformist Wage Theories

As in the past, so today, the ideologists of capitalism claim that the workers are fully compensated for their labour in the form of wages, arguing that wage levels are fair and that it is futile for the workers to fight for higher wages.

The "iron law of wages" is an unscientific theory propounded by the German petty-bourgeois socialist Ferdinand Lassalle in the latter half of the 19th century. He asserted that wages tend to change under the pressure of the natural growth of the labouring population, so that wage levels are allegedly determined by the minimum of vital necessities required for the existence of the worker and his family.

Marx exposed that "theory" and demonstrated that wages tend to change under the operation of the economic laws of capitalism, and not because of some laws of Nature.

Since the early 20th century, bourgeois ideologists and

reformists have relied on what they call the "social theory of wages", which is based on the assertion that labour-power is not a commodity and has neither value nor price, which is why wages constitute a part of the gross domestic product, so that wage levels allegedly depend on social labour productivity and the social strength of the working class. According to Marx's labour theory of value, growing labour productivity under capitalism tends to lower the value of labour-power and increase surplus-value, so that the struggle of the working class (its social strength) can raise wages to the value of labour-power only to some extent, but it is, as a rule, always lower than its actual value.

In the late 1930s, the English economist John Maynard Keynes propounded a theory of "regulated wages", suggesting that there was an inverse relation between output and employment, on the one hand, and a definite level of real wages, on the other, with wages being fixed with an eye to "marginal productivity", i.e., the lowest productivity. That is why Keynes and his followers believed that an important way to ensure employment was to "freeze" nominal and lower real wages by means of "regulated inflation".

Bourgeois economists and reformists popularised the theory of "wage regulation" (collective contract wages), not in the light of the objective economic content of the category, but of what they called contractual strength which takes shape as a result of bargaining between employers and trade unions.

In view of the cyclical character of capitalist production, the unemployment and the inflation, bourgeois economists and reformists have spun out the "inflationary wage and price spiral" theory in order to justify the policy of keeping down and "freezing" wages. They argued that growing wages tend to increase the costs of production and so to exert an upward push on prices, and that, for its part, calls for further wage rises, so producing a vicious circle. Hence the argument that there was no point in the workers' fighting for higher wages.

But a growth in wages means a reduction in surplus-value, without having any effect on prices. Price is the money expression of value, which is created in the process of labour.

All present-day bourgeois theories of wages ignore the objective economic laws and strain to cover up the exploitive substance of capitalist production, and to spread the idea that the interests of labour and capital are similar, and that there is a need for class cooperation. With the growing influence of world socialism, the working people's class struggle now and again forces the capitalists to make partial concessions, to

make some improvements in working conditions, in the remuneration of labour and social security, but that is being done to preserve the main thing: capitalist rule. Moreover, that kind of manoeuvring increasingly goes hand in hand with violent action and a direct drive by the monopolies and the bourgeois state on the working people's living standards.

Chapter Six

THE GENERAL LAW OF CAPITALIST ACCUMULATION

The general law of capitalist accumulation is analysed by Marx in the closing Part VII of Vol. I of *Capital*. Let us recall how capital generates surplus-value, before going on to examine how capital originates from surplus-value.

Capitalist Simple and Expanded Reproduction. Factors Behind Capital Accumulation

Reproduction is the term used to designate the constant repetition and continuous resumption of social production, and it may be simple or expanded. Under simple reproduction, output is repeated in the same proportions and on the same technical basis, and here it is important to note the following conclusions that Marx drew from his analysis.

Labour-power is paid for only after the worker has turned out the product, i.e., it is paid out of the worker's past labour. In other words, it is not the capitalist who gives the worker credit, but the worker who gives the capitalist credit. It is the worker who creates the necessary conditions for the reproduction of capital by his labour. He has to keep selling his labour-power, since the reproduction of capital is simultaneously the reproduction of labour-power as a commodity. Furthermore, reproduction, even on the same scale, inevitably converts with the passage of time every initially advanced value, whatever its origin, into accumulated capital, into capitalised surplus-value created by the workers' labour. Capitalist simple reproduction is the reproduction of material goods, of labour-power and of capitalist relations of production: the capitalist, on the one hand, and the wage-worker, on the other.

Capitalism develops in accordance with the laws of expanded reproduction, with surplus-value being divided into two parts: one of them is consumed by the capitalist as income, and the other is used as capital and accumulated.

The expanded reproduction of capital proceeds where additional means of production, additional workers and additional

means of subsistence for them are available in the market-place.

Additional means of production and means of subsistence are contained in surplus-value, while the worker himself reproduces the additional labour-power.

Adam Smith and David Ricardo, both classics of bourgeois political economy, assumed that the accumulated part of surplus-value consisted only of variable capital. They saw accumulation as a mere consumption of the surplus-product by the productive workers and held that workers only engaged in individual consumption. Marx proved that the accumulated part of surplus-value necessarily falls into two parts: the means of production and the labour-power, i.e., constant and variable capital, since otherwise expanded reproduction is impossible.

Marx points to four factors which determine the proportions of accumulation regardless of the ratio in which surplus-value is divided into capital and income: the growing degree of the workers' exploitation; the growing productive power of labour; the difference between applied and consumed capital, and the magnitude of functioning capital.

*The Organic Composition of Capital.
Its Growth and Influence on the Condition
of the Working Class*

The composition of capital may be viewed from two angles: as the ratio of the value of the constant and variable capital, i.e., its value-composition, and as the ratio of the mass of the means of production and the number of workers setting these in motion, i.e., its technical composition. "Between the two there is a strict correlation. To express this I call the value-composition of capital in so far as it is determined by its technical composition and mirrors the changes of the latter, the *organic composition of capital*".¹

It follows that the value-composition of capital is not in itself the organic composition, but it becomes such only when it corresponds to its technical composition; what is more, it may change independently of its technical composition (in time of crisis, in the course of competition). The form in which the organic composition is expressed is the ratio of constant capital to variable capital as presented in comparable value magnitudes.

The organic composition of capital tends on the whole to

¹ Karl Marx, *Capital*, Vol. I, p. 574.

grow with the development of capitalism, and this is manifested above all in the fact that the capital expended on the purchase of the means of production tends to grow faster than that part of capital which is used to buy labour-power. Consequently, the share of the second part in the whole of capital tends to diminish.

Changes in the organic composition of capital nowadays reflect the extremely contradictory process in which the productive forces develop under capitalism. The urge for higher profits impels the capitalists to make wide use of the latest hardware and technology, which is why inputs into constant capital grow fast, but the STR also requires an increase in the number of high-skilled workers, and this increases the inputs into variable capital.

When studying this section, one should give attention to the role of concentration and centralisation of capital and production in increasing the accumulation of capital, and to clarify their similarities and differences.

The accumulation of capital inevitably creates conditions under which a relative surplus of labour-power is formed. The demand for labour is not determined by the whole of functioning capital, but only by its variable part. The decline in the share of variable capital tends relatively to diminish the demand for additional labour-power, and while the absolute number of workers grows with the development of capitalism, a part of the labour-power becomes redundant. Simultaneously, with the technical improvement of existing production and growing labour productivity, some of the workers are left outside and go to swell the army of the unemployed. The accumulation of capital tends to ruin the petty-commodity producers, who have to sell their labour-power and so increase the supply of labour-power as compared with the demand. Several other factors influence the growth of relative over-population: the use of cheaper child and female labour, the intensification of labour, the lengthening of the working day, and the natural growth of the population.

Summing up all these processes, Marx formulated the capitalist law of over-population: "The labouring population, therefore, produces along with the accumulation of capital produced by it, the means by which it itself is made relatively superfluous, is turned into a relative surplus-population and it does this to an always increasing extent."²

The law of over-population is a social law, and not a dem-

² Karl Marx, *Capital*, Vol. I, p. 591.

ographic one, as the English bourgeois economist Thomas R. Malthus claimed, when he argued that the population tends to grow at a geometrical progression, and the means of subsistence only at an arithmetical progression. He asserted that it was not the capitalist mode of production, but the rapid growth of the population that was the root cause of unemployment and the worsening condition of the working people. Such views have been refuted by life itself (see Lenin's *The Working Class and Neo-Malthusianism*).

Unemployment in the developed capitalist countries has now become massive and chronic. There is a growth of partial unemployment owing to the underloading of producer capacities, and there is now a spread of unemployment among workers by brain: engineers, technicians and office workers. The army of unemployed has been steadily increasing over the past decade.

Bourgeois theories nowadays often blame the STR as such for the spreading unemployment and the new phenomena it produces. However, "machinery, as such, is not responsible for 'setting free' the workmen from the means of subsistence", says Marx.³

*The General Law of Capitalist Accumulation.
Relative and Absolute Worsening
of the Condition of the Proletariat*

Marx's examination of the substance of the capitalist mode of production led to his discovery of the general law of capitalist accumulation.

The operation of this law reflects the influence of the accumulation of capital on the condition of the working class and its destinies: "In proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse."⁴

The operation of the law inevitably results in an accumulation of wealth at the one pole, and in the accumulation of poverty, at the other. Marx exposed the deeply antagonistic character of the capitalist mode of production and its insoluble contradictions, adding that, like all other laws, the general law of capitalist accumulation is modified under the impact of numerous concrete factors, and assumes different forms depending on the balance of class forces, the intensity of the class struggle, and the sharpening internal contradictions of capitalism. But its basic tendency to worsen the condition of the working class remains.

³ *Ibid.*, p. 415.

⁴ *Ibid.*, p. 604.

There are two main forms of the proletariat's impoverishment: the relative and the absolute. Here one would do well to read Lenin's *Impoverishment in Capitalist Society*. Relative impoverishment is expressed in a worsening of the proletariat's condition as compared with that of the bourgeoisie, with a reduction in the working-class share in the national wealth, the gross domestic product and—most visually—the national income.

The absolute impoverishment of the working class is manifested unevenly and in the most diverse forms. Lenin says that the growth of poverty needs to be seen as running along two lines: "physical poverty" and "poverty in the social sense". The former means impoverishment as a direct worsening of working and living conditions, housing conditions, nutrition, medical care and other conditions for the working class. Poverty in the social sense is expressed in the gap between the level of wants and the level of their actual satisfaction. While workers' wages may now and again go up, they fall short of the higher value of labour-power.

The absolute impoverishment of the proletariat is marked by such factors as growing unemployment, excessive intensification of labour, shopfloor accidents, and various diseases, which results in irreparable expenditure of the workers' vital forces.

Under capitalism, the worsening condition of the working class is now being intensified under the impact of militarisation of the economy, rising taxes, soaring inflation, and the consequent rise in the cost of living.

The Historical Tendency of Capitalist Accumulation

Following his analysis of the capitalist mode of production, Marx gives in Chapter XXIV of Vol. I of *Capital* an exhaustive substantiation of the historical tendency of capitalist accumulation.

It is important in studying this question to understand what kind of influence the growth of social production has on the accumulation of capital, and how the revolutionary proletariat is formed. Marx begins by examining so-called primitive accumulation of capital, the process in which the historical prerequisites of the capitalist mode of production are created and the capitalist relations of production based on the exploitation of wage-labour are established. From then on, the competition and the further accumulation of capital lead to an ever greater concentration and centralisation of capital and production, which becomes ever more social.

The contradiction between the social character of production and the private form of appropriation is exacerbated as a result of accumulation, thereby producing the material prerequisites for socialist revolution. The accumulation of capital increases the scale and degree of the exploitation of the working class. There is a growth in the proletariat's numbers, of its class consciousness, and its ever more organised struggle against the capitalists. Accumulation, therefore, makes for the formation not only of the objective but also of the subjective prerequisites for social cataclysm: "Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."⁵

⁵ Karl Marx, *Capital*, Vol. I, p. 715.

Chapter Seven

THE CIRCUIT AND TURNOVER OF CAPITAL

The circulation of capital is examined in detail in Vol. II of Marx's main economic work. Let us see what kind of effect its circuit has on increasing surplus-value.

The Three Stages in the Circuit of Capital

What is the point at which capital begins its movement? The capitalist, the owner of money, appears on the commodity market and the labour market as a buyer, and buys the commodities he needs. That is how money is converted into commodity: $M-C$. Since the capitalist buys his commodities on different markets, the commodities he buys are likewise different: "these commodities are, on the one hand, means of production, and on the other, labour-power, material and personal factors in the production of commodities whose specific nature must, of course, correspond to the special kind of articles to be manufactured."¹

The act $M-C$ may be represented as $M-C \begin{matrix} LP \\ MR \end{matrix}$, i.e., money capital is converted into the elements of productive capital (means of production and labour-power).

The next stage in the movement of capital is the productive consumption of the commodities bought by the capitalist, namely, the process of production (P), in the course of which a new type of commodity is created with a value greater than the value advanced by the capitalist for the purchase of labour-power and the means of production: it is greater by the magnitude of surplus-value. As a result, productive capital is converted into commodity capital (C), which is greater in value than the original one by the magnitude of surplus-value (C'). The final stage in the movement of capital, like the first stage, is connected with the process of circulation. The capitalist returns to the market-place as a seller to realise the commodities

¹ Karl Marx, *Capital*, Vol. II, 1978, p. 26.

produced at his enterprise. As a result, the capital and the surplus-value it contains are converted from the commodity form C' into the money form M' . Commodity capital is converted into money capital, i.e., it assumes its original form.

In its movement, therefore, capital successively passes through three stages and appears in three functional forms: money, productive and commodity capital. At each stage, capital performs definite functions and returns to its original form, a process Marx called the circuit of capital, which is expressed by the following formula:

$$M-C \begin{matrix} LP \\ MP \end{matrix} \dots P \dots C'-M',$$

where the pluristops indicate the interruption of the process of circulation.

In the course of the circuit, each form of capital has its own specific function to perform.

At the first stage of the circuit, capital, then in money form, performs the function of money: as means of payment, or as medium of circulation. What is it then that turns the money into capital? The capitalist does not simply spend his money on buying commodities. He advances it as a value which must yield surplus-value. The function of money capital is to convert the money into the means of production and labour-power, i.e., the elements of productive capital (second stage) whose purpose is to produce surplus-value. At the third stage of the circuit, capital is embodied in the commodity, and like any other commodity, it can perform the function which is proper to all commodities, and that is to be sold on the market. In that role, the commodity in this case also appears in the role of capital, a duality which is determined by the fact that this commodity is the product of wage-labour. The surplus-value it contains turns it into commodity capital. That is why it is designated as C' , or the $C + c$. C is converted into C' because the magnitude of its value has increased. In the commodity form, capital performs a definite function which is to complete the circuit and to return to the original money form. The surplus-value is simultaneously converted from the commodity form into the money form.

We find, therefore, that in its movement capital successively passes through three stages and assumes three forms, each of which—the money, the productive and the commodity form—has its own function to perform in the course of the circuit, and that is why it is called the functional form of capital.

It is important to note that the circuit is performed by

Annual 18. Plots on elements of the circuit of capital. Marx.

industrial capital, i.e., capital employed in the sphere of material production, while commercial and money capital are capitals of circulation, and so are a part of industrial capital. The circuit of commercial capital is $M-C-M'$, and that of money capital is $M-M'$. The formula for the circuit of industrial capital is:

$$M-C \quad \frac{LP}{MP} \quad \dots \quad P \quad \dots \quad C'-M'$$

An analysis of the circuit of industrial capital helps to clarify the substance of capital. Marx says that capital is self-expanding value, but adds that it is also the process of circuit passing through various stages, which is why it can be understood only as a movement, and not as a thing at rest.

In its movement, capital simultaneously has all three forms: the money, the productive and the commodity form, since they are all necessary for the process of production.

The Turnover of Capital. Fixed and Circulating Capital

Once the whole capital value invested by the individual capitalist in an industry has performed its circuit, it once again assumes its original form and may go on to repeat the same process over again. That is precisely what happens in practice. Capital does not perform an individual circuit, but keeps going through a succession of circuit acts which are repeated again and again.

The period of time in which all the value advanced by the capitalist passes through the stage of production and the stage of circulation constitutes the time of the turnover of capital, and here the year is the only unit for measuring the turnover speed of functioning capital. Marx gave this formula for the number of turnovers of capital:

$n = \frac{T}{t}$, where n is the number of turnovers per year; T , the unit of measure of the turnover time (1 year = 12 months); and t , the time of turnover of a given capital. Thus, a capital which is turned over once in six months will have two turnovers a year: $\frac{12}{6}$. The elements of productive capital have a different influence on the speed of its turnover. One part of the productive capital which takes full part in the process of production transfers its value to the product in parts, as it is worn out in the course of several turnovers, and is returned to the capitalist in money form in parts as well. That is called fixed capital,

and includes the instruments of labour (industrial buildings, installations, machine tools, equipment) which retain their natural material form and use-value.

The capitalist puts his money into the fixed capital at once, for the whole period in which it is used. The instruments of labour lose their value gradually, as they are subjected to wear and tear. When the capitalist sells each lot of commodities produced at his enterprise, he gets back a part of the value of the instruments of labour which were transferred to those commodities. The fixed capital is fully returned to the capitalist in money form when the instruments of labour are finally worn out and lose their use-value.

The other part of productive capital, which was expended on the purchase of the objects of labour—raw and other materials, fuel, etc.—transfers its full value to the manufactured product in the process of production, and is fully returned to the capitalist in money form after each circuit. This is known as circulating capital, and it includes the variable capital which is advanced for the purchase of labour-power.

The division of capital into fixed and circulating capital, like the separation of their movements, occurs only with productive capital. Money and commodity capital function only in the sphere of circulation, which is why they are not divided into fixed and circulating capital.

The division of capital into fixed and circulating capital, depending on the different turnover of their component parts, should not be confused with the division of capital into constant and variable capital, which is determined by their different roles in the creation of value and surplus-value.

Fixed capital (instruments of labour) are worn out in the process of production, and here a distinction is made between wear and tear, and obsolescence: the former involves the loss of use-value, and the latter of a part of the value of fixed capital.

Under the current STR, the depreciation write-off rates (the ratio of the depreciation to the value of the instruments of labour expressed as a percentage) have been markedly increased in the developed capitalist countries, being exaggerated in many cases and so helping to conceal a part of the profit within such write-offs. This is a direct benefit to the capitalist because the depreciation fund is not subject to taxation.

Capital Turnover Time

Capital turnover time is the period in the course of which the advanced capital passes through the sphere of production

and the sphere of circulation, and it depends on a number of factors, the chief of which are the composition of the advanced capital, and the duration of its production and circulation.

Since fixed capital transfers its value to the commodity in parts, the duration of its turnover is much longer than that of circulating capital. The component parts of fixed capital likewise have different speeds of circulation. The time of turnover for capital invested in buildings and installations is longer than that of capital invested in machine tools and plant. That is why the overall turnover time for advanced capital is an average deduced from the turnover of fixed and circulating capital.

Capital turnover time also depends on the length of the period of production and of circulation. The time in which capital is in the sphere of production is called the time of production, and when studying it one should clarify the meaning of the working period, how it depends on the specific nature of the product, and what is the main way of reducing it.

The time of circulation is the period in which capital is in the sphere of circulation, and it includes the time in the course of which capital has the form of commodity stockpiles, or inventories, en route and on sale. The capitalists face the hard task of selling their products because the worsening condition of the working class tends to lower its purchasing power. The difficulties in selling goods in the capitalist world today have produced a form of business known as marketing, a system of measures for studying demand and market outlook, and collecting the relevant information. Marketing is designed to reduce the time of circulation.

*The Annual Mass and Annual Rate of Surplus-Value.
Their Dependence on the Speed
of Variable Capital Turnover*

Variable capital is the sole source of surplus-value. In mode of turnover it is a part of circulating capital, but the turnover of variable capital has its peculiarities and these are that the value of variable capital is not transferred to the product but is reproduced and increased by the magnitude of surplus-value. The speed of variable capital turnover determines the annual mass and annual rate of surplus-value: the faster the turnover of variable capital, the greater the annual mass and the higher the rate of surplus-value.

The annual mass of surplus-value is equal to the surplus-value extracted in the course of one turnover of variable capital, multiplied by the number of its turnovers per year.

Acceleration in the number of variable capital turnovers makes it possible to extract the same mass of surplus-value with a smaller advanced capital. Here is an example. Let us compare one capital where $v = \$1,000$, $n = 12$ turnovers a year, and $m' = 100$ per cent, with another capital, where $v = \$6,000$, $n = 2$ turnovers a year, and $m' = 100$ per cent.

These two variable capitals which differ in magnitude create the same annual mass of surplus-value in the course of the year, but it turns out that the annual rate of their surplus-value is different. In the first case, it is 1,200 per cent ($M' = \frac{12,000}{1,000} \times 100$), and in the second, it is 200 per cent ($M' = \frac{12,000}{6,000} \times 100$).

It is not the turnover itself that results in an increase in the annual mass of surplus-value, but the increase in the number of workers being simultaneously subjected to exploitation with the growing number of turnovers.

Chapter Eight

PROFIT AND PRICE OF PRODUCTION

The problems are examined by Marx in Vol. III of *Capital*, which is a logical continuation of the theories of surplus-value set forth in the first two volumes. With the development of capitalism, the functional forms of industrial capital—commercial and loan capital—are separated into independent forms. In accordance with the three interacting forms of capital, there are three groups of capitalists: industrial, commercial and loan capitalists, each of which takes part in the distribution of surplus-value and appropriates it in the concrete form of industrial profit, commercial profit and loan interest.

The class of landowners also takes part in the distribution of surplus-value, and appropriates it in the form of ground-rent.

The Capitalist Costs of Production and Profit

This matter is dealt with in Chapter I of Vol. III of *Capital*, where Marx defines the substance of the category of capitalist costs of production. These are the capitalist's inputs into the production of a concrete commodity as expended on the means of production and labour-power ($c + v$). The separate part of the value of a commodity in cash terms compensates the capitalist for the price of the used-up means of production and the applied labour-power. In magnitude, the costs of production are lower than the actual value of the commodity, because the capitalist appropriates the surplus-value without compensation. Marx says: "The capitalist cost of the commodity is measured by the expenditure of *capital*, while the actual cost of the commodity is measured by the expenditure of *labour*."¹ The costs of production are not identical with that part of the value of the commodity of which they are a monetary expression. First, the capitalist buys the means of production at prices which are usually not identical with their value. Second, the wages paid

¹ Karl Marx *Capital*, Vol. III, p. 26.

to workers are, as a rule, lower than the value of the labour-power. The capitalist costs of production ($c + v$) express "the specific character of capitalist production".² In these conditions, the value of the commodity assumes the following form: $W = K + m$, a formula which should be compared with that given by Marx in Vol. I of *Capital*: $W = c + (v + m)$, where c is the value of the used-up means of production, and $(v + m)$ the newly created value, a part of which is surplus-value. That makes it perfectly clear where the source of surplus-value lies: "The surplus-value, the relation between capital and labour is laid bare," Marx emphasised.³

Let us note that the first formula obscures the source of surplus-value and leaves the impression that it is produced by the whole of capital. In actual fact, the difference between the constant and variable capital in the costs of production is camouflaged, because both these parts are paid for by the capitalist from his capital. "In its assumed capacity of offspring of the aggregate advanced capital, surplus-value takes the converted form of *profit*."⁴ Thus, the category of profit (p) is organically linked to the costs of production. Considering that profit is realised surplus-value, the quantity of profit may not coincide with the mass of surplus-value which is created in the production of a given commodity. This goes further to obscure the connection between profit and surplus-value: "Profit is nevertheless a converted form of surplus-value, a form in which its origin and the secret of its existence are obscured and extinguished."⁵

On the surface of phenomena in the bourgeois society, the value of a commodity assumes this form: $W = k + p$, in which case the commodity does not appear as a product of labour, but as a product of capital.

The Rate of Profit and the Factors Determining It

This concept will be clarified in Chapters II-IV of Vol. III of *Capital*.

The first thing is to examine the formula of the rate of profit ($p' = \frac{m}{c + v} \times 100$). Here, surplus-value is related to the whole of advanced capital, because it looks as if profit is produced by capital as a whole.

² *Ibidem*.

³ *Ibid.*, p. 48.

⁴ *Ibid.*, p. 36.

⁵ *Ibid.*, p. 48.

The rate of surplus-value ($m' = \frac{m}{v} \times 100$) differs from the rate of profit quantitatively and qualitatively. Thus, whereas the rate of surplus-value expresses the degree of exploitation, the rate of profit expresses the growth of the value of the whole of advanced capital. The rate of profit is always lower than the rate of surplus-value: "The rate of profit is the motive power of capitalist production. Things are produced only so long as they can be produced with a profit."⁶

A number of factors has an influence on the rate of profit. There is, first, the growing degree of exploitation of the working class, where the relation is directly proportional. The rate of profit is inversely proportional to the organic composition of capital: the higher it is, the lower the rate of profit. It is affected by the rate of the turnover of capital: the faster the turnover of capital, the higher the rate of profit, and vice versa. Savings on constant capital, often to the detriment of the health of workers, have a definite role to play.

Inter-Sectoral Competition and the Formation of Market (Social) Value

Chapter X of Vol. III of Marx's *Capital* considers the various types of competition and their substance and role in the development of the capitalist economy. Marx brings out two types of competition: intra-sectoral and inter-sectoral competition, which do not exist on their own, being closely interconnected and interacting with each other, while being considered separately for the purposes of scientific analysis.

Intra-sectoral competition is competition between producers of one and the same type of commodity, and it leads to the formation of a single market (social) value from the various individual values of commodities. Since capitalist production is mass production, the formation of market value involves the whole mass of commodities produced in the given sphere of production. Provided that social demand and supply of commodities coincide, market value is determined by their average value (as a ratio of the whole mass of inputs of socially necessary labour in the given sphere to the whole quantity of commodities produced). This reckons with the worst, average and best conditions under which the commodities are produced, but the crucial influence is exerted by those of them which are characteristic

⁶ Karl Marx, *Capital*, Vol. III, p. 259.

of the production of the bulk of the products; these are, as a rule, the average conditions.

Intra-sectoral competition, results, on the one hand, in the origination of super-profit, and on the other, in the ruin of many producers (because of the differential between the individual and the market value of commodities).

Market (social) value is the basis on which it is converted into the price of production.

*Inter-Sectoral Competition
and the Formation of Average Rate of Profit.
The Significance of Marx's Theory
of Average Profit for the Proletariat's Class Struggle*

Chapters VIII, IX and X of Vol. III of Marx's *Capital* contain an analysis of the formation of the average rate of profit by means of inter-sectoral competition.

The various sectoral rates of profit produce inter-sectoral competition between capitalists in various spheres of production for the most lucrative investment of capital and the highest rate of profit, causing the transfusion of capital from industries with a lower rate of profit to industries with a higher rate of profit and the formation of the average rate of profit. The aggregate surplus-value is distributed between the capitalists in such a way that roughly equal profit goes to equal capital: "The profit accruing in accordance with this general rate of profit to any capital of a given magnitude, whatever its organic composition, is called the average profit".⁷ With the formation of the average rate of profit, the value of commodities presents itself as the price of production.

In the capitalist society, commodities are exchanged not as products of labour, but as products of capital laying claim to equal profit for equal magnitudes. It is a law of capitalism that equal profit goes to equal capital, wherever it may be invested. With the development of capitalism, conditions are created for the evening out of the different sectoral rates of profit into average profit in what is known as free competition and the free flow of capital from sector to sector (industry to industry) and the free movement of labour-power.

Under simple commodity production, commodities are exchanged at value, but in the capitalist economy, the law of value operates in the converted form of the law of the price of production.

⁷ *Ibid.*, p. 158.

Marx demonstrated that the price of production $(c + v) + Pav$ is the converted form of commodity value in the following way: on the scale of the society as a whole, the sum-total of the prices of production of all the commodities is equal to the sum-total of their values; the price of production quantitatively coincides with the value in sectors (industries) where the organic composition of capital corresponds to the average social composition of capital; the magnitude of the value of the commodity and the price of production tend to change in one and the same direction.

In his article "Karl Marx", Lenin emphasised that the formation of average profit is a problem solved on the basis of the law of value, and that was a great theoretical achievement of Marx's.

The category of average profit is an expression of the relations of production between the capitalists (over the distribution of aggregate surplus-value); and between the whole class of the bourgeoisie and the whole working class. Marx says: "We have a mathematically precise proof why capitalists form a veritable freemason society vis-a-vis the whole working class, while there is little love lost between them in competition among themselves."⁸ Marx drew attention to the following points: the whole capitalist class is involved in exploiting the working class; each capitalist has a stake in the greater exploitation of the workers not only at his own enterprises. Since the working class is confronted with the united forces of the whole capitalist class, it has to fight the capitalist class as a whole, and these conclusions are of key significance for the proletariat's class struggle.

*The Law of the Tendency of the Rate
of Profit to Fall and the Development
of the Contradictions of Capitalism*

As capitalism develops, there is a tendency for the average rate of profit to fall, owing mainly, as Marx showed, to the rise in the organic composition of the whole of social capital as a result of scientific and technical progress and the growing productivity of social labour. In the process, the share of variable capital in the aggregate social capital shrinks, and that, all other things being equal, leads to a decline in the rate of profit.

A distinction should be drawn between the decline in the rate of profit and the increase in its absolute mass. The decline in the rate of profit results in a reduction in its mass only when

⁸ *Ibid.*, p. 198.

the absolute magnitude of the whole of social capital remains unchanged. But capitalist production is essentially a process in which capital is accumulated, i.e., in which the whole of social capital is increased. There is, consequently, a growth in the magnitude of variable capital as well, despite the fact that its share in the aggregate social capital shrinks. There is a growth in the numbers of the working class, whose ever more intense exploitation enables the capitalists to appropriate an ever greater mass of profit.

The decline in the rate of profit is also countered by these factors: the growing exploitation of the working class; the depression of wages; the lower cost of the elements of constant capital; relative over-population; and foreign trade, all of which reduce the operation of the law of average rate of profit and turn it into a tendency. It was Marx who formulated the law of the tendency of the average rate of profit to fall.

The operation of this law causes the contradictions of capitalism to be exacerbated, notably the contradiction between the purpose of capitalist production, which is to increase profit, and the means by which that is attained. Scientific and technical progress and the growing productivity of social labour as the means by which profit is boosted objectively result in a higher organic composition of social capital and in a declining rate of profit. For its part, the falling rate of profit is compensated by an increase in the mass of profit as production is further expanded, concentrated and centralised. The operation of this law expresses the deep antagonism between wage-labour and capital, and between the developing productive forces, and the relations of production, which fetter them.

Chapter Nine

COMMERCIAL CAPITAL AND COMMERCIAL PROFIT

Commercial and loan capital operate in the sphere of circulation. At a definite stage in the development of industrial capital, commercial and loan capital hive off from the latter and exist alongside but in interconnection with it.

The Substance and Role of Commercial Capital in the Capitalist Society

Historically, commercial capital precedes industrial capital as the most ancient and independent form of capital (see Chapter XX of Vol. III of *Capital*). It has an important role to play in the genesis of capitalist relations, as Lenin shows very well in *The Development of Capitalism in Russia* (see Part VI, Paras. V and VI).

The substance of commercial capital under capitalism is made clear by Marx in Chapter XVI of Vol. III of *Capital*. It is capital advanced by a special group of capitalists—merchants—and remains within the sphere of circulation. The circuit of commercial capital is $M-C-M'$, which is the purchase of commodities for their subsequent sale.

Commercial capital appears only in two forms: the money and the commodity form.

Commercial capital originates and exists under commodity production and commodity-money relations. There should be no confusion between these two categories: commodity capital and commercial capital. Commodity capital is a functional form of a definite amount of commodities turned out at capitalist enterprises, and is an expression of the advanced value, and also of the surplus-value created in the process of production as a result of the exploitation of labour-power.

At one stage in the social division of labour, commodity capital developed into independent capital and was converted into commercial capital. Thus, commercial capital is a part of industrial capital that has hived off from it. Its purpose is to service the process of circulation as a phase of the overall

process of reproduction. Marx says that commercial (or merchant's) capital "functions only as an agent of productive capital."¹ It "creates neither value nor surplus-value but acts as middleman in their realisation."² The separation of commercial capital into an independent form helps to accelerate the turnover of industrial capital and to increase surplus-value.

Commercial Profit and Its Sources.

The Exploitation by Commercial Capital of Wage-Workers, Petty-Commodity Producers and Consumers

The object of commercial (merchant) capitalists is to obtain profit, and commercial profit appears, at first sight, as the differential between the selling and purchase price of the commodity, or a mark-up on the commodity value. In actual fact, it is a form of surplus-value, which has its source in the surplus-value created in production (see Chapter XVII of Vol. III of *Capital*).

The industrial capitalists are forced to give up a portion of the surplus-value to the commercial capitalists for marketing their commodities and converting commodity capital into money capital. The rate of profit in commerce is on average equal to the rate of profit in industry.

Commercial capital takes part in the spontaneous flow of capitals from sector to sector (industry to industry), and in averaging out the rate of profit. Commercial profit, taking into account the costs of circulation (maintenance of offices and showrooms, salaries, advertising, etc.), is formed by means of the following mechanism: one part of the surplus-value realised by commercial capital (selling price—purchase price) goes to recoup the capital advanced for the costs of circulation, while the other makes up the commercial profit.

Commercial workers and employees in the sphere of actual circulation are subjected to exploitation, although they do not create any surplus-value. A share of their labour is gratuitously appropriated by the capitalists. The working day in commerce, like that in other sectors, falls into two parts: necessary and surplus labour-time. In the course of the necessary labour-time, commercial workers realise that part of the surplus-value which goes to recoup the capital expended by the commercial capitalist for the purchase of labour-power, while in the surplus labour-time, they realise that part of the surplus-value which is ap-

¹ Karl Marx, *Capital*, Vol. III, p. 327.

² *Ibid.*, p. 282.

propriated by the capitalists in the form of commercial profit.

One source of profit for the commercial capitalists is their exploitation of petty-commodity producers and the whole mass of the working people. They buy up the products produced by handicraftsmen and peasants at prices below value, but sell them manufactured commodities at prices above value, a non-equivalent exchange in trade which enables them to keep boosting their profits.

In *The Development of Capitalism in Russia*, Lenin examines the other forms used by commercial capitalists of exploit petty-commodity producers (usury, payment for purchased articles with consumer goods, raw and other materials, etc.).

In our day, petty-commodity producers depend on the monopolies and do not, as a rule, operate in the market-place on their own. Scientific and technical progress has made farmers more dependent, on the one hand, on the terms on which their produce is marketed, and on the activity of wholesale monopoly buyers, and on the other, on the terms on which they have to buy their means of production, and on the level of prices for these. The non-equivalent exchange in favour of the monopolies is being increased through the "price spread" between the produce sold by the farmers and the manufactured goods they buy.

Consumer exploitation provides ample opportunity for increasing commercial profit. Among the methods used in the capitalist countries are sale of goods at marked-up prices, consumer credit, the rapid production of new goods with the advance of scientific and technical progress, and their sale at monopoly-high prices, and the artificial extension of the range of goods which are frequently no different from the old ones.

The Costs of Circulation

This point is clarified by Marx in Vol. II of *Capital* (Chapter VI) and in Vol. III (Chapter XVIII). Commercial capitalists advance capital not only for the purchase of commodities from industrialists, but also for organising their sale, and the incidental costs constitute the costs of circulation, which are of two kinds: net costs, and additional costs of circulation.

The net costs of circulation are those determined by circulation as such, by the change in the form of value, and the conversion of money into commodities, and of commodities into money. Among such costs are the payment of salaries to those directly handling the purchase and sale of commodities, and the costs of accounting, commercial correspondence, the maintenance of business premises, advertising costs, etc.

Those who are employed in the actual sale of commodities and the settling of accounts do not create any new value, so that the net costs of circulation are a deduction from the value already created in production. They are recouped from that part of the surplus-value which is appropriated by the commercial capitalists. It happens while selling commodities according to value. Under monopoly capitalism, there is a marked growth in the net costs of circulation as monopolies fix high prices for their commodities, so passing on to the consumer the whole burden of recouping net costs.

The additional costs of circulation include the costs incidental to the continuation of productive processes in the sphere of circulation, such as the transportation of commodities, the sorting, parceling, packaging and storage of commodities. The labour going into these processes is productive labour and creates use-value and value, including surplus-value.

In the developed capitalist countries, the costs of circulation come to 30-50 per cent of the total amount of retail commodity turnover, with two-thirds of them being net costs of circulation.

Forms of Capitalist Commerce

There are two forms of capitalist commerce: wholesale trade, i.e., the sale of commodities in bulk by one set of capitalists to another; and retail trade, when the commodities are sold to the population by the commercial capitalists.

Wholesale trade is carried on through commodity exchanges on the strength of samples and with a specification of standards listing the necessary quality, grade, etc. Retail trade is effected through a wide-ranging network of shopping centres (supermarkets, department, specialised, mobile and other stores). Under imperialism, many specialised stores, together with large numbers of smaller commercial outlets are dominated and controlled by the monopolies.

Sales on instalment are now highly developed, and the emergence and development of new forms of commerce tend to sharpen competition. Rivals make use of dumping (the sale of goods at prices which are often below the costs of production), advertising, the buying up of commodities, and destruction of a part of their stock.

Cooperative trade also has a part to play in commerce in the capitalist countries. Cooperatives purchase goods from the industrial capitalists and sell them to their members at a discount as compared with the prices fixed by the commercial capitalists. Agricultural cooperatives of which some peasants are members

arrange for the joint marketing of their members' produce.

Foreign trade is trade between countries, which consists of the import and export of commodities, and its economic basis is the international division of labour. In *The Development of Capitalism in Russia* and *A Characterisation of Economic Romanticism* Lenin showed the true causes for the need of external markets and foreign trade in view of the highly developed commodity circulation under capitalism.

In foreign trade, commodities are realised at world prices based on international value which is determined by the socially necessary inputs of labour into the making of goods in the world economy. International value is converted into the international price of production, which is the basis of world price. International trade is a sphere in which the contradictions of the world capitalist system are most pronounced.

There are two opposite lines in foreign trade policy: the policy of protectionism, which is designed to protect the national economy from foreign rivals, and the free-trade policy.

Integration processes in the capitalist countries have led to a "collective protectionism".

In the less developed countries, protectionism serves to attain and consolidate economic independence.

Under free trade, there are no restrictions on the import of foreign goods, with customs tariffs set at a low level, and with tariff-free imports allowed in some cases.

Chapter Ten

LOAN CAPITAL AND LOAN INTEREST

Like commercial capital, loan capital is a part of industrial capital which has separated from it. Both operate in the sphere of circulation, but there are also essential distinctions between the two. To clarify the difference one should read Part V of Vol. III of *Capital*.

Loan Capital and Its Function in Developing Capitalist Production

Loan capital is money capital which is made available by its owner for temporary use by another capitalist (industrial or commercial) for the purpose of obtaining a part of the surplus-value in the form of loan interest. The emergence of this type of capital and its movement are closely bound up with industrial capital. But while industrial capital exists simultaneously in three functional forms—productive, money and commodity capital—loan capital always exists in money form and performs its movement according to this formula: $M-M'$.

Among the sources of loan capital are depreciation write-offs, a part of circulating capital, a part of surplus-value going into accumulation, and the savings of all the classes and strata of the capitalist society.

The funds of the middle strata of the population are accumulated on savings accounts and at insurance companies which engage in credit operations on a par with the banks. "Small amounts, each in itself incapable of acting in the capacity of money capital, merge together into large masses, and thus form a money power."¹ These amounts are used as capital through the medium of credit and financial institutions, but do not serve as capital for the working people themselves.

It is highly important to see the main distinction between loan capital, and industrial and commercial capital. It is that "interest-bearing capital is capital *as property* as distinct from

¹ Karl Marx, *Capital*, Vol. III, p. 403.

capital as a *function*.”² The owner of capital does not invest his money in a business but gives it for temporary use by a commercial or industrial capitalist. Within a definite period of time, he gets his money back, but with an interest. In this case, there is a separation of capital as property from capital as function, and this leaves the false impression about capital being a thing expressing relations only between the capitalists themselves. The main feature of loan capital as an economic category is its transfer for temporary use for the purpose of realising its specific capacity to earn a profit in the form of interest.

In addition to the use-value, which money has as the universal equivalent it acquires in this case an additional use-value, that of yielding a profit. In its capacity as potential capital, money becomes a peculiar commodity, and like any other commodity, money can be alienated to another person. But in contrast to the sale of conventional commodities, there is, in this case, the loan of money which is alienated for a stated period only to return with a definite interest (increment).

Loan Interest

The substance and form in which loan interest appears are set forth by Marx in Chapters XXII and XXIII of Vol. III of *Capital*.

Interest on loan capital appears on the surface in the form of the price of a commodity, in this case capital, but that is an irrational form of price which contradicts the concept of commodity price. Price is the money expression of value. However, loan interest is not at all an expression of the value of loan capital, but is its use-value, i.e., its capacity to yield a profit. Functioning capitalists, be they industrial or commercial, use the loan capital they borrow in production or commerce to obtain an average profit. They give up a part of the profit to the loan capitalists in payment for the loan, i.e., as interest. The other part, which is obtained as a result of the use of loan capital, goes to them in the form of their entrepreneurial income (income of enterprise).

Consequently, the average profit on loan capital falls into loan interest and entrepreneurial income, so that both the functioning and the loan capitalists are exploiters of the workers and share the surplus-value created by the workers. However, there is a constant struggle between them for a larger share of the surplus-value. Any capitalist making use not only of loan

² Karl Marx, *Capital*, Vol. III, p. 379.

capital, but also of his own has to reckon with the interest rate. When buying land or securities, the capitalist looks at the interest rate to compare his earnings in the form of entrepreneurial income, rent, dividend or interest. The fact that profit falls into interest and entrepreneurial income carries the fetishisation of the capitalist relations of production to an extreme.

The loan interest rate is determined as the ratio of the total annual income from loan capital to the size of the capital that has been loaned out. The interest rate fluctuates depending on the phases of the capitalist cycle, with the highest in the phase of recovery and the lowest in the phase of depression. The interest rate is ultimately determined by the supply and demand for loan capital. It has a tendency to fall, being determined by the tendency of the average rate of profit to fall, and tends to go up with the growth of loan capital and the development of the credit system.

Capitalist Credit: Its Substance and Forms

The basics of this problem are contained in Chapters XXV and XXVII of Vol. III of *Capital*.

Capitalist credit is the concrete movement of loan capital, which assumes the most diverse forms: commercial and bank credit, government credit, consumer credit, etc.

Commercial credit is the basic form of capitalist credit because it is linked to the commodity form of capital, and the need for it springs from the very process of reproduction, for there is a time-lag between the production and the circulation of commodities.

Capitalists lend money to each other on the strength of promissory-notes, i.e., a written obligation by one person to pay another a stated amount of money by a fixed deadline. Promissory-notes are a form of credit money and may circulate as they pass from one capitalist to another.

Bank credit is credit extended by banks or other credit institutions to functioning capitalists in the form of money capital, when the debtor is a functioning capitalist and the creditor, the money capitalist. Bank credit is used more widely than commercial credit, but they are similar in nature and class content.

Capitalist credit is an economic category expressing the antagonistic relations of production between the class of wage-workers and the capitalists, and interest is the form in which surplus-value is appropriated. Under imperialism, there is a

contraction of the sphere of commercial credit as commodities pass from one enterprise to another without any promissory-notes within monopolies consisting of enterprises in allied industries. At the same time, there is a development of the credit system as industrial capital coalesces with bank capital. Bank credit is a monopolisation of credit and a concentration of loan capital at the major banks. Credit assumes a larger scale with the concentration of production and the banks. As the scale of credit is enlarged, and the period of its use lengthens, there is more intense coalescence of bank capital and industrial capital.

Consumer credit is used by debtors to buy consumer goods on instalment plans.

Mortgages are made available as credit by special banks or building societies, with real estate (land and buildings) as collateral (security). Mortgage credit is long-term and most of it goes for housing construction.

State credit is that obtained by the bourgeois state to cover budget deficits through the floating of loans from which the big bourgeoisie derives large profits. For their services, the banks are paid an interest on the amount of the loan.

International credit has developed rapidly with the growth of international trade. It is made available by individual capitalists or the government to foreign capitalists or governments. The extension of loans by developed capitalist countries to LDCs results in the latter's political and economic dependence on the creditor country.

Credit has a major and contradictory role to play under capitalism. On the one hand, it accelerates the development of the productive forces, and on the other, deepens and sharpens the contradictions organic to the capitalist mode of production.

Credit helps to redistribute capitals between sectors (industries) of the economy and to concentrate and centralise production. It "becomes a new and terrible weapon in the battle of competition and is finally transformed into an enormous social mechanism for the centralisation of capitals."³ That goes to socialise production and exacerbate the basic contradiction of capitalism.

Joint-Stock Companies and Joint-Stock Capital

Credit has a crucial role in the establishment of joint-stock companies (corporations). The joint-stock company (corporation) is a form in which capital is centralised, and also the basic

³ Karl Marx, *Capital*, Vol. I, p. 587.

organisational form of major capitalist enterprises today. Joint-stock capital is an association of individual capitals and the money resources of the population they put together into one large capital. Each share-holder's participation in the capital is expressed in his ownership of shares (stocks).

The share is a security testifying to its owner's investment in a given joint-stock enterprise and entitling him to receive an income, a part known as the dividend. The monies invested in a company by its founders and also those received through the issue and sale of shares make up the joint-stock company's own capital.

In addition to shares (stocks), joint-stock companies issue bonds on which guaranteed interest is paid. The monies obtained through the sale of bonds constitute the loan capital of joint-stock companies (corporations).

