

**Political  
Economy:  
Socialism**



**PROGRESS.  
MARXIST-  
LENINIST  
THEORY**



# Political Economy: Socialism

Under the General Editorship  
of G. A. Kozlov,  
Corresponding Member,  
USSR Academy of Sciences



Moscow

Progress Publishers

Н В 973 - Р 613 1977

Translated from the Russian by YURI SHIROKOV

Translation edited by H. C. CREIGHTON

CONTRIBUTORS: S. E. Khorzov, M. M. Koptev, S. A. Korolev, A. G. Koryagin, G. A. Kozlov, P. T. Kukhayev, G. Y. Kuznetsov, F. F. Lartsev, I. V. Loginov, V. G. Lopatkin, M. N. Ryndina, F. M. Shelyakin, A. P. Tokarev, R. I. Tonkonog, M. I. Volkov, A. I. Yumashev, Y. M. Zhukovsky

Editorial board: A. G. Koryagin, R. I. Tonkonog, F. M. Shelyakin

## ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ. СОЦИАЛИЗМ

*На английском языке*

© Издательство «Мысль», 1977

© Translation into English from revised Russian edition.  
Progress Publishers 1977

*Printed in the Union of Soviet Socialist Republics*

П  $\frac{10704-102}{016(01)-77}$  197-77

**CONTENTS**

Page

INTRODUCTION . . . . . 9

Chapter I. THE ECONOMIC LAWS OF THE RISE AND ESTABLISHMENT OF SOCIALISM. THE STAGES OF ITS DEVELOPMENT . . . . . 17

1. The Need for and Essence of a Transition Period from Capitalism to Socialism . . . . . 17

2. The First Revolutionary Transformations Carried Out by the State of the Dictatorship of the Proletariat. The Genesis of the Socialist Sector . . . . . 23

3. The Socio-Economic Structure of Society During the Transition from Capitalism to Socialism . . . . . 30

4. The Laying of the Material and Technical Foundation of Socialism and Revolutionary Transformation of Social Relations in the Transition Period . . . . . 36

Chapter II. SOCIAL OWNERSHIP OF THE MEANS OF PRODUCTION. THE CHARACTER OF LABOUR. THE BASIC ECONOMIC LAW OF SOCIALISM . . . . . 60

1. Social Ownership of the Means of Production Is the Economic Basis of Socialism and Communism . . . . . 60

2. The Forms and Features of Property under Socialism . . . . . 66

3. Production Relations and Economic Interests . . . . . 74

4. The Basic Economic Law of Socialism . . . . . 80

Chapter III. PLANNED DEVELOPMENT OF THE SOCIALIST ECONOMY. THE ECONOMIC ROLE OF THE SOCIALIST STATE . . . . . 90

1. Planned Development of the Economy—an Economic Law of Socialism . . . . . 90

2. The Most Important Ratios of the Socialist Economy . . .	95
3. Planning of the Socialist Economy . . . . .	98
4. The Economic Role of the Socialist State . . . . .	114
<b>Chapter IV. COMMODITY-MONEY RELATIONS UNDER SOCIALISM . . . . .</b>	<b>119</b>
1. The Need for Commodity-Money Relations under Socialism	119
2. The Fundamental Difference Between Commodity-Money Relations under Socialism and under Capitalism . . . . .	124
3. Commodities and Their Properties under Socialism . . . . .	128
4. Money and Its Functions in Socialist Society . . . . .	136
5. The Law of Value and Price in the Socialist Economy . . . . .	143
<b>Chapter V. THE PROCESS OF SOCIALIST PRODUCTION . . . . .</b>	<b>153</b>
1. The Features of the Labour Process under Socialism . . . . .	153
2. The Socialist Organisation of Social Labour . . . . .	161
3. The Sources of Growth of Production under Socialism . . . . .	166
4. The Law of Steady Growth of the Productivity of Social Labour . . . . .	170
5. The Advantages of Technological Progress under Socialism	173
<b>Chapter VI. DISTRIBUTION ACCORDING TO WORK. SOCIAL CONSUMPTION FUNDS . . . . .</b>	<b>185</b>
1. Distribution According to Work—an Economic Law of Socialism . . . . .	185
2. Payment According to Quantity and Quality of Work . . . . .	188
3. The Two Forms of Distribution According to Work . . . . .	192
4. Social Consumption Funds . . . . .	200
5. Indicators of the People's Standard of Living under Socialism	202
<b>Chapter VII. ACCUMULATION AND CONSUMPTION UNDER SOCIALISM . . . . .</b>	<b>205</b>
1. Features and Peculiarities of Socialist Accumulation . . . . .	205
2. Concentration of Social Production . . . . .	209
3. The Structure of Socialist Production . . . . .	213
4. The Ratio of Accumulation and Consumption . . . . .	218
<b>Chapter VIII. PROFIT-AND-LOSS ACCOUNTING AND MANAGEMENT . . . . .</b>	<b>227</b>
<b>Chapter IX. THE ASSETS OF ENTERPRISES. TURNOVER AND CIRCULATION OF ASSETS . . . . .</b>	<b>243</b>
<b>Chapter X. COSTS OF PRODUCTION AND PRICES IN SOCIALIST SOCIETY. PROFITS OF ENTERPRISES . . . . .</b>	<b>259</b>
1. Costs of Production . . . . .	259
2. The Net Income of Socialist Enterprises . . . . .	265
3. The Wholesale Prices . . . . .	270

Chapter XI. PROFIT-AND-LOSS ACCOUNTING IN SOCIALIST AGRICULTURAL ENTERPRISES. DIFFERENTIAL RENT . . . . .	276
1. Ground Rent Under Socialism . . . . .	277
2. The Development of Profit-and-Loss Management of Agricultural Enterprises . . . . .	290
3. Scientific and Technological Progress and Levelling Up the Economic Conditions for Raising the Incomes of Agricultural Enterprises . . . . .	300
Chapter XII. COMMODITY CIRCULATION . . . . .	310
Chapter XIII. FINANCE, CREDIT AND MONEY CIRCULATION	328
1. The Essence and Role of Finance Under Socialism . . . . .	328
2. The State Budget . . . . .	331
3. Credit and Banking Under Socialism . . . . .	336
4. The Banking System of Socialist Society . . . . .	343
5. Money Circulation Under Socialism . . . . .	347
Chapter XIV. SOCIALIST EXTENDED REPRODUCTION . . . . .	351
1. The Nature and Main Features of Socialist Reproduction . . . . .	351
2. The Nature and Structure of the Social Product . . . . .	354
3. The Proportions of Socialist Reproduction . . . . .	361
4. National Income and Accumulation . . . . .	371
5. National Income and People's Consumption . . . . .	381
6. The Reproduction of Labour Power in Socialist Society . . . . .	383
7. The Methods of Planning Economic Proportions . . . . .	389
Chapter XV. THE ECONOMIC LAWS OF THE GROWING OVER OF SOCIALISM INTO COMMUNISM . . . . .	393
1. Laying of the Material and Technical Base of Communism—the Central Economic Task in the Period of Transition from Socialism to Communism . . . . .	393
2. The Gradual Transformation of Socialist Relations of Production into Communist Relations . . . . .	406
Chapter XVI. THE ECONOMIC LAWS OF THE DEVELOPMENT OF THE WORLD SOCIALIST SYSTEM . . . . .	420
1. The Inevitability of the Emergence of a World Socialist Economic System . . . . .	421
2. The Patterns of Development of the World Socialist System . . . . .	424
3. The Advantages of the International Socialist Division of Labour, Socialist Economic Integration . . . . .	432
4. Forms of Socialist Economic Co-operation . . . . .	438
5. The Features of Socialist Countries' Economic Relations with Developing Countries . . . . .	455

---

Chapter XVII. COMPETITION BETWEEN THE TWO WORLD ECONOMIC SYSTEMS. THE INEVITABILITY OF COMMUNISM'S VICTORY ON A WORLD SCALE. . . . .	457
1. The Economic Basis for Co-existence . . . . .	457
2. Economic Competition of the Two World Systems . . . . .	458
Chapter XVIII. A CRITIQUE OF THE ECONOMIC THEORIES OF ANTI-COMMUNISM . . . . .	466
1. Critique of Bourgeois Views of Socialist Economic Develop- ment . . . . .	466
2. Reformist and Revisionist Economic Theories . . . . .	481
CONCLUSION . . . . .	488

## INTRODUCTION

Marxist-Leninist political economy studies the various social modes of production in the sequence in which they follow one another, forming a single process of economic evolution of human society. Frederick Engels wrote in *Anti-Dühring* that political economy in its broadest sense was the science of the laws governing the production and exchange of material values in human society. "Political economy," he stressed, "is therefore essentially a *historical* science. It deals with material which is historical, that is, constantly changing; it must first investigate the special laws of each individual stage in the evolution of production and exchange."\* With the emergence of the communist economic system, therefore, the political economy of communism also begins to evolve. The Soviet people have built socialism, which is the first phase of communism; in the course of its development socialism will evolve into a higher stage of communism. The political economy of socialism studies the communist mode of production in its first phase and investigates the existing and developing relations of production of socialist society and the system of objective economic laws corresponding to them.

The political economy of socialism has a number of specific features. Whereas the political economy of capitalism explains the contradictions of that system, leading to its collapse, and is the working people's ideological weapon in the struggle to overthrow capitalism and to establish the dictatorship of the proletariat, the political economy of

---

\* Frederick Engels, *Anti-Dühring*, Moscow, 1975, p. 170.

socialism is of immediate importance for consolidating and developing the socialist system. The working masses, having seized political power under the leadership of the working class and having become the owners of the means of production, are vitally interested in developing the socialist economy in every way and are the constructive force that consciously builds the new society.

With a total prevalence of socialist ownership, uniting the production of material goods into a single economic organism, anarchy gives way in the economy to planned development and it becomes both possible and necessary for society to apply economic laws consciously and in the interests of society as a whole. The scientific basis for building and developing the socialist economy is the political economy of socialism.

The constructive role of the political economy of socialism is that a science of the management of the socialist economy develops on its basis, concrete economic disciplines take shape, or sciences which are of a functional character and deal with the separate elements of the social economy as a whole (e.g. the theory and organisation of economic planning, labour economics, etc.), or which are branches of economics (the economics of industry, transport, commerce, etc.).

In studying the economic laws of socialism and the mechanism of their operation, political economy also indicates ways for socialist society to make more effective use of the productive forces, which in turn calls for a study of the concrete organisational forms of the relations of production and their correspondence, at any given moment, with the productive forces. The process of understanding the various aspects of production relations in socialist society takes on broad practical importance for accelerating development of the productive forces.

Marxism-Leninism sets out from recognition of the objective character of economic laws at all stages of the development of human society. Economic laws, however, have a specifically historical character and with a change in the economic foundation of society the laws of its development are altered, while the laws common to all economic systems acquire specific forms of expression. Socialism marks a

radical change in the economic basis of social development, a transition from private ownership of the means of production to common ownership and on this new basis the economic laws of socialism govern the development of the economy in the interests of society as a whole.

Recognition of the objective character of economic laws does not imply negation of the role of the subjective factor in the development of socialist society and economy; on the contrary, it becomes much more important. Socialist relations of production make conscious application of economic laws both possible and necessary, which is the great advantage of socialism over capitalism.

In contrast to the anarchy of capitalist production as a whole, socialist production, as Karl Marx said in his "Inaugural Address of the Working Men's International Association", is "social production controlled by social foresight".\* The political economy of socialism also provides the theoretical foundation for a science of the management of social production and is the solid basis for developing the scientifically grounded economic policy of the socialist state.

It would be wrong to substitute economic policy for political economy, but the two cannot be divorced; the political economy of socialism is required to study and generalise the experience of economic policy, which is the practical application of its principles and conclusions and of the requirements of the objective economic laws of socialism.

All working people have an interest in the fullest understanding and application of the economic laws of socialism. The progressive development of socialist society demands scientific forecasting, which implies knowing how to apply economic laws correctly according to the concrete circumstances and trends in the interests of society and all its members. The advantages of socialism as a social system are only realised in practice to the extent that they are understood and applied by society. The socialist state, therefore, sets out in its economic policy from the requirements of

---

\* K. Marx and F. Engels, *Selected Works* in three volumes, Vol. 2, Moscow, 1973, p. 16.

objective economic laws consciously applied in the interests of the working people.

The economic laws of socialism operate through people and their interests and understanding of these laws and their correct application therefore means, above all, correct evaluation of the economic interests of society and of its individual production groups and workers. A condition for their application is correct assessment of the aggregate interests of society by the mass of the working people, for economic laws are brought into operation as a result of the mass action of working people. Social, public interests take priority over personal interests, of course, and long-term interests over short-term, temporary ones. The fuller the masses and their organisations master economic laws, and the more the latter become the basic standard of the behaviour of the members of socialist society, the less the economy remains the soil for the spontaneous, anarchic elements that can develop for one reason or another in socialist society. Success in building socialism and communism depends on the will, willingness and ability of the masses.

The political economy of socialism expresses the interests of the working class as the leading force of socialist society uniting all working people in the struggle for communism. The objective course of social development corresponds to the interests of the working class; the political economy of socialism therefore gives a truly scientific explanation of economic phenomena.

Marxist-Leninist political economy wages a relentless struggle against anti-communism in all its varieties and against all views that can damage the cause of socialism and communism.

Marxist-Leninist economic science rejects making a fetish of economic laws and allegations that they operate inevitably, regardless of the active creative efforts of the masses. Such fetishism is tantamount to the theory and practice of *laissez-faire* and anarchy in building the new society. In its policies the Communist Party of the Soviet Union sets out from the need for a thorough study of the objective economic laws and their conscious employment and application in order to organise the working masses in the struggle

to achieve the objectively determined goal of socialism—the building of communist society.

Marxist-Leninist economic theory is opposed to voluntarism and subjectivism and to attempts to ignore the objective character of the economic laws of socialism and solve economic problems without regard for them. Such theory and practice can only damage the socialist economy. The Communist Party of the Soviet Union, therefore, warns against an empirical approach to economic processes and against any forms of established economic organisation being taken as an objective necessity.

The political economy of socialism is a living, rapidly developing science. Its foundations were laid by Karl Marx and Frederick Engels, who revealed the tendencies in the development of capitalism that were leading inevitably to its downfall and the triumph of the communist mode of production. From their analysis of these tendencies Marx and Engels revealed the main features of the future communist society and especially of its first phase, socialism, and in so doing transformed socialism from a utopia into a science.

Lenin directed the building of the new society in the early years of Soviet power. Generalising the experience of creating socialist relations and basing himself on the forecasts of Marx and Engels, he formulated theoretical propositions on almost all the key problems of the political economy of socialism.

After Lenin, the political economy of socialism as a science evolved as socialist society developed in the Soviet Union. This historical experience has been theoretically generalised in directives of the Communist Party of the Soviet Union, the decisions of its congresses and other Party documents.

At present, when socialist construction has developed in a number of countries, the political economy of socialism is also evolving on the basis of their experience, as generalised by their communist and workers' parties. The conclusions drawn from the experience accumulated, conclusions that are of general importance for all countries taking the socialist road have been formulated in the resolutions of meetings of representatives of communist and workers' parties.

Socialist society is not something rigid and immobile. It is continually developing. Its productive forces are growing and its production relations are becoming increasingly mature. On its way to communism, socialist society passes through definite stages of development and the operation of the economic laws of socialism and the possibilities of applying them become modified.

For thorough-going study of the objective economic laws of socialism and disclosure of the whole system of their working it is fundamental that a course in political economy should be based on applying the method of dialectical materialism. Taking the unity of the historical and the logical as its starting point, this textbook considers first of all the economic laws governing the rise and formation of socialism. By virtue of the special features of its emergence compared with pre-communist modes of production, a special transition period is needed between capitalism and socialism, a period in which there is bitter struggle between the socialist and capitalist modes of production, as a result of which the economic laws of capitalism are gradually ousted from the scene and lose their force while an integral system of the economic laws of socialism begins to operate. In the stage of mature socialism these laws attain their fullest development.

Subsequent chapters deal with the main forms of the production relations in developed socialist society and the relations between members of socialist society viewed as a whole. The first subject here is study of socialist ownership of the means of production as the principal and starting element in the system of socialist production relations. The social and economic character of labour is studied, and also its objectively determined goal, the purpose of production under socialism and the main economic law of socialism. Further analysis brings to light the objective need for planned development of the socialist economy and for commodity-money relations as one of the forms of planned relations. This analysis is supplemented by a further, more detailed discussion of the organisation of the process of production under socialism, i.e. of the material and personal factors of production, the sources of its growth and, in particular, the problems involved in raising labour productivity on the

basis of technological progress, which all enables us to reveal the essence of the process of distribution according to work done and through the social consumption funds. The logical conclusion of these chapters is the analysis of accumulation and consumption, their correlation in conditions of socialism and of the main trends in the development of socialism as a whole.

In the next chapters the production relations of socialism are investigated more concretely, the essence of relations between society and its separate economic links being demonstrated. The relations between members of socialist society discussed in the preceding section are mediated through relations between enterprises and their various associations and combinations, and between enterprises and society. Here, too, the problems of profit-and-loss accounting, funds and turnover of enterprises, their costs and profits and wholesale and purchase prices are analysed. The specific features of profit-and-loss accounting in agriculture, i.e. in collective and state farms, including the problems of differential rent under socialism, are looked at.

This whole analysis of production relations under socialism brings us to a third round of problems, those of extended socialist reproduction, which necessitate examination of the laws of development of social production as a single economic whole in its most general form. There we are no longer dealing with individual laws or combinations of laws illustrating the development of separate aspects of the production relations of socialism, but with the whole system of laws and their interplay, showing the main trends, tendencies and proportions in economic development. In this connection commodity circulation and finance and credit and their importance in the process of socialist reproduction are analysed. Following the problems of socialist reproduction, the economic laws governing the transformation of socialism into communism are considered.

Study of the production relations typical of any socialist country helps us to disclose the essence and character of international economic relations and the specific patterns of development taking shape within the world socialist economic system which are acquiring growing importance. Co-operation between the socialist countries is becoming

more and more varied and far-reaching, which necessitates broad study of the experience of economic integration of socialist countries. Analysis of these problems, in turn, will enable us to study the laws and results of the economic competition between the two world economic systems, socialism and capitalism.

## Chapter 1

# THE ECONOMIC LAWS OF THE RISE AND ESTABLISHMENT OF SOCIALISM, THE STAGES OF ITS DEVELOPMENT

## 1. THE NEED FOR AND ESSENCE OF A TRANSITION PERIOD FROM CAPITALISM TO SOCIALISM

### The Proletarian Revolution Is the Natural Way of Transition of Society from Capitalism to Socialism

In examining the laws governing development of the capitalist mode of production, Karl Marx, Frederick Engels and Vladimir Lenin developed a scientific theory of socialist revolution and armed the working people with it in their struggle to abolish the dominance of exploiting classes and to build a new social system, communism.