Shares and bonds are capital only because they entitle their holders to obtain a part of the surplus-value in the form of dividend or interest, but they do not in themselves have any intrinsic value and are not involved in the process of production. They are merely a duplicate, a title to actually existing capital, which is why they are known as fictitious capital.

Shares and bonds circulate on the securities market (stock exchange) and have a nominal (face) value and market value, or price. The share price is defined as capitalised income, and is equal, on average, to the amount of money capital which, when loaned out, could bring in an income equal to the dividend. Thus, if a share with a nominal (face) value of \$200 yields a dividend of \$10, and the rate of loan interest comes to 2 per cent, the share price will come to \$500 $\left(\frac{\text{dividend}}{\text{interest}} \times 100 \right)$.

The rapid development of joint-stock companies is due to the growth of capitalist production and the establishment of large-scale enterprises, all of which require more than individual capital. There is a centralisation of capital, and joint-stock companies are one of the forms in which this takes place.

Joint-stock companies are used by financial magnates to establish control over vast masses of capitals owned by others by means of what is known as the controlling interest (portfolio). Theoretically, the controlling interest should come to 51 per cent of the total stock, but shares are widely sold, some of them have a low face value, and small share-holders do not take part in general meetings of share-holders. That is why a much smaller controlling interest gives control over the joint-stock company.

The development of joint-stock companies further socialises

production and sharpens the basic contradiction of capitalism, and also leads to a further separation of capital as property and capital as function.

The spread of the joint-stock form of property has produced the apologetic theory that capital is being "democratised", but it is a fiction because by property is taken to mean a man-thing relation, instead of a relation between classes over the ownership of the means of production. The overwhelming majority of those engaged in manual labour in the developed capitalist countries (95-98 per cent) own no stocks and shares, and the small share-holders are unable to take part in running a joint-stock company.

The sale of small shares to wage and salaried workers produces the illusion of holding property, diverts the working people from the class struggle, and is used to marshal the population's money resources for the benefit of the bourgeoisie.

Chapter Eleven

GROUND-RENT. THE DEVELOPMENT OF CAPITALISM IN AGRICULTURE

The theory of ground-rent is given by Marx in Vol. III of *Capital*. Special attention should be paid to studying Lenin's works: *The Agrarian Question and the "Critics of Marx"*, and *New Data on the Laws of Capitalist Development in Agriculture*.

Ground-rent: Economic Form in Which Private Property in Land Is Realised

Ground-rent is a concentrated expression of agrarian relations under the capitalist mode of production. It originated together with landed property, which is a monopoly held by individuals on tracts (plots) of land. In the most general terms, ground-rent is taken to mean the surplus-product (a part of the surplus-product) created in agriculture and appropriated by the landowner. Different forms of ground-rent correspond to the various historical stages of social production.

The development of capitalism in agriculture led to the emergence of specific rent relations in the capitalist society differing from feudal rent relations.

First, feudal ground-rent is an expression of the relation between two classes, the feudal lords and the peasants, over the appropriation of the surplus-product created by the labour of serfs (legally dependent peasants); capitalist ground-rent is an expression of the relations between three classes: rent-appropriating landed proprietors, capitalist lease-holders receiving an average profit, and agricultural wage-workers creating the surplus-product.

Second, feudal exploitation is characterised by extra-economic coercion of the dependent peasant to labour. In the capitalist society, the legally free worker who lacks the means of production and, consequently, the means of subsistence is coerced to labour economically.

Third, there are quantitative distinctions between feudal and capitalist ground-rent: the feudal lords appropriate the whole of the surplus-product; the landed proprietors leasing their land

to capitalists appropriate only a part of the surplus-product.

Finally, as it developed, feudal ground-rent first assumed the form of labour-rent (corvee), and then the form of rent in kind, and money rent. Depending on the economic structure and the conditions of production, capitalist rent assumes the form of differential, absolute and monopoly rent.

On the surface of relations in the capitalist society, ground-rent appears in the form of rental payments, i.e., a given amount of money paid by the lease-holder to the landed proprietor. But it is not right to identify rent and rental payment. Rent is an economic form in which property in land is realised in the form of payment for the use of land, while rental payment includes, apart from ground-rent, other payments such as interest on invested capital.

Monopoly on Land as Economic Object and Differential Ground-Rent

The land area involved in agricultural production is limited and is all held by various proprietors, which is why the society is unable to create any number of new land tracts. At the same time land tracts differ in their fertility and proximity to the market—practically unreproducible conditions of production and marketing. In short, the monopoly on land as an economic object is created in agriculture by the limited area of land and the impossibility of replicating the reproduction conditions. The substance of this monopoly is that land, as an economic object, is in the exclusive use of individual capitalists monopolising the most favourable natural conditions, which are stable factors in high labour-productivity. That is why the additional profit created on these tracts is likewise stable.

The peculiar formation of prices for agricultural produce is connected with the monopoly on land as an economic object. In industry, the social price of production per unit-product is determined by the average conditions of production, but in agriculture it is regulated by the costs on the lands that are worst in fertility and location. The fact is that the volume of output on the best and average lands, whose area is limited, in every given period, falls short of fully satisfying the demand for farm produce, which is why it is objectively necessary to involve in production the worst lands on which labour costs per unit-product are above the average. But if the worst lands are to function normally, their output costs must be recouped on the market. Consequently, the market price per unit-product recouping the costs of production and ensuring average profit

on the worst lands presents itself in the form of the social price of production at which all the farm produce of a given type is marketed. Since the costs of production per unit-product are lower on the best and average lands, where labour productivity is higher, capitalists leasing these lands obtain not only average profit but also a surplus over and above it constituting the material basis of differential rent.

There are two forms of differential rent: Differential Rent I and Differential Rent II. They differ in the conditions which determine the different levels of labour productivity on different tracts of land.

The conditions in which Differential Rent I originates are: higher fertility or better location of tracts with respect to the markets. Differential Rent II differs from the former in that the condition for the formation of additional profit is additional capital investment into one and the same tract of land raising its economic fertility and labour productivity. As a result of intensive farming, the individual price of production per unit-product on the given tract will be lower than the social price, so that the capitalist lease-holder obtains a higher additional profit by realising the product. Until the expiry of the term of his lease, that part of the additional profit is appropriated by the capitalist lease-holder. When a new lease contract is signed, the landed proprietor takes account of the results of intensification, raises the rental payment, and the additional profit assumes the form of Differential Rent II.

Differential Rent I and Differential Rent II have both common and distinctive features. Historically, in the period of the extensive development of agriculture, the two forms of differential rent were most tangibly distinct, but with the intensification of agriculture they merge into an organic unity, because natural fertility becomes the basis of the economic fertility of the land. At the same time, the two forms of differential rent remain independent in logical terms, reflecting the peculiarities of their origin and economic relations.

Monopoly of Private Property on Land and Absolute Rent

When considering the mechanism underlying the formation of differential rent in our abstract example, we assumed that no surplus over and above average profit was produced on the worst land, i.e., that the material basis of rent did not take shape. But the proprietor of the worst land who leases it out also obtains an income, and that is known as absolute rent. The landed proprietor obtains it from any tract of land, regardless

of its fertility or location. It turns out, therefore, that absolute rent exists because of the private property monopoly on land.

There is a need to clarify the conditions in which the surplus over average profit appears on the worst lands without any breach of the law of value. Marx demonstrated that the relatively low organic composition of capital used in agriculture, as compared with that used in industry, is the condition in which absolute rent emerges.¹

Let us look into the mechanism by means of which absolute rent originates in the light of the following example. Let us assume that the organic composition of capital in industry is 4 to 1, the rate of surplus-value 100 per cent, and the value structure of the product appears as follows:

$$80c + 20v + 20m = 120$$

It is common knowledge that because of the peculiarities of historical development, the organic composition of capital in agriculture is, as a rule, lower than that of capital in industry, say, 3 to 2. That being so, and assuming costs of production in agriculture equal to those of industry, and a rate of surplus-value at 100 per cent, the value structure of the product in agriculture assumes the following form:

$$60c + 40v + 40m = 140$$

The implication is that more surplus-value is created in agriculture than in industry per unit of invested capital. It follows, therefore, that the value of the agricultural product and the market price are higher than the social price of production, and that this is due to the larger share and relatively greater mass of variable capital applied in agriculture. Let us bear in mind that it is variable capital, and not the whole of advanced capital, that is the true creator of surplus-value.

In our example, 40 units of surplus-value were created in agriculture, and these consist of 20 units of average profit and 20 units of excess over it. The inter-sectoral flow of capitals is hampered by the private property monopoly on land, which is why the excess surplus-value created in agriculture is not involved in redistribution, but is retained in agriculture. Following the sale of the product on the market at value (140 units), the capitalist lease-holder obtains an average profit (20 units), while the excess profit (also 20 units) is appropriated by the landowner in the form of absolute rent. So, quantitatively, absolute rent is the differential between the

¹ See: Karl Marx, *Capital*, Vol. III, pp. 748-72.

value of the agricultural product and the social price of production ($140 - 120 = 20$).

Both absolute rent and differential rent originate from the surplus-labour of the agricultural wage-workers.

Monopoly Rent. The Price of Land

Monopoly ground-rent springs from monopoly-high price, which is not only higher than the price of production, but also than the value of the products. The ceiling of monopoly price is the effective demand for rare farm produce, whose production is limited. And with high demand, their prices go up above value. The differential between the value of the product and the market price constitutes monopoly super-profit appropriated by the landowner in the form of monopoly rent.

Monopoly rent differs from absolute rent in that the magnitude of the rent is determined by monopoly price, instead of by value.

In a society based on private property, land becomes an object of purchase and sale. As a part of Nature, land has no value, but has price. How is price determined? The price of land is "capitalised rent" and depends on the magnitude of rent and interest. It is equal to an amount of money which when deposited with a bank will yield an income equal to the annual rent. The price of land has grown with the development of capitalism, mainly because of the growth of rent and the tendency of the interest rate to decline.

An analysis of rent relations in the capitalist society shows that landed proprietors living off their rent are the most parasitic class of the society, and that the private property monopoly on land is superfluous even from the standpoint of the radical notions of the capitalist class. But, as Marx wittily remarked, they lack the courage to nationalise the land, since an attack on one form of property might cast considerable doubt on the other forms.²

For a long time, the productive forces in the agriculture of the capitalist countries were less developed than those in industry, and when capitalism entered upon the epoch of imperialism, agriculture was closer to the manufactory stage than to the stage of large-scale machine industry.³

The STR, which got under way in the mid-20th century, has

² See: Karl Marx, "Theories of Surplus-Value", Vol. IV of *Capital*, Part II, 1975, pp. 44-45.

³ V. I. Lenin, "New Data on the Laws Governing the Development of Capitalism in Agriculture", *Collected Works*, Vol. 22, 1977, p. 99.

ranged over every sphere of social production, including agriculture, whose socialisation it intensified, so turning it into a component of the capitalist agro-industrial complex. A large part of farm produce is now turned out by big capitalist enterprises.

The capitalist socialisation of agricultural production noticeably worsens the condition of the peasants, as some farms go to the wall and their owners join the ranks of wage-workers. Others find themselves in thrall to the giant agricultural monopolies and banks. The farmers' mortgage debt has been steadily mounting. Agricultural production is regulated by the state on class lines for the benefit of big capital and the commercial and industrial monopolies.

Chapter Twelve

THE REPRODUCTION OF SOCIAL CAPITAL. ECONOMIC CRISES OF OVER-PRODUCTION

The most important uniformities governing the development of the capitalist mode of production are generalised in the Marxist-Leninist theory of reproduction, and many of its propositions provide the methodological back-up for the law-governed uniformities of social reproduction under socialism as well.

The Reproduction of Social Capital. The Aggregate Social Product and Its Components in Value and in Kind

The problem of reproduction is examined in all the volumes of *Capital*. In Vol. I, Marx analyses the reproduction of individual capital to show the substance of capitalist production as the production of surplus-value and of capital itself.

Vol. II is focussed on the reproduction of social, instead of individual capital. Social capital presents itself as an aggregation of individual capitals, but it is a most intricate aggregation. The fact is that while individual capitals are independent of each other, they are inter-related through the existing social division of labour. In his analysis of the reproduction of social capital, Marx shows that the innumerable chaotic movements of individual capitals, which are separate and nominally independent of each other, ultimately merge into one stream of the whole of social capital. That was the first scientific definition of the substance of social capital as an aggregation of individual in their interconnection and interpenetration.

Bourgeois economics has tried to clarify the substance of reproduction but has made various errors in the process. Thus, according to Adam Smith, the value of both individual commodity and the whole mass of commodities (taken on the social scale) was distributed only as incomes: wages, profit and rent, i.e., as $v + m$. He failed to bring out in the commodity value the value of the means of production consumed in the course of production, and did not reckon with the need of that value being recouped in the next process of production. (For details see Chapter XIX of Vol. II of *Capital*).

Social capital moves in the sphere of production and in the sphere of circulation. The social product is created in the sphere of production and is realised in the sphere of circulation. The continuity of these processes, i.e., of reproduction, requires that the whole of social production should be divided into two departments: Department I, as the production of the means of production (producer goods), and Department II, as the production of the articles of consumption (consumer goods). In terms of value, the aggregate social product, like the individual commodity, consists of the value of the means of production going into the manufacture of the social product in the given department (c —constant capital), the equivalent of the value of the expended labour-power (v —variable capital), and surplus-value (m) created by the workers over and above the equivalent of the value of labour-power. In the process of reproduction, the finished product in each department must be replaced both in natural, material form (means of production and articles of consumption) and in value. The value structure of the aggregate social product embodies the antagonistic contradiction between labour and capital as elements of production. The substance of capitalist production and the dependence of labour on capital can be clarified in more concrete terms only through an analysis of the uniformities underlying the realisation of the aggregate product, which helps to understand the peculiarities of capitalist reproduction. It also reveals its general uniformities, for instance, the way in which the replacement of the aggregate social product in value and in natural, material form occurs, and what the proportions between the two departments of social production must be. These propositions are the scientific basis of reproduction in any social formation.

*Realisation under Simple
and Expanded Capitalist Reproduction*

The realisation of the aggregate social product implies a definite proportionality between Department I and Department II and within them. Department I produces the means of production not only for itself, but also for Department II, and the latter produces the articles of consumption both for itself and for Department I. But they can exchange their product only on the basis of the laws of commodity circulation, so that reproduction is impossible without circulation, i.e., without the realisation of the aggregate social product.

If the process of production is to be constantly resumed,

the social product that has been produced needs to be realised, i.e., its individual component parts need to be replaced both in value and in kind. Under simple reproduction, these parts need to be replaced in the same volume, and under expanded reproduction, in an expanded volume.

The conditions of realisation under simple and under expanded capitalist reproduction are as follows:

Under Simple Reproduction	Under Expanded Reproduction
$I(v + m) = IIc;$	$I(v + m) > IIc;$
$I(c + v + m) = Ic + IIc;$	$I(c + v + m) > Ic + IIc;$
$II(c + v + m) = I(v + m) + II(v + m);$	$I(v + m) + II(v + m) > II(c + v + m);$

An analysis of the conditions of realisation suggest the following conclusions: the aggregate social product can be realised only under definite proportions between Departments I and II and within them; accumulation and, consequently, expansion of Department II objectively depend on Department I. However, in the course of capitalist reproduction there is a continuous disruption of proportionality in social production, and that causes difficulties in realising the aggregate social product. When the disproportionality becomes most acute, an economic crisis of over-production breaks out: through it the proportions are re-established for a definite time, only to be disrupted once again later.

The Marxist theory of the reproduction of social capital is a question Lenin was especially concerned with in his earlier writings, above all in his works *On the So-called Market Question*, *A Characterisation of Economic Romanticism* and *The Development of Capitalism in Russia*, which proved to be crucial in the comprehension of capitalist processes and subsequently helped in the ideological defeat of bourgeois and petty-bourgeois theories of reproduction.

Lenin's analysis of the theory of expanded reproduction in the light of the organic composition of capital first provided a full-scale substantiation of the law of the priority growth of the production of the means of production as compared with the production of the articles of consumption.

In the context of the whole of social production, the operation of the law of the priority growth of the means of production results in the production of the means of production for the means of production growing most rapidly, followed by the production of the means of production for the articles of consumption, and the production of the articles of consumption growing most slowly.

*The National Income of the Capitalist Society.
Its Production, Distribution,
Redistribution and Use*

The Marxist labour theory of value and the reproduction of social capital are the methodological basis for the national income theory (see Marx's Paragraph 7, Chapter XX, Vol. II of *Capital*, and Lenin's Paragraph 7, Chapter I of *The Development of Capitalism in Russia*).

The national income is the value newly created in the course of a given year. In natural, material form it consists of the means of production and articles of consumption newly produced in the society. The national income is continuously reproduced, and its movement passes through the phases of production, distribution, redistribution and ultimate use.

The national income is created in the sphere of material production, in industries where value and surplus-value are produced. The basic factors of its growth are the following: 1) increase in the mass of labour applied in material production; 2) growing productivity of labour of those employed in the sphere of material production; and 3) economies on constant capital.

Distribution, redistribution and use of the national income are determined by the capitalist relations of production, which are dominant in the society, and which are based on the capitalist private property in the basic means of production.

The state budget has a big part to play in the redistribution of the national income, for through its fiscal system it uses a sizable part of the incomes of the population, primarily the incomes of the working people.

The national income is also redistributed through the prices of goods and services.

Capital is accumulated and expanded capitalist reproduction effected from the national income.

*Antagonistic Contradictions
of Capitalist Reproduction.
Economic Crises of Over-Production*

Capitalist reproduction cannot proceed without upheavals. The development of the economy of the capitalist society is cyclical, being punctuated with periodic crises of over-production.

Important aspects of the theory of crises are contained in all the three volumes of *Capital*. Thus, Vol. I connects the

potentiality of crises with the function of money. Vol. II shows the material basis on which crises occur periodically, and Vol. III demonstrates that crises are inevitable because they are rooted in the sharpening contradictions resulting from the operation of the law of the tendency of the rate of profit to fall.

It is useful in this context to turn to Engels' *Anti-Dühring*, whose Part III deals with the main cause of economic crises of over-production and the basic contradiction of capitalism: that between social production and the private property form in which its results are appropriated. The reason is that capitalist production is developed for the purpose of maximising profits, and that inevitably produces disproportions between production and consumption, as an over-accumulation of capital, and then as an over-accumulation of commodities. When that basic contradiction of capitalism reaches a peak, crisis breaks out.

Economic crises of over-production are characteristic of large-scale machine production, which brings about a sharp rise in the socialisation of production and sharpens the basic contradiction of capitalism. The first world economic crisis broke out in 1825.

Let us recall that capitalist reproduction is cyclical, the cycle being the period between one crisis and another. It consists of four consecutive phases: recession, depression, recovery and expansion. The mass renewal of fixed capital is the material basis of periodic crises, and it helps to pull out of the crisis, while creating the conditions for the next crisis. In our day, despite the anti-crisis regulation by the bourgeois state, the cyclical development of the capitalist economy remains.

IMPERIALISM AND THE GENERAL CRISIS OF CAPITALISM

The reading for this part should include Lenin's *Imperialism, the Highest Stage of Capitalism, Imperialism and the Split in Socialism*, and *On the Slogan for a United States of Europe*.

Chapter Thirteen

THE CONCENTRATION OF PRODUCTION AND THE MONOPOLIES. FINANCE CAPITAL AND THE FINANCIAL OLIGARCHY

The first two economic hallmarks of imperialism are: stepped-up concentration of production and monopoly domination; and the merger of bank capital with industrial capital as the basis for the emergence of finance capital and the financial oligarchy.

The Emergence of Monopolies in Industry Through High Concentration of Production: Substance and Basic Forms

Lenin says that "at a certain stage of its development concentration itself, as it were, leads straight to monopoly."¹ First, as a result of the concentration of production and capital a handful of giant enterprises appear in some industries, and in order to assert their domination in the industry, they enter into agreements and conclude monopoly alliances. Second, the emergence of giant enterprises hampers competition.

Among the characteristic features of concentration are the following: production by a given enterprise (conglomerate) of a sizable share of the product in a given industry, its leading position on the markets, the sale of its products at monopoly

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, 1977, p. 197.

prices, and the extraction of monopoly-high profit.

One would be advised to look at the facts cited by Lenin in *Imperialism, the Highest Stage of Capitalism*, which characterise the level of monopolisation in the industry of the United States and Germany at the beginning of the 20th century. Since then, the process of monopolisation has gone on, so that in the United States, for instance, 500 industrial corporations, which make up only 0.1 per cent of all the enterprises, turn out 71.8 per cent of the industrial product (in turnover value).

Monopolies simultaneously exist in various forms, such as cartels, syndicates, trusts and concerns. There are now no monopoly associations in pure form, and the most widespread is the multi-sectoral concern (conglomerate).

Bourgeois economists have tried to distort the substance of monopolisation under imperialism, claiming that monopoly means a 100 per cent monopolisation of the whole industry (sector) by one corporation, and that oligopoly is the rule when several corporations dominate an industry (sector), while monopoly is ruled out. Their purpose is to vindicate the rule of the monopolies, while pretending not to do so.

New Phenomena in the Concentration of Production and Capital Today

The monopolisation of capitalism on the basis of concentration of production is a process that has now entered upon a qualitatively higher stage because of the STR and the state-monopoly regulation of the economy. Production and capital are now being concentrated throughout the whole structure of the capitalist economy. More and more capacities and labour-power are being concentrated at individual enterprises. Concentration has also proceeded within the individual corporations, resulting in a change of their sectoral structure and in what is known as diversification.

Diversification has run mainly along three lines:

1. A new type of product or service is homogeneous with a corporation's producer activity, but relates to another industry (sector) and is based on a different technology (General Motors, for instance, specialises in the making of cars, but also turns out tractors).
2. A new type of product or service is adapted to the initial profile of production in accordance with the basic technological process (FIAT, for instance, turns out spare parts for its cars which it used to outsource).
3. A totally new type of product is included in the product

*The magnitude of concentration that
is taking place in the
industry and in the
economy.*

mix (Exxon, the oil monopoly, for instance, is also engaged in building hotels).

Diversification is caused mainly by the monopolies' efforts to adapt to the STR, which speeds up the renewal of the product mix and requires the installation of new hardware and technology. The monopolies take flight from the stagnant industries (sectors) into others which hold promise of higher profits, a process also promoted by sharper competition and anti-cartel legislation.

Diversification is also motivated by the state of the market, namely, the new trends in consumer demand: its expansion, the growing availability of interchangeable products and the substitution of product-quality competition for price competition.

Diversification is a modern and effective line of monopolisation, and it is the basis on which a new form of monopoly association—conglomerates—has sprung up. Conglomerates differ from the multi-sectoral concern in that they exercise financial and management control.

Specialisation of production has been intensified under the STR. Market demand can frequently be met by products turned out by medium and small enterprises. But as a rule, the smaller enterprises are dependent on monopolies and work for them. Small business enterprises in the United States make up 95 per cent of the total number of private corporations, and turn out 43 per cent of the private sector's share of the GNP.

Monopolies and Competition

In order to clarify the relation between monopoly and competition one has to start from the fact that "free competition gives rise to the concentration of production, which, in turn, at a certain stage of development, leads to monopoly."² Under the domination of the monopolies, free competition remains only in the non-monopoly sector, while being inordinately sharpened. "This is something quite different from the old free competition between manufacturers, scattered and out of touch with one another, and producing for an unknown market."³ New forms of competition come on the scene: within monopolies, between monopolies, and also between them and the non-monopoly enterprises.

The STR modifies the methods of competition, and the main

² V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, 1977, p. 200.

³ *Ibid.*, p. 205.

one today is the fight for the consumer, with a highly important role belonging to control of patents in high technology industries, the issue of substitute products (goods which consumers regard as being more or less equivalent to traditional goods in purpose, consumer properties, and price), the hypertrophied use of advertising and after-sales services.

“Personal union” with government departments does much to bolster a monopoly’s positions. The monopoly whose men are in the government or that which has on its board former influential government officials has the best chances in the scramble for government subsidies and contracts, the promotion or freezing of legislative enactments, decisions and lines on which state investments are used, and speculation in government securities.

Finance Capital and the Financial Oligarchy

The banks, which emerged in the period of pre-monopoly capitalism, used to act as modest middle-men between capitalists, but under imperialism they are converted into almighty monopolists controlling almost the entire money capital of the whole aggregation of capitalists and small businessmen.

The concentration of banking takes place as a result of the emergence of monopolies in industry, which should be seen as concentration of ever larger capitals at the banks as the monopolies extract monopoly-high profits.

At the same time, the banks are being centralised through the takeover, merger and inclusion in their own group of smaller banks by the giant banks, a necessary process stemming from the growing demand for loan capital on the part of the monopolies, a demand small banks can no longer meet.

The concentration and centralisation of capital in the imperialist countries has eventually brought out a handful of giant banking monopolies, and that has led to a qualitative change in their role, for now the handful of banking monopolies direct the business of various enterprises, control them, make it easier or harder for them to obtain credit, and so entirely decide on what happens to them.

There have been important changes in banking operations over the past two or three decades. Under the impact of the STR, banking has been moving into high-cost computers and other electronic equipment, which only the major banks can afford.

Loans to small depositors and the expansion of consumer credit is a new element in bank operations. Another characteristic feature is trust operations, i.e., the holding and disposal of clients’ securities on trust: not infrequently this leads to the

concentration in the hands of the banks of the controlling stock portfolios on which a bank has not expended any capital of its own.

Lenin developed Marx's economic theory and showed the establishment of finance capital. The history of the origination of finance capital and the content of the concept, as Lenin showed, are determined by close ties between the monopolies in industry and in banking, a process which has subsequently led to the merger of the two in a new form of capital.

Finance capital, therefore, implies a concentration of production and the evolution of monopoly from it, and the emergence of monopoly alliances of banks and, eventually, the merger of banking with industry.

The merger of banking and industrial monopolies takes place in the following basic forms: the acquisition by a bank of an industrial enterprise or, conversely, the establishment by an industrial monopoly of its own bank, and also direct investment of its capital by a banking monopoly in industrial enterprises, the acquisition of stock and personal union of the management.

The "holding system" needs to be considered first of all when examining the basic methods of the financial oligarchy's domination. The gist of it is that "it is possible with a comparatively small capital to dominate immense spheres of production."⁴ The starting point here is Lenin's concept of the chain of relations set up on the basis of controlling interest between the parent company and its affiliates (subsidiaries) of various generations. Here one should bear in mind that the parent company is not responsible in law for its affiliates, which are regarded as independent, but which help "to resort with impunity to all sorts of shady and dirty tricks to cheat the public".⁵ Personal union is the characteristic method by means of which the financial oligarchy asserts its domination. It means the same bankers sitting on the boards of various industrial monopolies, and vice versa. The personal union of banks with industry is complemented with the personal union of both and government agencies.

Finance capital is enriched through the appropriation of promotional profits and also profits from the floating of securities and government bonds. Speculation in real estate on the fringes of big cities has long been a highly profitable operation.

There are some new features in the functioning of finance capital. Thus, it now includes in its sphere, along with industrial

⁴ *Ibid.*, p. 227.

⁵ *Ibid.*, p. 228.

and banking monopolies, commercial and transport monopolies and often operates as a big landowner.

In the old days, financial groups were, as a rule, family groups, which meant that the controlling interest was held by one owner or his family, but nowadays "joint control" by several or even many millionaire families is more typical. The business affairs of such financial groups are, as a rule, run by specially trained senior employees known as managers or executives.

The domination of finance capital lays bare the antagonisms in each of the imperialist countries, for finance capital acts as the exploiter of all the strata of the working people, and of the small and middle bourgeoisie in town and country.

Chapter Fourteen

THE EXPORT OF CAPITAL. THE ECONOMIC AND TERRITORIAL PARTITION OF THE WORLD. THE WORLD CAPITALIST ECONOMIC SYSTEM AND THE INTERNATIONAL DIVISION OF LABOUR

The next three basic features of imperialism are: the export of capital, and the economic and territorial partition of the world, and they show the sway of the monopolies not just within the economy of individual countries, but within the world capitalist economic system as a whole.

The Export of Capital. The Export of Capital Under Imperialism: Necessity and Possibility. Its Main Forms

Before the 20th century, capital was exported by some capitalist countries, but no more than casually or sporadically. The colonial and dependent peoples were exploited through non-equivalent trade, but with the advent of imperialism, the export of capital has become typical of the latest stage of capitalism, when monopolies rule.¹

To see why that has happened one has to examine the necessity and possibility for the export of capital, which, says Lenin, are created in a handful of countries where capital is "rotten ripe", and where capital finds itself short of fields of lucrative investment (in view of the poor development of agriculture and the poverty of the masses).

The export of capital leads to the involvement of lagging countries in the world capitalist system. Capital is exported for the purpose of maximising profit as compared with that the same capital would yield when invested in the economy of the imperialist country concerned.

There are two basic forms in which capital is exported: the productive form, whenever it is invested in some sector or industry abroad (manufacturing, agriculture, transport) and the loan form, when the capitalist or government of one country makes loans to other countries.

¹ See: V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 240.

Depending on the ownership of capital, it is exported either privately or by the government, the former being mostly for productive purposes, and the latter as external loans, i.e., the loan form of capital export. The export of entrepreneurial or loan capital also helps to shape the export of commodities.

Nowadays, the export of capital is used, more than ever before, as a means of influence on the LDCs' domestic and foreign policy, to conduct a policy of neocolonialism, and to maximise the mass and rate of profit.

*The Economic Partition
of the World by Capitalist Alignments,
a Characteristic Feature of Imperialism*

The economic partition of the world results from the emergence of international monopolies.

The monopolies, which spring from the concentration of production and capital assert their domination first within a given country and share out the domestic market. In search of maximum profits, they make their way onto the markets of other countries. The world capitalist market took shape in the early years of this century, and international trade has become an important source of monopoly-high profits. There is bitter competition between the monopolies on the world market. In order to keep prices high and extract maximum profits, the competing monopolies have in some cases concluded agreements and formed international monopoly alignments. "As the export of capital increased, and as the foreign and colonial connections and 'spheres of influence' of the big monopoly associations expanded in all ways, things 'naturally' gravitated towards an international agreement among these associations, and towards the formation of international cartels."²

The emergence of international monopolies marks a new stage in the world-wide concentration of capital and production, which is very much higher than the earlier one, Lenin called it "super-monopoly".

Cartels were the most widespread form of international monopolies in the early 20th century. In a cartel, its participants were completely independent in production and had agreements on some single issue: prices, marketing outlets, quotas, etc. Before World War II, the "rail", "aluminium" and "copper" international cartels were among the major ones. After World War II, five US, a British and an Anglo-Dutch companies set

² *Ibid.*, p. 246.

up the International Petroleum Cartel. Nowadays, monopolies which are nationally based, but which operate internationally have the leading role in the whole of economic life.

State-monopoly capitalism promotes the establishment of international monopolies. It helps to set up mixed government-private consortia, and it has also been instrumental in the establishment of the EEC (Common Market), the customs union in Western Europe.

The deepening internationalisation within the framework of the world capitalist economy has led to a sharp growth in the strength and domination of the international monopolies. Their economic clout is now so great that they are rightly known as the "second power" of the capitalist world.

International monopolies are, as a rule, diversified and multi-sectoral, and the specific aspect of their organisational structure is a switch from a system of relatively independent parent companies and affiliates to global coordination and control through the use of computers and telecommunications, which help to shape the international monopolies' corporate policies reflecting the interests of the corporation as a whole.

*The Territorial Partition
of the World by the Imperialist
Powers and Struggle for Its Repartition*

The emergence of monopolies created the urge to step up the seizure of new territories, countries and regions, and by the beginning of this century the world had been partitioned by the imperialist powers, producing a new and specific type of monopoly—the colonial monopoly—of a handful of imperialist countries, which had undivided sway over the rest of the globe.

At the stage of imperialism, Lenin says, "not only are the two main groups of countries, those owning colonies and the colonies themselves, but also the diverse forms of dependent countries which, politically, are formally independent, but in fact, are enmeshed in the net of financial and diplomatic dependence, typical of this epoch."³

Because of the workings of the law of uneven economic and political development under imperialism, the final territorial partition of the world becomes the starting point for a struggle to repartition the world, and that is the prime cause of inter-imperialist rivalries.

In the present epoch, imperialism is no longer able to carve

³ *Ibid.*, p. 263.

up the world as it sees fit. The presence of world socialism, the collapse of the colonial system of imperialism, and the emergence of dozens of young national states have brought about a change in the world-wide historical situation, and have modified this feature of imperialism to some extent. But partitioning the world is an urge organic to imperialism. Consolidating the positions of one's own state in various economic spheres and foreign territories is a definitive trend in the functioning of finance capital, which is why there is an ever stiffer struggle by the monopolies for raw material sources, the occupation of new lands (which may not be useful today, but which could be made useful tomorrow with the incredibly rapid development of technology), for markets of capital export, and for territories of strategic importance to imperialism.

Aggressions provoked and fanned in our day, especially by US imperialism (in the Middle East, Asia and Latin America) are a manifest expression of this feature of imperialism, whose diverse forms are also realised through the policy of neo-colonialism. In short, there is no longer any territorial monopoly of the imperialist powers throughout the world, but imperialism remains aggressive and is eager to occupy the territory of other countries.

*The Formation and Substance
of the World Capitalist Economy.
Forms of International Economic Relations
under Imperialism*

The world capitalist economic system began to take shape with the emergence of capitalism, but it took final shape with the emergence of imperialism. It was Lenin who gave an in-depth analysis of the capitalist world economic system and described the international web of dependencies and ties established under imperialism.

Lenin's five economic features of imperialism show the substance of the world capitalist economy, which is characterised by the aggregation of capitalism's antagonistic international economic relations both between the imperialist powers and between them and the peoples of the colonial and dependent countries.

The world capitalist economy is based on the international capitalist division of labour, whose specific feature is the existence of a handful of industrialised countries and a large number of less developed countries. The international capitalist division of labour, essentially a progressive phenomenon in history,

runs into a contradiction with the imperialist forms in which it is effected, and sharpens the contradictions within the world capitalist economic system.

Economic relations used to develop between countries even before imperialism on the basis of trade and the migration of labour-power. In the early 20th century, they acquired some qualitatively new features, with the final shaping of the world capitalist market involving all the countries, and leading to the formation of a world capitalist market on the basis of export and import. A world-wide market of labour-power emerged through extensive migration. The movement of commodities and capitals led to the appearance of monetary relations.

The high degree to which economic relations and capital have been internationalised has converted the national economies of individual countries into components of the world capitalist economy, with all the countries drawn into capitalist relations of production, which were spread throughout the world. That is what signified the formation of the world capitalist economy.

Chapter Fifteen

THE PLACE OF IMPERIALISM IN HISTORY

Lenin's theory of imperialism has determined its place in history and its relation both to the whole of capitalism's earlier development and to the subsequent advance of the human society.

Imperialism is the highest and, simultaneously, the last stage of capitalism. Lenin brought out the peculiarities of this stage, which ushered in the socialist revolution: "Its specific character is threefold: imperialism is (1) monopoly capitalism; (2) parasitic, or decaying capitalism; (3) moribund capitalism."¹

This problem can best be studied in Lenin's *Imperialism, the Highest Stage of Capitalism* (Chapter VIII and X), *Imperialism and the Split in Socialism*, and *On the Slogan for a United States of Europe*.

Imperialism Is Monopoly Capitalism

The place of imperialism in history is determined above all by the fact that it is monopoly capitalism. Let us note these four features of monopoly: domination in production and the marketing of commodities; undivided use of raw materials sources; formation of the financial oligarchy, and its *diktat* in the economic and political life of the capitalist society; and the monopoly possession of colonies.

The monopolies' rule intensifies the capitalist socialisation of production, deepens the social division of labour and creates more ties between the various sectors of the economy. Thousands upon thousands of wage-workers set in motion the means of labour at the giant monopoly enterprises and produce the bulk of the products in the key industries.

Because of the higher degree to which production is socialised there is a need for its balanced regulation on the scale of the society and control from a single centre. But the presence

¹ V. I. Lenin, "Imperialism and the Split in Socialism", *Collected Works*, Vol. 23, 1977, p. 105.

of private property in the means of production makes it impossible to plan the development of social production as a whole. The basic contradiction of capitalism is exacerbated and deepened to an extreme, and that creates the material prerequisites for the socialist transformation of the society.

In other words, in the epoch of imperialism, the productive forces of the society attain a level of development at which they cease to fit into the narrow framework of the capitalist relations of production. Lenin emphasised that this integument of the capitalist relations of production does not accord with its content: the level and character of the productive forces.

Imperialism Is Parasitic and Decaying Capitalism

The parasitism and decay of capitalism is the second feature of imperialism, which characterises its place in history.

With the transition to imperialism, the capitalist relations of production ceased to be relatively progressive, and once a factor behind the development of the productive forces, have become a great obstacle to social progress. It is monopoly rule that is the main cause and basis of the parasitism and decay of capitalism.

The assertion of monopoly rule leads to a situation in which the monopolies can increase their profits not only by introducing high technology, but also by setting monopoly prices. Lenin says: "Since monopoly prices are established, even temporarily, the motive cause of technical and, consequently, of all other progress disappears to a certain extent and, further, the economic possibility arises of deliberately retarding technical progress."²

The monopolies refuse to instal new hardware and technology to boost output, when demand for a product is low or growing slowly, because that would depress prices and reduce profits.

But there is also the opposite tendency to develop the productive forces, and it springs from sharp spurts of competition.

The productive forces under imperialism on the whole develop in a most contradictory way, in a struggle between two trends: one promoting and the other constraining scientific and technical progress. But there is an ever widening gap between the tremendous potentialities of science and technology and their actual use.

² V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, 1974, p. 276.

The decay of monopoly capitalism is also evident in the growth of the society's parasitic strata and their incomes.

In the period of free competition, those who owned the industrial capital were directly involved in material production, and they appropriated the surplus-value and got rich at the expense of the proletariat's unpaid labour.

The bourgeoisie's parasitism is amplified to an ever greater extent under imperialism, and new aspects of the phenomenon appear. A large section of the bourgeoisie no longer has anything to do with material production; there is a growing stratum of rentiers, i.e., capitalists who live off earnings from securities: stocks and bonds. Salaried specialists are increasingly entrusted with the functions of organising production and managing enterprises.

The decay and parasitism of the capitalist society is most importantly manifested in the bribery of the top section of the working class and the emergence of a labour aristocracy. Such bribery was made possible economically as the imperialists extracted monopoly-high profits. It assumed the form of high wages, bonuses, sale of homes at a discount, sale at lower prices of company stock or even outright gifts of shares, and appointment to managerial posts. The labour aristocracy and the bureaucracy, like the petty bourgeoisie, provide cadres for the opportunist parties in the working-class movement. Their leaders are vehicles of the bourgeois ideology in the working class movement, splinter it, and hamper the unification of all the progressive forces in the fight against imperialism.

The decay and parasitism of capitalism is also manifested in the swing towards reaction in every sphere of political and social life, and that is most vividly expressed in anti-democratic and fascist regimes and the policy conducted by the most aggressive circles of imperialism. The militarisation of the economy is, perhaps, the most characteristic form in which the decay of capitalism is manifested, as a large part of the productive forces is used to turn out various means of mass destruction of human beings, material goods and cultural values.

That is certainly evidence of the fact that capitalism has historically outlived its day, and that it has to give way to another, progressive system, namely, socialism.

*Imperialism Is Moribund Capitalism,
the Eve of the Socialist Revolution*

In the light of his trenchant analysis of the monopoly stage, Lenin defined imperialism as moribund capitalism: "The epoch of capitalist imperialism is one of ripe and rotten-ripe capitalism,

which is about to collapse, and which is mature enough to make way for socialism."³ But there is no implication there that capitalism will disappear of itself or will collapse automatically. The bourgeoisie will not leave the historical arena of its own free will, without fighting bitter class battles. That is why Lenin defined imperialism as the last stage of capitalism, but added that imperialism is the eve of the socialist revolution.

Imperialism takes the contradictions of capitalism to an extreme, and that is true above all of the contradiction between social production and private appropriation. There is growing antagonism between labour and capital; between the oppressed peoples of the colonies and dependent countries, on the one hand, and the monopoly bourgeoisie, on the other; and between the imperialist powers themselves. Those are the sharpening contradictions that carry capitalism towards the socialist revolution.

The deepening contradiction between labour and capital is expressed in a worsening of the economic and social condition of the working class and the growing wealth of the monopoly bourgeoisie. The monopolies ruthlessly exploit the labouring peasantry, the craftsmen and small businessmen, all of which creates the basis for uniting all the democratic forces in one anti-imperialist movement under the leadership of the working class.

In the epoch of imperialism, there is a sharpening of the contradictions between the handful of imperialist states and the peoples of the colonial and dependent countries, which cease to be a reserve of imperialism and become a reserve of the proletarian revolution. The development of these contradictions assumed a qualitatively new character: it was manifested in the disintegration of the colonial system of imperialism and its actual collapse. But capitalism has largely managed to salvage the earlier established system of economic dependence by means of political manoeuvring, promises and graft, military threats and blackmail, and often even direct intervention in the internal affairs of the newly liberated countries. That is the basis on which imperialism has managed to set up and adjust the most refined system of neocolonialist exploitation.

There is a further growth of contradictions between the various groups of finance capital and between the imperialist powers scrambling for markets, raw materials, and fields of lucrative investment.

Industrial and commercial competition has gained in depth,

³ V. I. Lenin, "Opportunism and the Collapse of the Second International", *Collected Works*, Vol. 22, 1974, p. 109.

and financial and monetary wars have been spreading. There is growing rivalry in Western Europe, including the Common Market. Rivalry has also been growing between the capitalist countries of Western Europe and the United States, a battle in which Japanese imperialism has actively joined.

The victory of the Great October Socialist Revolution produced a contradiction between moribund imperialism and the new, progressive social system—socialism—and it determines the character and peculiar development of all the social phenomena in our day.

The Law of Uneven Economic and Political Development of Capitalism (the Stage of Imperialism)

Lenin's in-depth analysis of the monopoly stage of capitalism led him to the discovery of the law of uneven economic and political development of the capitalist countries in the epoch of imperialism.

Capitalism has always developed unevenly at every stage, so that individual enterprises, industries, and social production as a whole in the various countries have developed at a different pace.

Not only has imperialism intensified the uneven development of capitalism, but it has also substantially altered its character. Rapid technical growth has enabled countries which entered upon the capitalist way later to use the available results of scientific and technical progress and to rapidly overtake and surpass the most developed capitalist countries. This has generated sharp conflicts and new contradictions between the imperialist powers, because the world was already partitioned and no free territories were available. These contradictions led to World War I and World War II for a repartition of an already divided world.

The uneven development of capitalism created the objective basis for rupturing the chain of imperialism at one of its weaker links, and for the socialist revolution to win first in a few countries, or even in one country, a conclusion first drawn by Lenin in his work *On the Slogan for a United States of Europe*.

The maturing of the political prerequisites for a proletarian revolution in various countries is also closely bound up with the uneven economic development of the capitalist countries. Among these prerequisites are: sharp class contradictions and a sweeping class struggle, the proletariat's class consciousness, political organisation and revolutionary resolve, the rallying of non-proletarian strata round the proletariat, and the influence

of the Marxist-Leninist party, the revolutionary vanguard of the working class.

Class contradictions may be most acutely manifested, and the proletariat's organisation and revolutionary consciousness may reach a high level even in a capitalist country that is not the most developed one economically. That is what happened, for instance, in Russia in 1917, where the social contradictions were deepest and the subjective prerequisites for a socialist revolution most mature. The triumph of the socialist revolution in Russia was made possible by the breakthrough in the chain of imperialism at its weakest link.

Critique of Anti-Leninist Theories of Imperialism

All of Lenin's works on imperialism contain criticism both of bourgeois and of opportunist theories spun out by avowed apologists of imperialism, and by economists taking a philistine, reactionary approach, with visions of "the good old times of pre-monopoly capitalism".

Lenin concentrated on a critical analysis of Karl Kautsky's theory of "ultra-imperialism", which denied the operation of the law of uneven development under capitalism, and the existence of inter-imperialist contradictions. Its purpose was to disarm the working class ideologically. Another version of Kautsky's theory was that of "pure imperialism", which was designed to refute Lenin's theory of the socialist revolution and denied the role of the peasantry as an ally of the working class. Lenin showed these ideas to be wrong, and pointed out that monopoly capitalism could not exist unless it had pre-monopoly and even pre-capitalist economic forms for its basis.

Opportunists nowadays keep spreading various other versions of the "pure imperialism" concept, but they are still trying to prove that capitalism can be transformed into socialism even without a revolution.

Lenin's theory of imperialism remains the most important ideological weapon of the international communist, working-class and national liberation movements.

Chapter Sixteen

THE GENERAL CRISIS OF CAPITALISM AND ITS PRESENT STAGE. THE DIVISION OF THE WORLD INTO TWO ECONOMIC AND SOCIAL SYSTEMS AND THE STRUGGLE BETWEEN THEM

The Great October Socialist Revolution ushered in a new epoch in mankind's history, the epoch of transition from capitalism to socialism. The emergence of the communist formation and the growth and strengthening of the positions of socialism on a world scale signified that capitalism had entered into a period of general crisis.

The Substance and Key Features of the General Crisis of Capitalism

Marx and Engels gave the theoretical grounds for the objective and inevitable demise of capitalism and identified the social force—the proletariat—which is to overthrow it and build a new society. Lenin proved that imperialism is the eve of the socialist revolution, which will not take place either simultaneously or throughout the world at one and the same time, but first in one country or group of countries. The period of the revolutionary replacement of capitalism by socialism on a world scale is the period of the general crisis of capitalism.

The general crisis of capitalism has the following basic features: the division of the world into two opposite economic and social systems—socialism and capitalism—and the struggle between them; the crisis of the colonial system of imperialism, developing into its disintegration and final collapse; the sharpening of the internal and inter-imperialist contradictions of capitalism, its growing instability and decay; and the deepening crisis of bourgeois politics and ideology.

The Stages of the General Crisis of Capitalism. Its Deepening in the Present Period

The general crisis of capitalism develops through a number of stages, which are based above all on the changing balance of forces in the world between socialism and capitalism.

The first stage of the general crisis of capitalism began

during World War I and the victory of the Great October Socialist Revolution. The world was divided into two opposite economic and social systems, which circumstance carried it into a historical period of revolutionary renovation on socialist lines.

That is the period in which signs of the crisis of the colonial system of imperialism first appeared. The capitalist countries suffered the effects of the economic crises of 1920-1921, and especially those of 1929-1933, and 1937-1938. Inter-imperialist contradictions were aggravated and plunged mankind into World War II.

The second stage of the general crisis of capitalism got under way in the course of World War II, and continued until the mid-1950s. It was marked by another qualitative shift in the balance between the two opposite systems: capitalism and socialism. The world socialist system was formed as a result of the victory of socialist revolutions in a number of countries in Eastern Europe and Asia.

National liberation revolutions in the former colonies and dependent countries led to the disintegration of imperialism's colonial system, and the winning of political independence by these countries.

Contradictions in the economy of the imperialist countries have been deepening for various reasons, not least importantly because of militarisation. Monopoly capitalism evolved into state-monopoly capitalism (SMC) and that has become the objective basis for the further exacerbation both of the internal and external conflicts of imperialism.

The third, present stage of the general crisis of capitalism began in the latter half of the 1950s and has continued to gain in depth. In contrast to the first two stages, it did not begin in the conditions of a world war, but in the situation of economic competition and ideological struggle between socialism and capitalism, and another qualitative change in the balance of forces in favour of social progress.

The further deepening of the general crisis of capitalism has become a law-governed process in world development. It is an objective outcome of the sharpening of all the contradictions inherent in capitalism. New contradictions are being added to the old ones, as a result of the consolidation of the positions of world socialism, the successes of the national liberation movement, the effects of the STR, and the policies of SMC.

The deepening of the general crisis of capitalism in the 1970s and the 1980s has been manifested in the following: 1) socialism has become the key factor in the world's social development; 2) the colonial system has been eliminated in its classical forms.

and the national liberation movement has entered upon a new stage; 3) the economic instability of capitalism has intensified, and the state-monopoly regulation of the economy has obviously failed to work; and 4) the social and political instability of the capitalist society has grown.

*Socialism: An Authoritative Force of Our Day,
a Solid Bulwark of World Peace*

The division of the world into two opposite economic and social systems and the struggle between them over a period of seven decades are the main feature of the general crisis of capitalism. The contradiction between the two systems is the basic contradiction of our epoch. Their historical contest proceeds both in politics, ideology, and economics, a contest which is an expression of the class struggle of the international proletariat and its vanguard—the working people of the socialist countries—against the world's bourgeoisie.

But while there is irreconcilable struggle in ideology, in the inter-state and economic spheres there is an objective need for peaceful coexistence and economic competition between the two systems. The crucial front of the competition with capitalism runs through the economy and economic and social policy.

The stronger the positions of the world socialist system, the mightier its economic, defence, scientific and technical potential, and the more impressive its social and cultural successes, the stronger is its impact on the deepening of the general crisis of capitalism.

World socialism has the advantage of a planned economy, which enables it to blend the advantages of socialism with STR achievements, and to rely on the vast potentialities of the international socialist division of labour.

The world socialist system has scored great successes in production, science and technology, in the social and cultural sphere, and in raising the people's well-being. The main line of mankind's social progress now runs through the development of the socialist countries, their growing strength and the ever more beneficial influence of their international policy.

The world socialist system has taken the historic initiative in the fight to ward off the threat of a nuclear disaster, to restructure international relations, to do away with the aftermath of colonialism, to carry on the peaceful exploration of space, and to solve other vital human problems of our day.

The qualitatively new stage in the economic competition

between the two social systems is expressed in the following: 1) world socialism has steadily maintained its priority in the rate of social production growth; 2) since 1950, the socialist countries' share of world industrial output has doubled; 3) the economic gap between the USSR and the United States has significantly narrowed; and 4) a military-strategic parity has been established.

Chapter Seventeen

THE COLLAPSE OF IMPERIALISM'S COLONIAL SYSTEM. THE LESS DEVELOPED COUNTRIES' ECONOMY

Lenin pointed out that the socialist revolution proceeds not only as a struggle waged by the revolutionary proletarians in each country against their own bourgeoisie, but also as a struggle of all the imperialist-oppressed colonies and all the dependent countries against international imperialism.

The Disintegration of Imperialism's Colonial System: a Feature of the General Crisis of Capitalism. The Substance and Methods of Neocolonialism

The collapse of the colonial system, a key feature of the general crisis of capitalism, is the result of the workings of what are mainly its internal forces generated by the developing and sharpening contradictions between the peoples of the colonies and the imperialist bourgeoisie. At the same time, the successes of the national liberation movement are closely bound up with the favourable international conditions which have taken shape since the Great October Socialist Revolution, and then as a result of the rout of fascism and imperialist reaction during World War II by the Soviet people and all the other progressive forces. Since the historic victory over fascism, more than 2 billion people have cast off the yoke of the colonialists and have won state independence for their countries.

The disintegration of imperialism's colonial system in its classical forms does not yet signify the complete liquidation of colonialism, which has been superseded by neocolonialism, imperialism's adaptation to the new conditions that have taken shape as the former colonies won their political liberation from imperialism.

Neocolonialism is a set of economic, political, military and ideological measures invented by imperialism after the collapse of its colonial system for the purpose of invalidating the sovereignty won by the young states, and of maintaining and even intensifying its control over them. The imperialists have tried to achieve their aim by military pressures and economic

dictates, and by supporting internal reaction.

The newly liberated countries have yet to escape from the world capitalist economy, in which imperialism reigns supreme. The chief imperialist powers have monopolised the commodity markets, the money markets, modern means of production, R&D experience and know-how. All of that puts the young national states in a position of dependence.

The export of state and private capital from the erstwhile metropolitan countries to the newly free states is one of the most important conduits of neocolonialism. The export of state capital is effected in the form of loans, which have the strategic purpose in the imperialist powers' policy of keeping these countries within the orbit of world capitalism, getting them to develop along the capitalist way, and preparing the necessary conditions for intensified penetration of their economy. As these goals are attained, the export of state capital is reduced, and that of private monopoly capital increased.

Private monopoly capital, and especially transnational industrial and banking monopolies, now have the key role to play in reproducing the relations of the newly liberated countries' dependence and exploitation.

Transnational monopolies have been actively infiltrating every sector of their economy, including manufacturing, setting up their subsidiaries, mainly labour-intensive and environment-polluting plants. They make wide use of the world commodity and money markets. Among the methods of neocolonialism are non-equivalent exchange, discrimination to limit access of commodities from the newly independent states to the markets of the imperialist countries, and usurious interest on loans to these countries from transnational banking monopolies.

Imperialism has set up and adjusted a most refined system of neocolonial exploitation, so attaching a large number of young national states. The following data give an idea of the scale of this exploitation and the growing economic dependence of these countries on imperialism.

While the developing countries of Asia, Africa and Latin America have run up a total debt of over \$1 trillion to the industrialised capitalist countries, the latter keep extracting over \$200 billion a year from the former; over the current decade, US corporations have extracted \$4 worth of profits for every dollar they have invested in these countries.

All of that worsens the prospect for the young states' development and further aggravates their already grave social, economic and other problems. That is why neocolonialism and the realisation of its goals in the activity of the imperialist powers

and the transnational monopolies inevitably produce resistance on the part of the enslaved peoples. In recent years, they have gone on from individual acts to joint action against neo-colonialism, and have demanded the establishment of a new international economic order.

*Young States' Economic and Social Problems
and Two Ways of Development*

The countries liberated from the yoke of colonialism have inherited from the colonial past extreme economic backwardness and poverty among great masses of people. These countries' economic and social structure at the time they won political independence was multi-sectoral, with a prevalence of long-worked-out pre-capitalist economic forms: patriarchal, communal, feudal and semi-feudal; they also had the petty-commodity and private-capitalist (foreign and local) sectors.

Once they had won state independence, overcoming the long-standing economic backwardness, the building up of a national economy, including their own industry, and raising the people's living standards became their central problems in social development.

If these problems are to be solved, there is a need for radical economic and social transformations: democratic agrarian reforms with the active participation of the toiling peasantry, abolition of the obsolete feudal and pre-feudal relations, an end to foreign capital domination of the economy; radical democratisation of the whole of social and political life and of the state apparatus; revival of the national culture and development of its progressive strands; and consolidation of the revolutionary vanguard parties.

But it is the way—capitalist or non-capitalist—these peoples take that crucially determines the depth of these transformations and the extent to which they can be effected for the benefit of the society as a whole. Some of these countries have opted for the revolutionary-democratic, non-capitalist way, while others have turned to capitalist relations.

In the countries oriented towards capitalism, the economy may be advancing, but not fast enough, to enable them to reach the level of the industrialised capitalist countries within a foreseeable historical period. The development of capitalism in these countries goes hand in hand with a growth of social contrasts and contradictions. These countries' economic dependence on imperialism has grown in some cases, instead of being reduced.

It is the experience of the peoples everywhere that capitalism, as an economic and social system, is incapable of completely ending economic backwardness. That is why the revolutionary-democratic forces which have taken power in some of the newly liberated countries have opted for the non-capitalist way, consistent advance along which in the long run carries these countries to actual socialist construction.

On the way to socialist construction lies a historical period of transitional stages of social development at which there is a gradual preparation of the material and social prerequisites of the new society and the shaping of a working class and intelligentsia dedicated to the people.

The ruling revolutionary-democratic parties of the socialist-oriented countries work to overcome the resistance of internal and external reaction and follow a course of doing away with the domination of the imperialist monopolies, the tribal elite, the feudal lords and the reactionary bourgeoisie, to consolidate the state sector in the economy, to encourage the cooperative movement in the countryside, and to enhance the working people's role in economic and political life. These countries extend their ties with the socialist countries in order to safeguard their independence from imperialist attacks. The way they have chosen is one of great historical significance: it meets the genuine interests of the masses, reflects their urge to establish a just social system, and runs along the highroad of mankind's development.

Significance of the Young States' Economic Cooperation with the Socialist Countries

The Soviet Union and other socialist states are engaged in wide-ranging economic and technical cooperation with the newly liberated countries. It is based on the time-tested principles of the new type of international relations developed by socialism: complete and actual equality of the parties, mutual advantage, respect for sovereignty, and non-interference in internal affairs.

Long-term economic agreements, and long-term cooperation programmes in some cases, are characteristic of such relations, a foundation which makes these relations stable and secure.

The CMEA countries' cooperation with the young countries is effected along two main lines: foreign trade contacts, and scientific and technical assistance in developing above all the basic sectors of the national economy, which help to strengthen

their material independence. Such cooperation undermines the imperialist monopoly of deliveries of producer equipment to the young national states and does away with the danger of financial bondage.

There are great prospects before the mutually advantageous cooperation between the socialist countries and the newly liberated states.

Chapter Eighteen

THE SCIENTIFIC AND TECHNICAL REVOLUTION. THE GROWING SOCIAL CHARACTER OF CAPITALIST PRODUCTION AND THE DEEPENING OF ITS BASIC CONTRADICTION

The objective development of the STR goes to create even more mature prerequisites for the inevitable revolutionary replacement of capitalism by socialism, the new social system.

The Economic and Social Substance and Basic Features of the STR

The STR began about the mid-20th century and is the present stage of scientific and technical progress which is, in content, a ceaseless and exceptionally extensive process, including both an evolutionary and a revolutionary form in the development of science and technology.

The STR is a law-governed process and stems from the needs of material production based on the major discoveries in the basic natural sciences in the late 19th and first quarter of the 20th century.

The STR is a major quantum leap in mankind's cognition of the laws of Nature and their use in production. It has a number of peculiarities. Earlier revolutions in science and technology ranged only over some areas and did not, as a rule, coincide in time, and had little effect on each other. The current STR is universal, covering virtually every branch of science and technology, all the elements of the production process, the character and content of human labour activity, production and labour organisation, and management.

The content of the STR could be roughly defined as follows:

- major changes in hardware, fundamentally new sources of energy and raw materials, and automation and robotisation modifying the character of labour and man's place in the process of production;
- the development of cybernetics, which raises the productivity of mental labour and provides the material and technical facilities for organising the management of social processes on scientific lines; and
- a radical change in the significance of science in econo-

mics, and its conversion into a productive force in its own right.

The STR is a universal and global process, but under capitalism and under socialism it differs radically in social-class content, objectives, motivations, the way in which its achievements are used, and the economic and social consequences.

State-monopoly capitalism steps up scientific and technical development in order to maintain its positions, multiply profits and intensify the working people's exploitation. The use of the latest scientific and technical advances in production in the capitalist society turns against the working people and makes millions jobless. The expropriation of small proprietors proceeds apace. The over-accumulation of productive capital assumes great proportions, and economic crises of over-production become more frequent. The man-Nature relationship problem is exacerbated, producing acute crises in energy, raw materials and foodstuffs. Devastating means of warfare are developed and pose a threat to mankind's existence.

The STR, as such, opens up to mankind boundless potentialities for transforming Nature, creating vast material wealth and multiplying man's creative capabilities, but socialism alone has the capacity to carry on this revolution and use its fruits for the benefit of the society.

*Growing Social Character
of Capitalist Production under the Impact of the STR,
and the Deepening of Its Basic Contradiction*

As capitalism develops, production becomes more social.

The growing socialisation of production is manifested in such forms as the concentration and centralisation of production, the deepening of the social division of labour, the ever wider specialisation and cooperation in production within individual capitalist countries and within the world capitalist economy, a process which increases the ties between all the economic units.

The STR is the basis for the unprecedented growth in the concentration and centralisation of capital and production, both in traditional and in new forms (horizontal and vertical integration, science and production complexes and conglomerates). All of these go to intensify the monopolisation processes in the capitalist economy. A mass of small and medium-size enterprises come under the influence of the giant monopolies. There is a high degree of monopolisation of research and development, and of high-skilled personnel, with the scientific potential being

✓centralised to a much higher degree than capital and production.

The growing socialisation of production makes it even more imperative to develop the economy in a balanced manner, but this runs into an antagonistic✓contradiction with the anarchy of capitalist production.

Within the framework of the world capitalist economy, the STR promotes ever wider international specialisation and co-production, greater internationalisation of production and trade, the development of economic integration.

The need to regulate world economic relations is made more pressing by the rapidly growing internationalisation of the productive forces, but there has been little effect from what the capitalist countries have now and again done in this context. The uncontrolled operations by the TNCs, which have woven a web of subsidiaries throughout the world capitalist economy, is one of its main destabilising factors. The TNCs are impelled by their lust for maximum profits often to take economic decisions that cut across the national interests of both the developed and the less developed countries. The growing socialisation of capitalist production is evidence that the material prerequisites for socialism tend to become even more mature.

As production is socialised, there is a growth of property held by the financial oligarchy. The basic contradiction of capitalism is sharpened and deepened. Some new forms have appeared alongside its traditional forms:

the contradiction between the unheard-of potentialities of the STR, and the barriers erected by capitalists in the way of their use for the benefit of the society. Economic crises proliferate, there is an ever greater chronic underloading of production facilities, mounting inflation and spreading unemployment;

the contradiction between the social character of modern production and its state-monopoly regulation; and

the contradiction between the TNCs and the national-state form of the society's political organisation.

Changes in the Proletariat's Occupational and Skill Structure under the STR

The STR brings about deep changes not only in the material, but also in the human element of the productive forces. It causes significant alterations in the quantitative and qualitative composition of the working class. The proletariat's numbers are increased not only through natural growth, but also as petty proprietors are ruined and women are extensively involved in production.

There is a change in the national-economic structure of the working class. More people are employed in the services, there is a slowdown in the percentage growth of those employed in manufacturing, apart from the high technology industries which determine the advance of the STR, and the percentage of workers in the extractive industries and in agriculture is reduced.

Substantive changes take place in the content of labour and the workers' occupational skills. Under the impact of the STR, concrete labour becomes not only more diversified, but also more complex. It is increasingly intellectualised: a growing percentage of working people are employed mainly in mental labour and in servicing sophisticated machine systems.

There is a rapid growth in the numbers of scientific personnel, engineers, technicians, office and other categories of workers by brain. However, by status in social production and living standards, a sizable part of this category of working people is ever more akin to the working class.

The STR enhances the role of the human factor in production. With the growth of educational and skill standards, there is an ever more manifest trend towards imaginative work, the adoption of independent decisions and participation in the management of production, a trend that contradicts the worker's actual condition of being a mere attachment to the machine.

The objective trends in STR development run into an irreconcilable contradiction with the capitalist relations of production and add depth to social conflicts.

The contradiction between the working people's growing material and cultural wants and the possibility of satisfying these is ever more acute. The sense of dignity and the urge for imaginative work come up against the working people's ever greater dissatisfaction with the content of their labour, their working conditions and their status in the society.

The STR makes it objectively necessary to have a different mode in which the worker is conjoined with the means of production, something that cannot be attained under capitalism.

*Uneven STR Development
and Sharpening Contradictions Between the Capitalist Countries.
Widening Gap Between the Imperialist Countries
and the Newly Free Nations*

The STR tends to develop most unevenly in the various sectors of capitalist production, thereby deepening the contradictions of capitalism. It has developed most rapidly in the

industries linked to arms manufacture, and also in the high technology industries with a crucial role in technical re-equipment (mechanical engineering, instrument-making, electronics, chemicals and energy). Meanwhile, the traditional industries (textiles, garments, food, timbering and wood-working, etc.) have not been as tangibly affected by the STR.

Structural changes in the economy of the capitalist countries have more than one facet. While being a factor of industrial growth, they simultaneously make it more disproportional and sharpen the cyclical crises.

In the early decades after World War II, the United States managed to take up leading positions in science and technology and to tighten its grip on the world capitalist economy. But in the 1970s, the highly developed West European countries and Japan caught up with the United States in scientific and technical potential through a strategy of reducing the technological gap by purchasing US technology (import of capital from the United States, purchase of patents and licences) and also by developing their own R & D projects. As a result, they have drawn level with the United States in some fields, or have even outpaced it. But the United States continues to lead in industries requiring large investments in fundamental and applied research (the military business, the exploration of space, etc.).

As their economic levels have to some extent been evened out, the struggle between the three main centres of imperialist rivalries—the United States, Western Europe and Japan—have steadily intensified.

The monopolisation of STR achievements by the imperialist states and the TNCs has produced a new form of the newly liberated countries' exploitation known as "technological neocolonialism". The gist of it is that the TNCs assign to their subsidiaries in these countries the role of narrowly specialised divisions with rigid scientific and technical dependence on their parent companies, which control the process of industrialisation and use cheap local labour-power, raw materials and sources of energy to locate the most labour-intensive, material-intensive and energy-intensive lines of production in these countries, while supporting the traditional manufacturing industries (garment-making, textiles, foodstuffs, etc.). In this way they contain the production of the high technology products spun off by the STR.

But there is also an opposite trend. The newly free countries have tried to use STR achievements for their own social and economic progress. They have nationalised their natural

resources, and battled for changes in the existing international division of labour, and for the establishment of equitable international economic relations. These countries have been given much assistance by the socialist states in tackling these problems.

Chapter Nineteen

THE SUBSTANCE OF STATE-MONOPOLY CAPITALISM

Just because imperialism is historically doomed does not mean that it will collapse automatically: the ruling exploiter class have never left the scene of their own free will, without fierce resistance to the objective advance of history.

State-monopoly capitalism is the reactionary forces' main means in fighting to retain their domination.

State-monopoly Capitalism. Why It Originated

When Lenin studied the beginnings of the process he showed that monopoly capitalism was objectively bound to grow into state-monopoly capitalism, and laid bare its economic and social substance, its basic phenomenal forms and its historical place. In his Preface to the first edition of *The State and Revolution*, he said that the oppression of the working people by the state, which is increasingly merging with the all-powerful capitalist associations, is becoming ever more monstrous.¹

The continued socialisation of production is the objective economic prerequisite for the emergence of state-monopoly capitalism. The mounting concentration and centralisation of production tend to sharpen the contradictions of the capitalist society to a degree at which they endanger not only the extraction of monopoly profits, but capitalism's very existence.

State-monopoly capitalism is a form in which the capitalist relations of production are adapted to the new level of the productive forces. The power of the monopolies and of the state coalesce in order to keep the burgeoning productive forces within the bounds of the capitalist mode of production.

State-monopoly capitalism bolsters the monopolies' rule of national life by combining their power with that of the state into one mechanism in order to salvage the capitalist system, and maximise the profits of the imperialist bourgeoisie through

¹ See: V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 387.

the exploitation of the working class and plunder of broad strata of the population.

It is important to be clear on how the power of the monopolies and of the state is meshed in one mechanism in order to keep capitalism going and enrich the monopolies, how the economic might of the monopolies is converted into political power, and how that political power is used to strengthen their economic domination.

Bourgeois and pro-bourgeois parties, diverse religious and bourgeois youth organisations, the electoral system and the bourgeois news media are important elements of the mechanism, but special class organisations—federations of employers whose activity is not advertised by the bourgeois news media—are decisive components of this mechanism. Major business associations, such as the National Association of Manufacturers in the United States, the Federal Union of German Industry in the FRG, the Confederation of British Industry in Britain, the National Council of French Entrepreneurs (Patronat), the Confederation of Italian Industry (Confindustria), and the Federation of Economic Organisations in Japan are the general headquarters of the monopolies and the main instrument for joint action by the monopolies and the state. Among the key channels through which they convert the monopolies' economic might into their political power are: funding of bourgeois parties and appointment of officials to the state apparatus, drafting of bills, lobbying, "hearings" in bourgeois parliaments, and constant personal and constitutional contacts between these federations and the ministries.

Basic Phenomenal Forms of State-Monopoly Capitalism

The forms in which state-monopoly capitalism manifests itself are diverse. The main ones are: 1) state property in a part of the national income and the national wealth; 2) state enterprise; 3) state-monopoly regulation and programming of the economy; 4) militarisation of the economy and formation of military-industrial complexes; and 5) state-monopoly expansion in international economic relations.

All these and other forms are interconnected and interwoven with each other.

Estatistation (takeover by the state) of a significant part of the national income and the national wealth is the most important phenomenal form of state-monopoly capitalism, and the state budget is the main conduit through which that is effected, and the basic instrument by means of which state

economic policy is implemented under state-monopoly capitalism today.

In the early 20th century, the state's share of the national income in the capitalist countries came to 5-10 per cent, but today it has risen to 30, 40 and more per cent.

The absolute volume of the national income at the disposal of the state has grown even more significantly. Thus, US Federal Budget expenditures in fiscal 1899/1900 were \$521 million, in 1930/1940—\$10.1 billion, and in fiscal 1987/1988—they are expected to go up to over \$1 trillion.

The state conducts a class policy both in marshalling budget revenues and in expending them.

State property is essentially collective monopoly property for it serves to enrich the monopolies by ensuring the process of reproduction in the industries into which private capital is not invested (notably in transit, communications, education and personnel training, R&D projects, and other areas of the production and non-production sphere), and also through monopoly prices, which are fixed at a low level for the goods and services supplied to private monopolies by state enterprises, and at a high level for the goods and services supplied by private monopolies to the state and its enterprises. That helps monopoly capital not only to appropriate surplus-value, but also to pick the pockets of ordinary consumers and taxpayers.

When studying state-monopoly regulation of the economy, one should reckon with such of its instruments as state investments and state enterprise, state consumption and procurement, fiscal, credit and monetary policies, state-monopoly programming and economic prognostication, and regulation of relations between labour and capital.

The main international forms of state-monopoly capitalism are: state-monopoly stimulation of the export of the monopolies' goods and capital, export of state capital, and diverse forms of supranational economic regulation, ranging from regular meetings of the heads of the major capitalist countries to imperialist integration.

Militarisation of the capitalist economy and the formation of military-industrial complexes is an important manifestation of state-monopoly capitalism. These military-industrial complexes have an important part to play in the economics and politics of the capitalist countries and have a great influence on the development of international relations.

Militarism is the offspring of imperialism, and is a system of measures designed to build up the military potential of the exploiter states, to conduct a policy of wars of aggrandisement

and suppression of the working people at home. Militarism has always been the mainstay of the exploiter classes, but it has reached a peak under imperialism: "Imperialism... is, by virtue of its fundamental *economic* traits, distinguished by a minimum fondness for peace and freedom, and by a maximum and universal development of militarism."²

Militarism has the main task of being an instrument of domination at home and abroad.³ Following the victory of the Great October Socialist Revolution, a third task was added to the first two, namely, that of fighting existing socialism. As the general crisis of capitalism has advanced, "the whole of social life is now being militarised."⁴ But its deepest basis is militarisation of the economy, which means switching the bulk of the economy to arms production.

Before World War II, the capitalist economy was militarised only in the period of wars or the immediate preparation for them, but since then it has been carried on in periods of relatively peaceful coexistence between states with different social systems.

In order to fight the world socialist system, and the national liberation and revolutionary movements, the imperialist powers, led by the United States, have set up military-political blocks, of which NATO is the paragon: its direct military outlays since 1949 (\$18.7 billion) have multiplied dozens of times over.

The United States has had the most rapidly growing military spending: \$1.5 billion in 1940, \$13 billion in 1949, \$45.7 billion in 1960, \$77.8 billion in 1970, \$292 billion in 1985, and \$500 billion in 1987.

The military-industrial complex is the main locomotive of militarisation. It is an alliance of arms monopolies, the top state apparatus and the militarists. Its core consists of monopolies specialising in the manufacture of weapons and the top officials of the "defence" departments and the armed forces.

The military-industrial complex is a phenomenal form of state-monopoly capitalism, the ugliest, most parasitic and most dangerous force for mankind. As a spin-off of state-monopoly capitalism, the military-industrial complex has developed into an important factor in accelerating its development, and the

² V. I. Lenin, "The Proletarian Revolution and the Renegade Kautsky", *Collected Works*, Vol. 28, 1977, p. 239.

³ See: V. I. Lenin, "Bellicose Militarism and the Anti-Militarist Tactics of Social-Democracy", *Collected Works*, Vol. 15, 1977, p. 192.

⁴ V. I. Lenin, "The Military Programme of the Proletarian Revolution", *Collected Works*, Vol. 23, 1977, p. 82.

generator of the arms race yielding truly fabulous profits, a bonanza for the monopolies.

Twenty thousand contractors and almost 100,000 sub-contractors and suppliers have been working on state war contracts in the United States, but the lion's share of the contracts has gone to a handful of giant monopolies: 100 major Pentagon contractors annually account for 65-70 per cent of the total value of primary "defence" contracts.

The ideologists of capitalism make the spurious claim that military spending stimulates economic development and helps to reduce unemployment. But they are wrong. The arms race is not only fraught with its ultimate consequences—the danger of war—but its very preparation is a heinous crime against mankind. The imperialist-sponsored arms race falls as a heavy burden on all the countries, regardless of their social system, geographical location, size of territory, or economic development level. It results in a vast and inane squandering of mankind's material and spiritual resources which are necessary to combat hunger, disease and illiteracy, and so aggravates the raw materials, ecological and other global problems.

The arms race slows down scientific, technical and economic development, spreads unemployment, undermines the state budget and the credit system, and is one of the most important causes of the growing inflation and precarious international relations.

Imperialism, with its monstrous offspring—the military-industrial complex—is the enemy of mankind as a whole, which is why it is the task of all who cherish peace, social progress and life on the Earth to do away with militarism and the forces procreating it.

Chapter Twenty

HOW THE LAW OF SURPLUS-VALUE OPERATES UNDER CAPITALISM TODAY

Capitalism now largely differs not only from pre-monopoly capitalism, but also from the capitalism of the early and even the mid-20th century. Substantive changes have taken place in the system of capitalist relations of production and above all in ownership of the means of production. They have predetermined the changes in the operation of the economic laws of capitalism, notably its basic law, the law of surplus-value.

Monopoly-High Profits As the Objective of Production Under Imperialism

The law of surplus-value operates at every stage of the capitalist society's development, but in the epoch of monopoly capital it acquires some important peculiarities, a modification which primarily affects the objectives of capitalist production.

In pre-monopoly conditions, the capitalists carried on production and obtained surplus-value in the form of average profit. Its economic basis consisted of private capitalist property in the means of production in the form of individual property of the entrepreneurs. This made for the growth of relatively small enterprises, the play of free competition and the unhampered flow of capital from one industry to another, something that led to the various individual rates of profit being spontaneously evened out into average profit.

A different state of affairs has arisen under imperialism. Free competition has given way to monopoly domination. Monopoly in the means of production has enabled a handful of financial magnates to have full sway in the economy and the whole of social life.

The property of private and transnational corporations and of the bourgeois state has made it objectively possible for the monopoly bourgeoisie to gear production to the extraction of what is not just ordinary, or average, but monopoly-high profit. Capitalism has always looked to the production and appropriation of maximum surplus-value, but favourable

objective conditions for realising this urge have been provided only at the present stage of its development, and here the TNCs have flourished most of all.

Monopoly-high profit has a number of components.

It has for its basis average profit, i.e., that part of surplus-value which is appropriated by the capitalists in varying amounts. Average profit also goes to the owners of non-monopolised enterprises, but it is still regulated by the law of average profit. For monopoly capital, however, average profit is merely the initial and general component of profit.

Monopoly-high profit furthermore includes the ordinary superprofit which goes to the individual corporations using new hardware and technology. Some enterprises in the pre-monopoly epoch managed to extract such superprofit, but the superprofit extracted by monopolies quick to instal new hardware and technology has grown larger in scale, but has become, one could say, relatively less stable.

Finally, superprofit as a stable and constant factor of capitalist economic operations is now the chief and specific element of monopoly-high profit. Lenin says that "monopoly yields *superprofits*, i.e., a surplus of profits over and above the capitalist profits that are normal and customary all over the world."¹

In capitalist economic operations all these forms of profit make up a single whole to form monopoly-high profit.

Apart from superprofit, which takes shape in the course of actual economic processes, the monopoly bourgeoisie, especially its elite, makes fabulous profits by means of diverse machinations with fictitious capital, such as profit from emissions and promotional profit, the floatation of securities, and speculation on the stock markets.

Ways and Means of Ensuring Monopoly-High Profit

Monopoly-high profit is extracted in various ways, which fall into two groups. One is connected with the more intense exploitation of the working people on the shopfloor, and the other includes the sources of monopoly superprofit resulting from the distribution and redistribution of surplus-value, especially through the mechanism by means of which the national income is distributed and redistributed.

Let us bear in mind that the capitalists have two main ways

¹ V. I. Lenin, "Imperialism and the Split in Socialism", *Collected Works*, Vol. 23, 1977, p. 114.

of stepping up the exploitation of the working class: the production of absolute and of relative surplus-value.

Absolute surplus-value is produced by lengthening the working day, which is legislatively limited in the capitalist society today as a result above all of persevering struggle by the working class. Still, the monopolies manage, with the aid of the bourgeois state, to lengthen the working day by various tricks and dodges. In some countries, there is no legislation prohibiting overtime, and that is used by the imperialists. Overtime is often done without additional wages or with additions that fall short of compensating for the greater attrition of the labour-power. The duration of the working day is altogether arbitrary in industries where it is not legislatively limited. Especially wide use is made of what is known as covert lengthening of the working day as a result of the continuous intensification of labour.

However, production of relative surplus-value has the crucial role today in stepping up the exploitation of the working class: necessary working time is shortened as labour productivity goes up, while surplus-time within the same length of working day is accordingly increased.

The vast proportions of capital accumulation and the STR enable the monopolies to improve the exploitation mechanism, which has become much more intricate and refined. The monopolies have been extracting ever larger profits from their workers' skills, intellectual powers and nervous energy.

The growth in the rate of surplus-value is the general outcome of the stepped-up exploitation of wage workers in the capitalist society: since the beginning of this century, it has doubled and in some cases trebled. That is the main source of the monopoly-high profit appropriated by the imperialists.

Monopoly prices, i.e., prices fixed by the monopolies themselves, because of their domination, or by the capitalist state are of exceptional importance within the system of measures designed to keep profit at monopoly-high levels.

The monopolies sell their products at monopoly-high prices, which are always higher than the prices of production, and the value of the commodities. At the same time, the monopolies buy the goods they need for production at monopoly-low prices. The price of labour-power has effectively become monopoly-low, because monopoly capital has managed to keep wages at a level below the value of the labour-power, especially now that chronic mass unemployment has grown.

Monopoly prices are used to distribute and redistribute the national income in such a way as to enable big business to use various additional sources of maximising profits.

Monopoly-high profit absorbs a part of the surplus-value that is not produced at the monopoly enterprises, but is appropriated by the monopolies through the sale to these enterprises of their goods at inflated prices and the purchase of their goods at artificially depressed prices.

A part of the surplus-product and often of the necessary product of small commodity producers in town and country also passes to the monopolies as profit. These small producers find themselves dependent on monopoly capital and are oppressed by means of non-equivalent exchange: they are forced to sell their products to the monopolies at monopoly-low prices, and to buy the requisite goods turned out at monopoly enterprises at monopoly-high prices.

The value created in countries importing capital and commodities from the imperialist states is a prolific source of monopoly-high profit, and this applies especially to the less developed regions with their acute need to build up a modern economy, and with their cheap labour-power and raw materials. There the monopolies are enriched both by investing capital in local production, and through non-equivalent exchange and the extension of enslaving loans and credits to these countries.

A characteristic feature of present-day capitalism is that the state fixes the prices of many goods and services with the participation of the monopolies concerned. When government contracts are awarded to private companies, prices are formed not on the basis of competition, but by agreement between the monopoly corporations and the government agencies concerned.

The usual practice is to take the highest costs of production in a given industry as the basis for prices, even if a given monopoly has lower costs. Whenever it goes to benefit the monopolies, the government tries to fix and maintain not only monopoly-high prices, but also monopoly-low prices. Thus, commodities supplied by state enterprises to private monopolies are often sold at artificially low prices (as in the case of coal and electricity). Meanwhile, the losses made by state enterprises are covered from the state budget, i.e., in the long-run at the expense of the taxpayers, the mass of working people.

The military-industrial complex is in the most privileged position. The arms manufacturers derive vast profits not only because the monopolisation of arms production is exceptionally high, but also because of the privileged pricing system and award of lucrative contracts.

The contradictions of the capitalist society are built up, deepened and sharpened by the workings of the law of surplus-value in its modified form: it is now an expression of very

much more complicated relations of production that it was in the past. The basic economic law of capitalism is a reflection not only of the extremely exacerbated relations between labour and capital, but also the contradictory ties between the monopoly and the non-monopoly bourgeoisie, between the monopolies and small commodity producers, between monopoly capital and the peoples of the dependent countries, and finally, between the monopolies and their national and international alignments.

Chapter Twenty-One

AGRARIAN RELATIONS IN THE CAPITALIST SOCIETY

The Marxist-Leninist doctrine of ground-rent and the development of capitalism in agriculture (analysed in Chapter 11) provides the scientific basis for a correct understanding of bourgeois agrarian relations, whose examination helps to gain a clearer view of the substance of imperialism and the general crisis of the capitalist society.

Agrarian Relations Under Imperialism

The agriculture of the imperialist countries is made up of diverse forms of landownership and land-tenure: landlordism, plantations, absenteeism, share-cropping, small peasant farms, capitalist farms, agricultural monopolies and state monopolies. That is why agrarian relations in the capitalist society have so many facets.

But for all that agriculture is carried on by capitalists who differ from other capitalists in the first place only by the element into which their capital is invested, and by the labour-power set in motion by that capital.¹ Among those who enter into production relations with each other are the landed proprietors, industrial capitalists and wage-workers, the backbone of the bourgeois agrarian system, and also small peasants and farmers. The result is the continued production of absolute, differential and monopoly rent, rent of building sites, etc.

One peculiarity of agricultural development in the imperialist countries is that the land is increasingly concentrated in the hands of the big monopolies and the state and is turned into their property. The tendency noted by Lenin continues to operate: "Both in industry and in agriculture the relative number of small and medium enterprises is decreasing, and only the relative number of the large enterprises is increasing."²

¹ See: Karl Marx, *Capital*, Vol. III, p. 614.

² V. I. Lenin, "New Data on the Laws Governing the Development of Capitalism in Agriculture", *Collected Works*, Vol. 22, 1974, p. 98.

Important technical changes have taken place in the productive forces of agriculture; it is being industrialised and chemicalised, so that the organic composition of capital has grown.

Agro-industrial integration has ranged not only over industry and agriculture, but over the entire infrastructure, credit, insurance and agronomy.

The greatest influence on agriculture has been exerted by state-monopoly capitalism through its direct regulation of the area under crop, the volume of farm output, stimulation of technical progress, agrarian protectionism, price regulation, the state budget, and higher taxes on peasants and farmers.

The banks and big finance capital now have a growing role to play in developing capitalist agriculture.

The banks and finance capital use every possible means to increase their domination of agriculture by actively intervening in the concentration of agricultural production.

Rent relations have been revolutionised by the changing structure of landownership and land-tenure, and also by the technical advances in capitalist agriculture. Ground-rent is merging with monopoly profit as individual private landed property (big and small) is converted into the landed property of the monopolies, the banks, joint-stock companies and the capitalist state.

Rent relations have become more complicated but nothing has changed in their exploitive substance: big landed proprietors, bankers and industrial and commercial capitalists are all exploiters appropriating the unpaid labour of agricultural wage-workers and exploiting the mass of peasants.

Monopoly Capital's Methods of Exploiting the Peasantry. Impoverishment and Proletarianisation of the Peasantry

The ruin of small and medium peasant farmers is a process that monopoly capitalism has deepened. The peasants are being stripped of their land, their main means of production. They are forced to sell their land or abandon it, because they are unable to earn a subsistence wage. The ruin of the peasantry in the developed capitalist countries has become massive, and the growing domination by the monopolies has led to a significant reduction in the number of small peasant-households and other farms.

For the purposes of enrichment, the monopoly bourgeoisie has made wide use of agricultural cooperation which it controls through the management of cooperatives, the buying up and

sale of their produce, and the supply of manufactured goods to them.

Extraction of a part of the incomes of farmers and peasants for the state budget through taxes, and the supply of these funds to the agricultural monopolies in the form of grants, low-interest credit for the purchase of machinery, fertilizers, etc. is one method in which the exploitation of the peasantry is being intensified by the monopoly bourgeoisie with the aid of the state.

The technical re-equipment of production calls for large material and financial outlays, so that farmers are forced to apply for credit to the banks. There has been a steady growth in the farmers' mortgage debt, and since most of them cannot repay their debts, the land is foreclosed and taken over by the banks.

Peasants find themselves in the most dire plight in time of economic crisis, and this intensifies the proletarianisation of the countryside.

The Marxist-Leninist theory of agrarian relations is a practical guide for organising a solid alliance of the working class and the labouring peasantry in the fight against the exploiters, which is why it is reflected in the fundamental propositions of the agrarian programmes of communist and workers' parties in the countries of the capitalist world at the present stage of its general crisis. These are the basic principles: land to those who till it by their labour; protection of the small peasantry from monopoly oppression; the right of peasantry and agricultural labourers to acquire property in land; legislation to secure small landholdings; reduction of rental payments, taxes, and interest on credit to small landholders; state assistance to peasants and their cooperatives; curbs on monopoly activity and elimination of the "price spread"; application of social legislation to agriculture; no expulsion of peasants and lease-holders from the land they use; legislative regulation of wages, working conditions and working hours for agricultural labourers.

Along with these general demands, the agrarian programmes of communist and workers' parties include demands expressing the concrete political and economic conditions of a given country.

Chapter Twenty-Two

CAPITALIST REPRODUCTION AT THE PRESENT STAGE

The peculiarities of the reproduction of social capital nowadays are manifested in these facts:

— first, the developed capitalist countries' economy has been moving from extensive to intensive reproduction under the impact of the STR, which does something to accelerate its development as compared with the pre-war period (manufacturing output growth from 1921 to 1940 averaged 2.6 per cent a year, and from 1951 to 1984, 4.3 per cent);

— second, the impact of external economic and political factors on the reproduction of national social capital has increased;

— third, the process of the expanded reproduction of labour-power has become more complicated, and the social contradictions have sharpened (chronic mass unemployment of a large part of the able-bodied population); and

— fourth, the cycle and the mechanism by which production and market are balanced out has been modified.

Social reproduction in the imperialist countries now proceeds under the influence of new factors, namely, the STR, structural changes, state-monopoly regulation of the economy, competition between the two world economic systems and the collapse of the colonial system of imperialism. That has a highly contradictory impact both on the production of the social product and on its realisation.

Structural Shifts in the Capitalist Countries' Economy

Changes in the traditional proportions between the sectors of production and within them, between Departments I and II of social production, between the production and the non-production spheres, etc., have been taking place in the economy of developed capitalism under the influence of those factors, the STR in the first place.

The structure of the capitalist economy now has these distinctive features: a) the prevalence of industry in the produc-

tion of the national product and the use of labour-power (according to UN data, over 50 per cent of the developed capitalist countries' national product is turned out in industry); b) radioelectronics, computers and robots have the leading role to play within industry; c) the energy basis of production has expanded; d) the balance between the extractive and the manufacturing industries has changed in favour of manufacturing; e) the importance of agriculture in the production of the aggregate social product has sharply declined; and f) road and air transport have become the dominant elements of transit.

The switch of the developed capitalist countries' economy to the intensive type of reproduction and the structural shifts within it make social production more efficient, and the assets-to-product and, especially material-to-product, ratio more stable or even lower.

The rapid development of the non-production sphere, including the services, is one of the important structural shifts, as a law-governed outcome of the development of the productive forces and the rising labour productivity in material production. Thus, from 50 to 60 per cent of the labour force in the United States, Canada, Britain and the FRG in the 1980s was employed in non-material production, a phenomenon Marx predicted in his *Capital*.

The technical re-equipment of material production on the basis of electronics and resource-saving technologies will be the basic motor in the further structural modification of the capitalist economy.

One must emphasise that the change in the traditional proportions in the developed capitalist countries' economy are a reflection of the continued and objective advance of the social division of labour under the STR, which markedly boosts labour productivity, and reduces the material-intensiveness and capital-intensiveness of the product and leads to a higher rate of profit, the main incentive for the growth of capitalist production.

The tendency towards a replacement of living labour by materialised labour is being intensified by capitalist rationalisation and automation of production (83-85 per cent of capital investments go into labour-saving types of producer technologies) and this sharpens the problem of employment and erodes the conditions for the normal reproduction of labour-power; the scale and social amplitude of unemployment are widened. All of that goes to depress the working people's living standards and to create a socially explosive situation for capitalism, thereby aggravating the problem of social-product realisation in the economically developed capitalist countries.

*The Capitalist Countries' Internal Market
and the Realisation Problem Today*

Reproduction is simultaneously the process in which material goods are produced and realised. Under capitalism, social-product realisation is a most intractable problem. The capitalist countries' domestic market was formed from the 1950s to the 1980s under the impact of the STR and structural changes in production and consumption, state-monopoly regulation, mounting militarisation, internationalisation of production, and a number of other factors, which had a highly contradictory effect on the process of reproduction and the state of the domestic market. On the one hand, they did something to expand its volume and so stimulate production in the 1950s and 1960s, and on the other, prepared the objective conditions for the over-production and over-accumulation of capital. Thus, the STR led to the emergence and rapid growth of new industries, accelerated the obsolescence of fixed capital, the re-equipment of households (cars, electric appliances, radio, television, etc.), the growth of Department II industries, the technical re-equipment of the armed forces, and the manufacture of military hardware.

The state exerts its influence on the domestic market directly, both as a special consumer (buyer) of the means of production and of the articles of consumption, and also of military hardware and other armaments: 20-25 per cent of the social product is realised on the state market in the developed capitalist countries. In addition, the state exerts an influence on the volume, structure and dynamics of the domestic market indirectly (through the system of tax levies and privileges, through the credit and monetary mechanism, measures of social manoeuvring, etc.), thereby either stimulating or reducing effective demand.

Militarisation and state-monopoly military consumption are a specific factor which goes to influence the reproduction of capital. In economic terms, the militarisation of the economy is the most parasitic form in which the society's productive forces are used, and it has a negative impact on reproduction because it gives social production an ugly, lopsided twist and aggravates its disproportions.

The internationalisation of capitalist production is now an important factor in shaping the domestic market in the leading capitalist countries. When analysing the problem of realisation, Marx and Lenin did not consider the external markets, although Lenin demonstrated theoretically their especial importance as capitalism developed and was international-

ised.¹ The main reasons for the growing influence of external economic factors are the ever greater economic dependence of the individual countries, the vastly more complicated process of scientific and technical renewal, the reduced potentialities for most states in the supply of their own raw materials, fuel, foodstuffs and high technology products.

The internationalisation of production is manifested in the fact that the dynamics of external economic exchange—the growth of the export quota—tends to outrun growth rates in the capitalist world's economic development.

It follows, therefore, that the existence not only of a domestic, but also of a significant external market, on which roughly a quarter of the developed capitalist countries' social product is now realised, is a necessary condition for the reproduction of capital. The growing dependence on external markets in the presence of marketing difficulties sharpens the competition and the external economic contradictions between the imperialist countries and groups of countries.