They demonstrated that capitalism gives rise, in the course of its development, to the *material preconditions* for the revolutionary transition of mankind to a new, communist social and economic system, the first phase of which is socialism. Capitalist production attains a high degree of socialisation; by concentrating commodity production in gigantic enterprises and developing the social division of labour, capitalism renders it an increasingly social character.

Production that has attained a high degree of socialisation objectively requires a radical change in its goals and the character of its organisation. It should be subordinate to the objective of satisfying the growing material and cultural needs of the working people as fully as possible and should be developed on the basis of achievements of science and technology, on the basis of a plan drawn up in advance on a nation-wide scale. In capitalist conditions, however, the social productive forces develop spontaneously and production is governed by the profit motive. The sharpening contradiction between the productive forces and production relations, which reaches its climax in the era of imperialism, inevitably brings capitalism to socialist revolution.

In addition to the material preconditions for the transition to socialism, capitalism gives birth to a revolutionary

social force, the proletariat, which, when guided by the theory of Marxism-Leninism and a revolutionary party, become the gravedigger of the old social system and the creator of a new social system.

Thus, the transition from capitalism to socialism is a natural historical process, the inevitable result of the development of society. The dominance of capital would be impossible to overthrow if the whole course of economic development did not lead to it. No force, Lenin said, could have destroyed capitalism if history had not eroded and undermined it.

The replacement of capitalism by socialism, however, does not occur spontaneously. Capitalism can only be ended through a socialist revolution that deprives the bourgeoisie of political power and the possibility of oppressing and exploiting the working people. A socialist revolution is a radical smashing of the old, capitalist relations and the establishment of new, socialist relations.

Leninism teaches, and historical experience confirms, that the exploiting classes do not voluntarily give up their power and economic dominance. A socialist revolution therefore develops peacefully or violently depending on the concrete balance of the class forces in a country, the degree of organization and political maturity of the working class, the standing and capacity of its vanguard, the degree of resistance of the dominant classes and the international situation.

"The recent experience of the revolutionary movement," said the Report of the Central Committee to the 25th Congress of the CPSU, "provides graphic evidence that imperialism will stop at nothing, discarding all semblance of any kind of democracy, if a serious threat arises to the domination of monopoly capital and its political agents."\*

But whatever form the revolutionary transition takes, the socialist revolution is always a profound qualitative change both in the basis of the mode of production and in the government of society. The bourgeois state is abolished and the power of the proletariat is established in some form

---

\* L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy, XXVth Congress of the CPSU*, p. 36.

or other. Capitalist relations of production are replaced by socialist ones based on social ownership of the means of production.

The history of society in recent decades has proved the validity of the Marxist-Leninist theory of socialist revolution. Its first practical test was the Great October Socialist Revolution in Russia, which broke the imperialist front for the first time at its weakest link and opened a new era in the history of humanity, the era of revolutionary transition from capitalism to socialism on a world scale.

The revolutionary overthrow of capitalism is a whole historical period of class battles. In 1921, soon after the Great October Revolution won in Russia, the people's revolution triumphed in Mongolia, as a result of which that country took the road of non-capitalist development. Defeat of the most aggressive forces of imperialism in World War II, in which the Soviet Union played the decisive role, provided favourable conditions for a new rise of the revolutionary process. Socialist revolutions occurred in a whole number of countries in Europe and Asia and in Cuba.

All this has corroborated Lenin's prediction that, with the future development of society, more and more countries would desert the world capitalist system and embark on the road of socialist development.

## **The Stages in the Rise of Communism and the Essence of the Transition Period**

The preparation and formation of the communist mode of production that is replacing capitalism take place over a more or less protracted period, covering several stages of historical development: the period of transition from capitalism (or pre-capitalist relations) to socialism; the first (or lower) phase of communism, socialism; and the higher phase of communist society, full communism. Only through the consecutive transition from one stage to another, without by-passing any one of them, can society reach the higher phase of the communist mode of production.

The transition period from capitalism to socialism is that stage in the rise of the communist mode of production when

the revolutionary replacement of the capitalist (or pre-capitalist) production relations by socialist relations takes place and the lower phase of communism, socialism, comes into existence. Socialism is not a brief stage in the rise of the communist economic system but a long phase, with its own stages differing from each other in level of development of the productive forces and maturity of production relations.

Lenin developed and deepened the point about the transition period from capitalism to socialism made by Karl Marx in *The Critique of the Gotha Programme*. Defining the tasks of the proletariat and its vanguard, the Communist Party, in the socialist revolution, Lenin wrote that the proletariat's objective "is to build socialism, abolish the division of society into classes, make all members of society working people, and remove the basis for all exploitation of man by man. This object cannot be achieved at one stroke. It requires a fairly long period of transition from capitalism to socialism. . . ."

The need for a transition period is dictated by the specific features of the socialist revolution and the rise of the communist mode of production.

Unlike earlier social revolutions, during which there was merely the replacement of one form of private property and exploitation by another, the socialist revolution brings about a deep, radical change in social relations, putting an end to private property in the means of production, establishing the predominance of social ownership and abolishing all exploitation of man by man. Socialist relations of production, which negate private property, only arise as a result of the abolition of the political domination and economic power of the exploiting classes and when the key means of production are made the property of society as a whole, which is why they cannot arise within the womb of capitalism. A revolutionary overthrow is needed by which political power passes into the hands of the working people led by the working class.

Whereas the main job of a bourgeois revolution was no more than to establish the power of the bourgeoisie, i.e. to

---

\* V. I. Lenin, "Greetings to the Hungarian Workers", *Collected Works*, Vol. 29, p. 388.

bring the state system into line with the capitalist economy that had taken shape spontaneously as an economic mode of production within the womb of feudalism, the main aim of the proletariat in a socialist revolution is to take power into its own hands, to socialise the means of production and to build a socialist economy.

*The transition period is a whole historical epoch, an epoch of revolutionary transformation of capitalist production relations into socialist ones, an epoch of a powerful upsurge of the productive forces.*

From the very outset of this period the social role of the working class changes essentially; from a class of oppressed proletarians under the exploitive system it becomes a ruling class directing the construction of a new society. Having founded a powerful state organisation of a new type, it consciously builds a new society according to a scientifically substantiated plan under the leadership of its Marxist-Leninist party.

The transition period is unavoidable in any country taking the road to socialism. It cannot be skipped by any country, even in the most favourable conditions of development. Its length, however, varies from country to country and depends, primarily, on the level of economic development attained in the country in the pre-revolutionary period, a level that also varies by virtue of the operation of the law of uneven development of capitalism. In industrially advanced countries that have built up a powerful production apparatus and attained a high level of socialisation of production, the transition period may be shorter.

The historical length of the transition period also depends on the international situation in which the working people have to carry through the revolutionary transformations. In present conditions, when the rich experience of socialist construction in the USSR is available and a world socialist system has taken shape and is gaining in strength and when co-operation and mutual assistance between the socialist countries are developing, the tasks of the transition period may be solved with less difficulty and within a shorter period.

The experience of all socialist countries indicates that the building of socialism in the transition period is successful when the general laws of building a socialist society are

consciously applied and the specific features of each country taken into account.

These regularities are: (1) leadership of the labouring masses by the working class, with a Marxist-Leninist Party at its core, in carrying through the socialist revolution in one form or another and in establishing the dictatorship of the proletariat in some form; (2) an alliance of the working class with the mass of the peasantry and other sections of the working people; (3) abolition of national oppression and the establishment of relations of equality and fraternal friendship between peoples; (4) defence of the gains of the revolution against the encroachment of enemy, internal and external; (5) solidarity of the working class of the country in question and the working class of other countries, i.e., proletarian internationalism; (6) abolition of private capitalist property and the establishment of socialist ownership of the main means of production; (7) gradual socialist transformation of agriculture; (8) planned development of the economy aimed at building socialism and communism and improving the people's standard of living; (9) the carrying out of a socialist revolution in ideology and culture and the creation of a large intelligentsia loyal to the working class and the cause of socialism.

Thus, the general pattern of the transition from capitalism to socialism embraces all the main aspects of social transformation during this period, i.e. politics, economics, and the spiritual life of society. At the same time, the pattern is different in each country building socialism, depending on the concrete historical conditions of its development.

The reasons for this are the uneven way in which the objective and subjective conditions of the socialist revolution mature in different countries, the features of the international situation in which the transition to socialism is taking place, specific features of their historical pasts and the national traditions and customs of their peoples.

The diversity of the concrete forms of building socialism thus does not negate the existence of general laws, which find particular expression in the specific conditions of each country. Communist and workers' parties apply the general principles of building socialism creatively to the concrete conditions of their own countries.

"A deep understanding of these general laws," it is noted in the Report of the Central Committee to the 25th Congress, "and reliance on them, in combination with a creative approach and with consideration for the concrete conditions in each separate country, have been and remain the inalienable and distinctive feature of a Marxist-Leninist."\*

On this cardinal issue of socialist revolution Marxist-Leninists oppose, on the one hand, denial of the general patterns and exaggeration of national differences and, on the other hand, ignoring of any specific features in the different countries during the transition to socialism. Leninist Communists wage a determined fight against any kind of manifestation either of revisionism or of dogmatism in the world revolutionary movement.

## **2. THE FIRST REVOLUTIONARY TRANSFORMATIONS CARRIED OUT BY THE STATE OF THE DICTATORSHIP OF THE PROLETARIAT. THE GENESIS OF THE SOCIALIST SECTOR**

In the political field the transition period from capitalism to socialism begins with abolition of the state power of the exploiting classes and establishment of some form of dictatorship of the proletariat and in the economic field with suppression of private capitalist ownership of the means of production and the establishment of socialist ownership and abolition of obsolete capitalist and pre-capitalist (where they still exist) agrarian relations. This provides the necessary political and economic conditions for the building of socialism.

### **The Role of the State of Proletarian Dictatorship in the Building of Socialism**

In order to set about building socialism it is first of all necessary to smash the old bourgeois state, that instrument of the political domination of the capitalist class and of

---

\* L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy, XXVth Congress of the CPSU*, p. 37.

exploitation of wage labour by capital, and to establish the dictatorship of the proletariat in one form or another. *The dictatorship of the proletariat is state leadership of society by the working class*, directed against exploiters and the oppression of peoples, and towards the abolition of exploitation of man by man. Consequently it expresses the interests of the overwhelming majority of the people of the country, of the working people as a whole. It is the main political condition for the building of socialism. Lenin wrote in this context: "Forward development, i.e. development towards communism, proceeds through the dictatorship of the proletariat, and cannot do otherwise, for the *resistance* of the capitalist exploiters cannot be *broken* by anyone else or in any other way."\*

What is the task of the state of the proletarian dictatorship during the transition from capitalism to socialism?

Step by step it undermines the economic power of the exploiters, wrests the land, forests, factories, mills, banks, railways, etc., from their hands, repels by force of arms any counter-revolutionary attacks of the overthrown capitalists and landowners and crushes their resistance. Establishment of the dictatorship of the proletariat consequently implies class struggle in new forms, including armed struggle, if necessary, against the home and international bourgeoisie who seek to restore the obsolete capitalist order in the country building socialism.

The coercive measures differ, of course, depending, above all, on the forms and scale of the resistance of the exploiters. But coercion is not the main feature of the dictatorship of the proletariat and does not express its innermost essence. The main purpose of the dictatorship of the proletariat is constructive work in remaking society along socialist lines.

The state power of the proletariat is employed in the interests of the working people as a whole. The joint struggle of the workers and peasants against the exploiters unites them in an unbreakable alliance and this alliance, with the working class playing the leading role, is the supreme principle of the dictatorship of the proletariat.

---

\* V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 461.

The guiding and directing force of the dictatorship of the proletariat is the revolutionary party of the working class armed with Marxist-Leninist theory. Only under the leadership of its own party can the working class, in alliance with all working people, build a communist society.

As a result of abolition of bourgeois power and establishment of the state of the dictatorship of the proletariat, the revolution is transformed from a force destroying the old system into a great constructive force forging new relations in all fields of social life.

The transition from capitalism to socialism objectively implies variety in the political forms of the dictatorship of the proletariat.

In the Soviet Union, as a result of the victory of the Great October Socialist Revolution in 1917, the dictatorship of the proletariat was established in the form of Soviets. Soviet power was the most mass organisation of the working people in the struggle for the socialist remoulding of society. In the historical situation that took shape after World War II, a system of people's democracy triumphed in several countries in Europe and Asia, a new form of political organisation of society the content of which is also the dictatorship of the proletariat. People's democracy reflects the specific features of development of the socialist revolution in conditions of the sharpening of the general crisis of capitalism and the historical and national features of the separate countries taking the socialist path of development.

## **Socialist Socialisation of the Basic Means of Production**

From its first steps as political leader of society, the working class armed with a scientifically grounded programme for building a new social system, sets about creating the material conditions for revolutionary replacement of capitalist production relations by socialist ones, which requires, above all, a radical change in the working people's relationship to the means of production, i.e. abolition of private ownership by exploiters and the institution of social ownership of the basic means of production and their socialist socialisation (the private property of petty commodity

producers earned by their own labour is gradually transformed into socialist property on a voluntary basis throughout the whole transition period). All this brings about a radical change in the character of production relations and opens the way to progressive development of the productive forces.

*The basis for socialist socialisation of the exploiters' basic means of production is prepared objectively by the whole course of the development of capitalism.* "The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with and under it," Karl Marx wrote, summing up the historical tendency of capitalist accumulation. "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."\* It is this task that the state of proletarian dictatorship is called upon to fulfil.

By socialising the means of production in a socialist way the proletariat (1) undermines and later completely wipes out the basis of the economic power of the exploiters and of exploitation of the working people; (2) it puts the dictatorship of the proletariat on the economic basis without which it cannot retain political power and carry out further socialist changes; (3) it creates objective conditions for planned development of the economy with the aim of improving the well-being of the working people.

At the same time, the main contradiction of capitalism, that between the social character of production and the private capitalist form of appropriation, is eliminated. The means of production in enterprises based on social ownership cease to be capital and labour power ceases to be a commodity. A worker's labour is transformed into work for himself, for society and its product becomes the property of all working people.

The process of socialising production in a socialist way, Lenin taught, is not simply expropriation of the expropriators. The enterprises that become the property of the people

---

\* Karl Marx, *Capital*, Vol. I, Moscow, 1974, p. 715.

have to be really socialised, i.e. their activity has to be subordinated to the interests of society as a whole. To that end, the strictest accounting and control of production and distribution of the product are organised in socialised enterprises, new state machinery is set up to manage nationalised enterprises, measures are taken to raise labour productivity, and so on.

The means of production of the exploiters are socialised in various ways in countries that have taken the socialist road, depending on the historical conditions, but all the concrete forms of the process are merely different methods of socialist nationalisation.

*Socialist nationalisation* is the revolutionary expropriation of the property of the exploiting classes by the proletarian state and its conversion into state, socialist property, i.e. into the property of the whole people. It was first carried out in the Soviet Union.

The Soviet state originally intended to combine confiscation of the means of production without compensation with partial indemnification of the bourgeoisie. At the same time, Lenin indicated the possibility of temporary use in the USSR of mixed state-capitalist enterprises, with the participation of private capital, which would serve as a transitional form to socialist enterprises. But indemnification and broad use of joint state-capitalist enterprises had to be abandoned. Taking over of the capitalists' means of production and seizure of the commanding heights of the economy in the Soviet Union encountered bitter resistance from the exploiters in a situation of fierce class struggle against both internal counter-revolution and international reaction. The Soviet state had to switch to nationalisation first of separate enterprises, and then of whole industries and transport, by way of confiscation without compensation.

Soon after the victory of the armed uprising and seizure of power by the Soviets on November 7, 1917 (October 25 in the old Russian calendar), the biggest banks were nationalised in December, and then most of the other banks. Between December 1917 and February 1918 the press, river transport and communications were nationalised. In July 1918 the railways were also proclaimed property of the state and all the country's large-scale industry was nationalised.

As a result, the proletarian state had taken all the commanding heights of the economy in a brief space of time.

In other countries that have taken the socialist road, socialist nationalisation has had a number of distinctive features. Thus, in the European People's Democracies, *apart from confiscation of the means of production* belonging to the expelled occupation forces and the big national bourgeoisie associated with them, *indemnification* was employed in relation to the property of the middle and petty bourgeoisie, in the form of partial or full compensation of the value of the enterprises nationalised, a measure that corresponded with the suggestions of the founders of scientific communism that it might be possible in certain countries to indemnify the exploiting classes for the means of production.

Various forms of state capitalism were employed on a broader scale in the different countries implementing the transition period than in the USSR to convert private capitalist enterprises into socialist ones.

In the German Democratic Republic, for example, the weight of the state-capitalist sector (mixed state-private enterprises) was considerable. In the early 1970s all such undertakings were converted, on a voluntary basis with indemnification, into people's enterprises.

An urgent task in the economic field in the initial stage of the transition period is *to abolish obsolete capitalist relations and the hangovers of pre-capitalist relations in agriculture by carrying out agrarian reform*. Not only does consolidation of the alliance of the working class and the peasantry depend on implementing such a reform, but also liquidation of the economic basis of the bourgeoisie's allies, the landlord class, and creation of the objective conditions needed for transition of the working peasantry to socialism.

The problem can be solved in various ways, depending on the allignment of class forces, the historical conditions and the traditions prevailing in a given country (of great importance, for example, is the character of the agrarian relations existing in this or that country before the revolution): either by *nationalisation of all the land* and then its handing over as property of the whole people to the peasants for their use, or by *dividing up a large part of the land* confiscated from the big landowners among rural working people and its

transfer to them as their private property, on the principle "The land to those who till it".

In the USSR and the Mongolian People's Republic all the land was nationalised without compensation. The working peasants received the land expropriated from the exploiters for their use and were freed of the need to pay colossal rent. The abolition of private property in land created favourable conditions for transition of the peasantry to socialism.

In the People's Democracies, only the land belonging to big landlords was nationalised. On some of it various kinds of state agricultural undertakings were organised (state farms, people's estates) but the greater part was distributed free of charge or for a small indemnity to those who tilled it.

Nationalisation of the land in the USSR and the Mongolian People's Republic and its dividing up in other socialist countries helped consolidate the alliance of the working class and peasantry and created favourable conditions for restructuring agriculture along socialist lines.