An analysis of the peculiarities of capitalist reproduction today suggests the following conclusions: first, the domestic market in the developed capitalist countries has to some extent expanded in the post-war period; and second, the socialisation of production under the STR has aggravated the basic contradiction of capitalism.

Peculiarities of the Capitalist Cycle Today, and the Factors Behind Them

When examining the economic crises of the post-war period and their peculiarities, one should proceed from the fact that capitalist attempts to adapt to the new conditions have failed to stabilise capitalism as a social system. The mechanism of the capitalist cycle is being modified under the impact of various factors, some of which are transient (such as World War II and its aftermath), while others tend to be ever more crucial and permanent. Among the latter are the new state of the STR and structural shifts in the economy; the growth of state-monopoly capitalism and the power of the international monopolies; the proletariat's mounting class struggle in the capitalist countries, and the struggle between the two world economic and social systems; the collapse of imperialism's colonial system; the sharpening inter-imperialist contradictions; and the fight for markets and sources of raw materials and energy.

¹ See: V. I. Lenin, "On the So-called Market Question", *Collected Works*, Vol. 1, 1977, pp. 101-02.

The industrial production dynamic in the imperialist countries in the post-war period serves to confirm that the capitalist system continues to develop cyclically. Thus, in the post-war period, the United States has gone through seven economic crises of over-production, while the West European countries and Japan suffered their first recessions only in the late 1950s.

An analysis of the post-war course of capitalist reproduction helps to bring out some of the peculiarities of the cycle today. Capitalist reproduction remains cyclical and world crises periodic (1957-1958, 1967-1968, 1974-1975, and 1980-1982). Until the mid-1970s, cycles were asynchronous (i.e., the maturing and outbreak of crises in the individual countries and regions did not coincide in time). Over-production crises were less deep, and in some cases less protracted than they were in the 1920s and 1930s.

Post-war economic crises have, as a rule, led to a growth, instead of a decline, in prices, the result of the monopolies' domination and growing economic strength. That has modified the mechanism by which production and consumption are temporarily brought into balance. Apart from crises, the balancing function is performed by the militarisation of the economy, chronic underloading of capacities in production, chronic mass unemployment, and external expansion.

The 1974-1975 economic crisis was an unusual one and surpassed all earlier post-war crises. First, it simultaneously hit all the leading capitalist countries and all the sectors of the economy. Second, it was made most acute by the spiralling inflation (the rate of inflation in the group of developed capitalist countries was three times higher from 1971 to 1975 than it was from 1966 to 1970), and the mass unemployment. Third, the crisis proceeded under energy, raw materials, food, monetary, financial and other crises, which are long-term and run beyond the framework not only of the current but also of the subsequent economic cycles.

The capitalist economy began to pull out of the crisis in the latter half of 1975, and even reached the recovery phase, but the recovery was extremely flabby and unstable. One could draw the conclusion, therefore, that the 1974-1975 crisis was a peculiar watershed in the capitalist countries' post-war economic development. It failed to resolve the contradictions which had caused it, and indeed, made them even sharper, so paving the way for another crisis in the 1980s, which hit all the major countries and regions of the non-socialist world, and every sector of the economy, with great turmoil in monetary and financial relations that struck hard at the condition of the working people.

Chapter Twenty-Three

THE GROWING UNEVENNESS OF CAPITALIST DEVELOPMENT AND THE SHARPENING CRISIS OF THE WORLD CAPITALIST ECONOMY

The study of the problems of imperialism and the general crisis of capitalism ends with the problem of the sharpening inter-imperialist contradictions in the world capitalist economy.

The Crisis of the World Capitalist Economic System

The onset of the general crisis of capitalism signified the start of the crisis of the world capitalist economic system, which is aggravated as the general crisis of capitalism deepens.

In a plan for his theses for a 1920 report, Lenin underscored the following point: "dislocation", "break-up" of the whole world economic system.¹ He said in his report that the "mechanism" of the world capitalist economy is falling apart."²

The crisis of the world capitalist economic system is characterised, first, by a shrinking of the territory it covers in consequence of socialist revolutions in a number of countries of Europe, Asia and Latin America; second, dwindling possibilities for the imperialist exploitation of the less developed regions as a result of the collapse of the imperialist colonial system and the establishment of equitable economic relations between the newly-liberated and socialist countries; third, deepening contradictions between the imperialist countries and the struggle for a redivision of their spheres of influence owing to their uneven development.

The first and second points were examined in Chapters 16 and 17, and now require no more than a few additions. Economic relations between the imperialist countries and the young nations are now in a state of intensive crisis, which is based on the continued economic oppression of the liberated peoples, despite the fact that imperialism's colonial system has, for all practical purposes, fallen apart. It is true that manufacturing

¹ V. I. Lenin, "To the Executive Committee of the Communist International", *Collected Works*, Vol. 35, 1980, p. 451.

² V. I. Lenin, "The Second Congress of the Communist International", *Collected Works*, Vol. 31, p. 222.

in the newly-free countries has grown somewhat faster than it has in the developed capitalist countries (an average of 5.8 per cent, as compared with 4.2 per cent a year from 1951 to 1984), but that is clearly inadequate for making up their lag. What is more, there is a growing absolute gap in production and consumption levels between these two groups of countries.

The Capitalist Countries' Uneven Economic Development and the Formation of Three Imperialist Rivalry Centres

The economic ties between the developed capitalist countries form the largest part of the world capitalist economic structure, and their exports to each other account for over one-half of world capitalist exports. That is why the imperialist in-fighting for marketing outlets, fields of capital investment and spheres of influence are an important manifestation of the crisis of the world capitalist system.

Inter-imperialist relations are known to be based on positions of strength, while the economic balance between the capitalist countries tends to change through the workings of the law of their uneven economic and political development.

The pace of manufacturing growth in these countries has markedly differed in the post-war period. In the 1950s and 1960s, Japan's manufacturing grew five times faster than Britain's. The FRG's (in the 1950s and 1960s) and France's (in the 1960s) likewise grew at a rapid rate.

The growth differential tilted the imperialist countries' economic balance.

From 1960 to 1984, the US share of the developed capitalist countries' manufacturing output fell from 39.5 to 37.8 per cent, Britain's from 8.2 to 4.8 per cent, and the FRG's from 15.6 to 12.5 per cent, while Japan's went up from 6.8 to 16.2 per cent, a 140 per cent increase. The main change was that Japan, which was in fifth place in 1960, outstripped France, Britain and the FRG and forged ahead to second place in manufacturing output in the capitalist world. Britain, which was third in 1960, was pushed down to sixth place.

The STR and state-monopoly capitalism now have the crucial influence on the capitalist countries' uneven economic development, both having a direct effect on the rate of accumulation. Thus, Japan's is double that of Britain's.

The US economy has lost its absolute preponderance over the rest of the post-war capitalist world under the impact of the law of the capitalist countries' uneven economic and political development. The US monopolies were frustrated in their

intention to bend the capitalist countries to their control for a long time to come. By the early 1970s, there was a clear delineation of the chief centres of imperialist rivalry—United States, Western Europe and Japan—which are locked in ever more acute economic and political competitive in-fighting.

The Sharpening of the Inter-Imperialist Contradictions Today

Changes in the economic balance between the major capitalist countries in consequence of their uneven development lead to a sharpening of their inter-imperialist contradictions and more savage fighting for marketing outlets, sources of raw materials and energy, and fields of capital investment.

The United States, Japan and the West European countries—FRG, France, Britain and Italy—are the protagonists of the inter-imperialist struggles. The four latter are leading members of the EEC and have tried to involve other members in the economic fight against the United States and Japan. That is why the inter-imperialist struggles are above all between these three imperialist centres.

Here are some of the main lines of struggle between these centres.

Rivalry in foreign trade. The battles are being fought mainly over the ever greater potentialities for the export of manufactures and the import of fuel and raw materials. World trade, both in exports and in imports, has been growing from year to year, and each imperialist country strives to get a bigger slice of it.

In the fight for external markets, the imperialist states lower export prices when on the offensive, and use various protectionist measures when safeguarding their domestic market.

Imperialist rivalry in the Common Market. This imperialist centre was formed by West European countries which have remained politically independent and which have set up a customs union.

Inter-imperialist battles in the EEC are being fought along various lines, especially on agricultural policy. The EEC has common agricultural prices (Common Agricultural Policy—CAP), but the conditions of production differ markedly from one country to another, apart from the fact that their exchange rates keep fluctuating with respect to one another. In order to obtain compensation for its losses, France, the major exporter of farm produce, secured the introduction of foreign-exchange compensations for farm exports, but the struggle over the export and import of farm produce has not subsided.

Inter-imperialist struggle in the monetary sphere. The existing international monetary system was set up in 1944 at a financial conference of a group of countries led by the United States (Germany and its allies naturally took no part in it). It set up the International Monetary Fund (IMF), of which more than 130 states are now members. It was formed for the purpose of establishing a solid currency for international settlements. At the end of the war, the United States had two-thirds of the world's gold stock, so that the paper dollar was a fairly reliable instrument in international relations, because it was freely exchangeable into gold at \$35.00 per ounce (31.1 grams). The role of the United States in the IMF was further enhanced by its contribution-weighted 21.5 per cent of the votes, so that it could block any undesirable decisions. (Important decisions required 80 per cent of the votes). On the strength of its positions in the world economy, the United States got the paper dollar recognised as the sole gold-pegged currency, i.e., the only one circulating on a par with gold. The IMF has always been an instrument of imperialist policy, US imperialist policy in the first place.

In the early 1970s, the dollar ceased to be freely exchangeable into gold, and its exchange rate dropped, so sparking off a crisis in the international monetary system of imperialism. Gold has been withdrawn from circulation, and special drawing rights (SDRs), known as paper gold, are now used for international settlements.

The EEC countries (with the exception of Britain) set up the European Monetary System for their mutual settlements instead of the dollar, which no longer has their confidence. With that end in view, they also set up a common European monetary fund and introduced a European Currency Unit (ECU), as the instrument of payment for the EEC central banks.

The long and short of it is that there is no sign of the economic contradictions between the capitalist states going away. Meanwhile, imperial ambitions and the selfish policies of the monopolies/US monopolies in the first place, and their readiness to sacrifice the interests of other states out of economic considerations, have been generating growing tensions in the capitalist world.

Chapter Twenty-Four

CRITIQUE OF BOURGEOIS THEORIES OF CAPITALIST ECONOMICS

Below is a general exposition of anti-Marxist concepts on various aspects of capitalist development today, the evolution of some of the most widespread theories, and the main manifestations of the deepening crisis of bourgeois economics. It is of prime importance to expose the theoretical flimsiness and great practical harm of the apologetics of the last exploiter system in the acute ideological struggle between socialism and capitalism.

The Crisis of Bourgeois Economics

The crisis of bourgeois economics, which keeps asserting the myth that the capitalist society will not change and that it is here to stay, broke out with the appearance of Marx's *Capital* and the scientific formulation of the law-governed transition from capitalism to socialism.

The crisis of bourgeois economics, as of the whole of bourgeois ideology, is full-blown now that it is perfectly obvious that the doctrines and postulates on the economic prospects of capitalism are totally invalid. The division of the capitalist world, the victorious socialist revolutions in a number of countries, the formation of the world socialist system and its successes in the world-wide economic competition with capitalism are the key factors in deepening the crisis of bourgeois economics.

Many leading trends in bourgeois economics have been invalidated against the background of the general crisis of capitalism. Its first stage revealed the failure of the traditional bourgeois neoclassical school, while the world economic recession of 1929-1933 dealt a crushing blow at the inordinate praise of capitalist economic prosperity.

The second and third stages of the general crisis of capitalism, the 1970s especially, put paid to the bourgeois theories of the planned economy, the crisis-free advance of the "affluent society", and the dogma that unemployment and inflation could not grow together.

The unrealistic recommendations for stimulating capitalist economic growth and raising economic growth rates point to the crisis of bourgeois economics. Capitalism has not been saved by the budget and credit policies and the legislation worked out by economic advisers and put through in the imperialist countries. Over the past few decades, industrial output rates have been more than halved, while prices and the reserve labour army have grown.

The bourgeois economists' theoretical concepts have collapsed because of their metaphysical, idealistic method in analysing the state of capitalism, an approach which is most glaring in works denying the existence of objective economic laws.

Critique of the Regulated Economy Theory

The capitalist world's current economic difficulties testify to the failure of the Keynesian methods of economic regulation, which suggest the need for state intervention in the economy. That has been most manifest in the economic crises of over-production in the 1970s and 1980s, the structural crises, and the sharp and continuous growth of prices and unemployment. For that reason there has been a more critical attitude among bourgeois economists to state intervention in the economy, and greater efforts to defend and spread the idea of "free private enterprise", and a return to the neoclassical school of economics. In the United States, it has assumed the form of Reagan's economic policy, which is known as Reaganomics. The gist of the idea is that the economy needs to be completely bent to the interests of big business, with cutbacks in social programmes, and curbs on the redistribution of incomes in favour of the poorer strata of the population.

The US government's economic advisers have worked out concrete measures designed, they claim, for a long-term "functioning" of the economy: a lesser role for the budget, promotion of private savings and net profits at the disposal of the monopolies, and tax cuts to stimulate private investment. Inflation is to be fought and the monetary system consolidated through long-term credit and monetary policies; direct state intervention in price-formation and the public services and administrative and legislative controls of environmental protection and work safety are to be limited.

When this programme was put into practice, it revealed that the promises "to revive the economy and take it to prosperity" were unrealistic and groundless. Similar results are in

evidence in Britain, whose conservative government is a proponent of such policies.

The ideological crisis of bourgeois economics has, therefore, continued to deepen.

Bourgeois economic thinking today is represented by various schools and trends. Thus, throughout the 1950s, the neoliberal trend was characteristic for the FRG; it denied the need for state intervention in the economy, i.e., it proclaimed the idea of a free market economy. In the early 1960s, economic policies in that country were based on a combination of Keynesianism and neoliberalism. In the late 1970s and early 1980s, there was a growing urge to limit state intervention and expand the influence of the market and of private capital. But the state's policies and economic incentives continue to assure the monopolies of the high profits they need for new investments.

Bourgeois economic theories now devote special attention to the STR and various concepts of the industrial and "post-industrial" society. In the 1970s, Keynesianism and the neo-classical trend were sharply criticised by J. K. Galbraith, a prominent bourgeois economist who led the social-institution trend. He announced a new approach to state-monopoly regulation of the economy with an eye to increasing investments in the "institutions" which are connected with the study of "the quality of life".

The overall conclusion is that there is no coherent theoretical concept in the imperialist countries of Western Europe and the United States that would have the support of all the economists and would help to hammer out an effective economic policy. Depending on the concrete situation, bourgeois theories seek to engineer their own model of economic development of which the necessary components are always the market, private capital, and the measures and scale of state regulation of the economy that could do something to keep the capitalist system going and bolster it.

The theoretical concepts worked out by Japanese bourgeois economists have their own peculiarities. They are a combination of the elements of the Japanese way of life and the organization of production: the practice of life-time employment and the "grouping" of enterprises, which is the pooling of many subcontractors, a practice under which the free market does not allegedly have the key role to play.

Behind the demagogic talk about the Japanese economy being "exclusive", about its being free from contradictions, and about the community of interests, there are the most brutal forms of the working people's exploitation, the practice that

in the first place determines the strengthening positions of the Japanese monopolies within the world capitalist economic system. The "exclusiveness" concept is now the main line of Japan's economic and social development plans. It is being most actively used in the ideological brainwashing of the working people in that country. Meanwhile, Keynesian methods of economic regulation are being most widely used in the credit and financial sphere.

PART TWO

SOCIALISM, THE FIRST PHASE OF THE COMMUNIST MODE OF PRODUCTION

Chapter Twenty-Five

THE SUBJECT-MATTER OF THE POLITICAL ECONOMY OF SOCIALISM. ITS ROLE AS THE SCIENTIFIC BASIS OF THE PARTY'S ECONOMIC POLICY

The political economy of socialism makes a study of the relations of production and economic laws governing the production and distribution of material goods, the mechanism by means of which these laws are used in socialist economic practice, and the law-governed economic processes and ways in which the new society is improved, with an examination of the economic and social relations taking shape within the world socialist system as a component part.

The Subject-Matter of the Political Economy of Socialism

The subject-matter of the political economy of socialism is the new type of production relations, which rule out man's exploitation by man and parasitic living.

Social property in the means of production in its two forms—the whole people's (state) property and collective-farm (kol-khoz) and cooperative (collective) property—is the basis of the socialist economic system, with state property being the key form in the entire economic basis of the society. But both forms of socialist property are a common asset of the working people expressing the collectivist relations between them over the use of the means of production for the common good. Socialist property does away with every kind of exploitation and generates relations of comradely cooperation and mutual assistance.

For the first time in history, the working people are enabled under socialism to work for themselves and their society, after centuries of bondage labour in pre-socialist antagonistic-class formations.

Social property has the key role within the system of all the economic categories studied by the political economy of socialism. Many of these categories have already been analysed in the political economy of capitalism course, such as value, use-value, commodity, abstract and concrete labour, money, credit, profit, costs of production, wages, differential rent, labour-power, necessary and surplus-labour, and simple and expanded reproduction, but in real content they differ drastically from similarly-denominated categories of the capitalist economy. The point is that under capitalism, these categories express the antagonistic-class economic and social relations, and under socialism—relations of comradely cooperation and mutual assistance. Under socialism, there is no room for exploitation.

Socialist production is developed in a balanced way. Social property makes production and labour directly social and makes "every citizen a member of a single nation-wide, or rather, state-wide cooperative".¹ That eliminated the objective basis for anarchy in production and for competition. For that reason, socialist production is "social production controlled by social foresight"².

Scientific foresight in economic and social development was made possible by a knowledge of the substance and requirements of the objective economic laws and by an analysis of the way they work. In a society in which socialist property is preponderant, these laws are used consciously and in a balanced manner on the basis of in-depth scientific knowledge. Engels emphasised this idea when he said that economic laws, once an alien force dominating human beings, are subordinated to human domination under socialism and are used by human beings with a full knowledge of what they are about.³

The fact that economic laws no longer operate spontaneously does not signify that they have ceased to be objective under socialism. The society cannot either abolish these laws or change their substance, but the socialist society can, once these economic laws have been understood, use them for managing social production in a balanced manner and solving the

¹ V.I. Lenin, "Original Version of the Article 'The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 27, 1977, p. 216.

² Karl Marx, "Inaugural Address of the Working Men's International Association", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 20, 1985, p. 11.

³ See: Engels, *Anti-Dühring*, p. 327.

problems which are objectively ripe for solution. That is what economic freedom of action means.

The requirements of objective economic laws are reflected in the economic policies of the party and the socialist state. Lenin says that "politics is a concentrated expression of economics".⁴ As an element of the superstructure, politics is determined by the economic basis, but it does not remain passive with respect to the basis.

In a sense, politics has primacy over economics, and Lenin believed that to be an elementary tenet of Marxism. The CPSU has always approached the formulation and solution of economic problems from the political standpoint, looking above all to the whole people's economic interests, and also to the interests of the classes and various social groups of the population. The political economy of socialism examines the relations of production in their close and indissoluble connection with the productive forces and the superstructure, above all with the party's economic policy and the economic role of the state.

The party's economic policy is guided by economic strategy. It formulates long-term, fundamental goals and tasks in the society's economic and social development and outlines the cardinal ways (methods) for their fulfilment. In contrast to strategy, economic tactics includes concrete ways and means for tackling the planned tasks in a given, relatively short period (say, a year or five years), for identifying the "bottlenecks" in the economy, working out measures to break these, and "manoeuvring" for the more efficient use of both the consumed and the accumulated part of the national income.

The political economy of socialism sums up the experience of economic strategy and tactics both in the practical application of theoretical conclusions and in their verification.

The Method of the Political Economy of Socialism. Its Role in Socialist and Communist Construction

The Marxist-Leninist political economy makes use of the genuinely scientific method of materialist dialectics, which studies the most general laws of the development of Nature, the society and human thought.

The method of political economy comprises a set of ways and means for understanding the relations of production and their reflection within the system of economic categories and

⁴ V.I. Lenin, "Once Again on the Trade Unions, the Current Situation and the Mistakes of Trotsky and Bukharin", *Collected Works*, Vol. 32, 1977, p. 83.

laws. The method of political economy in the broad sense was dealt with in the Chapter One of this course. Applying this general method to an analysis of the socialist basis has certain peculiarities which are determined by the basic features of the subject-matter of this science.

Political economy relies in its study of the relations of production on an integral historical and logical approach. In his *Capital*, Marx begins his analysis of the capitalist mode of production and the corresponding economic relations with the commodity, the unit (cell) of the bourgeois society which contains all its contradictions in embryo. This logical point of departure in analysis accords with the actual historical development, because capitalist production originated on the basis of simple commodity production.

The socialist system of production relations historically originated from the emergence of socialist property in the means of production, which is why a logical analysis of socialism must start from the economic activity of the society as a whole, of the integral national-economic complex, instead of individual enterprises as it is done under capitalism. That is one of the specific features of the method of the political economy of socialism. State socialist property turns the whole of social production, says Lenin, into one factory, into one syndicate.

Another specific feature of the method of the political economy of socialism springs from the larger practical function of the science. Under socialism, there is a new quality in the historical phenomenal form of objective economic laws, which have ceased to operate haphazardly. Their conscious application puts upon political economy the particular task of showing the mechanism by which laws operate and are used, of substantiating the party's economic policy, and the function of the socialist state in economic construction, in the organisation of social labour and the administration of the national economy. All of that means that the theoretical conclusions concerning the ways of developing the production relations must be expressed in more concrete terms. The wider range of problems, the fulfilment of challenging tasks in socialist and communist construction inevitably implies that the methods and techniques of analysis need to be given greater depth.

The political economy of socialism attaches special significance to the organic unity of theory and practice and to the testing of theoretical conclusions and recommendations in social experiments. The test of practice—the criterion of truth—helps to identify the ideas that are obsolete and gives free scope for scientific generalisations of new phenomena in life.

Economic processes and objective laws lend themselves not only to characterisation in terms of quality, but also in terms of definite quantity, which results from the ever greater application of mathematical formalism. That is another specific feature of the method of the political economy of socialism. These methods provide the methodological basis for working out goal-oriented techniques in planning, scientific principles and ways of drawing up inter-sectoral balances, constructing models for the accelerated growth of the socialist economy, analysing ways for improving national-economic end-results, using of a planned-prices system, and studying financial and credit relations.

The applications of mathematical formalism in the political economy of socialism for quantitative analysis is an expression of its method in more concrete terms. That does not minimise the role of qualitative and social analysis of categories and laws. Indeed, it has primacy in the study of economic processes.

The political economy of socialism is not a substitute for concrete sectoral (economics of industry, building, labour and agriculture), functional (finance, credit, statistics, administration and management) and other special economic sciences, but serves as their methodological basis and, for its part, uses the data provided by them to test its theoretical conclusions and to enlarge the framework for analysing the relations of production and their concrete forms.

The relations of production studied by the political economy of socialism are neither rigid nor ossified, for it considers economic categories and laws in their ceaseless movement, and shows how the essential features of communism gradually mature in the socialist society.

The political economy of socialism gives millions of men and women knowledge of the law-governed economic processes in the formation and development of socialism, its all-round perfection and subsequent evolution into communism, and an understanding of the incontestable superiority of the socialist system over the capitalist system, thereby performing an important ideological function: it is actively involved in moulding the communist world view.

The political economy of socialism is a science that is permeated with the class and party spirit. It studies the relations of production from the standpoint of the working class, the most advanced and organised class, whose interests are completely identical with historical social progress and the advance of the society. That is why the party spirit of the political economy of socialism and the scientific objective approach to the study

of the economic categories and laws of the socialist economy are in complete accord with each other.

The Marxist-Leninist political economy, as a class and party science, is engaged in relentless ideological struggle with the distortions of the doctrine of the socialist economic basis, combatting both "leftist" and right-wing opportunism.

The "leftist" opportunists take a dogmatic view of theory and refuse to recognise that it is enriched in the light of the summed-up experience of socialist and communist construction. They either deny or ignore the objective character of economic laws operating under socialism, and take a subjectivist approach to the formulation and solution of the problems of economic construction. They fail to see the relation between political economy and economic policy, separate politics from economics, and contrast the two. Their subjectivist slogan "Politics is the commanding force" is designed for erecting a "barrackroom socialism". Subjectivism in economic policy and adventurism in economic practice result in a distortion of the socialist economic basis.

Right-wing opportunists deny that the whole people's property is the chief component of the socialist relations of production, distort Lenin's principle of democratic centralism in running the economy and keep minimising the economic role of the socialist state. They reject the scientific principles of socialist economic management, lay emphasis on the play of market forces, and play down the planning element in socialist construction.

"Leftist" and right-wing opportunists have done much harm in the practical activity of Marxist-Leninist communist and workers' parties, which is why the creative elaboration of political economy nowadays also entails more vigorous struggle against either of the two trends.

At the present stage of communist construction in the Soviet Union efforts are being concentrated on the further theoretical elaboration and practical solution of the problems in building up the material and technical base of communism, developing the relations of production, enhancing the efficiency of social production, improving working conditions, perfecting economic administration and management, more rational use of labour resources, and the expanded reproduction of skilled labour-power.

Chapter Twenty-Six

THE FORMATION AND DEVELOPMENT OF THE COMMUNIST MODE OF PRODUCTION

Marx and Engels exposed the basic contradiction of capitalism, that between social production and private capitalist appropriation, a contradiction which cannot be resolved within the framework of the capitalist economic system, and which requires transition from capitalism to communism, i.e., liquidation of private property in the means of production and the establishment of social socialist property.

General Features and Specifics of the Two Phases of Communism

The founders of Marxism showed that there would be a law-governed transition from capitalism to communism as a result of the advance of the historical social process.

They worked out the theory of classes and the class struggle and saw the need for the proletariat's winning of political power in order to create the new social system, which meant that the proletariat is "to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the state, i.e., of the proletariat organised as the ruling class; and to increase the total of productive forces as rapidly as possible."¹

The basic features of the communist economic and social formation were described in Marx's *Critique of the Gotha Programme* and Lenin's *The State and Revolution*. The gist of these is that the communist formation passes through two phases in the course of its development: a lower phase, which is socialism, and a higher phase, which is full communism. Their common feature is the complete preponderance of social property in the means of production. The relations of production are based on comradely cooperation and mutual assistance, while the labour of citizens is free from exploitation, being

¹ Karl Marx and Frederick Engels, "Manifesto of the Communist Party", *Collected Works*, Vol. 6, 1984, p. 504.

universal and directly social labour. In both phases of the communist formation, production is geared to the single goal expressed in its basic economic law. This goal is attained through the sustained growth and perfection of social production, which functions in a balanced manner. At the same time, socialism and communism are two different phases of the communist formation, which differ in the level to which the productive forces have been developed, the level of maturity attained in the relations of production, and of the communist consciousness of the members of the society. Communism has a much higher level in the development of the productive forces, which ensure an abundance of material goods and make it possible to go on from the principle of distribution by labour to the principle of distribution according to wants. In place of the two forms of social property under socialism, an integral communist, whole people's property will be established. The class distinctions which exist under socialism between workers and collective farmers will be obliterated and classes will disappear, together with the essential economic and social distinctions between town and country, and between manual and mental labour, the antithesis between which has already been eliminated under socialism. With communist property entirely preponderant, production will be supremely balanced and well organised. Under socialism work for the society has yet to become a prime vital want for one and all, but under communism it will become such a conscious want. At the same time, distribution by labour will give way to distribution according to wants. The commodity forms of production relations used in the socialist society will wither away, and truly harmonious relations between the individual and the society will be established.

The transition from the first phase of communism to the second will signify a qualitative leap, but one without a social revolution. As socialism develops and changes, it gradually evolves into communism. The economic conditions in which this evolution can take place are described in the above-mentioned works.

At this point, a closer look needs to be taken at the following methodologically important issue. When Marx said that socialism was the lower phase of communism, he added that it was a society which is "in every respect, economically, morally and intellectually, still stamped with the birth marks of the old society from whose womb it emerged"². He made another

² Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works*, in Three Volumes, Vol. Three, p. 17.

point relating to the higher phase of communism that after the enslaving subordination of the individual to the division of labour, and therewith also the antithesis between mental and physical labour, had vanished; after labour had become not only a means of life, but life's prime want; after the productive forces had also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly—only then could the narrow horizon of bourgeois law be crossed in its entirety and society inscribe on its banner: From each according to his ability, to each according to his needs!.³

*Period of Transition From Capitalism to Socialism.
General Uniformities of the Transition Period*

The revolutionary transformation of capitalism into socialism requires a special transition period, which begins with the winning of political power by the working class in alliance with the peasantry, and ends with the victory of socialism, the first phase of the communist society.

The need for a transition period was first demonstrated by Marx in his *Critique of the Gotha Programme*, in which he says: "Between capitalist and communist society lies the period of the revolutionary transformation of the one into the other. Corresponding to this is also a political transition period in which the state can be nothing but the *revolutionary dictatorship of the proletariat*."⁴

Marx reached the conclusion concerning the need for a special transition period when elaborating the general theory of the proletarian revolution and bringing out its basic distinction from any bourgeois revolution. The capitalist relations of production originate and develop within the entrails of the feudal system, because feudalism and capitalism have the same type of economic basis: private property in the means of production.

It is another matter when it comes to socialism, which is based on social property that cannot originate or develop within the entrails of capitalism. It is formed through the nationalisation of capitalist property. In order to create the conditions for its formations and consolidation, it is important above all to destroy the bourgeois state which stands on guard of capitalist property, and to establish the dictatorship of the proletariat,

³ See: *Ibid.*, p. 19.

⁴ *Ibid.*, p. 26.

which transfers the means of production into the hands of the working people. Marxism-Leninism stresses the key significance of the general uniformities of the transition period—establishment of the dictatorship of the proletariat led by the communist party, alliance of the working class and the main mass of the peasantry and other labouring strata, liquidation of capitalist property, and introduction of social property in the basic means of production—but urges the need to reckon, when building socialism, with a country's national, economic, historical, geographic and other specific conditions. Lenin says: "All nations will arrive at socialism—this is inevitable, but all will do so in not exactly the same way, each will contribute something of its own to some form of democracy, to some variety of the dictatorship of the proletariat, to the varying rate of socialist transformations in the different aspects of social life."⁵

That is how it has actually happened in practice. None of the now existing socialist countries have mechanically repeated the experience of others in the forms, methods and ways of the socialist revolution. The GDR or Poland, Hungary or Cuba, Mongolia or Yugoslavia, in short all the socialist countries have carried out their revolution in their own way in the forms that were dictated by the balance of class forces within each of these countries, by the national peculiarities, and by the external situation.

*Economic and Social Sectors in the Transition Period.
Contradictions of the Transition Period*

A multi-sectoral economy is the characteristic feature of the transition period. What is common to all the countries effecting socialist transformations is that they all have a socialist, a petty-commodity, and a capitalist sector, which Lenin said were the basic forms of the social economy in any country.⁶

Lenin says that the socialist sector is the leading one, for it emerges and develops from the nationalisation of capitalist property and the voluntary cooperation of the farms of small private producers. The basic means of production are nationalised

⁵ V.I. Lenin, "A Caricature of Marxism and Imperialist Economism", *Collected Works*, Vol. 23, 1977, pp. 69-70.

⁶ See: V.I. Lenin, "Economics and Politics in the Era of the Dictatorship of the Proletariat", *Collected Works*, Vol. 30, 1977, p. 108; see also: V.I. Lenin, "'Left-wing' Childishness and the Petty-Bourgeois Mentality", *Collected Works*, Vol. 27, 1977, p. 336, and V.I. Lenin, "The Tax in Kind", *Collected Works*, Vol. 32, 1977, pp. 330-33.

mainly through the confiscation of the property of the exploiter classes without compensation. Now and again, partial compensation is paid for the means of production owned by the exploiters. Other economic measures, such as progressive taxes, are also used to convert such property into the property of the socialist state.

The sectors of material production and the sphere of circulation are converted into the property of the proletarian state by means of nationalisation, so giving the state control over the commanding heights of the economy to use for social transformations and development of the socialist relations of production.

The multisectoral economy is the basis for the existence of classes—the working class, the peasant small-holders, and the bourgeoisie—the social forces of the transition period.

The transition period is one of acute struggle between the ruling working class and the power-deprived bourgeoisie, and between the socialist and the capitalist sectors. Lenin says that the “transition period has to be a period of struggle between dying capitalist and nascent communism—or, in other words, between capitalism which has been defeated but not destroyed, and communism which has been born but is still very feeble.”⁷ Lenin makes the point that this contradiction is manifested in irreconcilable class struggle on the “who beats whom” principle, and is resolved through the liquidation of the capitalist sector and the remnants of the exploiter elements, and the complete triumph of the socialist sector.

Alongside the basic antagonistic contradiction of the transition period economy, there are also various non-antagonistic contradictions, among them the contradiction between the historically advanced superstructure—the socialist state—and the backward economy, and between large-scale socialist industry and the small-holder peasant economy. Contradictions could also arise in the relations between the working class and the peasantry over some economic and fiscal policy issues. The non-antagonistic contradictions are resolved through the building up of the material and technical base that is adequate to socialism, through the collectivisation of the petty-commodity economy, and the consistent consolidation of the alliance of the working class and the peasantry in the socialist state.

⁷ V.I. Lenin, “Economics and Politics in the Era of the Dictatorship of the Proletariat”, *Collected Works*, Vol. 33, p. 107.

Lenin's Plan for Building Socialism.
The Victory of Socialism and Its Basic Features

The victory of the Great October Socialist Revolution in Russia posed the task of building a new, socialist society, a society historically more progressive than capitalism. Lenin worked out the plan for building socialism, and it now has the world-wide historical significance of setting an example for other countries.

Lenin's plan for building socialism includes the country's industrialisation, the socialist transformation of agriculture, and a cultural revolution. Lenin's plan is based on the need to build up material and technical facilities in industry and agriculture and develop in every way the human factor in production, i.e., wholesale literacy for the population, utmost growth of culture and the forming of a new intelligentsia from among the workers and peasants. It envisaged the gradual shaping of socialist relations of production in town and country through the build-up of the material and technical base of socialism.

Lenin's plan has become pivotal to the party's economic policy, which is aimed at ensuring all-round development of the socialist sector, multi-faceted ties and cooperation between industry and the petty-commodity peasant economy (a bond between town and country) in order to consolidate the worker-and-peasant alliance and involve the broad masses of the peasantry in socialist construction.

Lenin's plan is set forth in a number of his programmatic works, notably *The Immediate Tasks of the Soviet Government*, which outlines the approach to laying the foundations of the socialist economy.

During the civil war, the young Soviet Republic was forced to switch to a policy of "war communism", which meant that the proletarian state took control of the whole of industry and the distribution of food. It also meant the requisitioning of food surpluses from the peasants, the universal duty to work, and stringent centralisation of economic administration and management.

With the end of the civil war, the party was faced with the problem of peace-time economic construction, and that called for a new economic policy to regulate the working relations between town and country. Commodity-money relations had to be restored in order to arrange solid economic ties between industry and agriculture, and to consolidate the worker-and-peasant alliance. The theoretical principles of the New Econom-

ic Policy (NEP) were set forth in Lenin's work called *The Tax in Kind*, in which he showed the need to substitute a tax in kind for the food requisitioning, an approach that helped to rehabilitate agriculture. It was also necessary to use state capitalism for the purpose of reviving the economy. Lenin showed that since the commanding heights of the economy (industry, transport and the banks) were in the hands of the proletariat, there was no danger for the dictatorship of the proletariat from the development of trade and the enlivening of capitalist elements.

NEP helped to overcome the economic dislocation and to create the conditions for industrial development. That was the basis on which the foundations of the socialist economy were laid, the worker-and-peasant alliance consolidated, and the triumph of socialism ensured in every sector of the national economy.

The practice of socialist construction in other countries has borne out what Lenin predicted in 1921, when he said that "this task which we are working on now, for the time being on our own, seems to be a purely Russian one, but in reality it is a task which all socialists will face."⁸

Before considering the basic elements of Lenin's plan for building socialism, let us look first of all at the building up of the material and technical base that is adequate to socialism. It comprises the whole range of the material elements of the productive forces, technologies, and forms in which production is organised on the basis of social property in the means of production. This production is large-scale, highly concentrated, specialised and rationally located across the country. Lenin says: "Large-scale machine industry and its extension to agriculture is the only possible economic basis for a successful struggle to deliver mankind from the yoke of capital."⁹ A reliable material foundation for socialist property can only be provided by well-developed social production.

Socialism must, furthermore, assure the working people of a higher living standard as compared with that under capitalism, and that means a higher level of labour productivity, which can be attained solely through the use of machines. It is also of paramount importance for a country taking the way of socialist construction to ensure its defence capability and economic independence.

⁸ V.I. Lenin, "Ninth All-Russia Congress of Soviets", *Collected Works*, Vol. 33, 1973, p. 177.

⁹ V.I. Lenin, "To the Presidium of the Eighth All-Russia Congress of Electrical Engineers", *Collected Works*, Vol. 33, 1973, p. 49.

The material and technical base of socialism is built up in the transition period through socialist industrialisation, which means the build-up of large-scale socialist industry, above all priority development of the heavy industry, and mechanical engineering, its core. In contrast to capitalist industrialisation, socialist industrialisation does not proceed spontaneously or haphazardly but in a balanced manner and at a fast pace, mainly from the country's own accumulations, and now also with the unselfish assistance from the developed socialist countries. These advantages help to attain industrialisation in a brief historical period, instead of the 50 to 70 years which it took the capitalist countries.

It took the USSR roughly 15 years to industrialise: from 1922 to 1940 industrial output multiplied 24-fold, including production of the means of production (Group A) 45-fold, and production of the articles of consumption (Group B) 14-fold. From 1928 to 1940, the share of the means of production in the manufactured product went up from 39.5 per cent to 61.0 per cent; by then the USSR had become a mighty industrial power, which ranked first in Europe and second in the world in industrial output.

Countries engaged in the socialist transformation of the economy need to build up the material and technical base of socialism. The economically less developed countries need to set up large-scale machine production in the transition period, while industrialised countries work to adapt the structure of production to meet the needs of the new social system.

Lenin's plan for building socialism provides for the socialist transformation of agriculture. In the early Soviet years, the large landed estates were nationalised, and some were used to set up state agricultural enterprises, which later showed just how large-scale farming could be run on the basis of machines and the collective labour of state-farm workers.

Alongside the state socialist sector in agriculture there were also tens of millions of small peasant farms worked by individual labour. As these differentiated, they spawned capitalist elements in the countryside. Unless the peasant economy was transformed on socialist lines, socialism could not have won out either in the countryside or in the country as a whole. Besides, the small peasant farms turned out a small share of marketable commodity produce and so fell short of supplying the burgeoning industry and the urban population with the necessary farm produce.

It is difficult to transform the petty-commodity sector on socialist lines because of the need to build up a new material

and technical base and remould the petty-proprietor mentality of the peasants. That took much time and effort.

The programme for the socialist transformation of peasant farms through the cooperation of production, which came to be known as Lenin's cooperative plan, was set forth in his work *On Cooperation* and a number of others. Lenin proved that, with the victory of the socialist revolution and the commanding heights of the economy controlled by the socialist state, cooperation is the way of switching small-scale individual farming to large-scale collective farming which the peasants most readily understand, and which they find accessible and advantageous. The cooperative-farm property which emerges in the process is socialist property, although it is less mature as compared with state property.

In the USSR, producer cooperation of the peasant farms passed through two stages. The first lasted from the October Revolution in 1917 to 1929, when the political and economic prerequisites for extensive cooperation were still lacking. The second stage began in the latter half of 1929, when mass collectivisation got under way throughout the country. The collective farm system in the USSR had fully triumphed by the end of 1937. Thus, from July 1, 1929, to July 1, 1937, collectivisation of peasant farms went up from 3.9 to 93 per cent in terms of households, and from 4.9 to 99.1 per cent in terms of area under crop. The agricultural *artel* (cooperative) became the basic form of the collective farm economy in the USSR. In the process, the *kulaks* (rich exploiter farmers) were eliminated as a class.

The cultural revolution, which meant a radical spiritual renovation of the society, was a component part of Lenin's plan for building socialism. "Cultural revolution" was first used as a term in Lenin's work *On Cooperation*, in which he defined its substance, purposes and tasks. The need for the cultural revolution sprang from the political and economic transformations in the country after the proletarian revolution. As a whole, it was a process in which socialist culture was substituted for bourgeois culture. The cultural revolution includes the establishment and development of a universal public education system, and the training of a new, socialist intelligentsia—specialists in various fields of science, technology, culture and the arts—and the moulding of a new type of man, and the development of a new morality, and a new ideology.

The cultural revolution helped to carry on socialist construction and advance industrialisation and collectivisation, to overcome the antithesis between town and country, and between

mental and manual labour, to involve broad masses of working people in town and country in the management of production, in boosting social labour productivity, and rapidly raising the country's economic might.

While the cultural revolution has to be carried out in all the countries if they are to go on from capitalism to socialism, it bears the marks of each country's concrete national and historical peculiarities, economic level and acuteness of the class struggle.

The implementation of Lenin's plan helped to lay the foundations of socialism in the USSR by the mid-1930s, with these characteristic features: power is in the hands of the working class having the vanguard role, and social development guided by the Marxist-Leninist party; the means of production are held in social property as the basis for the planned development of the whole of the economy for the benefit of the whole people; "From each according to his ability, to each according to his work" is the principle applied in practice.

*Through Accelerated Economic
and Social Progress to a New Quality
in the State of the Society*

Socialism is a long historical epoch on mankind's way to full communism, in the course of which the society has to pass through a succession of maturity stages.

The experience of the world socialist system suggests that the developed socialist society stage follows upon the transition period and the laying-of-the-foundations-of-socialism stage.¹⁰

What are now the foreseeable perspectives of this dynamically developing and integral organism? What will its distinctive features, its place and influence in the world at the end of the century be? By the large, the answers will be found in the documents of the 27th Congress of the CPSU, which made a tangible contribution to the Marxist-Leninist theory. The CPSU CC Political Report, the new edition of the CPSU Programme, the Guidelines for the Economic and Social Development of the USSR for 1986-1990 and the Period Ending in 2000 are specimens of the scientific substantiation

¹⁰ See: V.I. Lenin, "Original Version of the Article 'The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 42, 1971, pp. 68-84; V.I. Lenin, "Report on the Work of the All-Russia Central Executive Committee and the Council of People's Commissars Delivered at the First Session of the All-Russia Central Executive Committee, Seventh Convocation, February 2, 1920", *Collected Works*, Vol. 30, 1977, pp. 315-36.

beginning

of practical action and projection of concrete ways for the further advance of socialism.

The main outcome of the innovative elaboration of the party's fundamental theoretical and political propositions is reflected in the conception of accelerating economic and social development as the basis for attaining a new quality in the state of the society, a conception comprehensively formulated by the congress. It is a new stage of society in which the advantages of the socialist system are to be most fully brought out. The clear, well-argued and concise conception of the key aspects of this new quality in the state of the society, presented in organic unity with a characterisation of the content of the acceleration, of its prerequisites, factors and components, is in effect the realistic prognostication of the economic and social face of socialism at the turn into the 21st century.

Acceleration, the CPSU says, is an objective property of the socialist society, which is, by its very essence, capable of constant renovation and perfection, a proposition that is basic to solving all the key problems—immediate and long-term, economic and social, political and ideological, internal and external—in advancing socialism. It corresponds to what Engels said about the socialist revolution generating “a process of development of the masses ... under conditions accelerating this process.”¹¹ It also echoes what Lenin said about socialism; “Nobody believes that any important change can be achieved at a fantastic speed; but we do believe in real speed, speed compared with the rate of development in any period in history you like to take, especially if progress is guided by a genuinely revolutionary party; and this speed we shall achieve at all costs.”¹²

It is not only or simply a matter of economic growth rates, although these are also most important. The approach is much broader: growth is to have a fundamentally new quality, and there are to be new approaches to communist development. The substance of acceleration, as the congress emphasised, lies in the utmost intensification of production on the basis of the STR, a structural modification of the economy, discovery of efficient forms of administration and management, labour organisation and incentives for work resting on the objective rela-

¹¹ “Engels to Eduard Bernstein in Zurich. Eastbourne, August 27, 1883”, Marx, Engels, *Selected Correspondence*, Progress Publishers, Moscow, 1982, p. 343.

¹² V.I. Lenin, “Speech at the Fourth Session of the all-Russia Central Executive Committee, Ninth Convocation, October 31, 1922”, *Collected Works*, Vol. 33, 1973, p. 392.

tions of production and realising the objective economic laws of socialism.

Furthermore, it is not only a matter of the economy, but also of every other sphere of the society considered in their dialectical relations and interaction. The CPSU course envisages an active social policy and firm assertion of the principle of socialist justice. The acceleration strategy implies an improvement of social relations, a renewal of the forms and methods of work of political and ideological institutions, a deepening of democracy, and a resolute overcoming of inertia, stagnation and conservatism, in fact, of everything that is a drag on social progress.

The 27th Congress of the CPSU amplified the characterisation of the objective orientation towards the communist perspective in the light of the fact that there is no steep watershed between socialism and communism: the development of socialism, the ever fuller unfolding and use of its potentialities, and the consolidation of its organic general communist principles in effect signify actual advance to communism. The general communist principles of the system of socialist social relations, as concretely analysed in the congress documents, the whole people's property in the means of production and the planned economic system, which puts it into effect, the economy's orientation towards the attainment of a high standard of well-being and all-round development of all the members of the whole people's association, full and effective employment, collectivism, self-government, universal economic and social equality, and a number of other principles determine the role of socialism as a phase, as a historical stage in the communist mode of production. Those are the principles which constitute the fundamental advantages of socialism, the stage of mankind's progress which goes beyond capitalism.

Chapter Twenty-Seven

SOCIAL PROPERTY IN THE MEANS OF PRODUCTION. THE SYSTEM OF SOCIALIST RELATIONS OF PRODUCTION

Socialist property in the means of production is the initial form and basis of the relations of production under socialism.

Socialist Property in the Means of Production. Its Substance and Role as the Basis of the Socialist Economic System

The relations of production between human beings in any society consist of diverse concrete forms, such as relations over the property in the means of production, the consequent relations within the production process itself, relations of the distribution of the social product, in particular, through exchange in commodity form, and relations in the sphere of consumption.

This chapter deals with property relations. Marxism has rejected the idea that property is a man-thing relation, which bourgeois ideologists use in trying to prove that capitalism is everlasting. Since production always takes place "within and with the help of a definite civil organisation"¹, there is no property, i.e., appropriation, outside the society, outside human connections. In accordance with this postulate, Marxists define property as a relation between men over the use of the means of production, i.e., as a social relation.

This general definition of property is valid also for socialism, under which property is labour-based and rules out man's exploitation by man, which makes it different from all the forms of exploitive property (slave-holding, feudal, private capitalist, and state-monopoly property). It is the common property of the working people uniting them into one collective, which also makes it different from the private labour-earned property of peasants and craftsmen.

Marx pointed to these features of socialist property, when he wrote: "To say that they are the owners of the means of pro-

¹ Karl Marx, *A Contribution to the Critique of Political Economy*, p. 192.

duction amounts to saying that these belong to the united workers and that they produce as such, and that their own output is controlled jointly by them."² Setting up a socialist system means putting all citizens in the same relation to the means of production of the society as a whole. "It means giving all citizens equal opportunities of working on the publicly-owned means of production, on the publicly-owned land, at the publicly-owned factories, and so forth."³

Socialist property is, accordingly, defined as the relation between the working people using the means of production in their collective labour and for the common good.

Once the substance of socialist property in the means of production has been clarified, the system of the relations of production in the socialist society can also be correctly understood.

In no society are the concrete forms of production relations isolated from each other: indeed, they interact with each other, because they are all linked to the product of labour, which starts on its way in the sphere of production and ends it in the sphere of consumption.

However, there are primary and secondary forms of production relations, i.e., they are subordinated in a certain way. Property in the means of production is the leading relation within the production relations system, for it is the social mode in which the producers are conjoined with the means of production, the relation between human beings in the sphere of production, the key phase of social reproduction. Property "reveals the innermost secret, the hidden basis of the entire social structure."⁴ That also applies to socialism. Socialist property also invests the other forms of production relations—exchange of activity, and distribution and consumption relations—with the form of comradely relations. The socialist system of production relations is a subordinated interaction between the relations of production, distribution, exchange and consumption, in which social property in the means of production is the definitive element. This role of social property is reflected in the Constitution of the USSR, whose Article 10 says that socialist property in the means of production ... shall be the basis of the economic system of the USSR.

² Karl Marx, *Theories of Surplus-Value*, Vol. IV of *Capital*, Part III, p. 525.

³ See: V.I. Lenin, "A Liberal Professor on Equality", *Collected Works*, Vol. 20, p. 146.

⁴ Karl Marx, *Capital*, Vol. III, p. 791.

Two Forms of Socialist Property in the Means of Production

Under socialism, social property in the means of production exists in two forms: state (the whole people's) property, and collective-farm and cooperative property.

That was foreseen by Marx and Engels, and the need for state property was indicated in their "Manifesto of the Communist Party",⁵ while on cooperative property Engels wrote to August Bebel in 1886: "Marx and I have never doubted that in going over to the full communist economy we shall have to make use of cooperative production on a large scale as an intermediate stage."⁶ Lenin summed up the realities of the early years of the Soviet power in his article "On Cooperation", and spoke of two types of socialist enterprises: the consistent (state) enterprises, and socialist (cooperative) enterprises.

When clarifying the causes for the emergence of two forms of socialist property, one should bear in mind that they spring from the two forms of private property—capitalist and labour-earned—which exist under capitalism. Exploiter-owned enterprises are confiscated (or redeemed) and become the property of the socialist state as their production is socially amplified. Meanwhile, the enterprises of working peasants and craftsmen are not mature enough to become the whole people's property, while their labour character requires their voluntary association in cooperatives. State (the whole people's) property is the higher and leading form of socialist property, and is characterised in the USSR Constitution (Article 11), as "the common property of the Soviet people". The land and its subsoil, the water and forests are the exclusive property of the state, as also the basic means of production in industry, building, agriculture, transit and communications, the banks, enterprises in trade and the services, and the bulk of the urban housing facilities.

It is an important feature of the whole people's property under socialism that it is simultaneously state property, which means that the state, as the political superstructure, runs the common economy on behalf of the people. The need for state (the whole people's) form of property was made evident in the "Manifesto of the Communist Party" in 1847, which points to the need "to centralise all instruments of production in the

⁵ See: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, p. 504.

⁶ "Engels an August Bebel in Berlin, London, 20 Januar 86", Karl Marx, Friedrich Engels, *Werke*, Bd. 36, Dietz Verlag, Berlin, 1967, S. 426.

hands of the state".⁷ Engels later made the same point when he wrote: "*The proletariat seizes political power and turns the means of production in the first instance into state property.*"⁸

Collective-farm and cooperative property is the property of separate collectives of working people, working either at enterprises (collective farms, cooperative industry, fruit and vegetable cooperatives), or using their services (consumer cooperatives). The means of production and the produce in the corresponding lines of production are the property of the cooperatives.

When trying to understand the nature of collective-farm and cooperative property, one should avoid the notion that these are entirely autonomous forms of property. The cooperatives are closely linked to state enterprises, because the latter belong to the people as a whole, and so also to the collective farmers.

Collective-farm and cooperative property is developed in interaction and organic unity with state property. The very existence of cooperatives as socialist enterprises is predetermined not only by the people's power, but also by the establishment of state (the whole people's) property, as Lenin showed in his article "On Cooperation", where he brings out its leading role with respect to collective-farm and cooperative property, which can originate and be consolidated only on the basis and with the assistance of the former.

The two forms of socialist property (which have the key role to play) have the following common features: both at state, and at cooperative and collective-farm enterprises the means of production are social, man's exploitation by man has been eliminated, labour is organised collectively, wages are paid in accordance with the quantity and quality of work, and the purpose of production is to meet the growing needs of the society and the wants of each of its members.

Let us consider, in conclusion, the process in which the two forms of socialist property are integrated, a process which is a part of the gradual transition from socialism to communism. They are brought closer together with the further socialisation of agricultural production, the gist of which is the growing technical equipment and rising productivity of agriculture, the ever larger proportion of marketable commodity produce, and the ever greater share of collective-farm produce sold to the state per unit of land area. The process in which collective-

⁷ Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, p. 504.

⁸ Engels, *Anti-Dühring*, p. 321.

farm property moves closer to the whole people's property is evident at the start of the collective-farm movement, when the average size of cooperative farms is enlarged. There is a growth in their indivisible assets and output per unit of land area.

At the present stage, the two forms of property have also been moving closer together with the development of inter-farm cooperation and agro-industrial integration.

Inter-farm cooperation means that the collective and state farms are involved in the specialised integration of some lines of their production, while remaining juridically independent. Forty-six per cent of the total inter-farm enterprises and associations in 1984 were involved in turning out farm produce and providing services for agricultural production.

Agro-industrial integration initially develops along the various lines of production, leading to the establishment of district agro-industrial associations (RAPOs), which include collective and state farms, inter-farm enterprises and state enterprises operating in the district and providing services for agriculture and the processing of farm produce. All of them have the duty to fulfil decisions taken by the RAPO governing body—the RAPO council—which exercises state administration within the limits of its competence. Agro-industrial associations comprising all the RAPOs, organisations and enterprises from other systems within the agro-industrial complex have been set up in regions, territories and autonomous republics. There is now also a central body for the whole country to administer the agro-industrial complex: the State Agro-Industrial Committee of the USSR, which is headed by a deputy chairman of the government. From the standpoint of property relations within the RAPOs, the collective farms remain collective (group) proprietors, and the state farms, units of the whole people's property functioning on the basis of economic calculus (khozraschot) principles. However, there is a gradual integration of the two forms of socialist social property in the means of production, with the emergence of realistic economic prerequisites for obliterating the distinctions between them.

Trade unions and other social organisations in the USSR also have their own property in the assets they need for the performance of their statutory tasks. The Constitution of the USSR emphasises that this is a socialist form of property. In economic content, the property of social organisations is secondary (derivative) with respect to the two forms of socialist social property in the means of production, because it is formed mainly through a redistribution of already created national income. The working people are the subjects of its appropriation

and there is no "third" class behind it.

The property of social organisations under socialism applies mainly to a part of the social consumption funds, but these organisations have as their property some means of production (buildings, machinery, transit facilities, subsidiary farms, etc.). The economic relations between citizens which arise over these means of production are in no fundamental or essential sense different from the relations within the two forms of socialist property, which constitute the basis of the society's economic system.

*Personal Property Under Socialism.
Individual Subsidiary Farms*

Personal property in articles of consumption (consumer goods) exists alongside the social property in the means of production. The point is that personal consumption is mainly individual or family consumption, and can be socialised only up to a point (social housing facilities, public catering, social rest homes and transit, and public libraries). That is why the bulk of the consumer goods goes into personal property.

Personal property in consumer goods, first of all, originates in labour: earned income is its only source, and that is determined by the social property in the means of production. Second, it cannot be used for obtaining unearned income or for harming the interests of the society.⁹ It follows, therefore, that the limits to personal property, most importantly in housing and means of transport, are objectively determined.

Apart from consumer goods, citizens hold as their personal property some means of production which they use on their subsidiary farms (livestock, trees and plants, farm and other implements) and also their produce, a part of which is sold on the collective-farm markets, to the state or to consumer co-operatives.

⁹ See: *Constitution (Fundamental Law) of the Union of Soviet Socialist Republics*, Article 13.

Chapter Twenty-Eight

LABOUR UNDER SOCIALISM

Material and spiritual values are created by the labour of workers, collective farmers and intellectuals. Labour is the sole source from which the national wealth springs. The society can consume only that which it has produced, so that the greater the labour output, the stronger is the socialist country, the more fully individual and social requirements are met, and the higher the living standards.

The social form of labour has a great influence on many aspects of the relations of production under socialism. Engels says: "The key to the understanding of the whole history of society lies in the history of the development of labour."¹ Labour under socialism is a topic of great significance in the political economy of socialism course because of the place of labour relations in the economic basis of the society and their influence on the whole system of the socialist relations of production.

The Economic and Social Features of Labour Under Socialism

The first thing that needs to be done is to clarify the content of labour in the socialist society and to define it as an economic category.

There are two aspects to labour. First of all, it is a process running between man and Nature in which man adapts the substances of Nature to his own wants. That is the content of labour, i.e., the whole range of labour operations performed in the course of production. But labour is always performed in a society, which is why it implies the existence of definite relations between human beings as they work on Nature. Lenin says: "It is not labour that is a definite category of political economy, but only the social form of labour, the social organi-

¹ Frederick Engels, "Ludwig Feuerbach and the End of Classical German Philosophy", in: Karl Marx and Frederick Engels, *Selected Works*, in Three Volumes, Vol. Three, p. 376.

sation of labour, or, in other words, the mutual relations of people arising out of the part they play in social labour."² These social relations in labour are manifested in the character of labour, which, for that reason, is an expression of the economic and social aspects of the labour process.

There is a close connection between and mutual influence of the character and content of labour, and here it is important to give attention to the active role of the character of labour.

There is, of course, a connection between changes in hardware and technology, and changes in the content of labour, but here one should bear in mind that technical policies in each economic system are socially motivated. The purpose of production under socialism is to assure all the members of the society of full well-being and free and all-round development, and labour, as everyone knows, is the main sphere of human vital activity. That is why efforts to achieve the purpose tend to produce qualitative changes in the content of labour.

For that reason, there is no theoretical substance in the views of bourgeois economists who claim scientific and technical progress to be the prime cause of changes in the character of labour, and who deny that it has an influence on technical progress. Their aim is to prove that many of the negative phenomena in the content of labour in the capitalist countries (such as the ever greater monotony of labour, the increase in non-creative elements in it, etc.) are allegedly caused only by the STR.

The features of socialist labour form a definite hierarchy with respect to each other, and all together constitute a coherent system, so that an examination of these features should be started with the most important characteristic of labour under socialism as labour without exploitation, as truly free labour, the most vivid expression of its fundamental distinction from labour under capitalism.

Social property in the means of production signifies that labour-power is directly joined to the means of production, so excluding any coercion for citizens to work for exploiters. Lenin says: "For the first time after centuries of working for others, of forced labour for the exploiter, it has become possible to *work for oneself* and moreover to employ all the achievements of modern technology and culture in one's work."³

Socialism makes for truly free labour and predetermines

² V.I. Lenin, "Vulgar Socialism and Narodism as Resurrected by the Socialist Revolutionaries", *Collected Works*, Vol. 6, 1984, p. 263.

³ V.I. Lenin, "How to Organise Competition?", *Collected Works*, Vol. 26, 1977, p. 407.

a qualitatively different link between labour and man's status in the society, a status which depends directly on the results of the citizen's socially useful activity. Conscious attitude to labour springs from the economic relations under socialism, but that does not mean that the development of labour in this direction is attained of itself. The party's idea, plans and calls become a material force only when they take hold of the masses.

All the enterprises in the country are linked up into one economic organism by the socialist property in the means of production, so that labour in production is socially organised labour and has a directly social character. The socialist society consciously organises labour in all the units of the national economy in a balanced manner with an eye to the social requirements. Marx gives this interpretation of the directly social character of labour under socialism: within the co-operative society based on common property in the means of production individual labour no longer exists in an indirect fashion but directly as a component part of the total labour.⁴ This is amplified by Engels when he says that from the moment the society enters into possession of the means of production and uses them in directly socialised form for production, the labour of each individual, however varied its specifically useful character may be, also becomes from the very outset directly social labour.⁵

When considering the directly social character of labour, one has to bear in mind that under socialism it differs in degree of development between the state sector and the collective-farm and cooperative sector of production. At state enterprises, labour is socialised and planned on the scale of the economy as a whole; in the collective-farm and cooperative sector, the labour going into the production of goods delivered to the state according to plan is also directly social on the scale of the society as a whole, while the rest of labour is socialised only within the framework of a given farm (enterprise).

The next key feature of labour is that it is a duty and is universal. Socialist property implies an equal relation of all the members of the society to the means of production, so that able-bodied members of the society are not allowed to live off the labour of others. Avoidance of socially useful labour is incompatible with the principles of the socialist society.

The universality of labour implies the real right to work:

⁴ See: Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works*, Vol. Three, 1984, p. 17.

⁵ See: Engels, *Anti-Dühring*, p. 354.

"The right to work is, in the bourgeois sense, an absurdity, a miserable, pious wish,"⁶ a conclusion of Marx's which is fully borne out by the realities of capitalism in our day. The vast army of unemployed, made up of virtually all the occupational and skill groups of the working people, shows that in the capitalist countries there is no right to work, which is one of the basic human rights. It is a right which is guaranteed by the society only under socialism, and this includes choice of occupation, job and type of work in accordance with one's inclination, capabilities, training and education, in the light of social requirements.

Finally, the truly humanistic character of labour under socialism is yet another of its fundamental features, and like all the others, it is determined by the very substance of the socialist economic system. Since the working person is the society's chief value, it keeps improving working conditions, which, Lenin stressed, is one of the most basic social principles of human development: "The 'formulas' of genuine communism differ from the pompous, intricate and solemn phraseology ... in that they reduce everything to the *conditions of labour*."⁷

It is quite natural, therefore, that the CPSU has set the task of effecting profound changes in labour, the key sphere of human vital activity, to improve and ease its conditions, and to provide opportunities for highly productive and imaginative work, so making a big stride towards the obliteration of the essential distinctions between mental and manual labour. The technical re-equipment of production is central to the efforts to improve working conditions.

Such is the economic and social characterisation of labour under socialism. To that should be added the specific socialist incentives for work: socialism provides a blend of moral incentives for work, which are common to both phases of the communist formation, with material incentives proper to the first phase of communism.

Moral incentives to work are an indication of the conscious attitude to socially useful activity as a duty and a matter of honour on the part of every citizen, an attitude which results from the emancipation of the working people from exploitation. There is also the fact that every citizen's status in the socialist society is determined by his or her socially useful labour. This conscious attitude to work is expressed in various forms, such as socialist emulation (competition), the new ideas

⁶ Karl Marx, "The Class Struggle in France", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 10, 1978, p. 78.

⁷ V.I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, 1977, p. 428.

and inventions movement, and a general urge to improve social production.

There is a need for material incentives to work under socialism because labour has not yet become a prime human want. Lenin rejected Trotsky's harmful proposal that highly efficient work in production should be coupled with egalitarian distribution: that is an economic absurdity, says Lenin, because it means "a gap between production and consumption... Priority implied preference and that was nothing unless you also had it in consumption."⁸

There is a steady effort in the USSR to create economic and organisational conditions stimulating high-quality, productive labour, initiative and enterprise. Conversely, indifferent and irresponsible workers have their material remuneration reduced, their service status downgraded, and moral authority lowered most directly and inexorably. → *unpredictably and deteriorate.*

Socialist Cooperation of Labour

Socialist cooperation of labour is another expression of the qualitatively different character of labour under socialism. Marx says: "When numerous labourers work together side by side, whether in one and the same process, or in different but connected processes, they are said to cooperate, or to work in co-operation."⁹

Each mode of production has its own cooperation of labour. Under socialism, it is based on socialist property in the means of production, which is why this cooperation of labour covers the whole of the national economy and is directed from one centre.

Among its elements are, first, a higher degree of the social division of labour as compared with that under capitalism, as a reflection of the higher level of the development of the productive forces. The Soviet Union has an integrated country-wide economic complex, within whose framework all-Union sectors of production and those of the republics and territories of the country are cooperated with each other. This Union-wide cooperation of labour is steadily developed sectorally and between the republics and regions of the country. Modern productive forces require close and skilful conjunction of efforts in the various regions, and the greatest benefits go to each nation, big and small, and to the state as a whole through the most

⁸ V.I. Lenin, "Once Again on the Trade Unions, the Current Situation and the Mistakes of Trotsky and Bukharin", *Collected Works*, Vol. 32, 1977, pp. 104, 103.

⁹ Karl Marx, *Capital*, Vol. I, p. 308.

rational use of labour and natural resources in various climatic conditions, as this potential is rationally incorporated in the social potential.

Second, conscious and voluntary labour discipline is a feature of the socialist cooperation of labour.

Cooperation being joint labour, it is impossible without labour discipline, regardless of the ways in which it is ensured. In contrast to capitalist labour discipline, which is enforced by the threat of hunger, socialism creates a conscious discipline of labour. Lenin says: "It will take many years, decades, to create a new labour discipline, new forms of social ties between people, and new forms and methods of drawing people into labour. It is a most gratifying and noble work."¹⁰

Labour discipline tends to grow in importance with the growth of technical progress, which intensifies the inter-connection between sectors and lines of production.

Third, socialist cooperation of labour is based on one-man management and the participation of work collectives in management. One-man management in the process of production, says Marx, is required to coordinate individual works and performance of the general functions which spring from the movement of the production organism.¹¹

One-man management under socialism serves the interests of the working people and is combined with participation by work collectives in the management of production.

Fourth, socialist emulation (competition) between its participants for the best performance, as a vivid expression of the new attitude to work, has emerged and is developing within the framework of the socialist cooperation of labour.

The substance of socialist emulation (competition) was shown by Lenin, when he said: "It is only socialism, which, by abolishing classes and, consequently, by abolishing the enslavement of the people, for the first time opens the way for competition on a really mass scale."¹² Lenin also worked out the principles for organising emulation, which are openness and publicity, comparable results, and the practical repetition of advanced experience.¹³

Socialist emulation in the USSR has gone a long way, from

¹⁰ V.I. Lenin, "From the Destruction of the Old Social System to the Creation of the New", *Collected Works*, Vol. 30, 1977, p. 518.

¹¹ See: Karl Marx, *Capital*, Vol. I, p. 313.

¹² V.I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, 1977, p. 259.

¹³ See: V.I. Lenin, "Original Version of the Article 'The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 27, p. 208.

the communist subbotniks (voluntary work on days off) in 1919, to the country-wide movement involving the broadest masses of working people today. It permeates every sphere of labour and has become an organic feature of the Soviet way of life. More than 113 million men and women, or over 95 per cent of the working people, now take part in it.

Conscious and imaginative attitude to work, as the prime social duty, is now being purposefully shaped by the CPSU in the light of the wealth of experience gained in organising socialist emulation.

Economic Interests under Socialism

A special system of economic interests has been generated by socialist property in the means of production. In the most general terms, it is the conscious wants or motivations in the activity of men and women. Economic interests are of definitive significance in the whole aggregation of interests. Engels says that "the economic relations ... present themselves in the first place as *interests*".¹⁴

A distinction is drawn under socialism between individual (personal), group (collective) and social (the whole people's) interests. Individual interests, stimulated by material incentives, take the form of personal material interest in the results of labour at social enterprises. Lenin insisted that socialism should not be built directly on enthusiasm, but on individual interest, on personal concern.

The emergence of the whole people's interests on the basis of common concern for developing social production is a characteristic feature of socialism. There are no such interests under capitalism.

Group interests are intermediate between individual and the whole people's interests, and act as the link between them.

The key feature of the entire system of economic interests under socialism is the unity of the vital interests of the society, of the work collectives and of individuals, a unity that springs from the very nature of socialism, where the purpose of production is to attain full well-being and all-round human development. It is the whole people's interests that have the leading role within this system, because neither the requirements of the collective, nor the wants of every member of the society can be effectively satisfied unless the whole people's interests are ensured.

¹⁴ Frederick Engels, "The Housing Question", in: Karl Marx and Frederick Engels, *Selected Works*, in Three Volumes, Vol. Two, p. 363.

Chapter Twenty-Nine

THE BASIC ECONOMIC LAW OF SOCIALISM

Each social formation has its own specific economic law expressing its economic nature and determining the main line in the development of the mode of production.

The System of Economic ^{Laws} Las Under Socialism.

Economic laws are radically transformed with the liquidation of private capitalist property and the establishment of socialist property relations: the economic laws of the exploitative system give way to the laws generated by the socialist production relations of comradesly cooperation and mutual assistance.

The economic laws of socialism are objective and are consciously used by the society. When economic laws are ignored in economic administration and management, disproportions result and a drag is exerted on the development of various sectors of socialist production.

The fact that economic laws, objectively shaped conditions and actual potentialities need to be reckoned with does not amount to saying that there is some kind of economic fatalism. On the contrary, the economic laws of socialism imply an active role for the subjective factor and for creative activity by the masses in developing the society under the party's guidance. Economic laws under socialism are a comprehended necessity on which organised action needs to be taken on the scale of the society as a whole.

Conscious use of economic laws is of key significance for raising the efficiency of economic administration and management. A scientific knowledge of their imperatives helps to foresee the main objective tendencies in the development of the productive forces and to improve the relations of production.

Some of the economic laws of socialism are specific only to the first phase of communism (for instance, the law of distribution by labour); others operate throughout both phases of the communist mode of production (for instance, the basic economic law, the law of proportional and balanced development of the economy).

Laws which are common to all the formations (for instance, the law of correspondence of the relations of production and the development of the productive forces) or to only some of them (for instance, the law of value) likewise operate within the system of economic laws under socialism. These common laws are modified under the impact of the new conditions. Thus, the law of rising labour productivity, a law common to all economic and social formations, operates as a law of steadily growing labour productivity under socialism.

The economic laws within the system both interact with each other and are ranked in a definite hierarchy, which means that all the other laws are subordinate to the most important law, the basic economic law of socialism. The whole system of economic laws under socialism is hinged on its basic economic law.

The aggregation of economic laws which has taken shape under socialism constitutes a coherent system, and the existence of links between them makes for their stable interaction. Here, social property in the means of production has the key role: it makes these laws compatible and indivisible.

Objectively-Based Purpose of Socialist Production and the Means of Achieving It

The basic economic law is an expression of the deep-seated and continuously repeated connection between the purpose of socialist social production and the ways and means by which that purpose is attained in practice.

CPSU programmatic documents stress that the goal of socialism is ever fuller satisfaction of the steadily growing material and cultural wants of the people through the uninterrupted development and perfection of social production, a programmatic proposition resting on the scientific elaboration of the substance of the basic economic law of the communist mode of production, as the Marxist-Leninist classics have amply explained in their works.

Marx and Engels said that communism is a society in which "the free development of each is the condition for the free development of all."¹ Marx emphasised that in a society of associated producers, the goal is no longer enrichment of a handful of people, but "the full and free development of every individual."²

¹ Karl Marx and Frederick Engels, "Manifesto of the Communist Party", *Collected Works*, Vol. 6, p. 506.

² Karl Marx, *Capital*, Vol. I, p. 555.

The material prerequisites for raising the people's well-being first appear with the emergence and development of large-scale machine production under capitalism, so producing the possibility of "securing for every member of society, by means of socialised production, an existence not only fully sufficient materially, and becoming day by day more full, but an existence guaranteeing to all the free development and exercise of their physical and mental faculties."³

However, the potentialities of the productive forces for raising the people's well-being under capitalism cannot be realised because it is blocked by private capitalist property in the means of production. Socialist social property alone makes it possible to gear social production to the task of raising the people's well-being.

In the light of that fundamental consideration, Lenin criticised—in the period when the first programme of the RSDLP was being drafted for the forthcoming Second Congress of the party in 1903—Plekhanov's idea that the purpose of balanced socialist production is to satisfy the needs both of the society as a whole, and of its individual members. Lenin writes this is not enough. Organisation of that kind will, perhaps, be provided even by the trusts. It would be more definite to say 'at the expense of the society *as a whole*' (for that includes both balanced development and indicates who directs the balanced development), and not merely to satisfy the needs of its members, but with the object of ensuring *full* well-being and free, *all-round* development of *all* the members of society.⁴

The objectively determined purpose of socialist production is also written into the USSR Constitution (Article 15), a purpose determined by the basic economic law of socialism, and one which coincides with the vital interests of the whole society and of all its members.

The mechanism by means of which the basic economic law of socialism operates and is used implies an organic blend of STR achievements and the advantages of the new system for a balanced increase in the national income. Enhancing the economic and social efficiency of the economy as a whole is now also of ever greater importance for achieving the purposes of socialist production.

The basic economic law of socialism makes the steady growth and perfection of social production imperative in accordance with the growing requirements of the people, but this should

³ Engels, *Anti-Dühring*, p. 324.

⁴ See: V. I. Lenin, "Notes on Plekhanov's Second Draft Programme", *Collected Works*, Vol. 6, 1977, p. 52.

not be reduced to the satisfaction of consumer demand. The priority growth of production of the means of production creates a solid basis for satisfying all the aggregate requirements and wants (individual wants and production requirements), including the want to work, which increasingly turns into a prime vital want in the developed socialist society.

Human wants are social and concretely historical, being both the result and the end of production. Marx says that "wants ... develop with and by the means of satisfying them."⁵ Social wants are an expression of the material conditions in which people live, of their mode of production and of their social relations.

Marx adds that wants most often spring directly from production or from the state of things based on production.⁶

As an expression of the material conditions in which the society's vital activity proceeds, wants have an objective content, mediating the interconnection between production and consumption at each historically frameworked system of economic and social relations. Social wants are generated by production and, for their part, have an active influence on its development. Once a social want has been satisfied, it produces new wants and stimulates production.

The phase of consumption has an important role in the expanded reproduction of wants, because consumption recreates the want.⁷

The need to satisfy material and cultural wants to an ever greater degree springs from the content of the basic economic law of socialism, but this applies only to reasonable, and not to any kind of wants. Reasonable wants are those which, first, accord with the level attained in labour productivity, and second, those whose ever greater satisfaction does not debase the human being, but, on the contrary, promotes the all-round and harmonious development of the individual and the socialist way of life.

As socialism develops, there is an accelerated growth of individual wants and producer requirements. The STR generates wants which had never existed in the past. The party and the state work to exert a purposeful influence on the process in which such wants are shaped and satisfied.

⁵ Karl Marx, *Capital*, Vol. I, p. 479.

⁶ See: Karl Marx, "The Poverty of Philosophy", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, p. 119.

⁷ See: Karl Marx, *A Contribution to the Critique of Political Economy*, p. 197.

*The Operation of the Basic Economic Law of Socialism.
The Main Lines of the People's Ever Greater Well-being*

The basic economic law of socialism began to operate with the emergence of social property. As it develops at various stages of socialist and communist construction, economic laws (including the basic law) gradually acquire new phenomenal facets, but their substance remains unchanged.

As social property, the foundation of the basic economic law of socialism, is consolidated, the law is given ever greater scope to operate. It is comprehended in greater depth, is more fully reflected in the ruling party's economic policy, and is more widely applied in the practice of socialist economic administration and management.

The key feature of the operation and use of the basic economic law of socialism in the USSR at the present stage is that the development of social production throughout the entire past period has created realistic potentialities for satisfying more fully than ever before the people's material and cultural wants. The extent to which some wants, for instance in food, are being satisfied, comes close to scientifically grounded standards. The volume of material resources and services at the disposal of the society has enabled the CPSU to bring to the fore the task of steeply raising the people's well-being.

The deepening and ever stronger substantive connection between the end of social production and the means for attaining it is also an expression of the specific way in which the basic economic law is translated into practice nowadays. The people's growing well-being, the end of social production, simultaneously becomes a necessary factor in the expanded development of production. The build-up of the material and technical base of communism makes ever greater demands not only on hardware and technology, but also—and most of all—on the men and women who run the process.

The operation and use of the basic economic law of socialism is paralleled by a process in which the volume and structure of consumption of material goods and services among workers, collective farmers and intellectuals living in various parts of the country is approximated, so providing evidence of the gradual ripening of the features of a fully homogeneous social entity in the society.

The extent to which the people's well-being can be improved depends entirely on the growth of the national income. From 1950 to 1984, Soviet national income per head multiplied 6.5-fold, as compared with 2-fold in the United States, and

1.9-fold in Britain. The high rate of national-income growth makes it possible rapidly to increase the volume of the population's real incomes. The structure of the Soviet people's diet is being improved. From 1960 to 1984, consumption of foodstuffs per head went up as follows: meat by 20.9 kilograms, milk by 77 kilograms, eggs by 138, vegetables of all kinds by 33 kilograms, and fruits and berries by 23 kilograms, while the consumption of potatoes went down by 33 kilograms, and of bread products by 29 kilograms.

Working and living conditions have changed markedly, and cultural standards have gone up significantly.

The USSR now has universal and compulsory secondary education. In 1984, the newspaper printing totalled 185 million copies. The number of doctors per 10,000 of the population went up from 20 in 1960 to 41.2 in 1984, and the number of hospital beds, from 80.4 to 128.7. Average life expectancy in the USSR has gone up to 70 years.

All of that bears out Lenin's prediction that socialism alone can duly ease the lives of the working people and improve their well-being as much as possible.⁸

The supreme purpose of the CPSU's economic policy is to raise the Soviet people's well-being, and with that end in view it has steadily steered its course towards ensuring the highest rate of national-income growth, further approximating cultural and everyday conditions of life in town and country, and improving the general educational, cultural and technical training of the working people.

The CPSU's assumption is that fulfilment of the large-scale social measures promotes the people's labour and political activity and provides a powerful impetus for improving the work of each. Indeed, the crucial condition for raising the people's well-being is to boost production, increase output and improve product quality.

The CPSU Programme sets the task of raising the Soviet people's living standards to a qualitatively new stage, ensuring levels and structures of consumption of material, social and spiritual goods and services that best meet the aims of forming the well-rounded individual and creating the conditions for the full flowering of the individual's capabilities and endowments for the benefit of the society as a whole.

Remuneration by labour continues to be the main source of the working people's incomes throughout the whole of the

⁸ See: V.I. Lenin, "Speech at the First Congress of Economic Councils, May 26, 1918", *Collected Works*, Vol. 27, 1977, p. 411.

first phase of communism, and it is steadily improved on the basis of growing labour productivity. Social consumption funds have been growing more rapidly, as compared with the growth of the distribution-by-labour fund, a law-governed process in the development of distribution relations under socialism, one which Marx brought out in his *Critique of the Gotha Programme* and which is widely reflected in the CPSU's economic and social policy.

The Party believes that it is of especial social significance to solve the housing problem in such a way that every Soviet family should have housing of its own—flat or house—by the year 2000, with ever greater emphasis on the quality of housing construction, the human comforts, home layout, and amenities.

Improving the Soviet people's health and extending the span of their active life is an object of daily concern for the CPSU and the socialist state. With that end in view, a system of universal health checks is to be introduced, the network of polyclinics, hospitals and sanatoriums is to be further enlarged, and the demand for medication, and medicinal, sanitation and hygienic facilities fully met.

Strengthening the family as the primary unit of the society is of tremendous importance for the state as a whole in the Soviet Union. The CPSU has always worked to help the family fulfil its social functions in the upbringing of children, and to improve the material, housing and everyday conditions of families with many children and newlyweds.

The great advantages which socialism has over capitalism are that it is able to gear social production to the tasks of raising the people's well-being.

Chapter Thirty

THE BALANCED DEVELOPMENT OF THE SOCIALIST ECONOMY

Balanced development is a basic property of the socialist economy, and includes consistent and all-round perfection of the relations of production, maintenance of their stable correspondence with the dynamically developing productive forces, and timely identification and resolution of the contradictions arising between them.

Objective Basis of Balanced Development of Socialist Production

The Marxist-Leninist classics believed that balanced development can be achieved on the scale of the social economy as a whole when socialist property in the means of production is established and production is made social.

Social production, as expressed in the social division of labour—between enterprises and their specialisation—requires cooperation of enterprises and, for that reason, a definite quantitative balance between them in output, or, in other words, proportionality. Marx says that the necessity for distributing social labour in definite proportions cannot possibly be done away with by a particular form of social production; indeed, the only thing that can change is its phenomenal form.¹ With private property in the means of production predominant under capitalism, social production is regulated spontaneously through the operation of economic laws, so that proportionality there is constantly upset and restored only as an average magnitude from a number of constant fluctuations.²

Lenin demonstrated that even at its monopoly stage capitalism is incapable of consciously regulating production, while the haphazard state-regulation measures which are effected are intended to safeguard the interests of the ruling classes and to maximise profits, the main purpose of capitalist production.

¹ See: "Marx to Ludwig Kugelmann in Hannover, London, July 11, 1868", in: Marx, Engels, *Selected Correspondence*, p. 196.

² See: V.I. Lenin, "Uncritical Criticism", *Collected Works*, Vol. 3, p. 617.

Marx and Engels predicted that social property would do away with the anarchy of production and would make balanced economic development possible. Marx says that national centralisation of the means of production would become the national basis of a society consisting of an association of free and equal producers engaged in social labour under a common and rational plan.³ As the society takes over the means of production anarchy in social production is replaced by balanced and conscious organisation.⁴

Social property not only makes it possible to set proportions in social production consciously; it predetermines the objective need of continuously maintaining proportionality on scientific grounds, which means that the society maps out the structure of the production of the aggregate social product in proportions determined in advance and in accordance with the scale of social requirements, planning for the distribution of labour and the means of production by spheres and sectors and bringing out social inputs into production and final output.

Haphazard development, with its inherent disproportions, would cut across the purposes of socialist production. Balanced economic development makes it possible to run the state-wide economy efficiently, to ensure rapid and stable rates of growth, and to turn out maximum product for satisfying social requirements. Balanced economic development arises on the basis of socialist property in the means of production and helps to turn the labour of every working person into directly social labour, further to socialise production within the framework of the whole society, and to shape it as an integral economic organism.

Social Needs System and National Economic Proportions

We have now come to the question of the extent to which national-economic proportions accord with the system of social needs.

When studying this question, it is important to proceed from Marx's idea that the conscious distribution of social labour under the society's control should "achieve a production corresponding to its total needs",⁵ an idea emphasising that a balanced economy is directly bound up with social needs.

³ See: Karl Marx, "The Nationalisation of the Land", in: Karl Marx and Frederick Engels, *Selected Works*, in Three Volumes, Vol. Two, p. 290.

⁴ See: Engels, *Anti-Dühring*, p. 324.

⁵ Karl Marx, "Economic Works, 1857-1861", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 28, p. 109.

Aggregate social requirements are everything that is needed to satisfy the interests of the society as a whole, of its classes, social groups and individuals. Marx and Engels repeatedly spoke of "aggregate social needs",⁶ comprising a whole system of material, social and spiritual needs, which differs depending on the productive forces development level and the predominant relations of production in the society. They also drew attention to the fact that the system of needs depends on the development of man, the prime source of the entire process of production.⁷

Aggregate needs in the socialist society include: replacement and expansion of the means of production; formation of reserves and state stocks of means of production and articles of consumption; satisfaction of individual wants through remuneration of labour and social consumption funds; maintenance of the state apparatus; defence of the country; external economic ties, and so on.

Under socialism there are no antagonistic contradictions between social needs and individual wants. Future consumption can be predicted through a knowledge of the actually existing social needs. One of the ways for ensuring balanced economic development, and determining its proportions and growth rates is to bring out the dynamic of social needs, for that helps to avoid subjectivism and voluntarism in economic activity.

There is rapid growth of social needs under socialism, and this is substantially influenced by the progress of science and technology, the state's social measures, the obliteration of the essential distinctions between mental and manual labour, and measures aimed at promoting the individual's harmonious development.

While social needs are in a sense independent of production, they are more closely connected with it under socialism than they are under capitalism, because production is geared to the ever fuller satisfaction of human wants. These wants, generated by production and the individual's own development, have an influence on the stimulation of production, changes in its structure, and the growth of high-quality products. They also induce changes in the existing proportions in the social economy and selection of their optimal versions.

Optimal proportionality, as an economic category, is concrete-

⁶ See: Karl Marx, *Capital*, Vol. I, p. 83; Vol. III, p. 635; "Vorwort [zur ersten deutschen Ausgabe von Karl Marx' Schrift 'Das Elend der Philosophie']", in: Karl Marx, Friedrich Engels, *Werke*, Bd. 21, Dietz Verlag, Berlin, 1962, S. 185.

⁷ See: Karl Marx, *A Contribution to the Critique of Political Economy*, p. 197.

ly historical and is determined by many objective conditions in the development of the socialist economy.

The level attained in developing social production and also the creation of state reserves—raw and other materials, fuel, production capacities, and consumer goods—provides the material basis for optimal proportions in the national economy. These reserves make it possible to avert in due time the partial disproportions which spring from the discrepancy between the growth rates in various sectors of production and of the structures of supply and demand, the impact of Nature's spontaneous forces on agriculture, planning miscalculations, and so on.

Optimal proportionality is ensured by the balanced organisation of socialist production, whose inexhaustible potentialities give scope for the development of the productive forces and the relations of production under socialism.

General economic, inter-sectoral, intra-sectoral, inter-production and territorial proportions take shape within the national economy of each socialist country as a reflection of the production and economic links between the various economic regions. Inter-state economic proportions are of growing significance within the world socialist economic system.

General economic proportions cover the whole of reproduction: its phases (production, distribution, exchange and consumption), and elements (production of the social product and its realisation, training, distribution and use of labour-power, growth of socialist property and other factors characterising the perfection of the socialist relations of production).

The formation of proportions in the USSR's economy in the 12th five-year plan period (1986-1990) is determined by a structural policy for intensifying social production. It envisages high rates in the development of high-technology sectors and industries, successful solution of social problems, attainment of an optimal balance between consumption and accumulation, and improvement of the proportions between production of the means of production and of the articles of consumption, and between the sectors of the agro-industrial complex. The progressive changes in the economic structure should ensure the dynamic and proportional development of the country's integral economic complex and efficient interaction of all its elements.

Law of Proportional and Balanced Development of Social Production

Balanced development is a manifestation of the socialist relations of production. It is the general form of movement and

interaction between economic phenomena and processes on the scale of the society as a whole, and makes it possible to regulate them directly, thereby ruling out haphazard development of the productive forces and relations of production, and ensuring that the economic results are in accord with the goals set.

The objective need for consciously setting and maintaining harmony in the economy is expressed in the economic law of proportional and balanced development of social production.

The whole people's socialist property in the means of production alone provides a favourable soil for the operation of this law, which is why the conditions for its manifestation already appeared in the period of transition from capitalism to socialism.

As the socialist society is consolidated, there is a steady expansion of the sphere in which the law of proportional and balanced development operates. That is expressed in the fact that the causal connections between the boosting of the productive forces and improving the relations of production are being shaped ever more consciously and in an ever stronger scientific light. Besides, the law of proportional and balanced development tends to operate in increasing interpenetration with the basic and other economic laws. At the stage of developed socialism, balanced development involves not only economic, but also social processes. Balanced development will attain its highest stage under communism, for it will be based on the integral communist property, which will give it the fullest scope for operation.

Economic Planning: Substance, Principles and Organisation

Economic planning is an objectively necessary form in which conscious use is made of the system of socialist economic laws, notably the law of proportional and balanced development, which will operate if the economy is centrally directed by the society (state). Planning is purposeful activity in administering the socialist economy through the framing and fulfilment of a coherent country-wide economic plan.

The plan is the main instrument of the party's economic policy, a state directive, and a system of mandatory assignments to associations and enterprises, whose fulfilment helps to establish dynamic proportionality between the sectors of the economy. Lenin says that the plan is not a technical, but a political or state document.⁸

⁸ See: V. I. Lenin, "To G. M. Krzhizhanovsky", *Collected Works*, Vol. 35, 1980, p. 435.

Central planning makes it possible to develop harmoniously all the sectors of the economy, make rational use of material, labour and financial resources, set the required inter-sectoral and intra-sectoral proportions, and rationally to locate the productive forces to attain the highest economic efficiency of production.

Lenin's ideas of socialist planning have stood the test of time and are being steadily perfected and amplified in the light of scientific theory and practice.

Blending economics and politics is an important principle of socialist planning, because there is a definite interaction between economics, as the aggregate of production relations, the economic basis of the society, and politics, as the content of state activity, as Lenin made it clear when he said that "politics is a concentrated expression of economics".⁹ Under socialism, politics, the sphere of class relations within the state, and between states, is entirely determined by the interests of the working people.

For its part, politics has an active effect on economics, and under socialism "politics must take precedence over economics."¹⁰ That is what makes the state-wide approach to any economic problems at any level imperative, an approach that needs to be taken both in the framing of plans and in their fulfilment.

Country-wide economic planning is intimately connected with the whole activity of the Communist Party, which heads construction of the new society. The Party formulates the main economic and social tasks, directs the formulation of economic plans, and organises the masses of working people to fulfil these plans.

Planning involves the complex mastering and use of the whole system of economic laws operating in the socialist economy, down-to-earth consideration of social conditions, and use of STR achievements. Lenin says that what the Soviet Union needs is wide-ranging plans that are not fantasies, but plans backed up by technology and prepared by science.¹¹

Democratic centralism is an equally important principle of planning. What it means is combining centralised planning direc-

⁹ V.I. Lenin, "Once Again on the Trade Unions, the Current Situation and the Mistakes of Trotsky and Bukharin", *Collected Works*, Vol. 32, 1977, p. 83.

¹⁰ *Ibidem*.

¹¹ See: V.I. Lenin, "Report on the Work of the All-Russia Central Executive Committee and the Council of People's Commissars Delivered at the First Session of the All-Russia Central Executive Committee, Seventh Convocation, February 2, 1920", *Collected Works*, Vol. 30, 1977, p. 334.

tion of the economy with active participation by working people's collectives in working out and realising plans.

The need for centralised planning springs from the very nature of socialist property in the means of production as the property of the whole people. It helps to realise the advantages of socialism, to perfect the basic economic proportions, and to improve the location of the productive forces and the complex development of the country's economic regions. "Centralism, understood in a truly democratic sense, presupposes the possibility, created for the first time in history, of a full and unhampered development not only of specific local features, but also of local inventiveness, local initiatives, of diverse ways, methods and means of progress to the common goal."¹²

Directive plan assignments organically blend with the principle of the whole people's accounting and control of plan fulfilment and observance of state planning discipline, a principle which helps to tap additional reserves for boosting production and taking steps to avert incipient disproportions in the economy. *→ similar*

Economic planning organisation provides, first, for a tying-in of current and long-range plans, with the latter having the leading role in the economy, because they determine the basic economic and political tasks of social production; second, a tying-in of sectoral and territorial planning, which helps to make more efficient use of the advantages of the social division of labour and of natural and manpower resources; and third, emphasis on the main element of the plan, to concentrate the attention of planning agencies and collectives of working people on the key sectors and segments of the economy in the given period.

Planning makes use of a system of plan indicators (in kind and value, in quantity and quality) and of the relevant methods. Thus, to coordinate the various components of the economic plan use is made of the balance method of planning, which is a way to dovetail requirements and resources on the scale of the economy as a whole. The plan balance system includes material, manpower and value (financial) balances.

¹² V.I. Lenin, "Original Version of the Article "The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 27, 1977, p. 208.

Chapter Thirty-One

COMMODITY-MONEY RELATIONS UNDER SOCIALISM. THE LAW OF VALUE

Commodity-money relations are an essential sub-system of the socialist relations of production.

The Commodity and Its Properties under Socialism. The Magnitude of Commodity Value

Under socialism, the means of production, and so the products of labour, belong to the society as a whole. Goods and services are provided in accordance with the basic economic law of socialism for the fullest satisfaction of the society's requirements. All of this means that labour in the socialist society is directly social, so that the product of labour is also directly social.