What are the social and economic implications of the first revolutionary reform implemented by the state of proletarian dictatorship?

Socialist socialisation of the means of production radically undermines the material foundation of capitalist relations of exploitation, while agrarian reform in the village liquidates pre-capitalist forms of exploitation and the village exploiter, the landlord class, from the economy.

The bulk of the productive forces are put at the service of building socialism. The capitalist mode of production that prevailed under capitalism is reduced to a secondary form of the economy during the transition period, a form that is then steadily ousted and wiped out towards the end of the transition period. A socialist form of economy comes into being, in which socialist production relations take shape that exclude all exploitation of man by man.

The radical change in economic conditions in a country that has taken the road of building socialism leads to the economic laws of socialism coming into being and beginning to operate. These laws have certain special features conditioned by the specific socio-economic structure of society in the transition period and operate in the conditions of a

multi-sectoral economy, in the presence of economic laws characteristic of other, non-socialist sectors. The building of socialism is then carried out in a planned way, on the basis of conscious application of objective economic laws.

### **3. THE SOCIO-ECONOMIC STRUCTURE OF SOCIETY DURING THE TRANSITION FROM CAPITALISM TO SOCIALISM**

#### **The Mixed Nature of the Economy in the Transition Period**

The socio-economic structure of society in a country that has taken the road to socialism is transitional in character and is primarily a heterogeneous economy composed of several different socio-economic systems.

By the socio-economic structure of society we mean (a) the aggregate of the various types of social production composing the economy and their mutual interconnections and (b) the classes and social groups corresponding to them. An economic sector or system is a type of social economy with a special form of ownership of the means of production and with social relations of production of a specific character.

The economy of the transition period is characterised by the existence of three main socio-economic sectors, namely, the socialist, the petty commodity, and the private capitalist. The socialist sector plays the leading role.

In addition to these principal sectors, the economy of the transition period may incorporate other modes, e.g. patriarchal and state-capitalist.

The existence, in the transitional economy, of petty commodity and private capitalist sectors in addition to the socialist sector is due to objective causes. The farms or businesses of petty commodity producers in town and country, based on their personal labour, for example, are preserved because their expropriation could alienate peasants and artisans from the working class, which would do immense damage to socialist construction. Peasants, moreover, cannot be switched over immediately to collective farming. A certain time is needed for the conditions necessary for the soci-

alist transformation of peasant farming to be established. The existence of a private capitalist sector is linked primarily with the fact that petty commodity production based on private property inevitably gives rise to capitalist elements. Furthermore, the proletarian state cannot fully, in its early days, replace capitalist enterprises by socialist ones in all branches of the economy. It gradually restricts their activities and forces them out of all spheres of the social economy.

The *socialist sector* unites national (state) enterprises arising from socialist socialisation of the means of production owned by the exploiting classes (capitalists and landlords) and co-operative undertakings formed through the voluntary associations of part of the petty commodity producers in co-operatives of various types.

The economic basis for the socialist sector is socialist ownership of the means of production in its two forms, state and co-operative. It concentrates the commanding heights of the economy and supports the dictatorship of the proletariat, i.e. the political power in the country. The socialist sector incorporates the key branches of the economy and has more advanced technology and in its enterprises socialist production relations exist, i.e. relations of comradely co-operation and mutual assistance corresponding to the new state of the social productive forces. By 1923-1924, the socialist sector already produced 38.5 per cent of the gross national product of the USSR.

The *petty commodity sector* embraces the farms and businesses of petty producers in town and country: peasants, artisans and handicraft workers, whose production is based on private property and personal labour. In several countries that have taken the road to socialism, the petty commodity sector embraced the majority of the population at the beginning of the transition period and played a considerable role in the economy. Thus, in the USSR in 1923-1924, its share of the gross national product was as high as 51 per cent.

The *private capitalist sector* consists of undertakings of the bourgeoisie in town and country. In urban areas it consists of private industrial and commercial enterprises and in the countryside of kulak farms, i.e. farms on which hired labour is employed.

The state of the dictatorship of the proletariat pursues a policy of restriction and gradual ousting in respect of this sector right from the start and then squeezes it out of existence. In the USSR the weight of this sector was not high from the very beginning of the transition period; in 1923-1924 it accounted for 8.9 per cent of the gross national product.

The *patriarchal mode* embraces mainly subsistence peasant farming with little or no connections with the market. This sector exists in countries where, before the revolution, pre-capitalist forms of economy existed alongside capitalist ones (as it was in Russia) and in lands by-passing the capitalist stage of development (like the Mongolian People's Republic).

The role of the patriarchal sector in the economy is, as a rule, insignificant. In the USSR, in 1923-1924, it accounted for only 0.6 per cent of the gross national product.

The *state-capitalist sector* consists primarily of concessions and enterprises leased out by the state and mixed state and private undertakings.

Under the dictatorship of the proletariat, state capitalism is specific, its special nature being determined by the distinctive features of the property relations. It arises from a combination of national (state) property and private capitalist property and serves the aims of building socialism under the control and with the participation of the proletarian state. This sector makes it possible to utilise the technical know-how, capital and business experience of the bourgeoisie in the interests of building socialism, encourages the development of large-scale industry, gives the working class the chance to learn the necessary skills of economic management, facilitates the struggle against petty-bourgeois anarchy and helps institute national accounting and control.

In the Soviet economy, state capitalism did not develop on any considerable scale. In 1923-1924 its proportion in gross production did not exceed one per cent. In the German Democratic Republic, however, and in certain other socialist countries state capitalism is quite common.

The existence of different socio-economic sectors or systems by no means implies that the transitional economy consists of totally unconnected sectors. There is a close

interaction between them, owing to the unity of the process of reproduction, and exchange of economic activity through commodity-money relations.

The heterogeneity of the economy also determines the specific features of the relations of production. In any established mode of production, production relations of a certain type predominate, but in the society of the transition from capitalism to socialism there is an inherent aggregate of production relations of various types that are closely linked and interact, though in a contradictory way. This aggregate includes, first of all, the production relations of emerging socialism, i.e. relations of comradesly co-operation and mutual assistance, and the remaining production relations of socio-economic modes that are passing away but still survive. The existence of different socio-economic systems in the economy of the transition period is a natural phenomenon. "Nowhere in the world is there pure capitalism developing into pure socialism," Lenin wrote.\*

The job of the economic policy of the state of proletarian dictatorship is to develop the socialist sector in every way, to limit the capitalist sector and then completely eliminate it, to convert the petty commodity sector into a socialist form of economy, to ensure undivided sway of the socialist sector and to lay the foundations of socialism.

## The Class Structure of Society in the Transition Period

The main economic sectors of the transition period have corresponding social forces or classes, namely, the *working class*, the *small and middle peasantry* and the *bourgeoisie*. Their position is radically altered compared with the situation under capitalism.

The *working class*, from being oppressed, exploited and deprived of the means of production, has become the dominant class. It holds the reins of state power, owns the basic means of production, leads the working peasantry and

---

\* V. I. Lenin, "First All-Russia Congress of Soviets of Workers' and Soldiers' Deputies", *Collected Works*, Vol. 25, p. 19.

jointly with them is building the new, socialist society and suppressing the resistance of the exploiters.

The position of the *peasantry* is also altered. The socialist revolution rids the peasants of landlord and capitalist exploitation, while the proletarian state gives them land and material help of various kinds. The process of differentiation of the peasantry is altered; the "middle" peasant becomes the central figure in agriculture and the state gradually draws him into the struggle for socialist reconstruction of the village.

There are also great changes in the position of the *bourgeoisie*, who are deprived of political power, mills and factories and most of their capital and real estate.

Having deprived the bourgeoisie of political power, the proletariat gradually forces them out of the economy; but at the beginning of the transition period they are still quite strong. Their economic power is undermined but not completely destroyed, they cannot reconcile themselves to the new situation but strive to restore their former dominance, resisting the revolutionary reforms of the dictatorship of the proletariat. The strength of the bourgeoisie lies in financial and material resources they possess, in the support of international capital, in their managerial and business skills. They draw support from petty commodity production which is the breeding ground of capitalism.

## **The Antagonisms and the Class Struggle in the Transition Period**

The specific features of the economy and class structure in the transition period from capitalism to socialism are the objective basis for contradictions of a dual kind, antagonistic and non-antagonistic.

*The principal contradiction of the transition period is that between newly born but still weak socialism, to which the future belongs, and capitalism, overthrown but at the beginning still strong.*

This contradiction is of an antagonistic character and is seen in the struggle between the working class and the bulk

of the peasantry on the one hand and the bourgeoisie on the other, a struggle that is waged in all fields of social and economic life on the principle of "who will beat whom".

Non-antagonistic contradictions are also characteristic of the transition period, for example, those between the most progressive form of political power, that of the working people led by the working class and the backward technological and economic basis; those between the socialist production relations and the social productive forces, which are still insufficiently developed in certain branches of the economy. This second contradiction is more or less characteristic of the economy in the transition period in most countries building socialism. It is eliminated by means of socialist industrialisation. There is also a contradiction between large-scale industry, amalgamated on the basis of socialist ownership, and small-scale peasant economies. The large-scale industry develops in accordance with the economic laws of socialism, whereas peasant farming is governed by the laws of the anarchic market; socialist industry is involved in extended reproduction, which leads to consolidation of the position of socialism, whereas individual petty commodity peasant farming is not always capable even of simple reproduction. This contradiction is resolved by the proletarian dictatorship through the gradual socialist transformation of agriculture.

The main contradiction, already mentioned above, is seen in the bitter class struggle that develops between the proletariat and the bourgeoisie because of the radical opposition of their interests. The outcome of this struggle depends on which class wins the peasantry to its side. The peasantry, as a class, has a dual nature; as labouring people the peasants gravitate to the proletariat, but as property owners to the bourgeoisie.

A correct policy by the socialist state, calculated to strengthen the alliance of the working class and peasantry, enables the working class to draw the labouring peasantry to its side, so deciding the outcome of the struggle between socialism and capitalism in favour of socialism.

The sharpness of the class struggle in the transition period may vary, gaining in intensity at certain stages and in

separate countries, depending on the home and international situation and assuming the most acute forms, up to and including civil war.

#### **4. THE LAYING OF THE MATERIAL AND TECHNICAL FOUNDATION OF SOCIALISM AND REVOLUTIONARY TRANSFORMATION OF SOCIAL RELATIONS IN THE TRANSITION PERIOD**

### **Lenin's Plan for Building Socialism and Economic Policy in the Transition Period**

Abolition of the political dominance of the exploiting classes, establishment of the dictatorship of the proletariat and the carrying out of the first revolutionary transformations in the social and economic fields are the initial phase of the socialist revolution and create the political and economic conditions necessary for planned building of socialism.

The plan for building socialism in Russia, which was initially drawn up by Lenin, envisaged *laying the material and technological foundation of the new society through industrialisation, the socialist transformation of agriculture and carrying out a revolution in the cultural field*. This plan took into consideration the general laws of socialist revolution and of the building of socialist society, and also the specific character of the transitional economy of the Soviet Union. Certain aspects of this policy began to be implemented right in the first months of Soviet power, the new state adopting a number of measures to regulate economic life, including the organisation of nation-wide accounting and control of production and distribution, mobilisation of the people for an all-round increase of labour productivity, development and rational utilisation of the country's rich natural resources, the establishment and strengthening of socialist discipline and organisation of work, the development of socialist emulation, utilisation of material incentives to work (proper organisation of pay for work in government undertakings, and so on), the employment of bourgeois en-

gineers and specialists, etc. These measures were directed not only towards overcoming the economic dislocation caused by the imperialist war and bourgeois economic policy, but also towards creating the decisive conditions necessary for building up a socialist economy.

The civil war unleashed by the forces of internal and foreign reaction and the economic dislocation necessitated temporary implementation of a policy of war communism, during which all industry and commerce were nationalised and food requisitioning, which involved confiscation of surplus farm produce from peasants to feed the army and cities, and universal labour conscription were introduced.

The policy of war communism in the USSR made it possible in the civil war situation to ensure defeat of the forces of internal counter-revolution and foreign intervention and helped consolidate the state of the dictatorship of the proletariat. However, it could not solve the peaceful economic tasks facing the proletariat, being only necessitated by war and dislocation.

At the end of the civil war, in the spring of 1921, the Soviet state changed over to the *New Economic Policy* (NEP), which corresponded to the objectives of building a new society in peacetime. The transition to all-round implementation of NEP began with the levying of a food tax instead of requisitioning surplus produce. The food tax was smaller than the requisitioned surpluses and everything the peasant had from the produce of his own labour after paying the tax remained at his disposal. The aim of this policy was to establish new economic links between socialist industry and peasant farming and between the working class and the peasantry and to meet the demands of the peasants as petty producers through exchange of their surpluses for manufactured goods.

This gave the peasants a material incentive to increase farm production, without which it would have been impossible to cement the alliance of the working class and the peasantry. But, because the state still had few commodities, it was then impossible to meet the economic demands of the peasants more or less satisfactorily without freedom of trade (within the limits set by the proletarian state), which means a certain revival of capitalist elements.

This revival, however, occurred with the commanding heights of the economy held by the proletarian state and when the leading role of the socialist sector of the economy was being consolidated. In exercising control over trade, the Soviet state fought the attempts of private merchants and traders to evade control, developing state and co-operative trade in every way.

In the conditions of the New Economic Policy, commodity-money relations began to develop not only between the different sectors of the transitional economy, but also within the socialist sector, between socialist enterprises. The manual and clerical workers of government enterprises and institutions were transferred from payment in kind to payment in cash. Government and co-operative trade in consumer goods was developed and the banking system expanded, while the rate of exchange of the rouble was stabilised by means of a monetary reform. State enterprises began to go over to a system of profit-and-loss accounting.<sup>3</sup> Commodity-money relations began to have a different economic content from that under capitalism and to be increasingly subordinated to the planned activity of the socialist state.

*Thus the New Economic Policy was intended to overcome the economic dislocation and to establish an economic bond between town and country to provide favourable conditions for developing large-scale industry, to consolidate the alliance of the working class and peasantry, to lay the foundation of the socialist economy, to oust and eliminate capitalist elements and to lead to the triumph of socialism.*

Implementation of NEP facilitated rapid restoration of the economy, ravaged by war and foreign intervention. By 1926, the volume of industrial production had almost reached the prewar level, while agricultural output had surpassed it. State and co-operative trade had taken the leading position, particularly in wholesale turnover. As a result, favourable conditions had been created for laying the material and technical foundation of socialism and for implementing other points of Lenin's plan for building socialism.

The main principles of the economic policy pursued in the Soviet Union during the transition period have interna-

---

\* For detail see Chapter VII.

tional implications, but the concrete forms of such a policy, pursued in different countries, have their own distinctive features depending on the historical conditions of their development and on the international situation, which also greatly affects them. In the USSR, this policy was implemented in conditions of a capitalist encirclement, whereas other countries are pursuing it in more favourable situations, drawing on the Soviet Union's experience and economic power and on the assistance of the other countries of the world socialist system.

### **Laying the Material and Technical Foundation of Socialism**

The communist mode of production, like any other, implies a material and technical basis corresponding to its nature. The laying of this foundation occupied the central place in Lenin's plan for building socialism. In any society it is the production and technological apparatus used to produce material goods.

This foundation and its level of development are characterised by the material elements of the productive forces, the technology and forms of social organisation of production, the geographical distribution of production facilities between economic areas, a definite balance between industries, conforming to social needs, and the level of development of the technical sciences. It is organically linked with the main productive force of society, people. The working people are the creators of the material elements of the productive forces, and the efficiency with which these are used depends on their skill and experience. "The degree of skill of the existing population," Karl Marx noted, "is always the precondition of production as a whole."<sup>\*</sup>

Any new, more progressive mode of production originates and initially evolves on the material foundation inherited from the past. Only in the course of its further development does it create a material foundation corresponding to its

---

\* Karl Marx, *Theories of Surplus-Value*, Part III, Moscow, 1975, p. 295.

own nature. Every new social system, however, can only secure full opportunities for progressive development and ensure its complete victory over the old system on its own material and technical basis, the level of which and the character of whose organisation must ensure higher productivity of social labour than in the old society.

Accordingly the material and technological basis of socialism is laid in the transition period, while the foundation for communism is laid on it during the transition from socialism to communism.

*The material and technical foundation of socialism is a highly developed large-scale machine industry, with its intrinsic advanced and rapidly developing technology and high concentration, specialisation and co-operation of production, based on social ownership of the means of production, dominating all branches of the economy and capable of exerting a socialistically transforming influence on all aspects of social life, above all on the country's economic life.* Capitalism, of course, laid the basis for the development of large-scale machine industry and has brought it to a high level of technical perfection in a number of countries, but has proved incapable of introducing it into all branches of the economy and in all countries, because of its growing antagonisms. Capitalism is unable to develop production in the interests of the people and no matter how highly developed capitalist machine production becomes, it is not a material and technical foundation for socialism.

The main economic task of the working people is to lay such a basis. This follows, on the one hand, from the decisive role of material production in the development of society; on the other hand, it is only possible to satisfy their steadily growing needs with a higher level of development of the productive forces.

Laying the material and technological foundation for socialism is, in varying degrees, the common task of all countries taking the road to socialism. At the same time, the volume and conditions of the job of building it vary in different countries depending on their pre-revolutionary level of economic development. In agrarian countries, the basic industries have to be built almost from scratch. In industrially developed countries there has to be a radical

restructuring of social production, correction of irrational distribution of industry, and so on.

The main way to laying the material and technological basis of socialism is *socialist industrialisation*, that is, the *development of industry, above all of large-scale industry, and restructuring of the whole economy on the basis of advanced engineering and with the predominance of social ownership of the means of production in order to raise the standard of living of the working people.*

Socialist industrialisation leads to such changes in the structure of social production that heavy industry and its core, mechanical engineering, begin to play the leading role in the economy. Heavy industry is the foundation for technological re-equipment of all branches of the economy, for consolidating the country's technical and economic independence and defence capacity and for increasing the people's well-being.

The job of converting a country from an agrarian land into an industrial one was first carried out in the Soviet Union.

Socialist industrialisation there had a number of distinctive features. All the basic industries that would satisfy the needs of a country for means of production and consumer goods and ensure its technical and economic independence and defence capacity had to be built, which necessitated priority development of heavy industry. It was necessary to redistribute the productive forces as rationally as possible between the country's economic areas and to industrialise all the Soviet republics, while the home and international situation made it imperative for this to be done in a short period.

The main sources of funds for industrialisation were revenues from socialist industry, agriculture, foreign trade and internal trade, which yielded thousands of millions of roubles and made it possible to make huge investments in industry, especially in heavy industry.