Under capitalism, commodities are turned out for exchange. Everyone knows that under capitalism the commodity has use-value and is designed to meet some human need. But for the entrepreneur, the whole point is to realise the commodity value. By contrast, it is the satisfaction of wants and not the exchange that is the purpose of production under socialism.

Life has shown that commodity-money relations are also necessary in the socialist society, and that the products of labour have to present themselves in the commodity form. It would evidently be wrong to deny either the direct social character of the product of socialist production, or its commodity form. The commodity under socialism is a product which is produced by socialist enterprises in a balanced manner to meet the requirements of the society and which goes into consumption through a balanced commodity exchange. Consequently, it is a commodity that is a product of directly social labour.

The significance of social use-value tends to increase in the socialist society. Whereas it is no more than a condition for realising value for the private commodity producer, for the socialist enterprise it embodies the very purpose of producer activity. For that very reason the socialist economic system is geared to turning out goods and services which most fully meet the society's requirements in terms of range and quality.

The various use-values are incommensurate (and non-substitutable) to the same extent as the diverse human wants. The usefulness of a product of labour cannot be a basis for comparing commodities in their exchange. The only basis is labour-value, the "economic quality" of the commodity¹ or "value in the economic sense".² The substance (i.e., content) of this value consists of the labour expended on the production of the given commodity.

These two aspects of the commodity are in contradiction with each other, but under socialism the contradiction is not an antagonistic one.

The two-fold nature of the commodity, says Marx, springs from the two-fold nature of labour producing the commodity. It is both concrete labour producing use-value, and abstract labour, producing value, a duality which also exists under socialism, but here there is no duality in labour in the form of a coexistence of private and social labour, for it is directly social labour, so that concrete labour is the qualitative side, and abstract labour, the quantitative side.

The definition of value suggests that its magnitude is determined by the quantity of labour going into the production of a commodity. This means both living labour, expended in the given process of production, and the labour materialised (embodied) in the means of production. But there is a difference between the individual inputs of past labour (means of production) and the inputs of living labour at enterprises in one and the same industry. Since their products are comparable in terms of use-value, a value reckoned per unit of use-value is formed for the whole industry (otherwise known as social value). Marx says that this social value is expenditure of labour "under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time."³ Marx subsequently said that the "total value produced (i.e., all the labour inputs in the industry.—Ed.) divided by the number of products determines the value of the individual product."⁴

The magnitude of commodity value is in inverse proportion to the average labour productivity in the industry, but this is an intricate relation because it determines the newly-created value. Transferred, or old, value depends on labour productivity in allied industries.

¹ Karl Marx, "Economic Works, 1857-1861", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 28, 1986, p. 78.

² Engels, *Anti-Dühring*, p. 229.

³ Karl Marx, *Capital*, Vol. I, p. 47.

⁴ Karl Marx, *Theories of Surplus Value*, Vol. IV of *Capital*, Part III, p. 113.

*Money and Its Functions in the Socialist Economy.
The Principles of Planned Price Formation*

Full-scale commodity exchange cannot proceed without money, which means that money exists under socialism because of the existence of commodity relations, under which the products of labour are realised through exchange.

Money under socialism is a universal equivalent of a specific kind. It embodies social labour that is united through socialist property. There again, gold is money, but in circulation it is replaced by paper money.

There is a radical change in the economic and social content of the category of money under socialism. Money can no longer become capital, a means of getting rich at the expense of others. On the contrary, money is the instrument by means of which balanced relations of comradely cooperation are realised. That brings about a qualitative change in all the functions of money.

The measure of value is the first function of money, a function performed by real money, or gold. But the planned fixing of price, or the monetary expression of value, is a specific feature of socialism, and that is antithetical to the spontaneous price-formation in all the pre-socialist modes of production.

Planned price-formation is based on social property. That does not mean, however, that price is necessarily fixed on the level of commodity value. The form of price, as the monetary expression of value, itself creates the possibility of price deviating from value, i.e., the establishment of prices below or above value. What is more, this deviation of price from value needs to be used to influence production and consumption.

These are the principles on which state agencies fix planned prices.

First, labour-value per unit of use-value is always the basis of price, as ensured in practice by the planning of prices on the basis of sectoral (industry) costs of production through the addition to it of net income, because the magnitude of labour-value is not statistically registered.

Second, the balance of supply and demand for the given line of goods is taken into account. Higher prices are usually fixed for consumer goods in short supply, and when output is significantly increased these prices are reduced in a planned manner.

Third, price is used by the socialist state to regulate consumption. Its social policy aims to create the conditions for the upbringing and education of children, developing public health care, and raising the people's cultural standards, and it is realised

not necessary

by means of price. For that purpose, the prices of children's goods, medication, and books are set at a relatively low level. By contrast, higher prices are used to limit socially undesirable consumption of goods (alcoholic drinks and tobacco). These price-formation principles help prices to perform their accounting, stimulating and redistributive functions.

Since the commodity passes in its movement from production to consumption through various spheres of circulation (material and technical supply and procurement of farm produce, wholesale and retail trade) there are different levels of wholesale, procurement and retail prices for the products of labour.

Medium of circulation is the second function of money. The participation of money in realising goods turns barter into commodity exchange. This function is performed by money tokens, i.e., credit money which replaces gold in circulation. It would be costly to have gold in circulation, because the costs would go up and settlements slowed down, while there would be a scattering of the gold stock which the state needs as a reserve fund of world money.

It is a specific feature of socialism that the potential hiatus in the act of purchase and sale does not signify, as it does under capitalism, any formal possibility of economic crises, since the cause of such crises does not exist. Paper money under socialism is much more stable than it is under capitalism, because the purchasing power of the money unit does not change under firm and planned prices. Gold takes no direct part in ensuring the stability of paper money, but is only a reserve currency for the import of goods.

Means of payment is the third function of money. Here, money tokens are also used, and there is, accordingly, an increase in the paper money requirement minus the book-keeping entry settlements between Soviet economic units. An important feature of socialism is that money, as means of payment, is used for the payment of wages, an operation which excludes the commodity form.

Means of accumulation is the fourth function of money, i.e., the accumulation of paper money, instead of the actual accumulation of material values. These are monetary reserves of enterprises and the population mainly deposited at the State Bank and savings banks, or kept at home.

World money is used in foreign trade and in other economic relations with other countries. In this case, it is gold and hard currencies of the capitalist countries. In the socialist countries, the purchase and sale of gold and foreign currency is a monopoly of the state. National paper money is, as a rule, confined

to local circulation, i.e., not allowed to go beyond the country's borders. But that does not mean a lack of connection between internal and foreign money. There is the need to exchange the foreign currencies brought in from abroad by foreigners, and also to calculate into internal money the outlays and receipts in foreign currency of export and import associations on the basis of foreign currency exchange-rates. For that purpose the gold content of a socialist country's monetary unit is fixed (as in the case of the rouble, which since January 1, 1961, has a gold content of 0.987,412 grams). Foreign currency exchange rates are adjusted in the light of their exchange purchasing power.

The Law of Value and Its Specific Operation in the Socialist Economy

Commodity-money relations and commodity exchange are effected on the basis of the law of value, whose content Marx defines as follows: "According to the law of value, exchange is between equivalents, an equal quantity of labour for an equal quantity of labour."⁵ This law, says Engels, is one "according to which the value of a commodity is measured by the socially necessary labour embodied in it."⁶ Commodities can be exchanged only by comparison of labour inputs, this is an economic necessity.

The law of value operates above all in the sphere of commodity exchange, but through circulation it has an influence on production, inducing enterprises to cut back their individual labour inputs, as compared with socially necessary labour inputs, so either obtaining additional profit or minimising their losses from excessive individual labour inputs.

Like other economic laws, the law of value is objective and any trespass against it infringes the interests of some participant in the exchange, so leading to a reduction in the output of some type of commodities. The law of value is manifested as the law of price, and under socialism it operates in a specific way in the planned economy. The operation of this law reflects the planning of prices which are known to be the monetary expression of value. Planned price has an effect on the volume and structure of consumption. Planned price has an effect on state enterprises through that part of it which goes to the enterprise, i.e., is allocated to funds for economic incentives and financing of capital investments.

⁵ Karl Marx, *Theories of Surplus-Value*, Vol. IV of *Capital*, Part 1, p. 315.

⁶ Frederick Engels, *Anti-Dühring*, p. 323.

Planned commodity-money relations and the operation of the law of value do not contradict economic planning; indeed, they are used for the planned direction of the economy.

First, wide use is made in planning of value indicators to express both the quantitative and qualitative assignments of the state, such as planned targets for value added, production costs, profit, and so on. Second, commodity-money relations are used to stimulate fulfilment of state plan targets by enterprises, which is the purpose of the whole mechanism of economic calculus (khozraschot).

The CPSU works to induce skilful operation of all the economic instruments of socialist economic administration and management. The new edition of the CPSU Programme, adopted by the 27th Party Congress, requires that commodity-money relations should be most fully realised in accordance with the content they have under socialism for the purpose of making production more efficient and improving distribution, exchange and consumption.

Chapter Thirty-Two

THE FACTORS OF SOCIALIST PRODUCTION. THE LAW OF STEADILY GROWING SOCIAL LABOUR PRODUCTIVITY

In the light of the relations of production under socialism analysed in earlier chapters, this one shows the factors behind the growing output of material goods and services, as the basic economic law of socialism makes it necessary.

The Material and Human Factors of Production and Their New Economic and Social Content

The elementary factors of the labour process in any society are the personal activity of human beings, i.e., work itself, the subject of that work, and its instruments.¹ Every type of production implies the presence of a material and a human factor, which are conjoined in the process. But the way that is done depends on the various stages of the society's development, and that is what gives them a specific economic and social content in each economic and social formation.

The material factors of production under socialism are social property and acquire the economic and social form of production assets, which radically differ from capital in form of property, purpose of use, and character of movement. Production assets are the main part of socialist property. As socialism develops, there is a further quantitative and qualitative growth of production assets on the basis of the latest STR achievements. Thus, the share of capital investments going into the technical re-equipment and reconstruction of the USSR economy is to go up from 37 per cent in 1985 to 50 per cent in 1990, and the figures will be even higher in industries and sectors where the producer facilities are oldest.

Production is a process that implies man's interaction with Nature. The predominance of social property allows for rational use of natural resources and requires measures to safeguard and reproduce them.

The worker and his capacity for labour (labour-power) is

¹ See: Karl Marx, *Capital*, Vol. I, p. 174.

the human factor in socialist production, which makes use of STR achievements, puts growing demands on specialist knowledge, skills, and general cultural standards. Thus, in 1970, 653 persons per 1,000 employed had a higher and secondary (complete and incomplete) education, and in 1984—868 persons.

Since labour-power is gradually expended in the process of production, there is a daily need to restore the human capacity for work. Individual labour-power is reproduced through individual consumption, as the individual reproduces himself and his maintenance.²

The specific way in which the material and human factors of production are joined together under socialism springs from the fact that the immediate producers have the means of production and the product in their common property, so that there is no sale or purchase of labour-power. Social property unites all the working people and makes their labour function as an aggregate labour-power working for a common purpose in a common effort by all the members of the society. That is made possible by the balanced distribution of labour-power in the spheres of production.

From the standpoint of economic and social form, socialist production presents itself, therefore, as one directly social and organisationally balanced process in which the aggregate labour-power, the social means of production and natural resources function for maximum social output to meet the needs of the society.

Aggregate Labour and Aggregate Social Product under Socialism

total
Social property helps production to operate as the society's aggregate labour. All the species of socially useful activity are divided between two spheres: material production in which the products of labour are turned out, and non-material production which provides the services. Material production is the key sphere in the life of the society, because that is where the national income is created, and its development provides the basis for expanding the sphere of non-material production for the ever fuller satisfaction of human wants (public health, education, culture, and so on). In the socialist society there is a tendency for a growing percentage of working people to be employed in non-material production on the basis of the growing labour productivity in material production.

² See: Karl Marx, *Capital*, Vol. I, p. 167.

Socially organised labour expended in material production and creating material wealth is productive labour directly connected with the production of social use-values. Labour in the other spheres is also socially necessary and is socially useful labour.

Aggregate social labour yields the aggregate social product, the sum-total of products turned out by enterprises in material production. The aggregate social product has both a natural form (the mass of consumer goods) and also labour-value.

In terms of value, the aggregate social product consists of two parts: the transferred value of the used-up means of production, and the newly created value. The aggregate social product is made up of the fund for the replacement of the expended means of production, and the national income, which, for its part, consists of the necessary and the surplus-product.

The necessary product is that which is created by necessary labour, and is the fund of the vital necessities for the workers in material production. Under socialism, this fund helps both to restore the vital energies expended in the process of labour, and to assure the individual of all-round development. In contrast to capitalism, socialism makes it possible to increase the necessary product to a volume of consumption which can, on the one hand, be realised by the productive power available to the society, and on the other, meet the requirements of the individual's full development.³

In the socialist society, the necessary product is increased at a steadily high rate, its structure is improved (a growing share of the means designed to satisfy intellectual and social wants), its levels in the state sector and in the collective-farm and cooperative sector of the economy, and its forms (remuneration of labour and payments from social consumption funds) are approximated to each other.

Every society needs a surplus-product,⁴ but under socialism the surplus-product differs radically from capitalist surplus-value, because it is created by exploitation-free labour and is designed to meet the needs of the society as a whole and the wants of all its members.

The relation between the surplus and the necessary product—the surplus-product rate—indicates the proportion in which the newly created product is used to meet social needs and to set up the fund of vital necessities for those working in material

³ See: Karl Marx, *Capital*, Vol. III, p. 876.

⁴ See: Karl Marx, *Capital*, Vol. III, p. 819.

production. The surplus-product rate has nothing in common with the rate of surplus-value, which is an expression of the degree of the working people's exploitation. The surplus-product rate is increased through the growth of social-labour productivity for the ever fuller realisation of the supreme purpose of socialist production.

Extensive Way of Increasing Production

The volume of the social product and the national income depends directly, first, on the mass of labour applied in material production, and second, on the productivity of social labour and the economic efficiency of social production. Increase in the mass of labour is the extensive way of boosting production, and higher social-labour productivity, the intensive way. Compared with the capitalist society, the socialist society has various advantages in the use of these ways and in combining them in a rational and balanced manner.

The mass of labour applied in material production depends on the number of persons employed in it, the duration of the working day (working week) and the intensity of labour.

Socialist property in the means of production and the balanced development of the economy make the rational use of labour resources objectively necessary and possible. The socialist society is one which has no exploiter classes or unemployment, and labour in it is universal.

The working day includes necessary and surplus labour-time, and is a daily amount of labour each working person puts into overall social labour in a regulated and balanced manner. The duration of the working day is fixed by the state in the interests of the working people. In the socialist society, the duration of the working day is effectively reduced with the growth of labour productivity. In the USSR, the working week in industry now averages 39.6 hours, and 39.3 hours on the whole for all industrial and office workers in the economy (with teachers, medical and other personnel having a shorter working day).

The extensive way of developing socialist reproduction in the USSR has been mainly worked out, and the 27th Congress of the CPSU has set the course for intensifying reproduction in every possible way.

Intensive Way of Increasing Production: Higher Social Labour Productivity

Greater efficiency in production is the main way of boosting it in the socialist society, which means a marked increase in output and national income per unit of labour, material and financial inputs. The touchstone of efficiency in social production is utmost satisfaction of the diverse wants of the members of the socialist society and rising material standards, with the lowest inputs of living and materialised labour.

How efficiently labour resources are used is evident from the indicator of labour productivity; the efficiency of fixed production assets is seen from the product-to-assets ratio, and that of materials, fuel and energy, from the material-intensiveness indicator.

Rising efficiency is the key component of the strategy of accelerating economic and social development in the USSR at the present stage. If the diverse economic and social tasks facing the country are to be successfully fulfilled, labour productivity has to grow rapidly and the whole of social production steeply increased. Greater efficiency of production is made necessary by a number of factors, among them the limited growth of labour resources in the 1980s, the growing costs of producing fuel and raw and other materials, and the rising inputs into environmental protection and the development of infrastructure industries.

Social labour productivity is the synthetic indicator of the economic efficiency of social production, and it is measured by the mass of consumer values turned out per unit time.⁵ On the scale of the country as a whole, social labour productivity is determined by the national income per person working in material production. Social labour productivity is attained through economies not only in living labour, but also in past labour, with the share of living labour in the value of the social product diminishing, and that of past (materialised) labour increasing in such a way that the total labour inputs per unit product are reduced.

Lenin showed the system of social, technical and natural factors behind the growth of labour productivity when the means of production are in social property. If labour productivity is to rise, large-scale industry must be provided with a material basis and natural resources worked up with the use of high technology; the educational and cultural standards of the

⁵ See: Karl Marx, *Capital*, Vol. I, p. 53.

mass of the population must be raised, labour discipline tightened up, labour organisation improved, and work made more efficient.⁶

The historical record shows that as the socialist society matures, there is an ever greater need to raise social-labour productivity at a high and steady rate. Let us note that from 1951 to 1984, labour productivity/growth in the USSR averaged 6.0 per cent, as compared with 2.7 per cent in the United States. The resultant increase in the national income is the basis for setting proportions between accumulations and consumption, boosting real per head incomes of the population, developing the non-production sphere, shortening working time and lengthening leisure time.

The CPSU has now set a task of programmatic significance: to attain the highest world level in social-labour productivity. In the remaining years of this century, it is to increase by 130-150 per cent. That, in short, will be translating into life Lenin's idea that capitalism can be decisively defeated by socialism creating a new and much higher productivity of labour.⁷

All the objective conditions for further raising labour productivity in the USSR have been created. A material and technical base adequate to socialism is in operation, and it is being perfected through the wide use of STR achievements. The economic development level of the Union republics has been evened out, and the country's economy functions as one economic complex. The socialisation of production has gained in depth, and the economic and social factors of social-labour productivity growth have become more effective. Favourable conditions are objectively taking shape for an optimal combination of all these factors, notably scientific and technical progress, high-skilled labour and a well-adjusted organisation of production, administration and management.

⁶ See: V.I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, 1977, p. 257.

⁷ See: V.I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 427.

Chapter Thirty-Three

DISTRIBUTION BY LABOUR. SOCIAL CONSUMPTION FUNDS

How a society's material goods are distributed and in what form depends directly on its mode of production.

How this is done in the communist formation is shown in Marx's *Critique of the Gotha Programme* (Part I, Paragraph 3) and Lenin's *The State and Revolution* (Chapter V, Paragraph 3).

The Marxist-Leninist theory of distribution was hammered out in refutation of the bourgeois assertions that distribution does not depend on the predominant form of property in the means of production, and also of the petty-bourgeois ideas of egalitarian socialism.

Distribution by Labour: *An Economic Law of Socialism*

The Marxist-Leninist classics demonstrated by their doctrine of the two phases of communism the objective necessity of distribution by labour under socialism, and according to needs, under full communism.

Under socialism, the whole product belongs to the society and is used for the good of all the working people. The means of production remain in social property and cannot be distributed between the members of the society.

What is distributed between the members of the society is the articles of consumption, which the working people have as their personal property, with the products going into individual consumption being distributed by labour and through social consumption funds.

Distribution by labour is the main way of distribution. Marx says: "The individual producer receives back from the society—after the deductions have been made—exactly what he gives to it."¹

¹ Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works*, Vol. Three. p. 17.

Distribution by labour is made necessary by the following factors. The development of production still falls short of it being possible to have distribution according to needs, while labour for the benefit of the society has yet to become a prime want of all its members. Both material and moral incentives are still required to keep people working in social production. There is also a substantial distinction between mental and manual labour, between skilled and unskilled labour, and between labour in industry and agriculture. That being so, there is an objective necessity for the society to have distribution proportional to the quantity and quality of labour, both owing to the level to which the productive forces have been developed, and to the character of labour under socialism.

Distribution by labour is a specific economic law of socialism, expressing the objective necessity of distributing the stock of vital necessities between the members of the society in proportion to the quantity and quality of their labour in social production in accordance with the principle of socialism: "From each according to his abilities, to each according to his work." Stringent control and accounting of the measure of labour and the standard of consumption are being exercised by the socialist state.

Distribution by labour is one of socialism's great advantages over capitalism. It stimulates the development of human capabilities, the growth of general educational, cultural and technical standards, occupational training and the development of production itself. Equal pay for equal work rules out the kind of discrimination in pay one finds under capitalism. The principle of socialism "He who does not work shall not eat" is aimed not only against exploiters, but also against spongers and shirkers. Consistently applied, it helps to do away with parasitic consumption and unearned incomes. Distribution by labour is of economic, social and educational significance.

As socialism is perfected in its advance to communism, the necessary prerequisites for going over to distribution according to needs—to full social equality—will be gradually created. To do so, the society must develop its productive forces up to the level of the material and technical base of communism and create an abundance of consumer goods and services. It has to work to develop in each working person a high awareness and high culture of consumption, and the capacity to make rational use of the benefits of socialism.

The CPSU Programme emphasises the fundamental significance attached by the Party to perfecting distribution relations, setting the task of enhancing control over the measure of labour

and the standard of consumption, a more direct relation between wages, labour productivity and quality of workmanship, and an apter blend of material and moral incentives. The thrust is on realising the principle "From each according to his abilities, to each according to his work", which is the gist of social justice in the socialist society. The Party gives much attention to eradicating negative phenomena like unearned incomes and unwarranted egalitarianism, which spring mainly from the violation of the principle of distribution by labour. Better distribution relations should stimulate the development of both the economy and of man's own capabilities, so that the whole system of production relations is perfected, primarily through a higher role for the work collectives in consolidating social property, making more efficient use of commodity-money relations and of economic calculus (khozraschot).

Forms of Distribution by Labour

The existence of two forms of property under socialism determines the two forms of distribution by labour. In the state (whole people's) sector, distribution is effected in the form of wages, and in the collective-farm and cooperative sector, in the form of remuneration of labour.

Wages, as a form of distribution by labour in the state sector of the socialist economy, differ radically from wages under capitalism. In the socialist society, labour-power has ceased to be a commodity, which is why wages are no longer payment for labour-power. The product created jointly by equal proprietors of the means of production belongs on a par to all the working people. In accordance with the doctrine which Marx set forth in his *Critique of the Gotha Programme*, a part of this product goes into individual consumption by the equal proprietors of this product, in proportion to the quantity and quality of their labour.

Wages under socialism are the monetary expression of that part of the society's national income which goes into the working people's individual consumption in proportion to the quantity and quality of their labour.

The wages (payroll) fund depends on the development of social production and on the magnitude of the vital necessities fund that is distributed. Wages are centrally fixed and are regulated in a planned manner by the state.

The basic forms of wages are time wages (for time work), and piece-wages (for output).

There are simple time-wages and time-and-bonus wages.

Among the forms of piece-wages are direct piece-wages, piece-and-bonus wages, progressive piece-wages, and contract-and-bonus piece-wages. The forms and schemes of wages applied depend on the actual conditions of production. Both piece and time-wages may be individual or collective.

The team form of labour organisation and remuneration of labour has been widely applied in the recent period, and is now becoming the basic form of workers' wages. Collective contract induces workers to raise their occupational standards, improve workmanship and boost labour productivity to attain the highest end results. It helps to develop the spirit of collectivism, and to tighten up labour discipline in the production units.

In terms of structure, wages consist of two parts: basic wages, whose size depends on individual performance and is determined in accordance with the basic-rate scheme, and additional (bonus), which depends on the work collective's performance. The right balance between bonuses and basic-rate wages helps to harmonise collective and individual interests.

Lenin attached much significance to harmonising individual and collective material interests and the whole people's economic interests, which have the leading role within the system of economic interests.

Apt use of the law of distribution by labour is of great importance in further perfecting the socialist economy. The society (state) takes strict account of the quantity of labour (duration and intensity), quality of labour (skill and production experience), the working conditions, and the importance of a given industry for the economy as a whole. Wages are organised on the basis of the basic-rate scheme, which includes basic-rates, wage-rate scales, and skill-rate hand-books.

If the law of distribution by labour is to operate, there must be the right balance between the cash incomes of the population and the supply of goods, and the partial disproportions which occur in this area are set right by the boosting of consumer goods output, a radical improvement of product quality, and development of the services sphere.

The development of socialist production requires a steady perfection of the forms of wages, their balanced increase, and strict correspondence to the quantity and quality of labour.

During the 12th five-year-plan period in the USSR (1986-1990), for instance, average monthly wages of industrial and office workers are to go up by 13-15 per cent, to 215-220 roubles in 1990, and those of collective farmers, by 18-20 per cent, to 180 roubles. The basic rates and salaries of industrial and office workers in the economy are to go up in the production

sphere mainly from the funds earned by the enterprises themselves (an approach which should help to boost labour productivity, improve workmanship, accelerate scientific and technical progress, and economies on all resources), and in the non-production sphere, from centralised sources.

Remuneration of labour on collective farms is based on the same principles as in the state sector of the economy, although it does have its peculiarities. The main one is that, in contrast to the wages of industrial and office workers, remuneration of labour depends on the size of the farm's gross income which is set aside for distribution by labour (according to work) by decision of the general meeting of the collective farmers. When collective farms provide guaranteed remuneration of labour, they look to the basic wage-rates and salaries paid at state agricultural enterprises. In addition to the guaranteed basic remuneration of labour, collective farmers receive additional payments when incomes are recalculated in the light of the annual results. These additional wages are a reflection of the end results of the activity of the farm and its units. Bonuses from farm net income in proportion to the initially calculated basic payment are an ever wider practice.

Collective contract in work collectives—teams, units and farms—is of ever greater significance in relating the remuneration of farmers' labour to their performance.

As labour productivity grows in agriculture and as the skill standards of rural working people rise, remuneration of labour on the collective and state farms tends to approximate with each other.

A distinction should be drawn between nominal (cash) and real wages, which depend on the amount of cash wages and the prices of consumer goods and services, and also on the size of the tax. In the socialist society there is a characteristic growth both of nominal and of real wages as social production develops and becomes more efficient.

Social Consumption Funds

Social consumption funds are the second mode of distribution besides distribution by labour.

Social consumption funds are a specifically socialist mode of distribution. Marx held that in the socialist society the proportion of outlays on common satisfaction of wants and maintenance of those who cannot work would grow "in proportion as the

new society develops".² His prediction has been borne out by the realities of existing socialism: social consumption funds in the USSR totalled 4.6 billion roubles in 1940, 63.9 billion in 1970, and 146.5 billion in 1985.

Distribution by labour applies, first, only to the working members of the society. Second, it still has differences in the level of consumption per head, thereby creating different conditions for the all-round development of men and women. Through its social consumption funds, the socialist society exerts an effective influence on the priority in which wants are satisfied, so somewhat evening out the differentials in consumption per head that inevitably arise in distribution by labour. Concretely oriented distribution is a distinctive feature of social consumption funds.

The economic and social substance of social consumption funds is evinced in their purpose: they provide for free education and skill training, free medical care, sanatorium and spa accommodation and physical training, social security and social insurance (allowances, pensions, student grants, annual holidays), maintenance of child welfare and pre-school institutions, young pioneer camps, and various other benefits.

The Soviet state, for instance, expends per student more than 200 roubles a year in general educational schools, over 750 roubles in secondary specialised schools, and about 1,200 roubles in higher schools. It defrays 80 per cent of the cost of maintaining a child at creches and nursery schools, and pays up to 11 roubles a day for the maintenance of a sick person. There are large outlays on keeping the housing stock in good repair, on transit, and urban and rural development.

Almost 70 per cent of the social consumption funds comes from the state budget and is centrally allocated. The rest comes from the enterprises, the collective farms and various organisations.

We find, therefore, that social consumption funds are a part of the national income earmarked for the working people's individual consumption, which is distributed among them in the form of cultural and material goods and services free of charge or for a nominal fee, and also in the form of cash payments. A large part of these funds is distributed regardless of a person's labour input (education, public health care, etc.). Some payments (pensions and allowances) are tied in with the labour input of the members of the socialist society.

² Karl Marx. "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works*, Vol. Three, p. 17.

The 27th Congress stressed the growing role of social consumption funds in effecting the principle of social justice. It set the task of increasing their role in solving production, population and social problems, making more efficient use of the money going into these funds, including that of associations, enterprises, collective farms and organisations, increasing state assistance to families with many children and newlyweds, and improving the working and living conditions of working women. The social security system is being improved. In the current five-year period, social consumption funds are to increase by 20-23 per cent, to over 600 roubles per head of the population in 1990.

The two modes of distribution of the vital necessities fund under socialism are interconnected and complementary, with the social consumption funds growing faster than wages. The development and perfection of the two modes of distribution over the long term will gradually create the conditions for going over to the communist mode of distribution according to needs.

The following indicators give an idea of the structure of the Soviet citizens' incomes. In 1984, wages made up 72.4 per cent of aggregate income of industrial workers' families, with 25 per cent coming from social consumption funds, and 0.7 per cent from individual subsidiary farms. Collective farm families got 44.4 per cent of their incomes from wages, 19.2 per cent from social consumption funds, and 25.1 per cent from individual subsidiary farms.

The consistent application of Lenin's principle of distribution by labour and the rapid growth of social consumption funds in the socialist countries has demonstrated to the world the great social achievements and fundamental advantages of real socialism over capitalism.

Chapter Thirty-Four

ACCUMULATION AND CONSUMPTION UNDER SOCIALISM

Let us see how the part of the social product going into accumulation is used, and its connection with consumption, and also the operation of the law of socialist accumulation.

Socialist Accumulation

Accumulation is the material basis for expanding production, which means the use of a part of the surplus-product for increasing production assets, fixed assets in the non-production sphere, and social reserves. All accumulation under socialism is variously connected with the expansion of production, but production accumulation needs to be brought out as the immediate basis for expanding production. There is also a need to draw a distinction between nominal accumulation, the money allocated for financing accumulation, and real accumulation, i.e., the growth of material values.

In terms of material-thing structure, the surplus-product must be suitable for conversion into the elements of material accumulation the society needs.

The objective necessity of accumulation under socialism was shown by Marx in his *Critique of the Gotha Programme*, in which he outlined the scheme for the distribution of the aggregate social product.¹

In economic and social substance and purpose, socialist accumulation differs radically from the accumulation of capital, for it is the balanced accumulation of the objects of social property for the benefit of the society for the purpose of satisfying the steadily growing material and cultural wants of all its members. That is why socialist accumulation helps to develop the entire system of production relations and to promote their gradual evolution into communist relations.

Socialist accumulation differs from the accumulation of

¹ See: Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works*, Vol. Three, pp. 16-17.

capital in that the rate of accumulation, i.e., its share of the national income, is very much higher, and this visually demonstrates the superiority of the new social system, which has done away with parasitic consumption.

The volume of socialist accumulation grows at a steadily high rate, thereby creating the conditions for rapidly boosting production, perfecting its structure, raising its technical level and increasing concentration.

Accumulation and the Rising Technical Level of Production

Expanded reproduction may be either extensive or intensive. Intensive expanded reproduction leads to a growth in the volume of output by making social labour more intensive, while extensive reproduction proceeds through an increase in the mass of living labour. Intensive reproduction becomes predominant as the socialist society matures.

Accumulation is usually effected in production on a higher technical level than that of the earlier created part of the production assets, with the installation of new instruments of labour and high technology, so that the technical level of production tends to rise in the process of accumulation.

The relation there is described by a category known as the "technical composition of production", i.e., the ratio between the mass of the means of production applied and the number of persons required to use them. Each industry has its own technical composition, which is determined by the specific features of that industry. Enterprises within the industry likewise differ in technical composition, and that depends in part on the difference in natural conditions (in the extractive industries), but mainly on the level of the technical facilities employed. It may be expressed by means of a natural indicator: the mass of the means of production per working person. There are also several other particular indicators of technical standards: electric power per person, shopfloor area per workplace, and so on.

Accumulation and Concentration of Socialist Production

Accumulation in production is expressed in the increase of fixed and circulating production assets, a process that enlarges the scale of production. That is known as concentration of production. Marx says that concentration grows directly out of, or is identical with accumulation.² Lenin pointed to the remark-

² See: Karl Marx, *Capital*, Vol. I, p. 586.

ably rapid concentration of production at ever larger enterprises.³ The scale of production is also enlarged through the merger of enterprises, i.e., centralisation of production.

Concentration and centralisation of production depend on scientific and technical progress, and help to specialise production, use more productive hardware, and raise the efficiency of production. How efficient the material and the human factors of production are depends not so much on the overall output as on the level of specialisation, i.e., the extent to which enterprises are technologically homogeneous. That is the angle from which the economic advantages of large-scale machine production should be viewed. An influence on the efficiency of large-scale production is also exerted by economic and social factors, which depend on the nature of the property in the means of production and on the entire system of economic laws operating under socialism.

However, there are limits to the growth of economic advantages to be gained from a growing scale of production: with a given level of hardware, technology and organisation, concentration of production has definite optimal limits beyond which efficiency tends to decline.

The optimal size of an enterprise depends on such factors as unit power of equipment, technological schemes, distance from the sources of raw materials, energy and consumers of the finished product, availability of labour-power, degree of specialisation and concentration of production, and technical human factors in management. For every stage of scientific and technical progress there is an optimal size of enterprise, which is one requiring minimum labour inputs for the industry in turning out and delivering the product, and so yielding the highest economic and social results.

Concentration and centralisation of production lead to a greater degree of socialisation and consolidate the relations over the socialist social property in the means of production. That is most evident in the establishment of associations (mergers).

Consumption Under Socialism

Consumption is the final phase of reproduction and involves the use of the product. There are two types of consumption: producer and individual consumption. There is no antagonistic

³ See: V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, 1977, p. 196.

contradiction between production and consumption under socialism, because the purpose of production is the ever fuller satisfaction of the whole people's growing wants.

The consumption fund tends to grow with the growth of the national income, the basis for the rising living standards of the working people. Annual consumption funds in the USSR have gone up from 177 billion roubles in 1966-1970 to 302 billion in 1976-1980, and to 354 billion in 1981-1984. Reckoned per head that came to an annual average of 743 roubles in 1966-1970, to 1,156 in 1976-1980, and to 1,305 roubles in 1981-1984.

Improvement of the structure of the consumption fund is as important as its growth. In the USSR, this has meant a growth in the consumption not only of food, clothing and footwear, but an even faster growth in the enjoyment of cultural values. Within family consumption, the cost of education, health care and other services covered from social consumption funds went up, for workers in industry, from 9.0 per cent in 1940, to 13.8 per cent in 1965, and to 15.7 per cent in 1984; for collective farm families, respectively, from 3.4 per cent in 1940, to 10.0 per cent in 1965, and 10.4 per cent in 1984. Cultural standards among the population went up from 1970 to 1984 as follows: the training of specialists with a higher and secondary education per 10,000 of the population rose from 69 to 76, the proportion of students in the population (in all types of education) rose from 33 to 38 per cent, and the number of doctors per 10,000 of the population from 27.4 to 41.2. There has been a steady growth in the number of places available to working people at health resorts and rest homes; in 1984 over 63 million working people and members of their families spent their holidays at health resorts, rest homes, holiday hotels, and holiday camps, and went for hikes from tourist camps.

Diets have also improved in structure. From 1965 to 1983, per head consumption of physiologically valuable produce (meat, eggs, vegetables and fruit) went up markedly, while that of bread products and potatoes went down.

The number of household appliances per 100 families increased from 1970 to 1983 as follows: radios by 33.3 per cent, watches by 27.2 per cent, washing machines by 34.6 per cent, TV sets by 88.2 per cent, vacuum cleaners by 200 per cent, and refrigerators and freezers by 180 per cent.

Under socialism there is a non-antagonistic contradiction between the accumulation fund and the consumption fund, because both are formed from one and the same source. It is

possible and objectively necessary to strike an optimal balance between these two funds, and that is done in the light of the actual conditions in each plan period and the prospects for development. Optimal balance between the two funds depends on the basic economic law of socialism, and it is one that helps to attain maximum national-income growth, which ensures high and stable rates of reproduction, on the one hand, and the highest possible—in the given conditions—rise in the people's well-being, on the other.

In order to strike an optimal balance between accumulation and consumption, there is a need to decide on the rate of accumulation, which is the ratio of the consumption fund to the whole national income. The rate of accumulation depends on the pace at which the economy needs to be developed and on the effectiveness of accumulation. As accumulations become more effective, economic growth rates are ensured by a lower rate of accumulation.

Chapter Thirty-Five

THE PRINCIPLES OF ECONOMIC CALCULUS (KHOZRASCHOT)

The spread of economic calculus (khozraschot) is a key line in implementing the economic strategy of real socialism for steadily raising the people's well-being. Up to now, we have dealt in Part II (Socialism) with the most general economic uniformities of the first phase of the communist mode of production in order to clarify the substance of the socialist relations of production and the basic economic law of socialism. That has helped to show the balanced way in which all the units of the integral economy are developed, and so to understand the new content of commodity-money relations and the role of the law of value under socialism. That is the basis on which we analysed in general terms the process of socialist production and its inner mechanism, so as to show the principle of distribution by labour and the balance between consumption and accumulation under socialism.

From here on, the economic and production processes under way in the primary economic-calculus units of the social division of labour system can be analysed only in the context of their overall interconnections with the integral economic complex.

Economic Calculus Unit: Socialist Enterprise or Association

The enterprise is the primary unit within the social division of labour system under socialism, within the framework of a multifaceted and multi-tiered structure of the integral macro-economic complex.

In 1984, the USSR's industry consisted of 45,500 production and scientific-and-production associations, combines and enterprises with their own balance-sheet, including enterprises subordinate to such associations. The number of production and scientific-and-production associations in 1984 came to 4,300, as compared with 608 in 1970. These associations consisted of 18,500 production units, including over 8,400 with a balance-sheet of their own. These production and scientific-and-produc-

tion associations in industry turned out 49.5 per cent of the realised product, employing 51.5 per cent of the personnel.

The optimal scale and forms of the primary economic calculus unit within the structure of the macroeconomic complex keep changing, depending on the development of the productive forces in the society, perfection of the relations of production, and the use of STR achievements.

Administrative, managerial and economic functions are combined at the associations, which enlarge the framework of the primary cooperation of labour, deepen the division of labour between their constituent enterprises, help to raise the technical standards of production, set up research units, and unify and rationalise the supply of producer facilities to enterprises, and the marketing of their product.

There is a fundamental difference between the primary unit of the socialist economy and any capitalist company or corporation. Socialist associations (enterprises) are based on social property in the means of production, which is why they have relations of genuine collectivism, cooperation and mutual assistance. It is social property that determines the kind of relations they have with each other and with the society as a whole. The key feature of these relations are an organic blend of centralised state administration, including the planning system, and the operational autonomy of associations (enterprises).

But social property in the means of production makes it impossible for associations (enterprises) to be entirely independent or isolated from the rest of the economy, for the starting point for the movement of socialist production is the economy organised in a balanced manner, i.e., the integral macroeconomic complex.

Under socialism, associations (enterprises) are no more than relatively independent in economic terms, i.e., they operate on the principle of economic calculus. But at the various stages of socialist construction, they have a varying degree of this relative independence.

Their relative economic autonomy is amplified through a reduction in the number of production indicators that are centrally assigned, so that the primary economic units bear an ever greater responsibility for the end results of their work, and for timely fulfilment of contractual obligations for delivery of products within the established product mix.

Substance and Principles of Economic Calculus

Economic calculus is an objective economic category of socialism expressing the system of economic relations between

the association (enterprise) and the state, between the primary economic units, between the producer subdivisions within the enterprise, and also between the enterprise and its personnel. Economic calculus is simultaneously a method of socialist economic management based on the use of the economic laws of socialism. The implication is that costs and output need to be commensurate in money terms, i.e., that enterprises have to cover their costs from the proceeds of product sales. Economic calculus is also based on the provision of material and moral incentives to work collectives, on the responsibility of associations (enterprises) and their personnel for the end results of production, and on fund and resource economies, rising labour productivity and profitability.

The substance, principles and significance of economic calculus for communist construction were made clear by Lenin in the early years of the Soviet power, when he said that economic calculus is bound to become predominant.¹ He said that it is necessary to build socialism not directly on enthusiasm, but with the aid of enthusiasm, and on the basis of individual interest, individual incentive and economic calculus.² Lenin believed that economic calculus involved the use of commodity-money relations, but with a consolidation of centralised guidance and an effective system of economic incentives, together with a system of economic responsibility.

The need for every economic-calculus unit to pay its own way is of especial importance for its successful functioning, but Lenin did not reduce it to a mere recoument of current costs, but included the making of profit (profitability), and efforts to create conditions for accumulation.³ All of that calls for economies. Paying one's own way necessarily implies a calculation of costs and benefits, and their comparison so as to attain a definite level of profitability. It also implies material and moral incentives for economic-calculus sub-divisions and their personnel for the end results of production; material and moral responsibility for the results of economic activity both to the society as a whole, and the other enterprises (associations) for fulfilment of contractual obligations; and financial control over the economic activity of the primary units of the integral macro-economic complex.

¹ See: V.I. Lenin, "Draft Theses on the Role and Functions of Trade Unions under the New Economic Policy", *Collected Works*, Vol. 42, 1971, p. 374.

² See: V.I. Lenin, "Fourth Anniversary of the October Revolution", *Collected Works*, Vol. 33, 1973, p. 58.

³ See: V.I. Lenin, "Plan of an Article 'Commercial Organisation'", *Collected Works*, Vol. 42, 1971, p. 357-58.

Lenin said that high profitability depends mainly on timely fulfilment of state plan assignments, on economies of all major and minor resources, and on their rational use.

How successfully economic calculus is practised largely depends on consistent implementation of Lenin's principle of democratic centralism, which provides for centralised and democratic guidance of socialist associations (enterprises) by the state hand in hand with operational economic independence of the primary units of the economy and initiative on the part of work collectives.

Centralised planned guidance of the economy and local initiative are complementary. Sketching out the ways for rapidly rehabilitating and developing the economy, Lenin urged the need to give every major enterprise greater scope for independence and initiative in handling funds and material resources, but always with a growing responsibility and greater concern for the whole people's interests.

Economic calculus is closely bound up with material incentives for the results of labour. The need for material and moral incentives also springs from the fact that labour under socialism has yet to become a prime vital want for all the working people, and Lenin stressed that "personal incentive will step up production; we must increase production first and foremost and at all costs."⁴

Along with material incentives, economic calculus lays down material responsibility for the results of economic activity.

The CPSU is now pursuing a course of enhancing the responsibility of those who manage the associations (enterprises) and of the work collectives for the end results of their work. There are greater demands on precise and complete fulfilment of plan assignments, and for strict observance of labour discipline and performance at every sector of production and in every sphere of administration and management.

Financial control over the activity of economic-calculus units and their sub-divisions is of great significance in ensuring stringent economies and plan fulfilment with the lowest labour, material and financial inputs.

One of the first acts of the young Soviet state was the introduction, on Lenin's initiative, of workers' control over the production and distribution of the product and the organisation of country-wide accounting: "The socialists demand the strictest control by the society and by the state over the measure

⁴ V.I. Lenin, "Fourth Anniversary of the October Revolution", *Collected Works*, Vol. 33, 1973, p. 59.

of labour and the measure of consumption.”⁵

Financial control is the most active form in controlling fulfilment of plans and contractual obligations by associations (enterprises), and of their rational use of material, financial and labour resources, all of which helps to educate the work collective in a spirit of economical and thrifty management.

The economic-calculus method is used in the activity of various structural units of the economy: enterprises (production associations), all-Union (republican) industrial associations and ministries, the whole system of economic-calculus relations being based on economic-calculus at the associations (enterprises). They are the primary structural units of the whole system of socialist social production turning out products worked up to various degrees of finish.

Associations (enterprises) are vested with the right of juridical person. They have current accounts at the bank, the right to conclude contracts with other enterprises for delivery of goods, to demand of other economic units timely delivery of raw and other materials and components, and compensation for breaches of delivery deadlines or volume, to purchase and sell goods, and to receive and pay out monies. The primary economic-calculus unit is given plan assignments by the state for the production of goods or services, and is supplied by the state with the material and financial resources required for its production activity; it keeps a record of the movement of assets, calculates the costs of production and the proceeds of the sale of its products, draws up its balance-sheet, and forms economic incentive funds.

Economic-calculus relations also exist within associations (enterprises), between their various structural subdivisions.

Internal economic calculus helps successfully tackle the overall tasks of the enterprise: timely fulfilment of plan assignments, and the fullest possible tapping and use of internal production reserves. It is an integral part, an extension, of the economic-calculus enterprise (association) and has to pay its own way. The main element of internal economic calculus is calculation of costs and benefits (planned and actual) in all the subdivisions and sections, and provision of material incentives for best performance in production.

Every stage of socialist construction tends to produce its own specific tasks, and these are determined by the peculiarities of the social and political situation, and the country's actual

⁵ V.I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, 1977, p. 474-75.

requirements and potentialities. Economic calculus undergoes essential changes accordingly, a law-governed process reflecting the steady development of the socialist economy. It requires further amplification of economic-calculus relations, which are introduced into every sphere of producer activity: teams, sections, shops, and some enterprise management services, production and industrial associations, applied research institutes, and some ministries and departments. How complete economic calculus is depends not only on its application in this or that unit of the economy, but also on the extent to which the system of economic-calculus economic links involves the agencies of administration, management and material and technical supply.

While consistently putting into practice its strategic line of perfecting the socialist economy in every way, the CPSU has given inflagging attention to enhancing the efficiency of production. This is largely done through efforts to give greater depth to economic calculus and to have enterprises finance themselves.