Socialist industrialisation of the Soviet Union encountered incredible difficulties. Soviet workers had not only to overcome immense technical and economic backwardness, but also to make good the post-war dislocation.

It was also carried out in conditions of international isola-

tion. The country was like a besieged fortress and subjected initially to economic blockade.

The course of industrialisation was laid by the 14th Congress of the Soviet Communist Party in 1925. Within a comparatively short period (12 to 15 years) the Soviet people not only overcame the technical and economic backwardness inherited from capitalism but also transformed the country into a strong industrial power.

During the pre-war five-year plans new industries were built from scratch, like the tractor, motor car, machine tool, aircraft and instrument industries. The share of industry in gross production grew substantially and its structure was altered through priority development of heavy industry. The share of production of means of production (Department A) increased from 33.3 per cent in 1913 to 61.2 per cent in 1940. By the end of the second five-year-plan period (1937) the Soviet Union had moved to first place in Europe and second place in the world in volume of industrial output.

Industrialising in such a short time had tremendous social and political importance. The material basis needed to consolidate economic independence of the Soviet state, reconstruct all branches of its economy technically and put agriculture on a new, socialist foundation was laid. Industrialisation consolidated social ownership in the decisive fields of the economy, ensured the squeezing out of urban capitalist elements, victory of the socialist sector in industry and growth of the working class, helped strengthen its leading role in society and build up the economic and defence potential of the Soviet Union.

In the course of socialist industrialisation, the levels of development of formerly economically and culturally backward areas of the country were evened up. The peoples of this multi-national state, relying on mutual fraternal help, created a modern industry in their republics, trained local cadres of the working class and intelligentsia and developed a culture national in form and socialist in content.

The socialist industrialisation of the USSR had great international significance, its rapid growth rates demonstrating the indisputable advantage of the socialist economic system.

Soviet experience in this field has been creatively applied

by other countries building socialism. Their working people, however, are industrialising in a more favourable historical situation than the Soviet people and are receiving all-round assistance from the Soviet Union and the other industrially advanced countries of the world socialist system, which is enabling them to draw up less forced plans of industrial development and is accelerating and facilitating the process. Growth of the international socialist division of labour enables them to give priority to creating and developing the industries for which they have the most favourable conditions (raw materials, personnel, etc.).

Socialist industrialisation has now been completed, or is nearing completion, in the majority of socialist countries. Lands that were predominantly agrarian in the past have become industrial-agrarian countries.

Socialist industrialisation creates the necessary material conditions for implementing the next link in Lenin's plan for building socialism, i.e. the gradual socialist transformation of agriculture.

## **Socialist Transformation of Agriculture**

Victory of socialism implies establishing the predominance of socialist property not only in industry, transport and commerce, but also in agriculture. Socialisation of the means of production in agriculture during the transition to socialism is as necessary as in the other branches of the economy.

It is impossible for industry, developing on a socialist basis, and agriculture, in which private property predominates, to coexist for long. The existence of two such mutually opposed foundations over a long time would preclude the whole economy from developing along socialist lines. The petty-bourgeois trends among the peasantry, and the engendering of capitalist elements by them, are a menace to the cause of socialism and it is mandatory to replace private property, predominantly small-scale low-productivity peasant farming by large-scale socialist farming.

The transfer of the peasant's small private farming onto socialist lines is also necessitated by the need to resolve the contradiction between rapidly growing socialist industry and

backward farming, governed by the laws of the spontaneous market and capable only of simple reproduction. In such a situation it is impossible to feed the developing working-class centres and to supply industry with agricultural raw materials.

From a thorough analysis of agrarian relations under capitalism the founders of scientific communism developed a rigorous theory for transforming agriculture along socialist lines in the transition period between capitalism and socialism, a theory that takes as its starting point the need to create two types of socialist enterprise in agriculture, state and co-operative. This need is objectively due to the socialist revolution's inheriting two types of agricultural enterprise from capitalism, large landlord-capitalist farms based on hired labour and peasant farms based on personal labour.

As regards the first, their socialist transformation, provided the agricultural workers employed on them do not demand distribution of the land, is carried out in the same way as in industry, i.e. by nationalising some or most of them and organising large state-owned agricultural undertakings on their basis. As for the small producers' farms, a different way is objectively needed for converting them into socialist undertakings. The property of labouring peasants and artisans can only be socialised on a voluntary basis and gradually, employing a number of transitional measures\* for the purpose and drawing the peasants into collective (co-operative) farms.

This pattern of socialist development in the village has been tested in practice in the Soviet Union and in other countries that have taken the socialist road.

### **Lenin's Co-operative Plan**

Lenin considered the socialist transformation of small peasant farming the most difficult and complicated task after the seizure of power by the proletariat and one of the main ones. Its special difficulty and complexity were due

---

\* See V. I. Lenin, *Collected Works*, Vol. 33, pp. 214-15.

to the need to overcome the age-old force of habit of the small property-owner, to alter his psychology and to convince the peasant of the advantages of large-scale collective farming.

Marx and Engels had theoretically substantiated the main principles of the switching of individual peasant farming onto socialist lines corresponding to the interests of the working people of the village and ensuring victory of the new social relations in agriculture. They proved that it was possible and necessary for the peasants to unite voluntarily into collective farms after the triumph of the proletarian revolution. In creatively developing their teaching, Lenin evolved an all-round programme for the socialist transformation of agriculture on the basis of co-operation, that is to say, a co-operative plan. His *co-operative plan* envisaged the following:

- 1) comprehensive use of various forms of co-operation during the peasantry's transition to the socialist road. Lenin pointed out that, in a situation where the power is in the hands of the working class and the basic means of production have been made public property, co-operation is the most comprehensible, advantageous and, therefore, the most feasible way of reorganising agriculture along socialist lines. It is the best way to ensure harmony between the peasant's personal interests and those of society;

- 2) voluntary transfer of peasants from the path of individual farming to the road of collective production;

- 3) consecutive and gradual introduction of co-operation, beginning with its simplest forms. The peasants, who have for centuries managed their economies alone, can only gradually learn the habits of collective work, taking part initially in the simplest, most comprehensible forms of co-operation—supply-and-marketing, credit and later producer co-operatives. The simplest forms of co-operation and the positive experience of the first collective and state farms would show the peasants the practical advantages of large-scale socialist production in agriculture;

- 4) guidance of socialist development in the village by the working class and the provision of all-round material, financial and organisational aid to the peasantry. Lenin stressed that the peasants' transition to a large-scale collec-

tive farming could not occur spontaneously. The working class had to actively influence solution of the urgent problems of agriculture, not only by developing organisational and educational work in the village, but also by helping the peasantry with means of production, personnel, seeds, credit, and so on.

The Soviet Union was the first country to transform agriculture along socialist lines, the course of gradual development of co-operation among the peasants having been adopted by the 15th Congress of the Communist Party in 1927.

The enormous organisational and educational work carried out by the Communist Party led to a radical turn by the peasantry towards collective farming in the latter half of 1929, when the bulk of the peasants joined collective farms and *complete collectivisation* began in the village, on the basis of which the last and most numerous class of exploiters, the *kulaks*\* was eradicated.

The industrial basis for re-equipping agriculture began to be developed at the same time. Machine and tractor stations (MTS) were organised to cater for the production needs of the collective farms, which became veritable bastions of Soviet power in the village and were used not only to render production aid to the collective farms but also as centres of rural political leadership.

The setting up of Soviet state farms also played a great part in the socialist transformation of agriculture. These were model farms demonstrating the advantages of large-scale socialised production over small-scale peasant farming. They gave the peasants help in forming collective farms. The state allocated funds to finance the development of collective farms and state farms and the best workers were sent to the collective farms to help with organisation.

*Towards the end of the second five-year plan (1937) the collective farm system was firmly established in the Soviet countryside, 93.1 per cent of peasant farms having been collectivised and 99.1 per cent of their arable land being con-*

---

\* *Kulaks*—the village rich in Russia who owned or rented large plots of land and instruments of production and derived huge profits by cruel exploitation of the poor peasants.

centrated in collective farms. As a result, the vast majority of the peasantry took the road to socialism. The means of production belonging to kulaks were expropriated and handed over to collective farms.

A collective farm is the best way to combine the peasants' personal interests and the public interest and offers ample opportunities for raising their incomes and well-being through raising labour productivity. The organisation of collective farms in itself meant merely the development of enterprises that were socialist in form, but since they were set up by small private owners and capitalist elements still existed in the village, the process of giving them a truly socialist content became crucial. That called for the strengthening of their organisation and management, the introduction of socialist order and a determined fight against survivals of private property ways.

What are the social and economic implications of the revolutionary transformation of agriculture?

The collectivisation of agriculture led to elimination of the contradiction between large-scale socialist industry and small-scale peasant farming. Agriculture was converted into large-scale mechanised commodity farming, which made it possible to improve the peasants' standard of living and to supply the cities with farm produce and industry with raw materials.

Collectivisation opened the way towards technical reconstruction of agriculture and an upsurge in this vitally important field of material production. The last sources for the restoration of capitalism in the country were uprooted and the last exploiting class, the *kulaks*, was abolished. Socialist relations of production fully triumphed in the village just as in the town, which was a great revolution in economic relations and in the entire way of life of the peasantry. Collectivisation delivered the village from kulak bondage, class stratification, ruin and poverty forever. On the basis of Lenin's co-operative plan the age-old peasant question found its true solution.

The main principles of this plan are valid for any country taking the road of building socialism but, at the same time, the process of realising co-operation in each socialist country has to take into account its historically developed

economic, national and other features. In the initial stage in the People's Democracies most of the land was the private property of the peasants as a result of having been divided up.

When peasants joined co-operatives, their land was in most cases counted as part of their initial share and remained their property and revenue was distributed not only according to work, but also according to the amount of land put into the co-operative. Only in co-operatives of a higher type does the land become social property and is income shared out according to work. Today higher forms of agricultural co-operative similar to Soviet collective farms, are becoming more and more common in most socialist countries.

The socialist transformation of agriculture is taking place in other socialist countries in different conditions of class struggle than in the Soviet Union, which makes it possible to use other approaches in resolving the problem of uprooting the kulaks as a class. In several countries this has been done without forcible expropriation and depending on their attitude to the measures adopted by the people's government, some kulaks have been admitted to membership of co-operatives on special terms. Others have been allowed to work temporarily in the co-operative, with the possibility of becoming members after labour re-education. The experience of the socialist countries once more confirms that liquidation of the kulaks as a class is part of the socialist reconstruction of the village. The way it is done, however, varies with the concrete conditions.

By creatively applying the basic principles of the co-operative plan and drawing on Soviet experience in implementing it, most of the countries of the world socialist community have made decisive advances in transforming agriculture socialistically.

### **Revolution in the Cultural Field, Part and Parcel of the Socialist Transformation of Society**

The building of socialist society is impossible without a radical cultural advance among the broad masses of the people, without effecting a *revolution in the cultural field*,

which Marxism-Leninism regards as the general law of the transition from capitalism to socialism.

The objective necessity for such a revolution in any country building the new society is due (1) to the fact that the transition from one socio-economic formation to another is always associated with general cultural progress and development of science and technology and (2) to the fact that socialism, in contrast to exploiting forms of society, implies active involvement of the mass of the working people in administering the socialist state and in public affairs. The task of socialism is to put all the gains of science, technology and the arts at the service of the working people. The rapid progressive development of social production and the perfecting of its technical base calls for the training of large numbers of skilled workers and the creation of a new, workers' and peasants' intelligentsia dedicated to the cause of socialism.

The revolution in the cultural field involves a combination of such measures as the eradication of the mass illiteracy and lack of education of the people inherited from the old system; re-education of the old engineers and specialists and creation of personnel of a people's socialist intelligentsia; substantial improvement of the cultural and technical training of the mass of the workers and peasants to the level needed for mechanised production; development of the cultures of formerly oppressed nationalities, national in form and socialist in content; development of science and strengthening of its links with industry; struggle against the spiritual oppression of man; and propagation of Marxist-Leninist ideology.

This revolution was first carried out in the Soviet Union. Mass illiteracy was eradicated in a relatively short time. In 1897 only 28.4 per cent of the population between nine and 49 was literate; in 1939, 87.4 per cent could read and write.

The Soviet Union became, in effect, a country of full literacy. All its peoples received broad access to the sources of enlightenment and culture and many nationalities that had had no written language before the revolution created and mastered one.

Compulsory seven-year schooling had been instituted in the country by the end of the transition period. Enormous

progress was made in the vocational and technical education of the working class. A broad network of secondary and higher educational establishments was created. In the 1940/41 academic year, higher educational institutions alone had 812,000 students, or nearly 6.5 times as many as in tsarist Russia.

One of the most important tasks of this revolution, the creation of mass cadres of a people's socialist intelligentsia, had been solved by the end of the thirties. Whereas in 1913, around 200,000 specialists were employed in the economy, in 1941, on the eve of the Great Patriotic War, there were already 2,401,000.

To carry through this revolution in the cultural field, the state of the proletarian dictatorship devoted much effort throughout the transition period to providing the requisite material conditions, to developing broadcasting, cinema, the periodical press and book publishing, to broadening the network of libraries and other cultural and educational facilities.

The job of ensuring cultural growth is also being successfully coped with in other countries building socialism.

## **The Non-Capitalist Path of Development for Newly Independent Countries**

The founders of Marxism-Leninism demonstrated that the domination of pre-capitalist or undeveloped capitalist relations in a country was not an insurmountable obstacle to its transition to socialism, by-passing the capitalist stage of development.

The possibility of such a transition is associated with both the objective and subjective conditions prevailing in the country and is also dependent on its receiving the necessary assistance from the working class of countries where socialism has triumphed.

The practical experience of building socialism in the national republics of the Soviet Union and in several other countries, like the Mongolian People's Republic, where pre-

capitalist relations prevailed before the revolution, brilliantly confirms this.

The transition to a path of non-capitalist development by whole states, or by individual areas of multi-national states, depends on the following two main conditions: (1) a revolutionary change in the state system of government; and (2) the carrying out of more or less sweeping revolutionary-democratic reforms in social and economic relations.

Historical experience indicates that when the objective and the subjective conditions are ripe for the immediate building of socialism, separate national areas can develop along a non-capitalist path on the basis of the dictatorship of the proletariat established through abolition of the rule of exploiters (e.g. in the Soviet Union), or through a revolutionary-democratic dictatorship of the working people that gradually develops into the state of the dictatorship of the proletariat (e.g. in the Mongolian People's Republic).

The world socialist system is now the decisive force in the working people's anti-imperialist struggle for liberation. Colonial and dependent countries have been liberated or are in the process of being liberated from the yoke of imperialism and as a result conditions are taking shape that are accelerating and easing the transition to a non-capitalist path of development in individual new national states where the internal conditions for immediate transition to socialism through the dictatorship of the proletariat have not yet ripened. Here we have in mind a progressive path of development of the newly independent states such as will enable them to overcome the backwardness inherited from the colonial past and to create the conditions for building a socialist society in the future.

In these countries, the national liberation movement has assumed broad scope and begun to develop into a struggle not only against pre-capitalist social relations of exploitation, but also against capitalist relations. This far-reaching process of revolutionary-democratic struggle goes hand in hand, primarily, with a fundamental change in the state system of government. Reactionary regimes are overthrown, and governments of a united national democratic front are

formed, a front uniting all the progressive forces of the country, the working class (where it exists), the peasantry, the democratic intelligentsia and the progressive part of the national bourgeoisie.

The progressive governments in these countries pursue general democratic, anti-feudal and anti-imperialist objectives in the field of social and economic reforms (achievement and consolidation of political independence; struggle for economic independence; ending of the dominance of foreign monopolies; eradication of feudal and tribal survivals; the carrying out of agrarian reforms in the interests of the working peasantry, etc.), which are their main tasks.

But they also accomplish certain anti-capitalist tasks, which opens up a socialist perspective, restricting the field of private national capital, nationalising the property of the big and middle national bourgeoisie, encouraging co-operation among small commodity producers, industrialising the country on the basis of building a state sector of the economy, and so on.

This results in the formation of a mixed, pluralistic economy including a state (non-capitalist) sector, a mixed state-capitalist sector, a co-operative sector (predominantly in rural areas) and a private sector in town and country (private entrepreneurial and small commodity producers). The social structure of society is gradually transformed, the role of the working class and those peasants united in co-operatives grows and the living standards of the working people are improved.

The economic basis for progressive, revolutionary-democratic reforms in socialist-oriented states is the state sector which already occupies in some of them the dominant position in the main branch of the material production, i.e. industry.

Some of the young independent African and Asian states of an anti-imperialist orientation are introducing general democratic reforms, thus creating some of the conditions necessary for their later transition to socialism, by-passing the capitalist stage of development.

## The Results of the Transition Period. The Victory of Socialism

The period of transition from capitalism to the new society culminates in laying of the foundation of the first phase of the communist mode of production, i.e. in the victory of socialism. Socialist society was first built in the Soviet Union, and was achieved there in the latter half of the thirties, as was legislatively consolidated in the Constitution adopted in December 1936.

At the congresses of the communist and workers' parties of a number of countries of the socialist community held in recent years it has been noted that the fundamental tasks of the transition period have been accomplished in these countries by the selfless work of their peoples and that they have embarked on building a developed socialist society.

The victory of socialism in the USSR and a number of other countries has a series of implications, namely:

1) *The conversion of the socialist sector into an absolute predominance of the socialist economic system.* The mixed economy is transformed into a uniform socialist one. The issue of "Who will beat whom" is fully and irrevocably decided in favour of socialism. In the Soviet Union, for example, the share of the socialist economy in 1937 was as follows—99.0 per cent of the main productive assets; 99.1 per cent of the national income; 99.8 per cent of gross industrial output; 98.5 per cent of gross agricultural output; and 100 per cent of retail trade (including public catering).

2) *Revolutionary replacement of capitalist production relations by socialist ones.* With the triumph of socialism, relations of the exploitation of man by man and their economic foundation, i.e. capitalist private property, are completely abolished. New, socialist production relations, i.e. relations of comradely co-operation and socialist mutual assistance, are established. Parasitic appropriation of the fruits of production is abolished and the whole national income goes to the working people, and only to them. The principle "From each according to his abilities, to each according to his work" is implemented in society.

3) *Creation of the material and technical foundation of socialism.* As a result of socialist industrialisation and gradual socialist transformation of the small peasant farming, large-scale machine production based on social ownership of the means of production becomes universal.

4) *Successful overcoming of the contradictions of the transition period.* Victory of the socialist system makes it possible completely to overcome the main contradiction of this period, that between developing socialism and capitalism, overthrown but still not fully uprooted. Socialist industrialisation and the socialist transformation of agriculture lead to overcoming the contradictions between the most advanced political system and the backward economic foundation and between large-scale socialist industry developing on the principle of extended reproduction and the small-scale, individual peasant farming.

5) *Radical alteration of the class structure of society.* With the triumph of socialism the exploiting classes in town and country, capitalists and landowners, are fully abolished. Two friendly classes, the working class and the class of collective farmers, remain in society plus the new worker-peasant intelligentsia. Not only is the class structure altered, but also the character of the classes and their position in society. They become classes whose interests coincide in the main, decisive fields. The working class, having abolished capitalism and converted the means of production from private property into social property, ceases to be a class deprived of the means of production and is transformed into a class freed from exploitation and jointly owning the means of production with all working people. The working class acts as the leading and constructive force of the new society, marching in the van of the struggle to build communism. With the triumph of socialism alienation of the working people, the main productive force of society, from the means of production is ended and the labour power employed in all branches of the economy ceases to be a commodity. The peasantry, too, is transformed from a class of small commodity producers into a new class of collective owners, a collective farm peasantry freed from exploitation. In alliance with the working class, the peasantry is actively involved in administration of the socialist state. The com-

munity of the economic foundation of the productive activity of the working class and collective farm peasantry brings them closer together and cements their alliance. A new, socialist intelligentsia, coming from the people, arises, dedicated to the cause of building socialism and communism.

6) *Abolition of the old antithesis between town and country and between mental and physical labour.* Whereas under capitalism the town exploits the country, under socialism it renders the country technical, organisational and cultural assistance. The country, in turn, supplies the town with food and raw materials. Under socialism, too, the intelligentsia is united with the working class and peasantry by indestructible ties. At the same time, essential differences still remain between town and country and between mental and physical labour, distinctions that are gradually attenuated in the course of building socialism and communism.

7) *Radical improvement of the material and cultural standards of the working people.* Once the exploiting classes with their parasitic consumption have been abolished, the national income becomes wholly at the disposal of the people. Working conditions are radically altered, housing conditions in town and country substantially improved and all the achievements of modern culture made accessible to the working people.

8) *Successful solution of the national question, abolition of the economic and political inequality of nations in multinational countries and establishment of friendship between peoples.* Socialism gives all nations and nationalities rapid, all-round economic and cultural development and destroys the root cause of the oppression and inequality of nations. In the Soviet Union, many formerly backward national regions have advanced to socialism, by-passing the capitalist stage of development.

9) *Alteration of the political organisation of society.* With the triumph of socialism, the state of the dictatorship of the proletariat is steadily transformed into a political organisation of the whole people, under the leadership of the working class, and the functions of this state are essentially altered. Its function of suppression of exploiters withers away

and its managerial-organising and cultural-educational functions become enormously developed. Successful exercise of these functions is inextricably involved with broader and broader participation of the masses of the working people in the management of public affairs. The socialist state's function of protecting public property and that of defence against aggression are strengthened.

On the basis of community of the radical interests of workers, peasants and intellectuals, firm social-political and ideological unity of the people and socialist patriotism takes shape.

The building of socialist society in the USSR had world historic significance, as it proved the possibility of abolishing capitalism and exploitation of man by man and of building a new society. The Soviet people's heroic efforts are an inspiring example to the working people of other countries in their struggle for liberation from wage slavery and for the triumph of socialism and are evidence of successful implementation of Marxist-Leninist ideas.

## **The Stage of Developed Socialism**

The building of the material and technical basis of socialism and establishment of the undivided domination of socialist relations of production in the USSR meant completion of the transition period. Socialism had in the main been built, which opened the way forward to communism, since the development of socialism and the building of communism are a single, continuous process. But for full-scale advance towards the second phase of communism socialism has to be fully consolidated. This means that, once socialism has been built in the main, society has to pass through a stage of further consolidation of socialist production relations and development of the productive forces and gradually advance to a higher stage of maturity.

In other words, once socialism has been built in the main, the building of developed socialist society begins. Such a society, it was stated at the 24th Congress of the CPSU (1971), has been built for the first time in history and is now functioning in the USSR.

Developed or mature socialism is a historical stage in which all the necessary objective and subjective preconditions are being prepared for the second phase of communism. It is based on the same type of relations of production and the same economic laws as the first stage of socialism, but it differs from the latter both as regards the level of the productive forces and the degree of maturity of the relations of production:

1) Mature socialism has a powerful material and technical basis—an advanced industry and large-scale, technically well-equipped agriculture—and is characterised by application in production of the latest achievements of science and engineering and by development of the scientific and technological revolution. Characteristic of this stage are mature socialist production relations; full dominance of socialist property with considerable enhancement of the role of national, public property not only in town but also in country and its effect in developing processes bringing collective farm property closer to national property.

2) A new and higher level of socialisation of socialist production corresponds to developed socialism. This finds expression in broad development of the social division of labour, a higher degree of concentration and centralisation and a greater specialisation of production, and in the combination of production through the forming of large industrial combines. The economy of the USSR is an integral economic complex embracing all the elements of social production, distribution and exchange in the territory of the USSR.

3) The new stage in socialisation of the economy gives rise to an objective need for reinforcing planning and consequently centralised state planning, for improving it and raising its scientific level, introducing new forms of management corresponding to the given higher stage of development and improving the methods of socialist management. Developed socialism implies the formation of a well-balanced industrial structure and the establishment of optimum proportions in the economy.

4) The main economic task of communist development is resolved in the developed socialist economy, i.e. laying the material and technical foundation of communism for which

it is necessary to combine the achievements of the scientific and technological revolution with the advantages of socialism.

5) All the features of mature socialism make it both possible and necessary to intensify production, raise its efficiency considerably and attain high levels of productivity of socialist labour.

6) In mature socialist society, the material prerequisites are created for fuller resolution of the task of improving the well-being of the people and the fullest and most consistent compliance with the main economic law of socialism.

7) The building and actual functioning of mature socialist society are also associated with the change in the international situation, the emergence of the world socialist system on the historical scene and unfolding of the process of socialist economic integration.

8) In the period of the building and functioning of developed socialist society far-reaching quantitative and qualitative changes occur in the social structure of society as well as in the economy. The proportion of workers in the population rises, while that of collective farmers and members of producer co-operatives shrinks. The leading role of the working class in society is enhanced. Within the working class itself the proportion of trades and professions linked with the latest trends in the scientific and technological revolution rapidly grows. A new type of production worker gradually takes shape. The essential distinctions between mental and physical work and between town and country are more and more blurred. The boundaries between the co-operative peasantry, the working class and the intelligentsia also tend to disappear and the social uniformity of society is consolidated.

9) The political superstructure of mature socialism is a state of the whole people, in which the leading force is the working class and all-round development of socialist democratism is inherent.

Socialism and communism are not two independent modes of production but two phases of one and the same economic formation, two stages of one and the same communist mode of production. They have production relations of one and the same character, differing only in degree of maturity,

which accounts for the specific features of the development of the new society. In the operative conditions of developed socialism there is a process of development and perfecting of the main features of the first phase of communist society, while the material production preconditions and social and political prerequisites are simultaneously being created for society's transition to the higher phase, communism. Socialism develops gradually into communism, but we must emphasise that there are essential distinctions between the two phases and the transformation of socialism into communism calls for immense and persistent work of the whole people and a high development of the creative initiative of all working people.

## *Chapter II*

# **SOCIAL OWNERSHIP OF THE MEANS OF PRODUCTION. THE CHARACTER OF LABOUR. THE BASIC ECONOMIC LAW OF SOCIALISM**

Socialism, as we have said, is the first phase of the communist mode of production. In its fundamental features it is of the same type as full communism but there are also essential differences between the two phases, which are attributable to the uneven level of the productive forces and to the different degree of maturity of production relations, distinctions that are gradually overcome as society advances from socialism to communism. Hence the need for a deep study of the laws governing the development of the socialist economy and its stages of maturity.

## **1. SOCIAL OWNERSHIP OF THE MEANS OF PRODUCTION IS THE ECONOMIC BASIS OF SOCIALISM AND COMMUNISM**

The building of socialism means establishing the undivided predominance of social ownership of the means of production in all sectors of the economy. In this way a new social system is brought into being based on production relations that exclude the exploitation of man by man and the causes engendering exploitation.

### **Property as an Economic Category**

Bourgeois economics reduces the notion of property to its material objects, defining it as man's relationship to things. In the capitalist world this superficial understanding of the

category of property has a certain social foundation: the economic relations and connections between people are materialised there as relations between things and generate commodity and money fetishism. The class interests of the bourgeoisie, moreover, induce its ideologists to refrain from any deep scientific analysis of the fundamental principles of capitalism and to camouflage them so as to prevent the spread of the confidence in the inevitability of the replacement of capitalism by socialism. Many protagonists of capitalism depict its process of production as technological relations between society and nature, reducing the subject matter of political economy exclusively to the relations of distribution and exchange. Such subterfuges are employed to divert workers from analysing the real property relations in the actual process of production, which are the key to understanding of the whole system of capitalist relations of production.

*Marxist-Leninist economic science regards property or ownership as a definite social and economic relationship among people, expressing the historically concrete form of appropriation of material values.*

In the process of production natural objects and materials are adapted to man's needs. But for production to begin there must be the objective conditions, i.e. land and the instruments and objects of labour. Whoever has appropriated the means of production becomes the owner of its products and distributes and exchanges them to his own advantage.

Consequently, property relations are relations between people in connection with the appropriation of means of production and objects of consumption. Karl Marx briefly defined *property as appropriation; appropriation of the means of production is of decisive importance.*

Viewed from the economic aspect property relations are the foundation of all aspects of production relations and determine their essence. We must therefore begin study of the first phase of communist society with an analysis of the essence of socialist ownership and the features of its forms under socialism.

## The Essence of Socialist Ownership

*Socialist ownership of the means of production is their social, joint ownership by the working people themselves.* The members of socialist society, jointly owning the instruments and objects of labour, use them in the process of production in their own interests.

Unlike the primitive collective ownership of the means of production, engendered by man's weakness in face of the forces of nature, socialist ownership is called into being by the vast scale of growth of society's productive forces. Modern large-scale machine industry with its ramified system of social division of labour unites the operation of many enterprises in a single social production process, requiring the planned joint work of millions and millions of people and social management of the process.

Under capitalism, the social character of the production process is in antagonistic contradiction with the private ownership of the means of production. The direct producers of material values are dispossessed of the instruments and objects of labour, which is the economic basis for the appropriation without compensation of their surplus labour by the owners of the means of production, i.e. for their exploitation.

*The socialist social system reunites labour power and the means of production.* The workers of industry, agriculture, transport and other sectors of the economy themselves become the joint owners of the means and results of production. The exploitation of man by man is thereby abolished and a community of the working people's fundamental interest in developing social production is engendered.

Socialism presupposes the undivided predominance of a single, socialist economic sector based on social ownership of the means of production. In pre-socialist societies, different economic structures could coexist for a long time. Their "coexistence" is explained by their common type of economic foundation, all of them being based on various forms of private property. The capitalists often have a direct interest in preserving and even in reviving the pre-capitalist forms of exploiting working people, if these forms are a convenient means of enrichment.

Socialism rejects in principle all the forms and varieties of private property without destruction of which it is impossible to abolish exploitation of man by man and its causes.

## Collective Relations and the Character of Labour

Social ownership of the means of production does away with antagonistic forms of relations between people. When the instruments and objects of labour belong to society no one can use them to the detriment of other people or for personal enrichment at the expense of other people's labour. *The means of production therefore cease to serve as capital, i.e. as instruments of exploitation.* Under socialism they belong to society as a whole or to production associations of the working people themselves and not to private individuals. In such conditions *labour power also ceases to be a commodity*, because the producers themselves have become collective owners of both the means and the output of production. They jointly organise production, manage the economy and its industries and enterprises, distribute the products of labour and direct them to productive personal consumption.

Socialist ownership radically alters the character of labour; in a socialised economy *labour becomes directly social*. Whereas under capitalism private ownership isolates the producers from one another, the social character of their labour only becoming manifest on the market in the process of exchange, quite another situation is characteristic of socialism. Under socialism the labour of both the individual worker and the working collective is integrated in the process of production itself into the aggregate social labour as an indispensable component, thanks to which socialist society can save an immense amount of labour.

The undivided sway of socialist ownership of the means of production establishes *the equality of all members of society in relation to the means of production* and hence their equal right to work and to receive their share of the common wealth in accordance with their individual labour input.

Social ownership of the means of production establishes the *universality and obligatory character of labour*. Personal labour and personal participation in social production and other spheres of useful activity become the sole source of a livelihood for everybody. No one has the right to shift his labour onto the shoulders of others and persons who evade working are publicly censured. The products of joint labour become the possession of the working people themselves and are distributed in their interests. Wage slavery for the enrichment of the exploiters is replaced by *labour for one-self and one's society*.

Establishment of the predominance of social ownership of the means of production does not by itself ensure active participation of all able-bodied members of society in social labour or highly productive work by them. In socialist society there is still not an abundance of products and no possibility of distributing material values according to needs, so that it is necessary to employ incentives based on the personal material interest of each worker in the results of his work, as well as moral incentives.

Under socialism, just as under capitalism, there is an objective need to divide labour and its product into necessary labour (and product) and surplus labour (and product).

In socialist society *necessary labour* is that part of individual labour, and consequently of the aggregate social labour, that creates the product used directly to satisfy the personal requirements of the production worker and his family. During the necessary working time the production worker creates both the equivalent of his remuneration according to work done and the equivalent of that part of social consumption funds that enters his personal consumption.

*Surplus labour* in socialist society is the part of production workers' labour that creates the surplus product used to expand and improve production and to meet a certain part of the social and cultural needs of the working people, and to maintain the organs of state administration, provide for national defence and meet other social needs.

*Under socialism there is no antagonistic contradiction between necessary and surplus labour*. Workers in social production have an interest in both, since the surplus, as well

as the necessary, product is used exclusively for the benefit of the working people and surplus labour serves as a reliable basis for further development of social production and improvement of the workers' well-being.

Social ownership engenders common interests of the workers in production and all other spheres of social life. It unites people in a close-knit working collective free of antagonistic contradictions. Every worker becomes interested in the development of social production. *On the basis of unity of the working people's vital interests relations of comradely co-operation and mutual assistance, socialist collectivism take shape and develop, relations that serve the interests of society as a whole.*

Socialist production relations enable people tangibly to sense the strength of the collective and convince them that the personal well-being of each is achieved through close co-operation and joint labour. As the socialist economy flourishes and the new production relations are consolidated, the bourgeois principle of selfish private interest is replaced by the socialist rule of life, "All for one and one for all". Bourgeois individualism gives way in social life to socialist collectivism.

The establishment of socialist ownership brings about a radical change in a person's social status, which is no longer determined by origin and wealth but exclusively by personal abilities and labour for the benefit of society. Labour heroism is the supreme personal merit in socialist society. The new conditions of work and life revolutionise people's views on labour. From being a heavy and shameful burden *labour becomes an honourable social duty* and gradually develops into a prime vital necessity for every able-bodied person. Socialist ownership of the means of production brings about a radical change in economic and political relations among nations, for the economic soil for strife and hostility between peoples disappears.

Socialist property and its development on an international scale lead to final abolition of the economic causes of wars between states. For the working people of countries liberated from oppression and exploitation, united by their joint ownership of the means of production, it is objectively alien to strive to conquer and enslave other nations.

Thus, socialist ownership of the means of production is a solid foundation for the final and irreversible abolition of economic, political and cultural inequality among people and of the enslavement and exploitation of man by man, and creates unprecedented opportunities for development of the productive forces.

## **2. THE FORMS AND FEATURES OF PROPERTY UNDER SOCIALISM**

Social ownership of the means of production passes through two stages in its development, the socialist and the communist.

Socialist property corresponds to a lower level of development of the productive forces of society and is therefore less mature than communist property. In the socialist stage there are still considerable differences between the levels of development of the different branches of the economy. The social character of production in agriculture and partly in the production of consumer goods is less developed than in the key industries.

The material prerequisites for advancing to socialism, as we have said, do not mature simultaneously in the various industries. Large-scale capitalist production may be ripe for socialisation on a national scale, while the business of small commodity producers in town and country may not be ready for it. Hence, one of the most important jobs during the transition to socialism is to unite small businesses based on personal labour into big co-operative production enterprises. In view of these objective conditions there are two forms of social ownership of the means of production under socialism: (a) national state (belonging to the whole people) property and (b) co-operative and collective farm property.

Socialist ownership also comprises property of trade unions and other public organisations.

### **National State Socialist Property**

In socialist society, the representative of the whole people, expressing and fulfilling their will, is the socialist state, therefore *national property takes the form of state property.*

In all the socialist countries the state owns the bulk of the means of production. In the Soviet Union, for example, about 90 per cent of the main production assets of the country and the greater part of its non-productive assets as well, are owned by the state. The state owns the mills and factories, banks, public transport (railways, water transport, airlines and the bulk of road transport), communications, most trading establishments and housing in towns and urban settlements, all communal facilities and most cultural and art institutions. The land and its mineral wealth, the forests and inland waters have been nationalised in the USSR.

*National ownership of the means of production is the most highly developed, highest and basic form of socialist property, which corresponds most fully to the present level of the productive forces and is closest in degree of socialisation to communist property.*

The means of production belonging to the state constitute the property of the people that is augmented from the revenue from the economy as a whole. Every member of society has a right to work with the aid of state-owned means of production and is eligible to a part of the social product corresponding to his share of the work; but each one is obliged to contribute by his or her labour to the consolidating and developing of national property. All are equal in relation to state property: workers, peasants and intellectuals. It is the economic foundation of the life of the people as a whole and the decisive premise for the steady progress of society towards communism. Lenin described state enterprises as undertakings of a *consistently socialist type*.

Revisionists challenge this principle, arguing that state ownership of the means of production under socialism is not the highest form of property; they put collective-group property in the foreground, considering it "directly social" property. Marxism, however, has always held, and experience has confirmed, that only those economic forms are of a directly social character in which control is concentrated in the hands of society as a whole. Collective-group property is obviously a stage below national state property in maturity. State ownership of the most important means of pro-

duction enables society to ensure planned, proportional development of the economy.

*State ownership of the means of production is the main form of socialist property:* it applies, primarily, to the branches of heavy industry that determine the development of the whole economy. Production is most concentrated and mechanised in state enterprises and the degree of specialisation, co-operation in production and organisation of labour is highest in them.