In order to attain this goal, the 27th Congress of the CPSU decided: the production development fund is to be the main source of technical re-equipment and remodelling; each worker's remuneration is to be more dependent on personal contribution to the end results; the channels through which mismanagement by some has to be made good at the expense of high performance by others are to be completely cut off; the sphere of contractual relations is to be further enlarged, and enterprises are to be held accountable for the fulfilment of their obligations to consumers; and finally, petty tutelage and interference by higher-standing bodies in the legitimate rights of the work collectives is to be stopped, so as to enable the work collectives to find optimal ways of plan fulfilment.

Chapter Thirty-Six

THE CIRCUIT AND TURNOVER OF PRODUCTION ASSETS

Let us continue the examination of the problem of economic calculus, among whose organisation elements is the supply of associations (enterprises) with resources for their economic activity. This chapter considers the economic-calculus substance of assets, their movement and formation.

The Circuit of Production Assets

The resources used by associations (enterprises) in their economic activity have a natural and a value form. The means of production, entered on the books in price terms, and cash funds make up the production assets of the enterprises. Economic-calculus units also have non-production assets at their disposal, such as housing and cultural facilities.

The assets of socialist enterprises add up to form the assets of the economy as a whole. A large part of these is the whole people's property, while the production assets of collective farms are the collective property of their members.

The assets of socialist associations (enterprises) serve the interests of the entire people. In contrast to capital, they are not used for man's exploitation by man and circulate in the process of reproduction in a balanced manner. The assets of socialist enterprises do not include such elements of the productive forces as labour-power, land, and natural resources, which can be neither bought nor sold.

The movement of the assets of socialist enterprises in the process of production and circulation is known as the circuit of assets, and it has this graphic appearance:

$$\begin{array}{ccc} M - C(MP) \dots & P(MP + NV) \dots & C' - M' \\ \text{Stage I} & \text{Stage II} & \text{Stage III} \\ (\text{circulation}) & (\text{production}) & (\text{circulation}) \end{array}$$

Where M is cash funds;

$C(MP)$ —acquired means of production;

P —the process of production in the course of which the value of the means of production (MP) is

transferred to the new product to create a new value (NV);

C' —the finished product;

M' —the cash proceeds from the realised product equal to the sum-total of the value of the used-up means of production and the newly created value.

There is a basic distinction between the first stage of the socialist assets circuit at associations (enterprises) and the first stage of capital circuit. One peculiarity is that labour-power is not a part of the assets circuit, because it is not a commodity. Another is that material and technical supply is planned in accordance with normative inputs of the means of production.

The second stage is the process of production proper, and it is the crucial one in the assets circuit. At this stage, assets assume the production form, i.e., the means of production are joined to the labour-power to create new material values.

At the third stage of the assets circuit, which is circulation once again, the finished product is realised, and the enterprise recoups in cash form its inputs of the means of production and wages, and profit takes shape.

We find, therefore, that the assets of socialist enterprises move in the course of the circuit from the sphere of circulation to the sphere of production and then again into the former.

However, the successive passage of all these stages of the circuit does not at all mean that the total assets of the enterprise are first simultaneously at the first stage, then at the second, and then at the third. An association (enterprise) can function smoothly only if it has assets simultaneously at each stage.

The structure of the production assets of associations (enterprises) is shaped accordingly, their prime element being the assets in the sphere of production, i.e., the productive assets, which, for their part, consist of fixed production assets (buildings, installations, equipment) and circulating assets (stocks of raw materials and fuel, and raw materials being processed). It was Marx who discovered the principle on which assets are divided (by the mode in which value is transferred wholly or in parts), but it is a principle which effectively applies to socialism as well. The assets in the sphere of circulation contain the cash funds of the enterprise and the still unrealised product. Together with the circulating production assets, these circulating assets make up the means of circulation.

Consequently, the assets of associations (enterprises) simultaneously present themselves as a unity of three forms, so that

the assets circuit is a unity of the circuit of their functional forms.

The completion of a circuit does not signify an end to the movement of assets. The cash funds obtained from the sale of the product are once again expended on the means of production and wages, and the assets circuit is repeated, so ensuring the continuation of reproduction both on the scale of the association (enterprise) and on the scale of the society.

The duration of the assets turnover is determined by the average time it takes for every part of the assets to perform one circuit. The circuit time is made up of two parts: the time of production, and the time of circulation.

The working period takes up most of the production time. Depending on the nature of production and the industry, the working time may differ markedly. Production time includes interruptions in the process of labour necessary to give the product the requisite use properties (drying of wood, stand of cheese, wine, etc.). In order to prevent delays in the turnover of assets, the production process must be so organised as to prevent its technology from causing interruptions. This is exemplified by installations for the continuous pouring of steel coupled with the rolling of steel. Finally, production time includes the time during which the means of production remain in the form of production stocks necessary for the normal functioning of production.

Circulation time is the time it takes to realise the finished product and to acquire new means of production. The planned socialist economy provides objective potentialities for making circulation time much shorter than it is under capitalism.

Fixed Assets and Ways for Their More Efficient Use

When studying the concept of fixed production assets, one should be clear on the point that it is not the machines, buildings or installations that are the economic category, but the social mode in which they are used as an economic form of social relations. Marx says that the "way in which machinery is exploited is quite distinct from the machinery itself."¹

The structure of the fixed production assets shows the production designation of the various elements of these assets and is a reflection of the degree to which production is concentrated and technically equipped, and how effective capital

¹ "Marx to Pavel Vasilyevich Annenkov in Paris, Brussels, 28 December (1846)", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 38, 1982, p. 99.

investments are. There is one classification of fixed production assets in the USSR's industry, consisting of eight groups: buildings and installations; transmission devices; power machines and plant; metering and regulating instruments, devices and laboratory equipment; computer facilities; means of transport; and other fixed assets.

Improvement of the fixed assets structure leads to a marked increase in the product-to-assets ratio. Rational fixed assets structures have a great influence on the growth of all economic and technical indicators of the work of associations (enterprises). The socialist society has a stake in increasing the share of the active (working) part of the fixed asset.

The use-value of various elements of fixed assets undergoes a number of qualitative changes because the turnover of fixed assets takes a long time to complete. Fixed production assets are subject to wear and tear and obsolescence.

As Marx noted, "by wear and tear ... is meant that part of value which the fixed capital, on being used, gradually transmits to the product, in proportion to its average loss of use-value."² The amount of wear and tear depends mainly on the duration and intensity with which the means of labour function. Now and again, that is also caused by the workings of the forces of Nature.

Obsolescence is the loss in the value of the means of labour while they still have their use-value. There are two forms of obsolescence: the value of the means of labour may fall, first, because similar machines are being manufactured at lower social-labour cost, and second, because new, more perfect and productive machines of the same value have appeared.

Ending the manufacture of obsolete hardware (equipment) in due time, like the replacement of old equipment with new equipment, is of especial significance under socialism for economising on social labour. The value of the worn-out part of fixed production assets is included in the cost of the product through depreciation write-offs, which are included in the total costs of the enterprise in turning out the product. Once the product has been sold, a part of the proceeds is entered into the depreciation fund in accordance with the established normals to be used for financing the replacement of fixed assets.

Efficient use of fixed production assets, i.e., greater output with the same mass of assets, is an important task of economic-calculus enterprises. The extent to which fixed production assets are so used is expressed in the assets-to-product ratio

² Karl Marx, *Capital*, Vol. II, p. 174.

(average amount of assets is divided by the annual output), or the reciprocal indicator, namely, the product-to-assets ratio (the value of the product is divided by the value of the assets).

*Means of Circulation
and Means to Speed Their Turnover*

Circulating production assets are that part of the material elements of the assets of socialist associations (enterprises) which is entirely used up in the course of every production cycle, while transferring their value to the newly created product and altering their natural form in the process of production.

The value of the circulating assets is fully recouped when the product of the given production cycle is realised and is returned in its entirety to the association (enterprise).

The circulating production assets of primary economic-calculus units consist of two parts: 1) production stocks (inventories), and 2) raw and other materials in the process of production.

The finished product is not a part of the circulating assets because it has already left the sphere of production, and for that reason it, together with cash funds, is included in the means of circulation.

In the course of the circuit, circulating production assets are converted into the finished product and enter the sphere of circulation. That is the basis on which both are included in the enterprise's means of circulation.

The degree to which the means of circulation are used is characterised by the velocity of their turnover. The ratio of the annual product to the annual average of the means of circulation shows the number of turnovers per year as the basis for determining the number of days it takes to complete one turnover. Accelerating the turnover of the means of circulation is an important way of using them more efficiently so as to save on the means of circulation of the association (enterprise), a saving which may be transferred to the state budget.

Faster turnover of the means of circulation helps to reduce the time of production and the time of circulation. Production time can be markedly reduced by shortening the working period through the use of STR achievements. Timely material and technical supply of associations (enterprises) and timely marketing of the finished product have an important role in shortening the assets turnover.

Let us bear in mind that the assets of the primary economic-calculus unit are social property. Two methods are used in

forming the production assets of state enterprises. The first is the allocation of funds from the state budget. When new enterprises are set up, such assets are designed for building and purchase of equipment. Once the enterprise has been built, it is provided with funds to form a part of its stocks of raw materials, fuel, tools, etc. All these means make up the prescribed assets of the association (enterprise) and are known as own means.

Borrowing is the second way. Every association (enterprise), as a rule, obtains credit at the State Bank, and also makes use of the means of production not yet paid for. Borrowed funds are used mainly to form the means of circulation.

State Bank credits to economic units help to accelerate the assets turnover at socialist associations (enterprises) and promote their more efficient use.

Chapter Thirty-Seven

THE COSTS OF SOCIALIST ENTERPRISES. NET INCOME

This chapter ends the consideration of economic-calculus relations. The association (enterprise) makes inputs into production and marketing of the product, and these are recouped with the cash proceeds from the sale of the products at planned prices. Net income, which is allocated under state control, is the excess of proceeds over inputs.

The Costs of Economic-Calculus Units. The National Economic Significance of Prime Costs and Ways of Reducing Them

The economic-calculus association (enterprise) carries on the production and sale of products. The costs of production are the inputs of the economic-calculus unit per unit product. "Costs of circulation" is the term used with respect to commercial enterprises.

A distinction should be made between the costs of an economic-calculus unit (prime costs) and the society's costs, which are equal to the socially necessary labour inputs, i.e., the social value of the product. Prime costs are lower than social value, because they do not include the value of the surplus-product.

Prime costs are based on that part of the value which consists of $c + v$ (transferred value plus the necessary product). But in actual fact, prime costs are no more than the monetary expression of that part of the value which deviates from its basis as price deviates from the social value of the commodity. In quantitative terms, prime costs do not coincide with $c + v$, because the price of the used-up means of production included in the prime costs may be unequal to the value transferred to the commodity. Wages, included in prime costs, are lower than the necessary product, which is included in the social consumption funds, only a part of which is included in prime costs.

Here are some data on the structure of prime costs in USSR industry for 1984. Material inputs made up 83 per cent (of

which depreciation of fixed assets came to 7.2 per cent), wages with deductions to the social insurance fund—14.1 per cent, and other inputs not broken down by elements—2.9 per cent. That is the structure of prime costs in industry as a whole, but it tends to differ markedly by industries and enterprises. That same year, for instance, depreciation write-offs in electric-power generation came to 22.8 per cent of prime costs, as compared with 1.9 per cent in the light industry; wages made up 33.4 per cent in timbering, and 6.6 per cent in the food industry.

In the past, prime costs did not entirely reflect enterprise costs. In the extractive industry, they did not include inputs into geological exploration of minerals and environmental protection. In 1976, a law was enacted to bind all the users of the subsoil to recultivate the topsoil. It also instituted charges for water used by industrial plants from reservoirs. Prime costs now more amply reflect the inputs into labour-power by raising the rates of state social insurance.

Prime costs are a reflection of the way economic-calculus units operate, and their reduction through growing labour productivity is of great significance for the economy as a whole, because that makes enterprises more profitable and so increases the state's financial resources. Prime-cost cutting can also be used to lower prices. The targets now being set to reduce prime costs are used as an economic instrument inducing scientific and technical research and greater efficiency of production.

Higher labour productivity is the basic factor for reducing prime costs, but it does not operate directly; it acts through a reduction in wage inputs per unit product. Labour productivity growth has to outpace the growth of wages.

Wholesale Product Price.

The product of socialist associations (enterprises) is realised at planned wholesale prices reflecting the economic relations between economic-calculus units in production. The category of price and the general principles of price-formation were dealt with in Chapter 31. We shall now consider wholesale price for the circulation of the means of production (material and technical supply of the economy) and wholesale realisation of the articles of consumption.

Depending on the stage at which the product moves from production to consumption, a distinction is made between the wholesale price of the enterprise and the wholesale price of

industry. The wholesale-price structure in industry could be presented as follows:

Prime costs	Enterprise profit	Wholesale marketing increase Costs of circulation Profit	Turnover tax
Wholesale price of production			
Wholesale price of industry (without turnover tax)			
Wholesale price of industry for goods subject to turnover tax			

Prime product costs, wholesale and marketing costs, net income in the form of profit and turnover tax are elements of the wholesale price of industry.

The basic trend in planning wholesale prices is their approximation to socially necessary labour inputs, i.e., value. This requirement is realised through price formation on the basis of the planned sectoral prime costs and planned profits.

The calculation of profits, which are included in price, is being perfected. The latter now corresponds to a greater extent to the labour inputs in a given industry. In manufacturing, profitability rate is fixed with respect to net normative product, and in the light industry, even with respect to a part of it, i.e., added value.

In order to create equal economic conditions for producer enterprises, irrespective of their objective distinctions in production, wholesale prices in some industries are differentiated by groups of enterprises and by individual enterprises. That is done by means of calculated prices within some industries and the establishment of differentiated state procurement prices and increments to them in agriculture. Prices for consumer enterprises are differentiated by zones or are the same for the country as a whole.

An incentive increase to wholesale price for new and highly efficient producer and technical products was fixed on July 12, 1979, by a decision of the CPSU Central Committee and the USSR Council of Ministers. This applied to goods which are up to the best Soviet and foreign models. The increment goes up by 50 per cent when the manufacture of these products is based on schemes that have been recognised as discoveries or inventions in the established manner. The size of this increment can reach 70 per cent of the economic efficiency of the given products. Wholesale prices are cut by 50 per cent of the profit

from second-grade products and products not certified within the established period. These monies go to the state budget.

The CPSU Programme sets the task of perfecting price formation so that prices are a more precise reflection of the level of socially-necessary inputs, and also the quality of goods and services, and more actively stimulate scientific and technical progress, resource economies, improvement of economic, technical and consumer properties of products, introduction of new and advanced ideas, and promotion of savings in every way.

*Forms of the Net Income of Associations (Enterprises).
Rate of Profit and Profitability*

Net income is a part of the price of the product that remains after the deduction of costs. It is an expression of the surplus-product in terms of money, but quantitatively net product does not coincide with surplus-product, and price does not coincide with value.

The economic and social nature of net product under socialism differs radically from surplus-value under capitalism. Under socialism, net product is produced by the labour of working people free from exploitation, which is why it belongs to them and is used for their benefit.

In the socialist society, net income appears in two main forms: association (enterprise) profit, and turnover tax. These have one and the same economic and social nature, their material basis being the surplus (partially necessary) product. They differ in these ways:

a) profit is a variable magnitude which depends on the prime costs (under a given wholesale price); turnover tax is a constant magnitude with a given volume of sales, and is fixed by the state as a definite percentage of wholesale price in industry;

b) profit is formed at every normally functioning economic-calculus unit, while turnover tax is levied only on some commodities; and

c) before being distributed, profit accumulates on the association (enterprise) balance-sheet, while turnover tax goes to the state budget as soon as the product is sold.

As a result, the society's net income consists of the centralised net income of the state, and the net income of the primary economic-calculus units.

Centralised net income consists of turnover tax, payments from state enterprise profits, and income tax from collective farms and other cooperative enterprises. It is the specific econo-

mic role of the socialist state that makes it necessary to centralise such a large part of the society's net income.

Net income of associations (enterprises) is that part of their profits which remains at their disposal. The primary economic-calculus unit of the economy is in need of funds to expand production, provide material incentives to the working people, and meet their social and cultural wants.

When quantified, profit, as a specific form of net income, is the differential between wholesale price and actual costs, and it comes from the surplus-product.

Under the planned economy, the mass of profit is increased by cutting costs, raising the price of higher-quality products, and boosting output. It is in the interests both of the state and of the enterprise to increase the mass of profit because, in the first instance, more revenues go to the state budget, and in the second, a part of the profit is used to increase material incentives for higher performance by producer collectives. Profit is among the basic indicators of centralised planning, and assessment of enterprise performance.

The CPSU has urged greater efforts to raise profitability, eliminate loss-making and increase profits mainly by cutting costs, boosting labour productivity and improving product quality. It has set the task of markedly increasing profit in industry and construction.

Distribution of Association (Enterprise) Profit. Economic Incentive Funds

Profit is distributed on the assumption that the interests of the society and the enterprises are identical, which is why the profit of the primary economic-calculus unit is divided into two parts.

One of these goes to the state budget as payment for producer facilities and constitutes 6 per cent of their annual average amount. Such payment are not levied on the facilities of agricultural enterprises, on enterprises set up with credits from the State Bank, environmental installations, green plantations, equipment for labour protection and safety devices. This payment has to be made regardless of whether or not the plan for profit has been fulfilled. Fixed (rental) payments are used to even out the objective conditions for economic activity in the extractive industry. Any uncommitted profit residue likewise goes to the state budget.

The part of the profit which is left to the association (enterprise) is used to finance capital investments, pay off long-term

bank credits, pay interest on bank credits, increase normals of the enterprise's own means of circulation, make deductions to the consolidated science and technology fund, to the reserves of higher-standing agencies, to the economic incentive funds at the enterprise, and to cover the losses from running the housing and communal service facilities.

The formation of three economic incentive funds from profit is of especial significance. These funds are set up on the basis of state normals differentiated by the years of the five-year plan.

The material incentives fund is formed as a percentage of estimated profit or of the payroll fund in the basic year of the five-year plan with an additional increment from reduced costs. The material incentives fund goes up or down depending on the percentage to which contractual obligations for product delivery are fulfilled.

The social, cultural and housing fund is, on the whole, formed in a similar way, but its growth depends on rising labour productivity.

The production development fund is constituted according to normative deductions from profit. It also includes a part of the depreciation write-offs earmarked for complete replacement of fixed assets. Proceeds of the sale of unwanted property likewise go into this fund.

Economic incentives funds which are formed from profit, depending on the extent to which important state plan assignments are fulfilled, help to make economic calculus a method of the planned administration and management of production.

Chapter Thirty-Eight

DIFFERENTIAL RENT UNDER SOCIALISM

Agriculture is a component part of the integral macroeconomic complex of the socialist society which has a number of peculiarities as compared with industry: a discrepancy (time lag) between production time and the working cycle; a vast natural basis for production; limited optimal deadlines for field operations; and close interpenetration of the economic and natural processes of reproduction. These organic elements of agriculture leave their imprint on the large-scale machine industry which the country has at its disposal.

Furthermore, it is in agriculture that the two forms of socialist social property in the means of production most interact with each other. Together with rent relations, this makes for a wide diversity of economic links.

Socialist Agrarian Relations; Their Distinction from Capitalist Relations

Socialist agrarian relations, a part of the overall system of production relations, include the form of property in land—the principal means of production, the types of land-use, and economic ties between agricultural enterprises.

The form of property in land is most essential for developing agrarian relations. Land, its subsoil, the forests and waters were nationalised for the first time in history as a result of the Great October Socialist Revolution in the USSR. Private property in land was abolished for all time by the Decree on Land enacted by the Second All-Russia Congress of Soviets on October 26 (November 8), 1917.

Land is also the whole people's property in the Mongolian People's Republic. In other socialist countries, land was nationalised partly in the course of agrarian reforms, it was confiscated from the landowners and capitalists, parcelled out and handed over into the property of those who tilled it by their labour. Both the nationalisation of land, and its parcelling out into the property of the peasants mean the end of exploitive relations in the countryside.

In some socialist countries, at the initial stages of cooperation, cooperative incomes were distributed not only by labour, but also partly by the land made available for collective tillage. The small-scale private labour-earned landed property of the cooperative peasants was economically realised through land incomes, an approach which induced masses of middle peasants to join cooperatives and helped to develop socialist land-use, while small-scale private labour-earned property in land continued to exist. The peasants were involved in collective labour and gradually shed their private-property mentality.

But as the cooperatives became economically more organised, and the incomes distributed among the members of the cooperatives grew, land incomes tended to produce some contradictions within the farms, and made it more difficult consistently to apply the requirements of the law of distribution by labour. That is why the cooperatives decided to reduce the share of land incomes and then to abolish them, as the peasants themselves voluntarily decided to do so. Today, even where private landed property is still juridically there, collective land-use has virtually deprived it of any economic content and has effectively turned it into social property.

In the USSR, a part of the land at state agricultural enterprises (state farms) and cooperatives (kolkhozes) is allotted to citizens in the form of house-and-garden plots on which they engage in individual subsidiary farming. That is objectively necessary at the first phase of the communist formation, but over the long term it is a waning form of land-use.

Collective-Farm Incomes and Their Distribution

Along with state enterprises, collective farms have a big part to play in developing agriculture.

Social production on the collective farms is run on the basis of the operation and use of the objective economic laws of socialism, and cooperative enterprise incomes are formed in accordance with their requirements. This process has its peculiarities as compared with state associations (enterprises) which spring from the nature of cooperative property in the means of production as collective property.

The mass of products turned out on the collective farms over a given period (say, a year) make up its gross output, a part of which—that remaining after the deduction of the value (price) of the used-up means of production—constitutes the gross income. It is created by the collective farmers' productive labour. The vast advantages of collective farming, as

compared with fragmented small-scale production, present great potentialities for the rapid growth of gross income. In 1965, the gross incomes (in current prices) of collective farms in the USSR totalled 15.4 billion roubles, and in 1984—35.6 billion.

The collective farms' gross income is divided as follows: 1) the fund for remunerating the collective farmers' labour, 2) net income which goes to meet the needs of the collective farm, and 3) net income which goes into the centralised fund of the state.

The bulk of the gross income is used to remunerate the collective farmers' labour. In 1984, remuneration of the collective farmers' labour on the collective farm, in cash and produce, totalled 22.7 billion roubles, or 61.4 per cent of the gross income, as compared with 9.9 billion in 1965, or 64 per cent of the gross income.

There are certain peculiarities to the operation of the law of distribution by labour and its use in collective farm production. The level on which labour is remunerated depends on the size of the gross income on each collective farm, and the share of the income which goes into the distribution-by-labour fund.

The guaranteed element in the material incentives offered to collective farmers has been enhanced by the growth of incomes, and the greater equivalence of exchange for farm produce sold to the state, so that remuneration by labour-days has been replaced by direct guaranteed cash remuneration of labour.

The part of the gross income which remains after deductions into the distribution-by-labour fund constitutes the collective farm's net income. A part of it goes into the centralised net income fund in the form of income tax, interest on loans, contributions to the collective farmers' pension fund, and social security fund, and the collective farm's insurance fund (insurance of the farm's crops and property).

A large part of the net income is used for collective farm accumulations (increase of indivisible funds, the seed stock and the feed stock). Indivisible funds are the cementing element of the collective farm system.

A part of the net income is used to set up social consumption funds on the collective farm. In addition, an ever larger number of collective farms tend to distribute a part of their net income among their members in the form of bonuses, which are paid out at the end of the year in proportion to basic remuneration. That gives the collective farmers a greater incentive to make the social farm more efficient and more profitable.

If expanded reproduction on the collective farms is to be sustained, incomes must be distributed in proportions that make

economic sense. These cannot remain unchanged and depend on the gross output, labour productivity, the tasks tackled, and other factors.

The CPSU has steered the collective farms into striking the right balance between consumption and accumulation funds when distributing the gross income. Optimal proportions help steadily to build up the indivisible funds and increase the material and technical facilities, while increasing the collective farmers' incomes from the social farms and so raising their well-being.

Rent Relations Under Socialism

The surplus-product has a specific structure in agricultural production. It consists, first, of the surplus-product, which is created in all normally functioning economic enterprises, and second, of a surplus (differential) product which is produced in some zones and at some enterprises because of their higher labour productivity owing to the higher fertility of the soil. In some economic conditions, the additional (surplus) net income of agricultural enterprises assumes the form of differential rent.

Both the nationalisation of the land, and its parcelling out into peasant property signify the abolition of large-scale private property in land with its absolute rent, but the causes and conditions for the emergence of differential rent remain under socialism. Differential rent can exist under the most diverse forms of landed property.

There are essential peculiarities to the formation of social value in agriculture, as in the extractive industry. The social value of farm produce is, as a rule, determined by the inputs of living and materialised labour on the relatively worse and inconveniently situated lands, instead of the average objective conditions of production. That is why there is a differential between the sum-total of individual and social value, and that helps to quantify the differential rent.

Farming only on the best and average-quality lands falls short of meeting the requirements of the socialist society in food and raw materials. The society also has to bring into the economic turnover, and in a balanced manner, the relatively worse tracts of land, setting state order-plans for the agricultural enterprises located on these lands. The costs of normally functioning agricultural enterprises situated on the worst lands are socially necessary costs.

The shaping of social value in accordance with the costs on the worst lands does not mean that the costs of malfunctioning farms located in the same natural conditions are recouped

to determine, especially, or appraise the quantity of

on a par with normally functioning farms.

Costs in the worst conditions of production have to be regulated because of the limited area of land, which prevents the formation of value in accordance with average labour productivity. Lenin stressed that if average conditions were to be regulatory in agriculture, "there would be no difference whatever between agriculture and industry, and rent could not come into existence."¹ This specific feature of agriculture remains under socialism as well, for under its reproduction also has to be effected with a limited area of land.

The conditions in which differential rent originates are rooted both in the natural basis of production (the mosaic nature of the soil) and in economic relations (commodity-money relations, and the two forms of socialist property in the means of production).

Additional (differential) income, the differential between social per-unit value and the lower individual per-unit value is the material basis of differential rent. Such income also originates in manufacturing, but there it is based on rapidly changing production factors, which is why it is not fixed once and for all. But the additional (differential) income in agriculture and the extractive industry is stable because it is rooted in the non-reproducible natural conditions of production.

The natural basis of higher labour productivity is neither the source nor the cause of differential rent. Nor is the additional (differential) income connected with a redistribution of profit between the various sectors of production. It originates in virtue of the limited area of the land as the object of economic management.

Differential rent under socialism springs from the surplus-labour of cooperative peasants applied to a given piece of land and the exceptional application of the forces of Nature ensuring lower individual per-unit value.

In the socialist economy, the right of land-use is exercised both by state and by cooperative associations (enterprises). Economic relations are established between them and the state over the production and distribution of the additional (differential) net income.

In the collective-farm sector, the differential product is the property of the given enterprise. It is converted into the additional net income of the enterprise at which it has been produced, and assumes the form of differential rent. A part of

¹ V.I. Lenin, "The Agrarian Question and the 'Critics of Marx'", *Collected Works*, Vol. 5, pp. 124-25.

this income being redistributed to the central fund, it passes from cooperative property to the whole people's property, i.e., there is a change of proprietor. Here rent relations originate between the state and the cooperative enterprise as representing two different forms of socialist social property. The separation of land-use from landed property is the economic prerequisite for the existence of differential rent as a relation between two subjects (proprietors) over the production and distribution of the additional net income of cooperative enterprises.

Like collective farms, state farms cultivating the best tracts of land have some advantages, and this makes for the emergence of additional (differential) income. However, economic-calculus relations over this differential income within the whole people's sector differ markedly from the rent relations in collective farm production. Although state farms sell their produce as commodities, in contrast to collective farms they are not the proprietors of this produce, and that is why rent relations proper do not originate in the state farm sector, although additional differential income is also produced on these farms.

Differential rent exists under socialism in two forms: Differential Rent I and Differential Rent II. Additional net income resulting from the use of land tracts which are relatively more fertile and better situated is the material basis of Differential Rent I.

The natural fertility of the soil is synthesised with the artificial fertility created by human labour, producing what is known as the economic fertility of the soil. The differing efficiency of successive investments in one and the same tract of land leads to the formation of Differential Rent II.

Differential Rent I springs from extensive expanded reproduction in agriculture, and Differential Rent II from intensive expanded reproduction.

In socio-economic content, differential rent under socialism is fundamentally different from capitalist rent, which is exploitive. Under socialism, it expresses relations of comradely cooperation between the working class and the collective farmers, the working people of town and country. As a component of the national income, it is being used in the interests of all the working people.

The financial-economic mechanism under socialism serves to centralise a significant part of the differential rent within the national fund. That is done through differentiated state procurement prices for farm produce and through the system of income taxes on collective farms.

A certain share of the additional (differential) net income remains at the disposal of economic-calculus enterprises (asso-

ciations), with the share of its second form, associated with the intensification of agricultural production, being higher than that of the first form, connected with the natural fertility of the soil and the location of the farms. The mechanism for such a distribution of the additional net income entails a certain differentiation of the economic indicators of the farms.

The task now is to equalise the economic conditions for raising the incomes of collective farms operating in unequal natural conditions. This will allow more consistent implementation of the principle of equal pay for equal work on the scale of the whole collective-farm system.

Equalising Economic Conditions in Farming

Equalisation of economic conditions for the activity of agricultural enterprises is a complicated and multifaceted process, which affects diverse aspects of socio-economic relations. The material foundation of that process is the growth of collective- and state-farm production, its consistent intensification on the basis of STR achievements. Intensive methods of farming are connected with more rational use of the means of production attached to the land and of living labour itself.

Two groups of factors are highly important in implementing the programmatic demand on equalising the economic conditions of reproduction.

The first and crucial group relates to the sphere of production proper. The main role here belongs to radical land improvement funded from the state budget, comprehensive farm mechanisation, and chemicalisation of production. It is also important to continue deepening the social division of labour, concentrating production, and developing inter-farm cooperation and agro-industrial integration.

The CPSU regards specialisation and concentration of agricultural production through inter-farm cooperation and agro-industrial integration on a modern industrial basis as the main line in boosting agriculture. At the same time, more meat, milk and livestock products should be produced at small, "non-marketing" farms meant to meet the needs of the farmers themselves.

The second group of factors in equalising economic conditions in agriculture is connected with the phases of exchange and distribution within it, with the use of commodity-money relations. Much has been done towards this end by greater differentiation of state procurement prices; payment of transport costs for deliveries to the state starting from the first kilo-

metre; introduction of guaranteed payment for work on collective farms on a par with state-farm wage rates; uniform mandatory insurance of all collective-farm crops and property; and perfection of the income tax system.

These and other measures of the CPSU's agrarian policy are aimed at resolving two interconnected tasks: first, to ensure a reliable supply of food to the population and agricultural raw materials to industry; and second, to continue bringing closer together material, cultural and everyday living conditions in town and country, which is a programme demand of the Party.

State Procurements. Procurement Prices

State procurements of farm produce are an essential instrument in effecting economic ties between industry and agriculture, between town and country. They are meant to ensure a regular supply of food to the population and of agricultural raw materials to industry, and also to set up national stocks and export funds.

As major commodity producers, collective and state farms and inter-farm enterprises (associations) require organised forms of marketing their produce which would guarantee them a steady income. The state procurement network has an important role to play in implementing the country's food programme, under which the population is to be supplied with food according to science-based standards through all-round development of the agro-industrial complex.

Centralised five-year plans (with annual targets) for the marketing of farm produce are laid down for collective and state farms. These order-plans are formalised in contracts. Any output produced over and above the plan can be used by the farms as they see fit: they can sell it to the state, sell it on the collective-farm market at market prices, sell it through consumer cooperative at contract prices, or use it for other purposes, say, in personal subsidiary farming.

The volume of state procurements has been steadily growing with the growth of agriculture's gross and marketable output and its consistent intensification.

The collective and state farms and inter-farm enterprises (associations) sell their output to the state at procurement prices, whose level ensures an adequate profit margin for smoothly functioning agricultural enterprises.

Procurement prices are differentiated by the country's natural-economic zones, for the unit cost of similar output differs

markedly depending on the objective conditions of production.

The procurement price mechanism enables agricultural enterprises to recoup production costs and realise a part of the value of the surplus-product created in agriculture. The other part of its value is channelled by means of procurement prices into the centralised fund of the state's net income, for these prices are on average set below the level of social value.

Such an approach to price setting, on the one hand, enables agricultural enterprises to make an economic contribution to the solution of national tasks and, on the other, gives them a material stake in producing more output, raising the efficiency of cropping and livestock farming, and intensifying their production.

The system of measures aimed to perfect planning and economic stimulation of the development of agriculture attaches much importance to balancing out five-year plan and annual plan volumes of production and state procurements for collective and state farms with the available and allocated material-technical and financial resources, with the fixed production assets and capital investments.

Chapter Thirty-Nine

SOCIALIST SOCIAL REPRODUCTION

This chapter clarifies the substance and the conditions of socialist reproduction, and such relevant economic concepts as aggregate social product, national income and national wealth, and shows how the law of the priority growth of the production of the means of production operates. All these categories need to be considered as a unity and in interconnection with each other, in the light of the general methodological propositions formulated by Marx and Lenin. It is highly important to know these, if one is to determine the optimal growth rate in socialist reproduction, the proportions between its departments, between industry and agriculture, and between accumulation and consumption, that is, if the economic policy is to be scientifically valid.

Socialist Reproduction: Substance and Basic Features

Any social reproduction implies the reproduction of material values, labour-power and the relations of production, and it can be either simple or expanded, i.e., on the same scale, or on a growing scale.

The economic and social substance of socialist reproduction is determined by the character of social property in the means of production, and by its objective economic laws. Its purpose is to attain the society's ever fuller well-being and the individual's all-round development. That is manifested in the growth rate and proportions and in the principles on which all the component parts of the aggregate social product are distributed and the conditions in which they are replaced.

Social reproduction under socialism is a coherent, uninterrupted and organisationally balanced process in which the productive forces and the socialist relations of production are perfected, material output is steadily increased and social property in the means of production consolidated.

Socialist social reproduction has a number of basic features

which make it radically different from capitalist reproduction. The key feature of socialist reproduction is that the abolition of private property in the means of production removes the conflict between the content of social production and the form in which its results are appropriated. The exploitation of labour-power is abolished by socialist social property in the means of production, which is reproduced and multiplied in the process of production so that the relations of comradely cooperation and mutual assistance between working people are consolidated.

Reproduction is effected in a balanced manner by the socialist society, which rests on social property in the means of production, as it concentrates its efforts along definite lines to ensure the objectively necessary proportions. The result is that production ceases to develop haphazardly, with the consequent waste of labour or the deep disproportions and crises which are organic to capitalist reproduction.

High and stable growth rates are a key feature of socialist reproduction, which is why social reproduction under socialism is always expanded reproduction: its scale keeps increasing from year to year. The growth rates of social reproduction in the socialist countries are two or three times as high as those in the capitalist countries. In the socialist countries, faster scientific and technical progress, with a steady rise in the technical composition of production, is the material basis of the process.

That does not mean, however, that reproduction under socialism has no contradictions. Now and again, some aspects of socialist production relations tend to lag behind the rapidly developing productive forces, but these contradictions are never antagonistic. Outdated methods of economic management are eliminated and replaced with new ones by the socialist state according to plan.

Socialist reproduction today has a powerful production, scientific, technical and intellectual potential, a modern well-developed infrastructure, high-skilled personnel, more sophisticated technological and economic links, and ever greater balance. Socialist economic integration now has a much greater role not only as an additional factor in the socialist countries' economic growth, but also as a means for shaping the international proportions of socialist expanded reproduction.

National Wealth and Aggregate Social Product

Socialist expanded reproduction is effected on the basis of the society's national wealth, which is the aggregation of the use-

values created by human labour and accumulated by the society, and also of the natural resources on whose maintenance, transformation and increase labour has been expended.

The elements of national wealth are: 1) fixed production assets, 2) circulating production assets, 3) the assets of circulation, 4) non-production assets, 5) the personal property of the population, and 6) natural resources. At the end of 1984, the national wealth of the USSR was valued at 3.4 trillion roubles (without the value of the land, the subsoil and the forests), including fixed production assets valued at 1.49 trillion roubles. All that despite the losses suffered in the Great Patriotic War, which cost the country almost 30 per cent of its national wealth.

The scale and pace of expanded reproduction depend on the magnitude of the national wealth, which is increased through the expanded reproduction of the aggregate social product. Aggregate social product is the material wealth created by the society in the course of a year, and it helps to ensure uninterrupted socialist production, distribution and consumption. The aggregate social product is created by the labour of those who work in the sectors of material production—industry, building, agriculture, transit and communications, the producer services, material and technical supply, procurement, trade and social catering to the extent to which these involve production processes. The social product is turned out at state and cooperative enterprises, and an insignificant part of it, at individual subsidiary farms. No social product is created in the non-production sphere, although it does promote socialist reproduction. The non-production sphere, which is so necessary to the society, can exist and be improved on the basis of material production and to the extent that the latter is developed.

The division of the aggregate social product by value ($c + v + m$)¹ and by material form (Department I and II), which was discovered by Marx, is of primary significance for the balanced direction of socialist reproduction.

In terms of value, the aggregate social product is divided into two parts. The first of these represents materialised labour, the transferred value (the value of the used-up means of production— c), which is used as the replacement fund. The second part represents living labour, the newly created value ($v + m$), or the society's national income. The necessary product (v) goes

¹ Marx's symbols are used here to express the economic categories and relations that are in accord with socialist property in the means of production and that rule out exploitation. Under socialism, the component parts of the value of the social product ($c + v + m$) have a new economic and social content.

into the individual consumption of those who work in material production, and the surplus-product (*m*) to the society for use in expanding social production, building up reserves, maintaining non-material production, and members of the society who are unable to work, and for other purposes. The antagonism between the necessary and the surplus-product is eliminated by socialism, and both ultimately serve the interests of the working people.

Correct definition of the magnitude of the aggregate social product is of essential significance for the balanced shaping of the rates and proportions in socialist reproduction.

The sum-total of the products of enterprises and industries passes through commodity circulation or goes directly into production and non-production consumption. The goods, and raw and other materials of one set of enterprises are used again and again at other enterprises and constitute a part of their product value. The total output of enterprises constitutes the aggregate social product, including double count, and is known as gross domestic product. It is a reflection of the structure of social reproduction and of the economic links between enterprises and industries. Gross domestic product minus the double count of product value is known as the final social product. It is necessary to determine the actual contribution by each enterprise and industry to the creation of the aggregate social product and to determine the law-governed uniformities of reproduction. The magnitude of the final social product includes the newly created value (national income) and the value earmarked for the replacement of fixed assets (depreciation).

In terms of material form, or economic designation, the whole social product falls into the two departments of social production: Department I, which is the production of the means of production, and Department II, which is the production of the articles of consumption.

There is a balanced and mutual exchange of the products of labour between the two departments. The means of production are returned to the process of production and provide the basis for consolidating the whole people's and collective-farm and cooperative property, and the entire system of socialist production relations. The articles of consumption leave the process of production and go into individual or joint consumption by all the working people and are used for the purpose of raising their well-being.

The two departments of social production are an expression of its most general structure, which also implies the existence

of other internal divisions. The product of Department I consists of the products of the extractive and manufacturing industries, and of the instruments and objects of labour designed for the production of the means of production and the production of the articles of consumption. The product of Department II consists of the articles of personal consumption, articles of short-term and long-term use, and of articles of consumption used for social purposes in the non-production sphere.

The economic-purpose division of the aggregate social product is effected in all the sectors of material production where it is turned out. In industry, this division is expressed as Group A (production of the means of production) and Group B (production of the articles of consumption).

The value and material make-up of the socialist society's aggregate product permits determining the conditions under which the process of reproduction can proceed.

The Conditions of Socialist Reproduction

The objectively necessary proportions between the component parts of the aggregate social product can be consciously maintained in the light of Marx's theory of the realisation of the social product, which states the conditions for simple and expanded reproduction. The whole point of realisation is to ensure the replacement of all the parts of the social product in value and in material form.

The starting point of expanded reproduction is simple reproduction, which makes for stable economic development. Simple reproduction implies that, first, the means of production used up in both departments are replaced by the product of Department I; second, the used-up means of production in Department II are replaced by the newly created value in Department I; and three, the newly created value in both departments is equal to the product of Department II. Consequently, the conditions of simple reproduction are these:

Condition I: $I(c + v + m) = Ic + IIc$;

Condition II: $I(v + m) = IIc$;

Condition III: $I(v + m) + II(v + m) = II(c + v + m)$.

Expanded reproduction requires that, first, the product of Department I is greater than the means of production used up in both departments; second, the national income created in Department I is greater than the value of the used-up means of production in Department II; and third, the aggregate national income created in both departments is greater than the product

of Department II. The conditions of expanded reproduction are, therefore, these:

$$\text{Condition I: } I(c + v + m) > Ic + IIc;$$

$$\text{Condition II: } I(v + m) > IIc;$$

$$\text{Condition III: } I(v + m) + II(v + m) > II(c + v + m)$$

The conditions of reproduction discovered by Marx are valid for both phases of the communist formation.

The conditions for socialist reproduction are taken into account in the process of the constant and balanced movement of all the component parts of the aggregate product, and of their exchange and replacement in accordance with the society's requirements for the means of production and the articles of consumption when national-economic balances are drawn up. This will be seen from the following data of the inter-sectoral balance of reproduction and distribution of the aggregate social product in the USSR for 1972 (billion roubles):

$$I \ 270c + 101v + 84m = 455$$

$$II \ 133c + 57v + 72m = 262$$

$$\text{Total: } 403c + 158v + 156m = 717$$

Condition I:

$$I(270c + 101v + 84m) > I(270c) + II(133c) \rightarrow 455 > 403$$

Condition II:

$$I(101v + 84m) > II(133c) \rightarrow 185 > 133$$

Condition III:

$$I(101v + 84m) + II(57v + 72m) >$$

$$> II(133 = 57v + 72m) \rightarrow 314 > 262$$

Consequently, in the process of reproduction there is a replacement (403c) and an increase in the means of production in Department I and II, an exchange of products between Departments I and II, and involvement of additional labour-power in both departments. The timely replacement of all the component parts of the aggregate social product in value and natural form helps to accelerate the formation of the sources of accumulation and to satisfy the society's growing requirements. The more fully the requirements of the economy and the population are taken into account, the equivalence of exchange maintained and the higher the product quality, the more balanced and dynamic the development of social reproduction.

In order to simplify the analysis of the conditions of socialist reproduction and of the component parts of the aggregate social product, no account was taken up to now of the role of scientific and technical progress, which determines

the operation of the law of the priority growth of the production of the means of production.

The Law of the Priority Growth of the Production of the Means of Production

In his *Capital*, Marx demonstrated that technical progress is manifested in the rising technical level of production, as an ever greater mass of the means of production is set in motion and an ever larger product is created by the same quantity of living labour. This process is the material basis of the law of the priority growth of the production of the means of production. The Marxist theory of reproduction was creatively developed by Lenin in the context of scientific and technical progress. He says: "The whole meaning and significance of this law of the more rapid growth of the means of production lies in the one fact that the replacement of hand by machine labour—in general the technical progress that accompanies machine industry—calls for the intense development of the production of coal and iron, those real 'means of production for the means of production' ".² Lenin draws the conclusion that production of the means of production for Department I grows fastest, followed by production of the means of production for Department II, with production of the articles of consumption growing most slowly.

Technological processes are intensified by the STR, which creates the conditions for ever greater potential economies in materialised and living labour, with that in living labour being more intensive. It tends to speed the obsolescence of hardware and the creation of fundamentally new instruments of labour.

Under socialism, conscious and balanced use is made of the law of the priority growth of the production of the means of production and the scale of its priority growth is regulated. The priority growth coefficient tends to change depending on the concrete internal and external conditions in which the new society is being built, notably on the economic and technical level of production.

The law of the priority growth of the production of the means of production has to operate under the influence of the basic economic law, the law of proportionate and balanced development. The growth of the production of the means of pro-

² V.I. Lenin, "On the So-called Market Question", *Collected Works*, Vol. I, 1977, p. 105.

duction is geared to increasing the production of the articles of consumption and raising the people's well-being, and that requires stable and steady economic development, faster scientific and technical progress and a switch of the economy to the intensive way of development, more rational use of the socialist society's production potential, utmost economies in every type of resource, and higher quality workmanship.

The CPSU's economic policy has always been to have the development of the production of the means of production run faster, and to bring the growth rates in the two departments closer together.

The Soviet Union's productive forces are being raised to a qualitatively new level by the intensification of socialist reproduction, involving faster development of basic industries (metallurgy, power and mechanical engineering, chemicals, transport), perfection of its intra-sectoral structure, build-up of the material and technical facilities for capital construction, application of the latest STR achievements to production and fulfilment of large-scale complex programmes.

Under the ever greater impact of the basic economic law of socialism, the product of Group B tends to grow faster than that of Group A. In the 12th five-year plan period (1986-1990), production of the means of production in Soviet industry is to go up by 20-23 per cent, and production of the articles of consumption, by 22-25 per cent, an increase of 4.1-4.6 per cent a year on average, as compared with the 3.9 per cent in the 11th five-year plan period. But in the economy as a whole, production of the means of production will continue to have priority growth.

The National Income: Production and Distribution

The part of the aggregate social product ($c + v + m$) which remains after the deduction of the fund for the replacement of the expended means of production (c) is known as the national income, the only source for raising the people's well-being and further expanding production.

The socialist society's national income consists of a necessary and a surplus-product, and in material form consists of the entire mass of the articles of consumption turned out in a year (the product of Department II), and also of a part of the product of Department I which is used for expanding the scale of production, and building up stocks and reserves. In terms of value, the national income includes the newly created value and the economies resulting from the efficient use of the replacement fund.