As the productive forces grow, national property becomes consolidated and developed; the social character of production is enhanced; its technical level and economic efficiency is raised; the number of national enterprises grows and their size and productive capacity increase; the social division of labour is deepened; specialisation and co-operation of production are developed; integrated economic systems are created (power, transport, etc.); the planning and management of state enterprises and of the economy as a whole are improved; control over the production and distribution of products is strengthened; the whole system of comradely co-operation and collectivism in labour is perfected; and responsibility for assignments and the security of joint property is raised.

That creates the basis needed for the gradual formation of national communist property.

## **Co-operative and Collective Farm Property**

Co-operative ownership of the means of production exists in the form of the property of agricultural production co-operatives, and of consumers' and producers' co-operatives. In the majority of socialist countries producers' co-operatives socialise the most important implements and objects of labour (machines, draught animals, the main production buildings, equipment and installations, productive livestock, seeds, fodder, etc.). These means of production are not owned by society as a whole but belong to separate labour collectives and are used for carrying on a common business.

In the USSR and the Mongolian People's Republic the

land used for co-operative production is owned by the state. In several other socialist countries the land is socialised for producers' co-operatives of the collective farm type only on the scale of each labour association. In these countries, however, there are also agricultural producers' co-operatives in which the land and other means of production contributed by the peasants on joining have not yet been fully transferred to collective ownership, although they are used jointly. The individual owners of these means of production, while receiving an income according to the quantity and quality of their personal labour, may also be entitled, in addition, to a certain income according to the land and means of production they contributed as their initial share.

This transitional form of co-operation in agriculture makes it possible to draw former individual farmers gradually into complete socialisation of the main means of production.

The transfer of the means of production owned by small producers to collective ownership under the dictatorship of the proletariat with a powerful state sector in industry is equivalent to a transition from small private property to large-scale socialist property. In these conditions co-operatives, like state enterprises, are socialist undertakings. Their property can no longer be used as capital, i.e. as a tool for the exploitation of man by man.

Consequently, the economic basis for the emergence of capitalist elements in the village and the ruination of direct producers is abolished. The competition inherent in small commodity production and the dominance of producers by market forces are ended. Planned development of production becomes possible and necessary and as in the state sector, so too in co-operative enterprises production is carried on for the sake of ever fuller satisfaction of the material and cultural requirements of all members of the society. The revenue is distributed among the producers according to the quantity and quality of their work.

*The national and co-operative and collective farm forms of socialist property are of the same type as regards their social and economic nature, but that does not exclude differences between them.*

Co-operative-collective farm property is a less mature form of socialist property than national property. It is based on a *lower degree of socialisation of the means of production than in state enterprises*. In the latter all the means of production are socialised on the scale of society, while in co-operatives they are socialised only within the framework of a given labour collective, a certain part of the means of production of collective farms remaining the individual property of the collective farmers.

The products of state enterprises belong to society as a whole. The produce of co-operative enterprise is the property of the co-operative.

The difference in degree of socialisation of the means of production in state and co-operative enterprises governs both their different degrees of economic independence and the different methods of economic co-operation between enterprises within each branch of production. For example, while the collective of a state enterprise has only the right to use the means of production put at its disposal and enjoys only operational economic autonomy, a collective farm is owner of the means of production in its possession, except the land.

The assets of a state enterprise are formed from revenue belonging to the whole society, both from the centralised resources and from the enterprise's own income, while the assets of a co-operative enterprise derive mainly from incomes of its members.

Enterprises, belonging to the whole people, receive assignments from the government that lay down the most important indices for production and realisation of the product. Co-operative enterprises receive plan-orders from the government for the sale to procurement agencies of a definite amount of marketable produce at fixed prices. Many problems of their farming they solve independently.

The overwhelming part of the earnings of factory and office workers in state enterprises is guaranteed by the revenue of society as a whole.

The personal incomes of collective farmers from their work in the socialised economy are guaranteed, above all, by the income of their collective farm with the financial backing of the state.

The distinctions between the national and co-operative and collective farm forms of socialist property are not radical and do not extend beyond the framework of one type of property, socialist property. They are being eroded in the process of development of the productive forces. That will lead in the future to a merging of the two forms of socialist property into a single national property.

In socialist society paramount attention is paid to increasing and developing social property as the bedrock of the whole system of relations of production under socialism and communism. The 25th CPSU Congress pointed out the need to accelerate growth of productive assets on the basis of scientific and technical advances, to consolidate socialist production by furthering the specialisation and concentration of enterprises, to develop inter-farm co-operation and agro-industrial integration and to bring co-operative and collective farm property closer to national, public property.

All these are the key directions in furthering the process of forming uniform communist ownership of the means of production.

### **Personal Small Holdings**

Under socialism some of the means of production remain as the personal property of both collective farmers and factory and office workers, with which they work *subsidiary small holdings* and carry out individual house-building on plots of land allotted to them by the state and collective farms. They may also possess, as their own personal property, a dwelling house, productive livestock and poultry, sheds for the animals and vegetable gardens and orchards. The state facilitates the development of collective-farm-co-operative ownership and its approximation to state ownership. The farming is conducted on state-owned land with the aid of certain means of production owned by collective farms; its scale is regulated by the collective farms in accordance with the Model Rules of the farm.

The personal allotments of factory and office workers are not in most cases directly linked with the enterprises where they are employed and involve only a minority of those

employed in the state sector. Society also regulates their development through the local Soviets.

The subsidiary small holding of a collective farmer is inseparably bound up with and dependent on the social economy of the collective farm. Collective farmers contribute the greater part of their labour to the collective, social farming, and meet the bulk of their needs through the income received from it.

The subsidiary small holdings, like the allotments of factory and office workers, are of an *ancillary character*, and are kept, in the main, for purposes of consumption. Members of collective farms and workers on state farms meet their needs for livestock products, fruit, and vegetables, which are still in short supply in the social economy, from cultivation of their small holdings and allotments.

However, the existence of a small holding tends to preserve individualistic habits to a certain extent and can generate a private property mentality in some small holders. Their size is, therefore, kept to a definite limit. In present conditions in the USSR, however, their abolition would inflict appreciable damage on the well-being of the working people.

As the social economy of collective and state farms develops and collective farmers' and workers' needs for farm produce are met better and more fully from this economy, small holdings will gradually lose their economic importance.

## Personal Ownership of Consumer Goods

Socialist ownership of the means of production does not negate but on the contrary implies the *individual's personal ownership of consumer goods*. The abolition of private appropriation of the means of production creates real possibilities for every worker to have all the consumer goods he needs at his disposal. Individual appropriation of objects of personal consumption will continue even under full communism.

In the Soviet Union, personal property includes earned income and savings, some housing, furniture and household appliances, consumer goods and personal belongings.

The source of personal property under socialism is labour and it cannot be converted into capital and used as a means of exploitation.

Individual occupation in handicrafts, agriculture and everyday services for the population, and likewise other forms of occupation based exclusively on the individual labour of citizens and members of their families are permitted in the USSR.

Socialist ownership of the means of production creates a firm basis for meeting the people's needs more and more fully and for increase of their personal property.

The standard of living of members of socialist society can only be raised through all-round increase of production and an organisation of distribution such as would ensure a rise of the personal income of each individual in accordance with the increase in social wealth, brought about by consistent application of the principle of personal material incentive through payment according to the quantity and quality of work. A considerable part of working people's incomes comes from social consumption funds free of charge or on easy terms.

The growth of personal property should not, however, contradict the social interest. Stable improvement of the standard of living of each is only possible on the basis of a general rise in production.

Socialist society, while constantly concerned to increase working people's material interest in developing social production, strives to avoid a situation where individuals would obtain inordinately high incomes to the detriment of the interests and well-being of others. Consumer goods are at the disposal of the state or of collective farms and are distributed by them in accordance with the principle "From each according to his abilities, to each according to his work" and differences in income are established through a definite system of social assessment of the labour contribution of each worker.

### 3. PRODUCTION RELATIONS AND ECONOMIC INTERESTS

#### The Leading Role of the National Interest

Various forms of ownership find concrete expression in the economic interests of individuals, social groups and classes. In their relationships with one another in the labour process and in social life people are primarily guided by their *material interests*, which are influenced by the distribution of the means of production and consumer goods, and by the existing forms of property.

The institution of socialist ownership of the means of production has brought into being a common interest, which plays the leading role in the socialist economy.

Private ownership of the means of production breaks the economy up into isolated economic units opposed to one another, splits society up into hostile classes and social groups and opposes individuals to one another. Socialist ownership, by its very nature, knits the economy and all the working people together and unites them in a single, economically homogeneous social organism free of antagonistic contradictions. *In socialist society all social groups develop a common interest, that of increasing and developing the property belonging to all.* Priority of the common interest ensures unity of the economy and cohesion of all the people. Only through joint labour co-ordinated on the scale of society as a whole is it possible to use the productive forces in the most rational and efficient way for the good of all the working people. Thus, it is an organic and characteristic feature of socialism to approach the solution of economic and political problems from common, public positions.

In socialist society the productive forces are rapidly developed and perfected and corresponding quantitative and qualitative changes take place in property relations, in the social and economic structure of society and in the consciousness of the people. The supreme form of economic interest, the common interest, penetrates more and more deeply into the consciousness of the working people and promotes their unity of will and action in economic and political affairs.

Under socialism, in addition to the common interest, there are also the vested interests of big social groups, of enterprises and institutions and of individuals.

## The Economic Basis for the Co-operation of Social Groups

The existence of two forms of socialist ownership of the means of production determines the existence of two classes, the working class and the collective farm peasantry. The working class uses means of production that are state property. It is the *biggest class* in socialist society constituting (in 1976) 61.2 per cent of the population in the Soviet Union; it is the *main productive force* of society. The collective farmers use means of production owned by their individual collective farms. In the Soviet Union collective farmers and members of craft co-operatives comprised 17.1 per cent of the population in 1975 and the annual average number of all collective farmers involved in the work of collective farms was 15,400,000. The working class and the collective farm peasantry are the *two friendly classes* of socialist society. *Their fundamental interests are the same.*

The basis of their unity is not simply the similarity of property in the means of production in the two sectors of socialist production, but also the fact that national property belongs both to the workers and to the peasants. At the same time the working class, being the most advanced, conscious and united social group, is the leading force in the alliance of the two classes.

Production relations between the working class and the peasantry, under socialism, take on the character of comradely co-operation and mutual help in the interests of a steady growth of the welfare of each of them. Their co-operation is developing along the lines of wiping out the class distinctions between them and transforming workers and peasants into the workers of communist society.

The unity of the fundamental interests, however, does not imply their full coincidence. Society cannot ignore the special class interests of workers and peasants stemming from their position in the system of social production.

The economic policy of socialist society has to meet the needs and aspirations of both classes, to promote and unite their active co-operation in communist construction, subordinating it to the common interest.

Consequently, *one of the main problems of socialism* is how, by increasing the economic incentives for highly productive labour, *to subordinate the collective and personal interests of workers and collective farmers to the interests of society as a whole* and so to ensure planned co-operation between them.

Another large social group in socialist society is the *intelligentsia*. It is not a separate class but differs essentially from workers by hand in the nature of its work. In 1926 in the USSR there were fewer than three million workers by brain doing mostly mental work; at the beginning of 1976 they numbered around 36 million.

Socialism has abolished the antithesis between work by hand and brain, between physical and mental labour. Under socialism the intellectuals work alongside the workers and peasants for the good of society as a whole and equally with them enjoy an income from production in accordance with their personal labour contribution; but certain social differences between intellectuals and workers by hand have still not been overcome.

*It is in the interest of socialist society to secure maximum combination of the interests of the intelligentsia, working class, and peasantry, and their proper subordination to the interests of society as a whole.* The limit on the number of workers by brain in the total of the working people depends on the level of development of the productive forces at any time. If society allocates too big a share of the national income for the maintenance of workers by brain, growth of the well-being of workers and collective farmers will be slowed down, which will have a negative effect on development of the economy. On the other hand, disregard for the economic interests of the intelligentsia and lack of concern by society for providing favourable conditions for fruitful work by engineers, agronomists, scientific workers, doctors and teachers would do grave harm to the workers and peasants and to socialist society as a whole.

As the socialist economy develops the proportion of the

intelligentsia in society rises and its role in developing social production, advancing the cultural and technical standards of the people increases.

The scientific and technological revolution calls for a constant increase in the numbers of engineers and technicians, agronomists and economists in every link and unit of the economy, and for raising of their standards of knowledge and practical experience. During the close co-operation of all working people the intelligentsia is brought organically closer to the workers and peasants.

The work of workers and peasants is becoming more and more intellectual in content with the development of mechanisation and automation in production and the cultural and technical standard of workers by hand is correspondingly rising. On the other hand, modern engineering and the technology of production now often call for the direct supervision of machines and mechanisms by workers with specialist training. The more fully socialist society takes the specific interests of workers, peasants and intellectuals into consideration, the more co-operation of the social groups of socialist society will be consolidated and the more fruitful the joint work of all the people will be.

## Society and Work Group

Socialist society has a definite organisational and economic structure as well as a social structure. In socialist conditions the bulk of workers are united in numerous separate bodies of the staffs of enterprises and institutions. Their activity is built on the basis of combining centralised leadership with the initiative and relative independence of local bodies and socialist enterprises. Each body of workers uses definite instruments of labour and other resources for carrying out the state plan in the interests of society in a united social process of production in accordance with the existing system of social division of labour.

The main productive unit in the socialist economy is the *socialist enterprise*, the operation of which is based on the combination of centralised direction and a measure of mana-

gerial, operational autonomy. It is extremely important, therefore, that the workers of every unit have a permanent, living interest in its work and that the managerial, operational autonomy and initiative of the enterprise do not conflict with the needs and requirements of society as a whole. This is ensured by the establishment of the proper economic relations between them and society, between enterprises and within enterprises between their workers.

Under socialism, whether the interrelations established between the workers of enterprises and society are proper ones (given identical provision of means of production) is determined on the principle that "The greater the enterprise's contribution of material wealth to society, the more generously is the labour of its workers rewarded". Society as a whole and every enterprise wins by highly productive labour in enterprises. Socialist enterprises are linked together by inter-industrial and intra-industrial specialisation and co-operation, regulated by a common plan, which ensures combination of the interests of supplier and consumer enterprises and of society as a whole.

Collectives of working people participate in the management of enterprises and associations, in deciding matters concerning the organisation of labour and everyday life.

### **Group and Personal Interests in Enterprises**

The results of the working of a socialist enterprise depends on its technical equipping, on the efforts of each worker, on the co-ordination of work within shops and other units and on the co-ordination of the work of the whole body of workers.

Given the same technical level of production in enterprises, the economic results of their performance can be very different and are directly dependent on the creative activity of their workers and how well their work is co-ordinated. In stimulating labour initiative and co-ordination of work in enterprises, correct relations between the material interest of individual workers, work groups and other subdivisions of the whole body of workers and those of the body itself and be-

tween the interests of the latter and those of society, are decisive.

Every worker has an interest in the work in his own section because his own welfare depends primarily on its results. But the incomes of individual workers also depend in essence on the results of the work group, of the shop and of the whole body of workers of the enterprise and ultimately, too, on the fruitfulness of the aggregate social labour. In that connection it is necessary that each worker should be conscious not only of his moral responsibility for the work of the whole body, but also of his material responsibility, that he should be a patriot of his enterprise, should feel himself boss of the enterprise and of social production as a whole and should strive to increase his contribution to the common cause.

For that reason it is necessary, in arranging economic relations within an enterprise, to take the interests of individual workers fully into account and to co-ordinate them with the general interests of the body of workers so that each one will daily feel the benefit of joint work and have a growing interest in his or her work.

Consequently, the measures corresponding to the interests of socialist society must correspond in the long run and on the everyday plane with the interests of each body of workers and of an individual worker.

*In socialist society, property relations in practice take the form of unity of the fundamental interests of all members of society.* But the community of fundamental interests does not exclude the possibility of differences arising in the short-term, current interests of workers, of the whole body of workers of enterprises, of social groups and other organisations of working people. It is therefore objectively necessary for the combination of the common, collective or group, and personal interests of workers by means of material and moral incentives to be such that the common interests play the leading role, ensuring harmonious adjustment of the joint labour of the whole army of builders of socialism and communism.

Thus, the feature of socialist production relations is that *relations of comradely co-operation and mutual help are reinforced by the Leninist principle of personal and collective economic incentive in social labour.* When society goes over to distribution according to needs, personal material interest

in the development of production will become inseparable from the material interest of the production group and of society as a whole.

#### 4. THE BASIC ECONOMIC LAW OF SOCIALISM

The emergence, development and spread of socialist relations of production to all branches of the economy is accompanied with a shrinkage of the sphere of capitalist relations followed by their full elimination. Thus the reasons why capitalism's economic laws exist are ended and their operation is suppressed. They are replaced by economic laws engendered by socialist production relations.

#### **The Objective Character of the Economic Laws of Socialism**

*The economic laws of socialism have an objective character.* They arise and operate on the basis of historically determined production relations independently of the will and consciousness of men. If these relations change, the content and form of operation of the economic laws change in one degree or another. With the radical smashing of production relations a whole number of economic laws cease to operate and new ones come into effect.

It is a most important feature of the economic laws of socialism that they *cease to be a spontaneously, anarchically operating force and are consciously applied by society* in its interests. These laws exist as an objective necessity realised and consciously obeyed by society.

Understanding of these economic laws and their correct application are decisive for the development of socialist society. Transfer of the means of production to public ownership enables society, by relying on the operation of economic laws, to realise its possibilities and its wants, to direct the development of production relations, to bring progressive factors into play and so to bring the desired consequences into being.

Disregard of the requirements of economic laws in direction of the socialist economy leads to undesired consequences

like disturbance of normal functioning of the economic mechanism of society, the emergence of difficulties and disproportions and imbalance in the economy, and weakens co-ordination of the actions and comradely co-operation of social groups and bodies of workers. Consideration of the objectively existing conditions and possibilities does not mean passive submission and adaptation to them, economic fatalism. The very nature of economic laws of socialism presupposes an active role for the subjective factor, i.e. conscious, creative activity of the broad masses of the working people in transforming these objective conditions in a progressive direction.

Under socialism the following laws are engendered by socialist production relations and operate: the basic economic law of socialism; the law of planned, proportionate development of the economy; the law of distribution according to work. The universal laws characteristic of all social formations also continue to operate, for example, the law of the correspondence of production relations to the level and character of development of productive forces, the law of increasing productivity of social labour, etc. Their operation, however, assumes specific forms corresponding to the conditions of socialism.

Social ownership, as already said, passes through the two stages of development, the socialist and the communist. Accordingly certain economic laws operate at both stages, e.g. the basic economic law of the communist social formation, the law of planned, proportionate development of the economy, the laws of extended reproduction. Other economic laws (e.g. the law of distribution according to work) are characteristic of socialism alone.

*The backbone of the whole system of economic laws operating in socialist society is the basic economic law of socialism.*

## **The Essence of the Basic Economic Law of Socialism**

The basic economic law of any socio-economic formation expresses the essence of production relations of one type or another, and determines the main trend in the development of

social production stemming from them. When organising production people always pursue a definite aim. The natural purpose of production is to satisfy the needs of the producers themselves for material values of one sort or another. In antagonistic formations, however, the goal of production takes a distorted form and it is carried on not to meet the needs of the direct producers but to enrich the exploiters who own the means of production. This is especially true of capitalism. The more intensively capitalists exploit the workers and the more surplus value they appropriate, the faster capital grows and the more completely the goal of capitalist production is attained.

With the transfer of the means of production to social ownership the immediate aim of production is altered. The proletariat's social revolution, Lenin wrote, replaces private property by social ownership and introduces planned organisation of social production "with the object of ensuring *full* well-being and free, *all-round* development for *all* the members of society".\*

Socialist production can only be developed successfully along such lines. *The aim of socialism*, it is stated in the Programme of the CPSU, *is the increasingly complete satisfaction of the growing material and cultural requirements of the people through the continuous development and perfection of social production.* This formulation concisely expresses the content of the basic economic law of socialism and the essence and main features of the communist mode of production as a whole, its subordination to the interests and needs of those who work.

The basis both of socialist and communist production is social ownership of the means of production. Under both socialism and communism social ownership predetermines the objective necessity and possibility for everyone without exception to work, i.e. the universality of work. And under both socialism and communism continuous development of social production and attainment of its aim are inconceivable without everyone being engaged in social labour. Finally, social ownership of the means of production implies social

---

\* V. I. Lenin, "Notes on Plekhanov's Second Draft Programme", *Collected Works*, Vol. 6, p. 54.

appropriation of the fruits of production and their distribution among the participants in the labour process according to the degree of development attained by society: under socialism, according to work; under communism, according to needs.

Consequently, there is an objective need in socialist society for all members of society to take part in collective, increasingly productive, socially useful work, which guarantees a real increase in socialist wealth for the purpose of promoting well-being and all-round development of all members of society.

The basic economic law of socialism organically links together the objectively conditioned direct aim of production and the means of attaining it. Whereas under capitalism the goal of production is achieved by increasing exploitation of the working people in every way, by increasing the length of the working day, by intensifying labour, by various ways of reducing wages, etc., the goal of socialist production is achieved only through continued development and perfection of production. For the first time in history socialism has made it possible to satisfy the needs of the popular masses in accordance with the possibilities of production, which is a clear expression of its immeasurably more progressive character compared with capitalism.

Like other economic laws, the *basic economic law of socialism has an objective character*. Since socialist production relations predominate in the economy, social production can only be developed in order to satisfy the needs of the people.

The aim of production expressed in the basic economic law of socialism means that under socialism the objective need for an all-round socialisation of the productive forces and their joint application on a national scale coincides with the interests and needs of all the people. Socialist society therefore has the chance consciously to set itself the task of expanding social production on a definite scale and of doing this in a planned way within a set time. In contrast to capitalism, the *aim of production in socialist society conforms to the fundamental interests of the people*.

In their guidance of society in the Soviet Union the Communist Party and the socialist state proceed from the requirements of the basic economic law of socialism. At every

stage of the building of socialism everything has been done to improve standards of living. Improvement of the people's welfare is the *supreme aim* of the Communist Party's economic policy, but the possibilities of social production in this direction were limited for a long time. In the early stages, society had to concentrate on aims of first priority, on which the very existence of the Soviet state depended. In present conditions, when the USSR's economic potential has grown immeasurably and it is at the stage of developed socialism, it has become possible to switch the economy more fully to coping with the tasks of increasing the people's prosperity.

That the initial premise of the CPSU's *economic strategy* is a steady rise in the material and cultural standards of the people was emphasised in the Report of the Central Committee to the 25th Congress: "Economic strategy also covers a precise determination of the means, of the ways of attaining the set aims. These are the dynamic and balanced growth of social production, the enhancement of its efficiency, the speeding up of scientific and technical progress, the growth of labour productivity and the utmost improvement of the quality of work at all levels of the national economy."<sup>\*</sup>

Raising the prosperity of the workers in socialist industry is not simply a result of production but is also a key premise for its continued rapid growth.

As mature socialist society develops further the degree to which the rapidly growing material and cultural needs of the working people of town and country are satisfied will increase.

## **Production, Consumption and Demand under Socialism**

Socialist society does away with the antagonistic contradiction between production and the people's consumption inherent in capitalism. It is alien to socialism to strive to develop production for the sake of production, to accumulate for the sake of accumulation and to regard the direct produc-

---

\* L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy, XXVth Congress of the CPSU*, p. 48.

ers as robots for increasing capital. Freed from the limitations imposed on it by capitalist appropriation, the working people's consumption grows rapidly.

Consumption is a process of satisfying human needs, and always has a certain dependence on the state, structure, and rates of development of production. It is impossible to consume what has not been produced. Under capitalism, however, production and working folk's consumption develop as forces opposed to each other. *First*, a considerable proportion of the output of production is appropriated and consumed by the capitalists. *Second*, production periodically breaks loose from consumption and outstrips it, and economic crises of overproduction occur. Only under socialism is the antagonism between production and popular consumption overcome.

The basic economic law of socialism reflects the inner unity of socialist production and consumption, but this unity includes a contradiction. For the level of the people's consumption to constantly rise, production must be expanded on the basis of scientific and technological progress, but that requires ever mounting socialist accumulation, and the requirements of accumulation at any given moment set a definite limit to the growth of consumption. The Report of the Central Committee to the 24th Congress of the CPSU said: "Defining improvement of the living standard of the working people as the main task, we should refrain, of course, from approaching the matter in a simplified way. It will take time, serious effort, immense means and resources to implement the course of considerably raising the people's standard of living. One can distribute, one can consume only what one has produced. This is a self-evident truth. Our plans derive their strength and realism from the fact that they closely connect the improvement of the living standard with greater social production, with a higher productivity of labour."<sup>\*</sup>

At any given moment socialist society has a certain volume of national income at its disposal, which is used to develop production and to improve standards of living so that both can be increased quickly. If, for example, the annual increment to the national income were channeled to expanding production, the working people's standards of life would

---

\* 24th Congress of the CPSU, Moscow, 1971, pp. 51-52.

cease to rise, which could soon put the brakes on development of production. If, on the contrary, all the new resources were directed to increase current consumption, steady advance of production would cease and it would then become impossible to raise standards of living. Thus, the contradiction between production and consumption under socialism takes the form of a contradiction between the current and long-term interests of the members of society.

The starting point and stimulus of any production is the people's needs. Under socialism, in contrast to antagonistic formations, these needs themselves, both social and personal, acquire a new social content and structure. The parasitic consumption of the exploiting classes and their lackeys is ended. Socialist society, in organising production, takes into account the reasonable requirements that need to be met to ensure normal physical and intellectual development of the members of society. The volume and material structure of reasonable needs and the trends of their growth in the immediate future can quite satisfactorily be determined by the state's planning bodies.

But needs, like production and consumption, do not stand still but alter and interact. Growing needs push production forward: to consume more it is necessary to produce more. Production, however, does not simply follow demand. While adapting itself to needs, it also actively stimulates their expansion in volume and variety: in meeting existing needs, production itself generates new requirements and new demand. The structure of the needs, requirements and tastes of the working people change rapidly and give a new stimulus to growth of production. The contradiction between growing and changing needs and the present possibilities of socialist production is resolved in the course of expanding production, but as a result of the emergence of new needs the contradiction is revived and new efforts to develop social production are needed to overcome it, and so on.

Thus, the driving force of the capitalist mode of production is profit, the means of attaining its goal is exploitation of the working people and its form of motion, anarchy, whereas *the driving force of socialism is growth of the people's consumption, the means of attaining this goal is the development and perfection of production and the form of its motion,*

*planned development on a national scale.* By expressing the essence of socialism, the basic economic law of the motion of the new society shows people where and how to lead the economy so that it will fully meet the urgent vital needs of all working people. At the same time, since the material and cultural prerequisites for communist society are being created in the course of developing and perfecting social production, the basic economic law of socialism is the law of motion of socialism towards communism.

This law expresses the essence of the development of socialist production. Its definition, of course, cannot embrace all the diverse aspects of economic development and the laws that directly regulate the development of each aspect. The basic economic law determines only the most general and characteristic features of the whole economic life of society. What it contains and is the basic principle determining the whole system of economic relations under socialism, is manifested more concretely and realised in the other laws of the development of the socialist economy.

### **Correspondence of Production Relations and Productive Forces under Socialism**

Under socialism, the character of the interplay of the productive forces and production relations is altered. Production relations are brought into line with the level and character of today's productive forces. Socialist production relations open up broad opportunities for accelerated growth and flourishing of society's productive forces.

Before the establishment of socialism production relations were adapted to the productive forces spontaneously through social conflict and revolution. The ruling classes fought bitterly to preserve the old production relations that were the basis of their economic and political domination. Social revolutions were the only way to break their resistance and establish new relations meeting the objective requirements for developing the productive forces.

Socialist production relations are established and developed through the conscious and purposive activity of the working

class and working people under the leadership of Marxist-Leninist parties. This revolutionary, transforming activity is based on a scientific analysis of the state of the productive forces and their most important trends of development.

Socialism's productive forces grow and are perfected at fast rates. Therefore, production relations, which take definite forms of economic co-operation among people and social groups, forms of organisation of production, distribution and exchange and forms and methods of managing the economy also cannot remain unchanged, but have to be brought into line with the developing social character of the productive forces.

Consequently, the contradiction between the productive forces and production relations remains under socialism, although it is no longer of an antagonistic character. The substantial progressive shifts in productive forces call for corresponding changes in production relations and in the forms of economic co-operation for most effective utilisation of the means of production and living labour. People, however, tend to get accustomed to concrete forms of relations dating from a definite earlier period and are not always able to realise the social implications of changes occurring in the productive forces immediately and to assess them correctly, so that a temporary lagging of individual aspects of production relations behind the productive forces is also possible under socialism.

In the early stage of socialism in the USSR, for example, the productive forces were relatively undeveloped; there was an acute shortage of production equipment, of engineers, technicians and skilled workers. Experience of directing a socialist economy was limited. And, moreover, there had to be the strictest concentration of all socialist accumulation and its centralised employment on the decisive sectors of socialist construction. In those conditions the most rational use of productive forces required strict centralisation of planning and management of the economy. During the Great Patriotic War, the centralisation of funds and resources in the hands of the state increased further, which was also quite justified. But, as a result of making good the ravages of the war and restoring the economy a situation came about that demanded decisive changes in the practice of directing production both in

industry and in agriculture. The country's developing productive forces required far-reaching changes in production and economic relations themselves, in the concrete forms of co-operation between social groups, between society and the bodies of workers in enterprises, and between and within enterprises.

The CPSU works out its economic policy on the basis of a thorough-going analysis of the state of the productive forces and relations of production, with all-round consideration of the objective laws governing socialist economic development.

Under the ninth five-year plan (1971-75) an immense social programme of raising the people's prosperity was carried out along with development of the productive forces and relations of production. Under the tenth plan ending in 1980 the country's resources and forces will be concentrated on raising the people's material and cultural standards through a dynamic and balanced development of social production and improving of its efficiency, through acceleration of scientific and technological progress, raising of the productivity of labour and improving of work at all levels of the economy.

Thus, whereas the law of correspondence of society's production relations and productive forces and the basic economic law of capitalism begin to operate in opposite directions at a definite stage in the development of the bourgeois economy, while the immediate aim of capitalist production becomes an obstacle to development of the productive forces, in socialist society the *basic economic law and the law of correspondence of production relations and productive forces operate in the same direction*. Growth of the people's consumption necessitates advance of the productive forces; but the more fully their needs are met, the more society's main productive force, the working man, flourishes and the stronger and more fruitful the production relations of comradely co-operation and mutual assistance become. Improvement of socialist production relations in turn promotes development of both the objective and the subjective factors of the productive forces, which provides the most favourable conditions for attaining the aims of socialist production, for which planned development of the socialist economy is of crucial importance.

### *Chapter III*

## **PLANNED DEVELOPMENT OF THE SOCIALIST ECONOMY. THE ECONOMIC ROLE OF THE SOCIALIST STATE**

### **1. PLANNED DEVELOPMENT OF THE ECONOMY— AN ECONOMIC LAW OF SOCIALISM**

One of the most important advantages of socialism is planned development of the economy.

Certain objective prerequisites for planned regulation of production arise even under capitalism, as the social character of production develops, and find expression in the evolution of the social division of labour and specialisation of production, the concentration of production in very big enterprises and the strengthening of social and production relations between them. "Large-scale machine industry," Lenin said in this connection, "unlike the preceding stages, imperatively calls for the planned regulation of production and public control over it. . . ."\* But under capitalism this requirement stands in contradiction to private property in the means of production.

Planned management of social production is determined not by the character of productive forces themselves but by the production relations within which they develop.

Under the bourgeois system, in which private property predominates and production is subordinated to capitalist profit, planned development of social production is impossible. The social division of labour, of course, knits the different specialised fields of production—industries and enterprises—closely together, merging them into "a single social production process", but capitalist private property divides them and erects barriers between them.

The social character of production comes more and more

---

\* V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, p. 544.

into antagonistic contradiction with the capitalist form of appropriation of its fruits. The drive for profit intensifies exploitation of the working class and all working people, sharpens the competitive struggle between capitalists and increases the anarchy in social production as a whole. None of the attempts to regulate the economy undertaken in bourgeois countries can ensure its planned development on a country's scale, since production is based on private capitalist property and exploitation of wage labour and its aim is to obtain the maximum profit.

*Planned development of the economy only becomes possible in the conditions of socialist society*, in which power is in the hands of the working people and socialist ownership of the means of production has been established. In contrast to private capitalist ownership, public socialist ownership of the means of production does not divide people but unites them and gives rise to a community of their interests and objectives. The working people, taking part in collective labour and in social life, manage the economy jointly and create the conditions needed to satisfy their constantly growing material and cultural needs.

The objective economic conditions of socialism make it possible to build a well-organised and well-balanced economy on scientific lines on a national scale and to direct economic affairs consciously in the interests of the people and of progressive development of society as a whole. "With the recognition, at least, of the real nature of the productive forces of today," Frederick Engels said, "the social anarchy of production gives place to a social regulation of production upon a definite plan, according to the needs of the community and of each individual."\*

*Planned development of the productive forces and of production relations in socialist society is an objective necessity, an economic law of socialism. First*, under socialism production is social in character and is large-scale machine industry, which necessitates its planned regulation and control. *Second*, in contrast to capitalist production, socialist production is not only social in character but is also socialist, socialised, because the means of production are social

---

\* Frederick Engels, *Anti-Dühring*, pp. 320-21.

property and the aim of production is to meet the needs both of society as a whole and of each of its members. *Third*, socialist ownership and the subordination of production to the aim of constantly improving the welfare of the whole people extends co-operation of labour to the scale of the whole economy and large-scale machine industry becomes universally common in all branches of the economy in socialist society.

Socialism takes the social division of labour even further and deepens it, developing the social character of the process of production. On this basis more and more new industries arise, specialisation of production develops, production links and other economic ties between sectors and enterprises and between different regions of the country are broadened and become more and more complex. The objective need for planned development consequently becomes ever more imperative. Proper effective functioning of the diversified and increasingly complex socialist economy is inconceivable without a single plan and centralised state direction.

In any social system satisfaction of society's needs implies certain proportions in the distribution of labour and means of production between the different branches and spheres of the economy. Karl Marx called this distribution a natural, general law of the development of production. Under socialism it operates in a planned way, i.e. is expressed as the specific economic law of the planned, proportionate or balanced development of the economy.

*The most important feature of this law is balance or correspondence between the different branches of production and spheres of the socialist economy. "Constant, deliberately maintained proportion," Lenin emphasised, "would, indeed, signify the existence of planning."\**

Thus, balance and planning of the development of the socialist economy are inseparably interconnected, but they must not be identified. The notion of balance does not reflect the whole wealth of meaning of the concept of conformity with plan, which is the universal form of motion of the productive forces and production relations of socialism. Conformity with plan is the method of organisation

---

\* V. I. Lenin, "Uncritical Criticism", *Collected Works*, Vol. 3, p. 617.

and functioning of the socialist economy as an entity and reflects the inner unity of the economy's development and the organic links and interdependence of all the components of socialist reproduction.

Being an objective necessity it expresses the conformity of socialism's production relations with the social character of production, the common goal of the development of the socialist economy. To strengthen conformity with plan in the development of the socialist economy is at the same time to improve the whole system of economic relations under socialism.

The conscious maintenance of proportionality is not an end in itself under socialism. The planned establishment and attainment of a certain balance or ratio in the development of production and the spheres of the socialist economy are objectively directed to full and consistent compliance with the requirements of the basic economic law of socialism.

Thus, the economic law of planned, proportionate development of the economy operates in socialist society. Its essence is that, with supremacy of socialist ownership of the means of production and subordination of all social production to the aim of satisfying the steadily growing material and cultural needs of the working people, an objective need for co-ordinated management, for balanced distribution of socialistically united labour and other resources between industries and for continuous development of the economy at high, stable tempos, arises and operates.

The law of planned, proportionate development of the economy has been operating ever since the institution of social ownership of the means of production and of the socialist mode of production, but in the early period of the transition from capitalism to socialism its field was limited. Apart from the socialist sector there were still other modes of economy based on private property. As the position of the socialist sector was consolidated the sphere of operation of the law of planned development of the economy broadened and with it, the possibilities and scope of planning expanded and its forms and methods improved.

The system of planned management of the economy in the USSR was organised under Lenin's direct supervision.

Its practice improved with consolidation and development of the socialist economy, as society mastered the economic theory of socialism and accumulated knowledge and experience in planning and managing the country's economy.

The importance of the planning principle and of scientifically substantiated planning of the economy grows immeasurably in the course of society's transition to communism. Under communism, it will attain its highest form and degree of organisation both in the economy and in all social life.

*Planned development of the economy is a universal law of socialist construction.* All countries that have taken the road of socialism are applying it with an eye to the concrete conditions and specific features of their national economies and in the course of directing their economies, their peoples are creatively drawing on Soviet experience and on the mutual experience of the socialist states in the field of planning.