The socialist society's national income, a part of the aggregate product, is created in the sectors of material production. Its volume depends on two factors: first, on the mass of labour used in production, i.e., the number of persons employed in material production, their working time and intensity of labour; and second, on the growth of labour productivity. The increase in the national income nowadays crucially depends on the second factor, the most concentrated indicator of the rising efficiency of production (including the lowering of the material-intensiveness and capital-intensiveness of the product). The higher the labour productivity, the larger the quantum of the aggregate social product and so the larger the volume of the national income.

High national-income growth rates are a most important advantage of socialist reproduction. Thus, from 1950 to 1984, national income in the USSR multiplied 9.9-fold, and in the United States, only 3.1-fold. The acceleration of the society's economic development is expressed in the rising annual increase in the national income. In the short term, Soviet national-income growth rates are to go up from 3.1 per cent in 1981-1985, to 3.5-4.0 per cent in 1986-1990, and up to 5.0 per cent in 2000.

There is a balanced distribution of the national income in the socialist society for the purpose of expanding social production and raising living standards. The primary distribution of the national income is effected at the enterprises and in the sectors of material production, where a part of the national income in the form of the necessary product (v) is placed mainly at the personal disposal of the working people in accordance with the requirements of the law of distribution by labour, in the form of wages, collective farmers' incomes in cash and kind, and the incomes of collective farmers and industrial and office workers derived from their individual subsidiary farms. A part of the surplus product (m) goes to form the profit of the enterprises. A much smaller part of the necessary product and another part of the surplus product are collected by the state into its centralised net income through turnover tax, deductions by enterprises to the social security fund, charges for assets, and fixed payments. The primary distribution of the national income does not allow complete consideration of the society's requirements in expanding production and meeting the diverse social needs. That is why there is a subsequent redistribution of the national income through the socialist society's financial and credit system, trade and the services.

The production, distribution and redistribution of the national

income lead to the formation of the accumulation fund and the consumption fund. The consumption fund takes up roughly 75 per cent of the national income, and the accumulation fund, 25 per cent.

The accumulation fund is used to expand production, and build up social reserves and the social security fund, and carry on capital construction for cultural and everyday purposes. The consumption fund is used to pay for the labour of those employed in material production, to develop science, education, public health care, and art, to pay pensions and to maintain the state apparatus and the country's defence capability. Thus, the expenditure of the accumulation fund and the consumption fund in accordance with the requirements of the system of socialist economic laws determines the pace and proportions in the development of the departments and sectors of social reproduction.

The Reproduction of Labour-Power

The reproduction of labour-power is an organic part of socialist expanded reproduction. It was scientifically demonstrated by the Marxist-Leninist classics that labour-power is the principal element of the productive forces. The reproduction of labour-power under socialism differs radically from this process under capitalism. Under socialism, it is associated and socially unified labour-power. In the presence of social property and the workers' directly joined to the means of production, labour-power cannot be bought or sold, as it is under capitalism, for it is involved in the direct social process of production. The reproduction of labour-power is under the influence of the entire inter-related system of the economic laws of socialism, primarily the basic economic law and the law of population. Together with the other laws, the socialist law of population is a reflection of the objective necessity and possibility of involving the able-bodied population in socially useful activity, which ensures the growth in the number of those employed and their more efficient use for the purpose of enhancing the well-being and all-round development of the members of the society.

The reproduction of labour-power implies, first, restoration and development of the workers' capacity for labour, their orderly instruction in socially useful activity, with general education and occupational training and retraining, and rising cultural standards; second, balanced use, distribution and redistribution of labour resources by spheres, subdivisions, sectors and economic regions of the country, enterprises, and work-

places; and third, full employment of the entire able-bodied population and efficient use of labour-power at each workplace, enterprise, industry, and the economy as a whole.

Social consumption funds have an ever greater role in reproducing the capacity for work, which is no longer the worker's private business, because all the working people are co-masters of the means of production. That is an important distinction between the reproduction of labour-power under socialism and its reproduction under capitalism.

Under socialism, the aggregate labour-power is distributed in a balanced manner on the basis of the social division of labour. There are various forms in which labour-power is distributed; job placement for graduates of higher schools, secondary specialised and technical trades schools, social call-ups, special drives by enterprises to recruit workers, and so on. Thus, in 1984, higher schools in the USSR graduated 855,000 specialists, secondary specialised schools—1,246,900, and technical trades schools—2.5 million skilled workers in the mass occupations; 7.2 million were trained in new occupations and fields, while 39.3 million industrial and office workers, and 3.2 million collective farmers raised their skill standards.

There has been a steady rise in the annual average number of industrial and office workers and collective farmers in the country: it went up from 106.8 million in 1970 to 129.5 million in 1984, with the number of workers (including junior service personnel and guards) going up, respectively, from 64.9 million to 81.2 million.

The abolition of unemployment and full employment of the population in socially useful labour is one of socialism's great gains. More than 92 per cent of the USSR's able-bodied population is employed in the economy or is engaged in full-time study.

The STR and the STR-induced intensification of production enhance the significance of human beings as the society's principal productive force, as the focus of all social relations. There is a change in the role and status of the working person in production and the shaping of a new type of personality. The quality make-up of labour-power is being steadily improved: the number of specialists with a higher and secondary specialised education in the economy went up from 16.8 million in 1970 to 33 million in 1984. The 27th Congress of the CPSU mapped out a programme for profound transformations in social labour, with a substantial rise in technical facilities available per worker, scientifically grounded distribution by labour, utmost concern to meet the labour-power requirements of industries and economic regions, and the more efficient use of labour resources.

Chapter Forty

COMMODITY CIRCULATION IN SOCIALIST SOCIAL REPRODUCTION

Under socialism, the material content of reproduction assumes a commodity form. Before passing from production to consumption, the product goes through the stage of commodity exchange, which is effected through the medium of money and is known as commodity circulation. Within the framework of exchange, a distinction should be made between the circulation of commodities and the circulation of money. This chapter analyses the first aspect of exchange: the circulation of commodities and its concrete forms.

Commodity Circulation in Socialist Reproduction: Its Role and Forms

Commodity circulation is a necessary phase of social production whose place was defined by Marx as follows: "Exchange is simply an intermediate phase between production and distribution, which is determined by production and consumption".¹ The mediating role of exchange (commodity circulation) shows that it is a secondary phase of reproduction, but it is capable of exerting a reciprocal effect on production, because the conditions and incentives for continued production are created by the carrying of the products of labour to consumption. The fact that this act has a commodity-money form tends to enhance the influence of exchange on production by making the work of each enterprise contingent on the sale of its products. If expanded reproduction is to be ensured, there is a need to recoup the costs of the enterprise in turning out its products and realising the surplus-product. Commodity circulation helps to exchange the product into money and so to ensure sustained resumption of production on an expanding basis.

The character of commodity circulation depends on the economic and social nature of production: "A distinct mode of

¹ Karl Marx, *A Contribution to the Critique of Political Economy*, p. 204.

production thus determines the specific mode of consumption, distribution, exchange and the *specific relations of these different phases to one another*.²

The specific features of commodity circulation under socialism, as compared with those under capitalism, are determined by socialist property in the means of production. The bulk of the commodities entering circulation under socialism are those produced at state or collective-farm and cooperative enterprises. That is of exceptional significance because it gives commodity circulation a different economic and social purpose. Under capitalism, the purpose of commodity circulation is to realise the surplus-value incorporated in the commodity, but under socialism, commodity circulation, like production, is designed for all-round human development and the further raising of the working people's living standards. The reciprocal effect of commodity circulation and production is used for the same purpose.

Commercial enterprises make up their order-books for production enterprises after studying public demand. It is important, therefore, to bear in mind not only that the ultimate purpose of production is to satisfy the various social requirements, but also to draw the practical conclusions, one of which certainly consists in giving the consumer an opportunity to exert a broader effect on production, be it of producer goods (raw and other materials, machinery and equipment) or consumer goods.

In addition, commodity circulation under socialism is planned, because the commercial enterprises and the commodity mass they offer for sale are social property. The stocks of commodities, their flows and their selling prices are in the main planned by the socialist state. Commodity circulation does not act as the regulator of production and does not have the definitive effect on the distribution of the means of production and labour-power between the various units of the economy. The practice of socialist construction has shown that there is no substance to the conception of a "market socialism", which exaggerates the role of the market in social production.

The sphere of commodity circulation, i.e., the whole aggregation of the acts of sale and purchase, of the economic relations between sellers (producers) and buyers (consumers) of commodities is called the market. In economic terms, the market under socialism differs radically from the market under capitalism. First, the agents of the market under socialism all have the same economic and social nature: the sellers and buyers are

² *Ibid.*, p. 205.

either state enterprises, collective farms, cooperatives or working people, between whom there are no antagonistic contradictions, and the unity of whose vital interests is determined by socialist property in the means of production. Second, only consumer and producer goods, assuming a commodity form, are sold on the socialist market; there is never any sale of labour-power, currency or securities.

The following forms of commodity circulation are determined by the presence under socialism of state and collective-farm and cooperative property in the means of production and personal property in the articles of consumption: a) the commodity circulation of producer goods; b) the procurement of farm produce; and c) trade in consumer goods.

Commodity Circulation of Producer Goods: Material and Technical Supply

Socialist property in the means of production implies that the newly produced means of production are realised in a planned manner, so ensuring their delivery to the points at which they are most necessary in the social interests, creating the possibility for planning producer-goods-input normals and saving labour in moving these products to the points of designation.

The use of commodity-money relations under socialism imparts to the sale of producer goods the form of commodity circulation. An important feature of commodity circulation of producer goods is that it is effected in the form of centralised material and technical supply.

The bulk of the producer goods turned out at state enterprises is distributed between the industries and sectors of the economy by way of stock allocation, a process in which consumer enterprises are attached to specified producer enterprises, which establish with each other long-term and direct ties for the sale and purchase of producer goods under the allocated stock.

It is impossible, however, to distribute by way of centralised stock allocation the great diversity of producer goods, as that would inevitably inflate the material and technical supply apparatus. That is why some producer goods are sold at wholesale fairs and wholesale shops.

There is also commodity circulation of the means of production between enterprises in the state sector and the collective-farm and cooperative sector. In that case there is a change of proprietors. There is planned supply of tractors, farm machinery, fuel and other facilities not only to state farms, but also to collective farms. Like other agricultural enterprises, collective

farms sell their crop and livestock products to state procurement agencies in accordance with the state procurement plan (see Chapter 38).

The sustained improvement of the system of material and technical supply has turned it into a flexible economic mechanism which enables the socialist economy to run smoothly, and actively helps to establish long-term and direct ties between producers and consumers on a contractual basis, and to tighten delivery discipline.

Trade in Consumer Goods. Retail Prices

Consumer goods become the property of citizen mainly as a result of the act of sale and purchase. Commodity circulation links up production and individual consumption, and helps to satisfy the working people's steadily growing wants. Here, commodity circulation has an active effect on production, stimulating timely renovation of the product mix and improvement of product quality. Trade exerts its influence on production by studying and forecasting public demand for consumer goods. Trade in consumer goods also has an active influence on personal consumption by attracting the attention of potential customers to new lines of goods by means of commercial advertising.

The labour-earned cash incomes of the population are realised in trade, since exchange, says Marx, determines the products in which the individual claims to make up the share assigned to him at distribution.³ Trade, therefore, completes the process of distribution by labour, and whether the buyer is able to exchange his labour-earned income for the commodities he needs, to a great extent depends on the state of trade.

The two forms of social property in the means of production, together with the individual subsidiary farms make for the existence of three forms of consumer goods trade: state, cooperative and collective-farm.

The state marketing network catering for the urban population has the chief role to play in the consumer goods trade: in 1984, it accounted for 71.6 per cent of total retail commodity turnover in the USSR, which, incidentally, had by then multiplied nearly 12-fold over 1940. Cooperative trade is effected by consumer cooperatives in the countryside. The fixed and circulating assets of consumer cooperatives are the collective property of their members. In 1984, consumer cooperatives in the

³ See: Karl Marx, *A Contribution to the Critique of Political Economy*, p. 194.

USSR accounted for 27.3 per cent of the country's retail trade.

Collective-farm trade also has an important role in providing an additional channel for the supply of farm produce to big and small towns. Collective-farm trade helps to market some of the produce of collective farms and state farms, but mainly that of the citizens' individual subsidiary farms. In 1984, collective-farm trade in the USSR accounted for 1.1 per cent of its retail trade. A specific feature of collective-farm trade is that its commodity stocks and prices are not planned by the state.

In state and cooperative trade retail prices are fixed in accordance with plan on principles which are common to every other price, as analysed in Chapter 31. As the final price at which commodities pass into the sphere of personal consumption, retail price must on average correspond to labour value for the whole mass of commodities. But for some groups of consumer goods, retail price tends to deviate from value, both upwards (as for alcoholic drinks) and downwards (live-stock produce, clothes and footwear for children, medication, books, etc.). These retail price deviations are used to regulate the balance between supply and demand. The socialist state has pursued a policy of stable prices for the main consumer goods.

Foreign Trade and Its Economic Efficiency

Foreign trade is a special form of commodity circulation carried on, as a rule, on the basis of state monopoly, which means that the state itself carries on foreign trade through special agencies. Foreign trade monopoly was introduced in the Soviet Union in the early 1920s on Lenin's insistence, when he said that customs tariff policy could not protect Soviet Russia's weak industry from foreign capital and that the country could be industrialised only with a foreign trade monopoly.⁴

Foreign trade has an important part to play in socialist reproduction helping to use the advantages of the international division of labour for purchasing producer and consumer goods which the country either does not make or makes in inadequate quantities, but which are required for expanding production and raising living standards. Foreign trade can also yield a direct economic effect, i.e., it can save labour, when the exported goods have a national value below their international value, and imported goods, a higher value.

The importance of foreign trade, as of the socialist countries'

⁴ See: V.I. Lenin, "Re the Monopoly of Foreign Trade", *Collected Works*, Vol. 33, 1973, p. 458.

other external economic ties, is enhanced by political motivations. Their fraternal cooperation helps to strengthen the might and cohesion of the world socialist system. Its close trade and other contacts with the less developed countries facilitate the restructuring of their economy and social life on progressive principles. Economic ties with the capitalist countries consolidate and enlarge the material basis of the policy of peaceful coexistence. They are also necessary for the solution of some world-wide problems.

Chapter Forty-One

FINANCE, CREDIT AND MONETARY CIRCULATION IN SOCIALIST SOCIAL REPRODUCTION

The movement of material and money stocks leads to the shaping of economic relations in the sphere of circulation. In the course of this movement, a part of the money is separated from the circulation of commodities and performs a relatively independent movement. That is why there are financial and credit relations with an important role to play in socialist reproduction.

Finance: Substance and Role Under Socialism

The socialist society's finances are an aggregation of economic relations through which incomes and accumulations for the needs of expanded reproduction are formed, distributed and used in a balanced manner, the people's well-being enhanced, and state and other requirements met. Finance is a derivative form of commodity-money relations.

need

Finance is an expression of the economic relations between the socialist state and associations, enterprises and organisations, and also of the relations between associations, enterprises and organisations with each other.

The socialist society's finance includes the finance of associations and enterprises, sectors of the economy and of the state—the state budget and the state social security budget. All of these are organically inter-related and constitute a coherent system of the socialist society's finance.

Finance is used for the distribution and redistribution of the national income between the state sector and the collective-farm and coöperative sector of production, between the sectors of the economy, and between the production of material goods and spiritual values. The aggregate social product is allocated to the replacement fund, the accumulation fund, and the consumption fund by the socialist society by means of finance in a planned manner. Finance has an active role at every phase in the movement of the aggregate social product.

Finance is also used to exercise control and verify observance by organisations of the procedures laid down for the formation

and expenditure of cash funds and fulfilment of their financial obligations to the state. This function of finance is evident when the state budget is made up and performed, and when decisions are taken on budget and expenditures.

The Socialist State's Budget

The state budget is the main element of the socialist society's financial system. As an economic category of socialism, it is the main centralised and plan-formed fund of monetary resources which the state requires for the exercise of its functions. It is also the financial plan of the state's revenues and expenditures.

While the rights and economic independence of associations, enterprises and agencies in the use of money accumulations are being amplified, the leading role continues to belong to the state budget, through which two-thirds of the country's national income is distributed and redistributed.

The USSR State Budget includes the all-Union budget, the budgets of the Union republics, and the state social security budget. It is linked to all the industries and sectors of the economy and is the state's key instrument in the balanced exercise of its economic and organisational functions.

It differs basically from the budgets of capitalist states for it is an expression of the working people's vital interests, relies on social production, which is developed in a balanced manner, and for its part exerts an influence on the shaping of the necessary proportions in social production.

The State Budget of the Soviet Union has grown in volume with the growth of socialist production: in 1986 its revenues came to 414.5 billion roubles, as compared with 102.3 billion in 1965, with expenditures at 414.3 billion and 101.6 billion roubles, respectively.

Soviet State Budget expenditures never over-run revenues, and it does not develop a deficit.

More than 90 per cent of the revenues of the USSR State Budget comes from the net income of socialist associations and enterprises.

State Budget revenues consist of various types of receipts from the incomes of socialist associations and enterprises, organisations, industries and sectors of the economy, the main ones being: turnover tax (a fixed percentage of commodity price), and deductions from their profits, which in 1986 made up 70 per cent of the State Budget revenues, while income tax on collective farms, cooperative enterprises and public

bodies came to only 0.5 per cent of the revenues.

Income tax on the population is likewise a small proportion of the socialist countries' budget revenues: in 1986, this kind of income tax amounted to 30.7 billion roubles, or 7.4 per cent of the state budget revenues. Meanwhile, in fiscal 1985/1986 income tax on the population (including indirect taxes and social security contributions) made up almost 90 per cent of the US Federal Budget revenues, with one-half of the revenue coming in the form of personal income tax.

A part of state budget revenues in the socialist countries consists of credits made available by the population from its incomes (bonds, lotteries and savings).

The distribution of profit on the basis of normals is being introduced in the USSR. Fixed normals for deductions from profits to the State Budget (differentiated by years) are being established for the industrial ministries. The five-year plans also state the absolute amount of deductions which the ministries are to guarantee. Failure to fulfil the profit plan means that enterprises still have to make the planned annual payments into the State Budget, while the amount of the profit left at the disposal of the ministry is reduced. Such relations with the State Budget require of ministries, associations and enterprises high efficiency in economic management, efforts to dig deep to tap reserves for making production more efficient, and to see that they are not loss-makers.

Here are the proportions in which the USSR State Budget revenues were expended to finance the economy in 1986: 56.9 per cent went to meet the needs of the economy; 31.8 per cent into social and cultural measures and science; 0.7 per cent into the maintenance of state administration agencies, and 4.6 per cent into defence. Almost 90 per cent of all State Budget resources are used for economic, social, cultural and scientific purposes. That is one of the key features of socialist state budgets. These outlays are used in the working people's interests, both to develop production through faster scientific and technical progress, to satisfy the requirements of the population directly, and make use of intensive factors in economic growth.

Much is being done to stimulate scientific and technical progress. A total of 29 billion roubles came out for this purpose from the USSR State Budget in 1986, as compared with the 4.1 billion in 1965. In addition, state-wide funds for scientific and technical development have been set up and these are formed at the ministries through deductions from the profits of the enterprises in their industries.

In order to accelerate the socialist society's economic and

social development, finance and credit must have a greater influence on improving the economic-quality indicators, cutting back unproductive spending and losses, increasing state revenues and making the whole economy more efficient.

Credit and Banks Under Socialism

Credit is a system of monetary relations arising in a process in which temporarily uncommitted funds of the State Budget, associations, enterprises, organisations and the population are marshalled and used on terms of repayment. Credit is used by the state for a specific purpose: for expanded reproduction and other needs of the socialist economy.

Credit differs from funding in that it is repayable, while the funding of enterprises and organisations from the State Budget is non-repayable.

Credit exists because the enterprises do not always need the same volume of funds as that of the stocks assigned to them in the process of their circuit, and it is quite natural for enterprises to have uncommitted monetary funds. These appear in the form of the depreciation fund, and also in the movement of the means of circulation. Enterprises do not use at once the proceeds from the sale of their commodities and material goods and services rendered to buy the objects of labour and to pay wages, with the result that they have uncommitted funds. Another source of credit is that part of the money which is accumulated for capital investments and transferred into the State Budget.

A part of the temporarily uncommitted monies is kept on the accounts of socialist social security fund. The cash of social organisations and trade unions is also available until it has to be used. Credit resources are also formed from the monetary reserves of the State Budget resulting from the surplus of revenues over expenditures. A part of the money belonging to collective-farms and that deposited by the population on savings accounts is also temporarily uncommitted.

Enterprises and economic organisations taking out bank credits have to repay them when they fall due, and must have a material collateral which is warranted by their actual plan fulfilment.

Bank credits are long-term and short-term. Short-term credit is as a rule made available for one year and is used to build up the means of circulation. Long-term credit, for a period of 10 or more years, is used to increase the fixed assets of socialist enterprises.

Credit has an important economic role. It is used to redistribute material stocks and cash funds, to create the conditions for faster turnover of material goods and cash funds, and to shorten the phase of commodity circulation and the entire process of reproduction. Credit is used as an economic instrument to regulate the circulation of money. No-cash settlements, i.e., the substitution of credit for cash, are of especial significance. The development of credit relations helps to consolidate economic calculus and enables the enterprises to fulfil their economic plans and practice economies.

In the socialist countries, banks also issue credits to citizens. Long-term credits are made available for building individual homes, buying livestock and for other purposes. The sale of consumer durables also involves the use of short-term credit.

The USSR's credit and banking system includes the State Bank, State Construction Bank (which finances and provides credit for capital investments), the Foreign Trade Bank, and state savings banks.

The State Bank of the USSR stands at the head of the banking system. It issues paper money and makes available short-term and long-term credits to the economy. Its organisations (offices, branches) function in all the republics, territories, regions and districts.

Banks operate on the basis of economic calculus, and their activity yields a profit, i.e., the differential between the interest they receive and their costs.

The Circulation of Money in the Socialist Economy

The servicing of all the enterprises and organisations by one bank makes it possible to effect the mass of settlements arising from the movement of commodities and material goods in the form of no-cash settlements, so that the requirements for cash (money supply) as means of circulation are sharply reduced.

The circulation of cash is connected mainly with the remuneration of the working people for their labour, cash payments to the population from social consumption funds, the sale to the population of consumer goods through the state and cooperative marketing network, and payment for services. In the socialist countries, currency in the form of cash circulates only within the borders of the country.

No-cash and cash settlements constitute the unified circulation of money, and the unity of these two forms is ensured by the fact that either form is convertible into the other.

The normal functioning of the circulation of money requires

planned proportionality between the money supply and the quantity of goods and services sold to the population at fixed prices. Balanced and stable circulation of money, for its part, is an important instrument for keeping the economy supplied with funds. The state plans the circulation of money on the basis of a balance of the population's cash incomes and expenses, the cash and credit plans and the State Budget. The planned circulation of money makes the currency stable, which is expressed in the stability of its purchasing power.

Chapter Forty-Two

THE WORLD SOCIALIST ECONOMY

This chapter shows the basically new character of socialist international relations of production and the specific ways in which the economic laws of socialism operate in this sphere.

The World Socialist Economy: Substance and Main Features. Socialist International Production Relations

The formation of the world socialist system is cogent proof that the Marxist-Leninist doctrine is viable and correct. The Marxist-Leninist classics analysed the economic development of the capitalist society and showed that it emerged for objective and law-governed reasons as a result of mankind's historical advance along the way of economic, social and political progress. Back in 1847, Marx wrote: "For the peoples to be able truly to unite, they must have common interests. And in order that their interests may become common, the existing property relations must be done away with... The victory of the proletariat over the bourgeoisie is, at the same time, a victory over the national and industrial conflicts which today range the peoples of the various countries against one another in hostility and enmity."¹

Socialism, which was first established in one country, has evolved into a world system including a number of countries on three continents. Lenin emphasised that the peoples taking the socialist way must be united in trust and a solid economic and political alliance, without which the capitalists and the landowners could crush and strangle them separately.² Such an alliance is possible because the socialist countries have for their economic basis social property in the means of production; their state system is people's power led by the working

¹ Karl Marx and Frederick Engels, "On Poland"; in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, 1977, p. 388.

² See: V.I. Lenin, "Letter to the Workers and Peasants of the Ukraine Apropos of the Victories over Denikin", *Collected Works*, Vol. 30, 1977, p. 296.

class; they have the same ideology—Marxism-Leninism, a common goal—communism, and common interests in defending their revolutionary gains.

The socialist character of international economic relations will be seen from the fact that under them the specific socialist laws of production are fully manifested. The basic economic law brings out the unity of the national interests of the countries within the world socialist economy, which is being consolidated through their concerted economic activity. The law of proportionate, balanced development shows that these countries can and must concert their actions within the framework of the international division of labour and exchange. The peculiar aspect of its manifestation lies in the fact that there is no centralised administration of the individual economies as a single whole, which is why voluntary coordination of the socialist countries' economic plans and their joint planning is the specific means for attaining balanced development.

The law of value has a role to play in international economic ties. It is the basis for attaining mutual advantage and equivalent exchange between the socialist countries. The law of value is the basic price-formation factor in the socialist countries' foreign-trade turnover, but it is not a regulator of economic relations.

Within the world socialist system there is an evening out of the countries' economic development levels as they draw ever closer to each other in national income and industrial output per head, labour productivity and other indicators. Accelerating this process is a key task of the CMEA countries in the economy and their cooperation with each other at the present stage.

Socialist Economic Integration

Socialist economic integration is a process, consciously regulated by the CMEA countries' parties and governments, in which the international socialist division of labour is effected, the economies are brought closer together, a modern and highly efficient structure of the national economies is shaped, and their economic levels are gradually approximated and evened out. This process runs on the basis of deep and stable ties in the basic industries, science and technology, in an ever wider and more solid international market and sounder commodity-money relations.

Socialist economic integration differs fundamentally from capitalist integration in character, objectives and tasks, for it is a manifestation of the specific features of the new society.

Its main objective is to accelerate the growth of the fraternal peoples' material well-being and cultural standards through scientific and technical progress, higher efficiency of social production, and the use of the advantages of socialism as the most advanced social system.

It is effected on the principles of socialist internationalism, respect for state sovereignty, independence and national interests, non-interference in internal affairs, complete equality, mutual advantage and comradely mutual assistance.

The socialist countries' economic cooperation is being steadily deepened and widened, and that has helped them substantially to consolidate their industrial, scientific and technical potential, to carry out major social programmes and boost every sector of the economy and further develop science and education. The cooperation between the fraternal parties and states has become more flexible and wide-ranging, and that has helped them to score major successes in building socialism and communism.

Bourgeois theories take different views of socialist economic integration. Some say there is no difference between it and capitalist integration; others admit that socialist integration has its specific features, but try to detect some kind of "fundamental flaws" and declare anything done to expand socialist economic integration to be "ineffective".

In an effort to fan nationalistic attitudes in the socialist-community countries, the apologists of the bourgeois system deliberately ignore the great assistance these countries have been getting from the Soviet Union, and spin out inventions about its forcing economic integration on the other socialist countries.

Differences, different approaches and some problems may arise between the socialist countries in their economic and social development, but these are removed by improving the forms and methods of cooperation through constant business contacts between the fraternal communist parties.

Forms of the Socialist Countries' Economic Cooperation

Among the forms of economic cooperation between the socialist countries are: joint planning, co-production and specialisation, scientific and technical exchanges, the pooling of efforts in building and running industrial and transit installations, foreign trade, and monetary, financial and credit relations.

The socialist countries' voluntary joint planning activity is being expanded and is aimed at the fullest and most efficient use of the resources and advantages of the socialist system

and accelerated economic development.

At first this activity was carried on in the form of mutual consultations on the basic aspects of economic, scientific and technical policy, cooperation in prognostication, long-term plan coordination as concerns the key industries and lines of production, and coordination of the five-year plans for the CMEA countries' economic and social development, under bilateral protocols on the mutual delivery of products in the years ahead.

A higher form of joint planning was subsequently worked out. It is the plan for multilateral integration measures whose content is determined by the joint building of enterprises to meet common requirements. Such a plan, for instance, provided for the building of the Ust Ilimsk pulp-and-paper combine, the Soyuz gas pipeline, and the electric transmission line between Vinnitsa in the USSR and Albertirsa in Hungary.

Long-term goal-oriented cooperation programmes are another new form of joint planning. Five such programmes have now been worked out and are in operation: in energy, fuel and raw materials; in agriculture and the food industry; in mechanical engineering; in consumer goods; and in transit. Countries taking part in these programmes include the measures for their fulfilment in their own five-year plans.

Specialisation and co-production are also being developed in various forms, such as multilateral and bilateral agreements on specialisation and co-production in various industries, especially in mechanical engineering.

Research, development and engineering projects are also being coordinated. Scientific and technical cooperation includes exchanges of new ideas and achievements, joint elaboration of major, fundamental and applied problems, and a general national plan approach to research into problems of common interest. The Complex Programme for the CMEA Countries' Scientific and Technical Progress until the Year 2000 (worked out under a decision of the Economic Summit in 1984) provides for concerted action in developing and use of basically new types of hardware and technology in such priority fields as electronisation of the economy, complex automation, nuclear energy and biotechnology.

Successful perfection of every form of economic cooperation is the basis for the growth of mutually advantageous trade between the socialist countries, which is being developed in a balanced manner, is free from marketing crises, discrimination and sharp price fluctuations.

A system of multilateral settlements between the countries is effected for all types of trade and non-trade payments in

a special type of collective currency—the transferrable rouble—for which purpose the International Bank for Economic Cooperation was set up in 1963. It makes available two types of credit: settlement credit for debt repayments within 30 days, and longer-term credit for up to three years. In 1971, the International Investment Bank was set up to extend credit for building or updating industrial plants in which all the cooperating countries have an interest.

That is how the socialist countries' economic ties are being strengthened. Their active cooperation has the effect not merely of adding but of multiplying their industrial potentials and gives impetus to their common advance.

Chapter Forty-Three

COMPETITION BETWEEN THE TWO WORLD SYSTEMS AND COMMUNISM'S INEVITABLE VICTORY ON AN INTERNATIONAL SCALE

This chapter seeks to bring out the law-governed processes and trends in the economic competition between socialism and capitalism, the final topic of this course. It sums up the study of political economy in the broad sense, and emphasises that the victory of the communist mode of production on a world scale is objectively inevitable.

Peaceful Coexistence and Economic Ties Between Socialist and Capitalist Countries

In the period of the general crisis of capitalism there inevitably coexist two world systems—the socialist and the capitalist—and the contradiction between them is the basic social contradiction of the present epoch. Evidence of it will be found in the economic, political and ideological spheres.

Peaceful coexistence is objectively necessary in inter-state relations, as Lenin was the first to demonstrate. Socialism wants peace because it is a peaceful system. All the working people of the capitalist countries want peace. Indeed, some capitalists also want peace.

Peaceful coexistence does not signify any relaxation of the ideological struggle against imperialism. The CPSU Programme says that the keen struggle between the two ideologies in the international arena is a reflection of the antithesis of the two world systems, and the Party believes that its task is to carry to the peoples the truth about real socialism and the USSR's internal and external policy, actively to advocate the Soviet way of life, and expose in vigorous argument the anti-people and inhuman character of imperialism and its exploitive nature.

In the economic sphere, peaceful coexistence between states with different social systems implies the existence of economic relations between them, and these are determined by the development of the productive forces and the historically-shaped international division of labour, as a most important objective basis for peaceful coexistence. There is a need for fruitful

cooperation of all the states in tackling global problems such as those of energy, raw materials, food, population, environment, the peaceful exploration of space and development of the resources of the World Ocean, the less developed nations' economic lag, dangerous diseases and other problems.

The external economic policy of the USSR and the other socialist countries takes account of the economic and social peculiarities of the states engaging in cooperation and their position in the world economy and within the entire system of international relations.

The socialist countries want broad development of economic relations with the capitalist countries, because that enables them to enjoy the fruits of the international division of labour and consolidates the material basis for the relaxation of international tensions.

The Economic Competition Between the Two World Systems and the Socialist Countries' Successes

The economic competition between the two world systems is an objective law-governed process of our day springing from the historical situation of their peaceful coexistence and the development of the world socialist revolution.

Lenin considered the future of proletarian Russia even before the October Revolution, when he wrote that it would either perish or would have to overtake and outstrip the advanced countries economically as well.¹

The communist parties regard peaceful coexistence as the basis of economic competition between socialism and capitalism on an international scale, and as a specific form of class struggle between them.

The new economic and social formation, says Marxism-Leninism, will triumph over the old one if it achieves a higher labour productivity as the basis for the rapid growth of the working people's well-being and development of the full man.

Among the most important indicators of the economic competition between the two world systems are: rates of growth and labour productivity, and other efficiency indicators; volume of output and national income per head; and living standards.

Through faster growth rates the CMEA countries have increased their share of world manufacturing output from

¹ See: V.I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, 1977, p. 368.

18 per cent in 1950 to about 33 per cent in 1984. In 1984, the USSR's national income came to 67 per cent of the US national income, as compared with the 31 per cent in 1950.

It is not only the rate at which the productive forces are developing and the level to which they have been developed, but also for whose benefit they are used that is of great significance for the outcome of the contest between the two world systems and for the peoples' choice of development way in our day. The fact that socialism accures a way of life that is unprecedented in history and that is much more attractive than life under capitalism is one of the key advantages of socialism in its contest with capitalism.

The peoples of the less developed countries which have won political independence have closely watched the successes of the socialist-community countries. Real socialism presents a visual example of how a backward agrarian economy can be turned into an advanced and industrially developed economy, and how national culture can be revived and raised in a relatively short historical period.

The progressive character and might of the new system are epitomised in the socialist countries' achievements and the prospects of the economic competition between socialism and capitalism. The formation and strengthening of the world socialist system have brought about a radical change in the balance of world forces in favour of the peoples fighting for social progress, democracy, national independence and peace. The world socialist system has developed into the most authoritative force of our day, without which no issue in world politics can be settled. It is a solid bulwark of world peace.

The world socialist system is gaining ground in its competition with capitalism by virtue of the objective laws of social development and of its historical superiority over the exploitive system.

Chapter Forty-Four

CRITIQUE OF BOURGEOIS-REFORMIST AND REVISIONIST CONCEPTS OF THE SOCIALIST ECONOMY

The working class has a mighty ideological weapon in the scientific theory of social development, which was worked out by the Marxist-Leninist classics and is being creatively elaborated by the communist parties. In order to distract the working people from the revolutionary struggle and to preserve the capitalist system, the proletariat's class enemies have tried hard to distort it, and to smear real socialism, in which the scientific theory is embodied.

Critique of the Bourgeois "Theories" of Socialism

Marx and Engels worked out the principles and programme for building the new society in struggle against bourgeois and petty-bourgeois "theories" of socialism.

At the very early stages of their activity, their *Manifesto of the Communist Party* subjected to crushing criticism the "bourgeois socialism", which came down not to the "abolition of the bourgeois relations of production", but to "administrative reforms, based on the continued existence of these relations".¹

Engels said that the German so-called Katheder Socialists claimed that "all state ownership, even of the Bismarckian sort" amounted to socialism.²

In Russia, Lenin fought legal Marxism (P. Struve, M. Tugan-Baranovsky, and others), a trend in "bourgeois socialism", which he said was "an international striving on the part of the bourgeois theoreticians to kill Marxism with 'kindness', to crush it in their embraces."³

"Bourgeois socialism" has not changed in content in our day. Reforms which keep capitalist property in the means of production in place are presented as socialist reforms, as they

¹ Karl Marx and Frederick Engels, "Manifesto of the Communist Party", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6 p. 514.

² Engels, *Anti-Dühring*, p. 318, footnote.

³ V.I. Lenin, "The Collapse of the Second International", *Collected Works*, Vol. 21, 1978, p. 222.

are in the theories of the "transformation of capitalism", including Daniel Bell's theory of a "post-industrial society", which insists that the social system springs directly from technology, and completely ignores the relations of production. J. K. Galbraith's theory of a "new socialism" claims that it is not the capitalists, but the managers who are in charge of corporate production in the United States, in consequence of which the monopolies have ceased to be capitalist. The same idea is propounded in the theory of a "convergence of the two systems", which says that socialism and capitalism, as economic systems, have been drawing closer to each other because they use the same hardware and technology.

Akin to "transformation of capitalism" concepts are the "theories" spun out by right-wing Socialists, who claim that reforms are the cure-all for the sores of the old world. Instead of scientific socialism, they have a "democratic socialism", which allegedly meets the interests of all the classes of the modern society (and so also of the capitalists). The right-wing socialists have abandoned the Marxist idea of socialising the means of production. The programme of the Social Democratic Party of Germany (FRG) insists, for instance, that there is no need to set up social property because in this age of the STR the working class is no longer exploited and has become an equal partner of the bourgeoisie.

In accordance with their view of socialism as a set of reforms carried out on the basis of capitalism, the bourgeois ideologists have long denied that socialism could exist as a special system coming to replace capitalism through revolution. The victory of the socialist revolution in the USSR was presented as an aberration of history, a temporary deviation from the capitalist way of mankind's development, which they claimed was the main one. But socialism has demonstrated its great vitality, and they are now forced to recognise the existence of a world socialist system, which is why they have switched from denying socialism to distorting it and to bringing out what they say are its organic defects.

Bourgeois economists have done their stint in the futile attempts to discredit today's socialism along the main lines.

First, they have falsified the nature of the socialist, especially state, property in the means of production, and the supreme goal of production under socialism. They claim that state property in the socialist countries cuts across the principle of human equality and that it is being used for their own interests by those who run the state enterprises and who have allegedly formed an elite oppressing the broad masses. Bourgeois econo-

mists need to distort state property in this way in order to show that the tendencies of the socialist state are alien to the people.

There is no elite exploiting the people under socialism, but leaders whose labour is necessary for the people's interests. Lenin says that the "process of collective labour can not remain ... without the strictest order created by the single will of that person [the leader—*Ed.*]." What is more, the working people have a real right to exert an influence on their leaders, and to "know and check each smallest step of their activity."⁴ Under socialism, leaders do not exploit their subordinates and the relations between them are those of comradely cooperation. The interests of the socialist state are the whole people's interests.

Second, bourgeois economists distort the socialist economic mechanism, within which planning that they claim is "extra-economic coercion by the state" is contrasted with the use of commodity-money relations. These, they say, should operate haphazardly within the economy. That is why they insist that anything done to perfect the economic mechanism in the USSR and the other socialist countries amounts to a "collapse" of the planning principle, and a switch to uncontrolled development. The fact is that commodity-money relations under socialism are a form of balanced relations and an instrument of the planned direction of the economy (see Chapter 31).

Third, they claim that the socialist economic system is altogether inefficient, as compared with the capitalist system, and their main argument boils down to the claim that social property and centralised direction of the economy allegedly open the way to waste in economic administration and management, because everything is decided by the subjective views of the leaders and it is impossible to use the cost-benefit analysis. But these claims are totally groundless. Planned direction of the economy is, in actual fact, based on the cognition of the economic laws of socialism in the light of the actual conditions (for more detail see Chapter 30).

Socialism is also superior to capitalism in the rates of growth in social production, and the fuller use of its resources. But the most important thing is that social production is used for the benefit of all the members of the society.

We find, therefore, that the bourgeois economists' attempts to belittle real socialism in the eyes of the peoples of the world have absolutely no scientific basis and are, therefore, doomed to failure.

⁴ See: V.I. Lenin, "Original Version of the Article 'The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 27, 1977, p. 212.

Critique of Revisionist Concepts of Socialism

The revisionists have been trying to revise the fundamental propositions of the Marxist-Leninist theory on the plea of a creative generalisation of the new phenomena in the reality of the world. Present-day revisionism, like turn-of-the-century revisionism, is a reflection of the petty-bourgeois and bourgeois influence on the consciousness of the working class, and that is the root of revisionism, as Lenin demonstrated in his article "Marxism and Revisionism".

Marx and Engels said that petty-bourgeois Socialists use, in their criticism of the bourgeois regime, the standard of the peasant and petty bourgeois, and from the standpoint of these intermediate classes take up the cudgels for the working class.⁵

There is a distinction between right-wing and "leftist" revisionists. Right-wing revisionism seeks to preserve the small-scale production of the peasants and handicraftsmen in contrast to large-scale socialist production. "Leftist" revisionism is an expression of the extreme desperation of the petty producers who are being ruined by capitalism, and denies all the valuable elements of capitalism (for instance, large-scale production).

Right-wing revisionism is now quite close to bourgeois concepts in economic theory. It does not, of course, deny socialism overtly, but if its ideas were realised, the new system would not be established but degraded.

First, it has put forward the idea of a "plurality" of models of socialism, meaning that each country sets up its own and purely national socialism, with its own peculiarities, and with a way to it that is regional, specific and unique. That is why there is no sense in studying and borrowing the experience of other countries socialism, an approach which denies the existence of the general law-governed uniformities of the new society, especially the leading role of the working class and its communist party.

These claims are totally untenable in scientific terms. The Marxist-Leninist classics have demonstrated theoretically, and the experience of the socialist-community countries has confirmed in practice that socialism cannot be built without the dictatorship of the proletariat and the guiding activity of the communist party. Socialism is the same in all countries in terms of economic basis, which rests on the domination of social property (see Chapter 26).

Second, the right-wing revisionists, like the bourgeois ideolo-

⁵ See: Karl Marx and Frederick Engels, "Manifesto of the Communist Party", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, p. 509.

gists, distort the nature of socialist property in the means of production, when they claim that it tends to generate an elite dominating the society. What is "original" in their views is that they contrast what they call "the people's immediate property" to the state property existing in the socialist countries, but none of them has been able to demonstrate how the whole people could act as the sole owner of the means of production directly, without the participation of the state. That is something quite inconceivable without the existence of the socialist state. That is why the right-wing revisionists effectively reduce the whole people's property to the group property of enterprise collectives.

Marxism-Leninism recognises the group property of enterprise collectives, but it becomes socialist property only under the whole people's i.e., state, property in the basic means of production. Thus, the whole people's property is the guarantee that group property is socialist. It prevents the specific interests of the cooperative from "prevailing over the interests of the society as a whole", as Engels wrote in his letter to August Bebel.⁶

There is good reason why in the early years of the Soviet power Lenin resolutely rejected the attempts by the anarcho-syndicalists to have the enterprises confiscated from the capitalists given into the ownership of the work collectives of these enterprises.

Third, like bourgeois economists, right-wing revisionists insist on haphazard commodity relations in contrast to state planned direction. They have uncritically borrowed the "market socialism" theory from the liberal bourgeois economists of the 1920s and 1930s, and want socialist production to be carried on haphazardly, without the intervention of the socialist state.

The practical application of "market socialism" ideas in some countries has produced the most negative results, both social (unearned income among some collectives, unemployment and emigration in search of jobs), and purely economic (discrepancy between cash incomes and commodity mass, worsening of the country's balance of payments, and reduction of investments and growth rates in production).

The "leftist", petty-bourgeois notions of socialism as a grossly egalitarian system goes back to the Middle Ages. Those who expressed the ideas of the small producers (peasants and artisans, who rose against oppression and exploitation) saw social justice as consisting in an egalitarian distribution of material goods. This idea is now being advocated by some revisionist trends.

All the "leftist" theorists claim that material incentives to

⁶ "Engels an August Bebel in Berlin. London, 20. Januar 86", in: Karl Marx, Friedrich Engels. *Werke*, Bd. 36, S. 426.

labour are incompatible with socialism. This springs, on the one hand, from a recognition of egalitarianism as the supreme principle of social justice. The French "leftist" bourgeois economist Charles Bettelheim wrote: "The Soviet Union has never been closer to socialism than it was during the period of war communism." On the other hand, distribution by labour is declared to be a relict of capitalism, containing within itself the relations of man's exploitation by man. The "leftists" reject material incentives, just as they do the role of economic calculus and commodity-money relations.

The Marxist-Leninist classics criticised the petty-bourgeois idea of egalitarianism as a negation of the human personality.⁷ (The objective need for distribution by labour is shown in Chapter 33). There is nothing bourgeois about distribution by labour. Under capitalism this principle is not and cannot be applied, because it requires the existence of social property.

The "leftists" deny the basic economic law of socialism and claim that the idea of raising the people's well-being amounts to a creation of a "bourgeois-type consumer society".

The "leftist" revisionists keep talking about the degeneration of real socialism and about the formation in the USSR and some other countries of a "proto-socialism" which has proved incapable of truly emancipating man, since centralised administration of the economy has made it impossible to abandon commodity-money relations and distribution by labour. The leader of the revisionists Manifesto group in Italy, R. Rossanda has even declared that "the capitalist mode of production is dominant in the East". Indeed, the purely superficial similarity of the organisational structure of socialist and capitalist enterprises, (director, profit, wages, labour contracts, etc.) is presented as evidence of their bourgeois nature. The Spanish right-wing revisionist F. Claudin just as glibly claims that the Soviet system "exploits the working people" and "oppresses the various nations", etc.

The rejection of the socialism existing in the USSR and other countries is the best evidence that the revisionists, both right and "left", are true servitors of the bourgeoisie.

All the bourgeois-reformist and revisionist concepts of the socialist economy on the whole provide an ideological instrument in the fight against Marxism-Leninism, an instrument by means of which the apologists of capitalism would like to undermine the great ideals of progressive mankind among the broad masses of the working people, and to disrupt the peoples' advance along the way of socialist and communist construction.

⁷ Karl Marx, "Economic and Philosophic Manuscripts of 1844", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 3, 1975, p. 295.