The formation of the world socialist system brought new conditions into being for operation of the law of planned, proportionate development of the economy. The economic plans of the socialist countries are being co-ordinated and their joint planning activity developed on its basis.

The experience of the Soviet Union and other socialist countries has incontrovertibly demonstrated the great advantages of the planned socialist economy over the spontaneously developing capitalist one. The planned socialist economy does not know economic crises, chronic idle capacity, or unemployment. By its very nature it excludes the parasitic consumption and dissipation of material, manpower and financial resources associated with competition and crises and affords possibilities for the most rational and rapid development of the productive forces.

The advantages of socialism are also to be seen in the high, stable growth rates of social production, the gross social product and national income, scientific and technological progress and in the steady rise in the standard of living of the working people. The socialist economy's high rates of development are a decisive factor for victory of socialism in economic competition with capitalism. "Our half-century of experience," Leonid Brezhnev said in his

report on the fiftieth anniversary of the Union of Soviet Socialist Republics, "is graphic confirmation of Lenin's ideas about the advantages offered by a large-scale, centralised national economy as compared with a fragmented economy."<sup>\*\*</sup>

## 2. THE MOST IMPORTANT RATIOS OF THE SOCIALIST ECONOMY

Any social production requires a certain *ratio* or *proportionality*. That the "necessity of the *distribution* of social labour in definite proportions cannot possibly be done away with by a *particular form* of social production but can only change the *mode* of its *appearance*," Marx said, "is self-evident."<sup>\*\*\*</sup>

Under capitalism the ratios needed between the various sections of the economy are constantly being disturbed and development of the economies of bourgeois countries inevitably goes hand in hand with deepening of the antagonistic contradictions of reproduction. "For capitalism," Lenin said in *The Development of Capitalism in Russia*, "there must be a crisis so as to create a constantly disturbed proportion. . . ."<sup>\*\*\*</sup> Proportion, under capitalism, consequently, is temporary and shortlived, is brought about blindly and spontaneously, through crises. Disproportionate development, rather than proportionate, is characteristic of capitalism.

In contrast, constantly maintained proportionality is characteristic of the planned socialist economy. By applying the law of planned development, the socialist state determines and maintains the ratios needed between the different branches of production and spheres of the economy in developing the economy of the different areas of the country.

*The ratios of production* play a determining role in the general system of ratios of the socialist economy. The pro-

---

\* L. I. Brezhnev, *The Fiftieth Anniversary of the Union of Soviet Socialist Republics*, Moscow, 1972, p. 27.

\*\* Karl Marx and Frederick Engels, *Selected Works*, Moscow, 1976, Vol. 2, pp. 418-19.

\*\*\* V. I. Lenin, "Uncritical Criticism". *Collected Works*, Vol. 3, p. 618.

portions or ratios of distribution and exchange stem from them and are subordinated to the interests of production. The distribution and exchange of material wealth in socialist society and all the economic levers by which they are effected (value, price, wages, cost, profit, etc.) have the purpose of stimulating the development of production in the most effective way and on its basis of satisfying the people's growing material and cultural needs.

The most important ratio in the development of social production is that *between production of means of production and production of consumer goods*. This ratio directly brings about the necessary balance between production, accumulation and consumption.

Priority development of production of means of production over production of consumer goods is obligatory for development of the socialist economy, for only on this condition is it possible to ensure the necessary prerequisites for extended reproduction on a higher technical basis.

Production of means of production is the foundation of a country's economic power and of continued improvement of the people's standards of living. It is still necessary to develop heavy industry at high tempos as the basis for extended reproduction, technical re-equipping of the economy and of the defence capacity of the Soviet Union. Of course, it is possible at times to give priority to growth of production of consumer goods or to develop the two departments of social production at an equal rate. At present, for example, the accumulated production capacity has made it possible to develop production of industrial consumer goods at fast rates, which is helping to achieve a considerable rise in the workers' prosperity.

The *ratio between industry and agriculture* is of immense significance for the development of socialist production, especially for increasing production of consumer goods. A highly developed agriculture is an organic part of the material and technical foundation of communism. The *ratios between the different industries and branches of agriculture, too*, are established in a planned way, for example, between the extractive and the processing industries, between the iron and steel industry and the engineering and metal-working industries, between arable farming and stock-

raising, and so on. For successful management in agriculture a certain ratio is needed between the total number of livestock and the fodder needed for them.

The most important ratios include the following: the *proportions between production and consumption, between accumulation and consumption, between production and labour resources, between economic areas.*

The character of these ratios, their nature, and the way they are arrived at is primarily *determined by the social system of production.* Take, for example, the ratio between production and consumption. Under capitalism, the narrow basis of working people's consumption acts as a brake on capitalist production. In socialist society, there is no antagonistic contradiction between production and consumption; production and its expansion are followed by growth of workers' consumption.

*The ratios of the socialist economy are essentially objective in character.* The state cannot arbitrarily establish any balance but must scientifically determine and establish the objectively needed ratios in developing the socialist economy. At the same time, the character of the ratios, proportions between the various sections and spheres of the economy are determined not by the law of planned, proportionate development (which of itself only requires a balance to be maintained) but by the basic economic law of socialism. Certain proportions of one kind or another are brought about solely with a view to achieving the objectively conditioned aim of socialist production.

The correct ratios between the different parts of the economy depend on a whole number of economic and political factors, which include the level of development of the productive forces, the volume of material, financial and manpower resources, the international situation facing the socialist country, and so on and so forth.

The *proportions prevailing in the socialist economy* at any given moment *are not permanent*, but are subject to change and improvement. Their fluidity is affected, above all, by technological progress and the development of new, progressive branches of production. The unequal rate of growth of labour productivity achieved through technological progress inevitably results in a change in the demand for

machines, plant and equipment, manpower and financial resources in the different sectors of production. As a result, the ratio between the branches and spheres of the economy alters objectively.

The distribution of national income between accumulation and consumption funds, the distribution of accumulation and capital investments and of material and manpower resources between the productive and non-productive spheres and between the different branches of material production and economic areas of the country have tremendous influence on changing the proportions of socialist production.

Ultimately the concrete ratios are altered in accordance with social needs and the tasks facing the country at such and such a stage of development and with the development of the productive forces and technological progress. The planning bodies have to follow all these changes taking place in economic processes and to ensure timely passage from old, long-established ratios to new, progressive proportions corresponding to the altered conditions and the matured requirements of development.

In mature socialist society the necessary conditions are created for an ever more harmonious and co-ordinated development of the economy.

### 3. PLANNING OF THE SOCIALIST ECONOMY

Planning is the central link, the kernel of direction of the economy under socialism and one of the key economic and managerial-organising functions of the socialist state.

Planning involves the drawing up of various plans and assignments for developing the economy as a whole and individual industries and enterprises, economic areas and republics.

Production, distribution, exchange and the consumption of material wealth are organised according to the plan, and education, the health service, science and other spheres of socialist society are also developed in a planned way. Planning also implies organisation of the fulfilment of the planned assignments of the socialist state and mutual obligations between enterprises and business organisations.

The scientific principles for Soviet planning were worked out by Lenin and subsequently developed further in the documents of the Communist Party of the Soviet Union.

## **Knowledge and Creative Application of the Economic Laws of Socialism as the Scientific Basis for Planning**

Direction of the economy is carried out through *conscious application of the objective economic laws of socialism*, which is what constitutes the scientific basis of planning. Disregard of their requirements in planning results in great losses for the economy.

Planning is realised directly through operation of the objective economic law of the planned, proportionate development of the economy.

The operation of this law makes it possible properly to determine and resolve the tasks facing the socialist economy, to develop the productive forces and to perfect production relations in the interests of all society and of each of its members.

The possibility should not, however, be equated with reality. In order to translate the possibility into reality and plan and direct the economy properly, it is necessary to study the law of planned, proportionate development, master it and learn to apply it with full knowledge of what you are doing; and such knowledge, it goes without saying, and application of the law of planned, proportionate development are only possible when society masters the mechanism by which all the economic laws of socialism operate and is guided by the scientific principles of socialist management, observing the basic economic law of socialism in everything.

Thus, in the process of planning, society proceeds from consideration of the whole system of economic laws of socialism.

Planned management of the economy presupposes that society must take into account the urgent needs and the real possibilities of production, study the advances of science and engineering and speedily apply them in all branches of

the economy. Application of the law of planned, proportionate development is also inconceivable without due regard for a country's external economic relations and the international situation. Only through an all-round and thoroughly scientific approach to knowledge and application of the law of planned, proportionate development does society get the chance to draw up and implement soundly based progressive and feasible plans, correctly to solve the task of economic and cultural development, to find the short cuts to raising the efficiency and growth rates of industry and to secure a steady and rapid rise in the standard of living of the working people.

### **Economic Policy and Planning**

In the Soviet Union planning is fully directed to carrying out the economic policy of the Communist Party, which in its content and direction has an all-round, profoundly scientific and revolutionary character. This policy reflects the requirements of the economic laws of socialism and the interests of the country, classes and national republics and takes into consideration the external situation, the internationalist obligations and the tasks facing the modern revolutionary liberation process as a whole. In the final analysis, the economic policy forms the basis for the practical activity of all the country's working people and organisations.

In working out its economic policy, the Communist Party defines the main tasks of economic and cultural development and concrete measures for their fulfilment. Its economic policy finds reflection in the country's economic plans, in their system of indices and assignments, which are then concretised in the development plans of the country's industries and enterprises, economic areas and republics. The Soviet Union's political, economic and cultural progress is indissolubly bound up with planned direction of the economy and the fulfilment of current (annual) and five-year plans. The tenth five-year plan (1976-1980) is a major stage in the struggle for continued progress of Soviet socialist society on the road to communism, in building its material and technical base

and in strengthening the country's economic and defence potential.

Much attention was devoted at the 25th CPSU Congress to problems of improving planning, direction and management. Definite progress has been made in this direction, but the interests of communist construction require further development of the theory and improvement of the practice of planning and management, which implies, above all, enhancing the combined effect of the plan, economic levers and incentives, and of the whole system of management on the development of industry, raising its efficiency and improving quality of goods produced.

Under mature socialism state plans are increasingly oriented to raising the material and cultural standards of the people and to the harmonious development of Soviet man. The decisions of the 25th Congress provide for dynamic and balanced development and stable growth of social production and for improvement of its structure; acceleration of scientific and technological progress; more economical management; measures to protect the environment and ensure rational use and reproduction of natural resources; and all-round co-operation with other socialist countries.

The 25th Congress outlined a system of concrete measures to improve planning and management, some of the main directions of which are the following: more thorough treatment of socio-economic problems and of the problems of scientific and technological progress in unity with the country's economic development; all-round study of social needs and consumer demand; broadening the horizons of long-term planning and raising the role of scientific forecasting; striking a balance in the development of all branches of the economy through progressive standards for the use of resources; wider use of the programme-target method in planning and the compilation of comprehensive programmes on the most vital scientific, technical, economic and social problems; optimal combination of sectoral and area development; improvement of the integrated planning of economic and social processes in enterprises, districts and towns; improvement of the system of plan indicators and indices and strengthening of their effect in raising the technical level of industry and quality of production; acceleration of the growth rates

of labour productivity; economy of material and financial resources; and correct combination of the directives of central bodies with the use of economic levers to affect production.

### **Identification of Social Needs Is an Objective Requirement of Planned Direction**

The 25th Congress indicated that Soviet plans should take fuller account of social needs and provide for meeting them through the most efficient use of manpower, material and financial resources. Identification of current and long-term demand for consumer and production goods is a *sine qua non* in drafting and scientifically substantiating national economic plans and operational planning decisions.

Society's pressing needs are the basis for planning the volume of production and the necessary inter-branch and intra-branch proportions of industry. Comparison of social needs with the level of production reached and its actual possibilities enables shortages in the supply of goods of one kind or another to be revealed and ways found to offset them.

Social needs are constantly changing with the progress of science and engineering, growth in the scale of production and raising of the people's material and cultural standards. The planning and management bodies have to follow these changes and take them into account in good time in directing the economy, to determine society's needs in accordance with scientifically substantiated norms and also with the opportunities offered by the current scientific and technological revolution.

In view of the increased social needs in the Soviet Union, it is planned to ensure the high growth rates and balanced development of all sectors of the economy, to increase the national income considerably (which is the source for growth of social production and improvement of the people's welfare), to distribute the productive forces better, to develop the economies of all the Union republics and more rapidly to develop the rich natural resources in the eastern areas of the country.

The key direction in the CPSU's economic strategy for the next five years (1976-80) and in the longer run is continued build-up of the economy, expansion and radical modernisation of production facilities and maintenance of stable, balanced growth of heavy industry. Available estimates are that in the period 1976-90 the Soviet Union will have double the material and financial resources of the preceding fifteen years at its disposal. New possibilities will thus be provided for further improvement of the prosperity, working and living conditions, education and culture of the Soviet people—in fact for everything that promotes the moulding of the new man, all-round development of the individual and improvement of the socialist way of life.

### **Shaping a Progressive Structure of Social Production and Raising Its Efficiency**

A key planning problem is that of improving the efficiency of socialist production. This is objectively required by the sweeping socio-economic programme of the CPSU, by the limited size and reduction in the country's natural increment of manpower, by the trend toward growth of employment in the non-productive sphere and by rationalisation of the use of resources for accumulation and capital investment. Socialist society is not indifferent to the costs involved in realising specific tasks and in meeting growing demand. Achievement of maximum results for the minimum outlay in the interests of society is an immutable principle of socialist business management.

The efficiency of social production and investment and the development rates of the socialist economy can only be raised through intensive development of production, i. e. only when productive accumulation and investment go hand in hand with the raising of the productivity of labour and lowering of socially necessary outlays on making of products and improvement in the use of production funds. For that such indices as the increment of the national income, output per worker and per rouble of production funds and capital investment,

profitability, the cost, quality, range and assortment and reliability of products are the criteria needed for compiling and implementing national and branch plans, the plans of enterprises and production organisations. It is important that the productivity of social labour outstrip the growth rates of the asset-to-worker ratio, that the growth rates of output reflect increase in the efficiency of using production assets and that the asset-to-output ratio and material and financial intensiveness of output be reduced.

The interests of the country's current and longer-term development necessitate all-round intensification of social production, which is inseparably linked with the shaping of its progressive structure. "Essentially," L. I. Brezhnev remarked, "it is necessary to achieve deep-going qualitative changes in the economy's structure and technical level, and radically change its very make-up. This is what the Party's guideline for promoting efficiency means in practice."\*

When heavy industry was only being built in the Soviet Union, the state had to invest primarily in building and enlarging enterprises manufacturing means of production and to limit investment in the light and food industries. The level of the economy now attained makes it also possible to develop the production of consumer goods at a rapid pace. With the current scientific and technological revolution, the establishment of progressive structure of social production implies accelerated development and enhancement of the role of such industries as power engineering, iron and steel, mechanical engineering, instrument-making, oil, gas, chemical and electronics, which are the ones determining technological progress in the economy as a whole. Due regard in economic plans for modern scientific and technological advances, the main trends of technical progress, scientific and technical forecasting and development in every way of progressive branches of industry are the priority task of the economic planning and management.

Economic development plans, Lenin said, should not only incorporate progressive social ideas but should also embody the

---

\* L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy, XXVth Congress of the CPSU*, p. 53.

most progressive scientific and technical ideas of the time. The national economic plan is a powerful lever of scientific and technological progress. Under the effect of science and its discoveries, a revolution is now taking place in the development of the productive forces that will become more and more significant and far-reaching in the future. Taking this prospect into account the Communist Party of the Soviet Union posed the task: "*organically to fuse the achievements of the scientific and technological revolution with the advantages of the socialist economic system*".\*

## The Balance Method of Planning

The necessary proportions in the socialist economy are achieved by means of the *balance method of planning*, which enables the development plans for its individual branches to be compared in advance with the possibility of providing them with materials, equipment, manpower and financial resources.

During planning, physical balances or budgets (input-output tables), cost tables, budgets in physical terms of productive capacities and labour power budgets are drawn up.\*\*

The balance method is employed in compiling both national plans and those for economic areas and individual enterprises. The system of balances makes it possible to detect and eliminate disproportions in good time, to secure the overall development of individual areas and of the economy as a whole. Balances are a means of determining scientific optimum variants of planned targets and economical solutions

In planning and management practice, econometric methods, modern computers, automated systems of data collection and processing are being employed on an ever broader scale. The multi-variant approach is being more and more widely used in drafting plans, which makes it possible to select the optimal variant of the national plan and of individual industries and republics.

---

\* 24th Congress of the CPSU, p. 69.

\*\* See Chapter XIV.

## Long-Term and Current Planning

The most important principle of planned direction of the socialist economy is *to combine long-term and current planning*.

Lenin attached great importance to questions of long-term or perspective planning, emphasising that it was impossible to work without a plan intended for a long period and for a real advance. *Long-term plans* reflect the most general social and economic tasks and main directions of economic and cultural development over a long period. *Current plans* are drawn up for a shorter period, and are concrete programmes of work for a year, a quarter and a month, embracing a wider range of economic indicators.

*The principal form of planning of the Soviet economy is the five-year plan*, in which the most important state tasks are itemised by year and handed down to each enterprise. These plans are compiled for every industry and sector of the economy and for every republic and enterprise. This gives stability to planned targets and reinforces the principle of continuity in planning and the succession between plans for contiguous periods. Stable plans facilitate timely preparation of production, improvement of standards of technical management of individual industries and enterprises, the establishment of firm economic links between producers and consumers and normalisation of supplies of materials and machinery, and are indispensable for introducing long-term quotas into managerial practice.

The modern productive forces, steadily accelerating tempos of scientific and technological advance and tasks of building communism are making it necessary to increase the role of perspective planning, as it more and more often takes much more than five years to carry out the most important economic and socio-political tasks. In accordance with the decisions of the 25th Congress the tenth five-year plan was compiled together with the drafting of guidelines of economic development for the country up to 1990. Orientation on the long-term perspective makes it possible to define the character and scale of the tasks facing the country in advance, to concentrate forces on their realisation, to forecast possible problems and difficulties more accurately and to make it

easier to draft and carry out the programmes and projects taking longer than five years.

The compiling of plans for fifteen years and more on the key problems and in the key directions of economic development is also objectively necessitated by the need to implement scientifically grounded and structurally co-ordinated five-year plans and the annual plans compiled on their basis. The 25th Congress of the CPSU stressed the need to improve the system of interlinked long-term, five-year and annual economic plans.

It is of great importance for resolving overall economic problems to work out long-term forecasts of population growth, of the economy's requirements, of scientific and technological progress and of other problems of economic and cultural construction from an analysis of trends in the development of science and engineering and from the patterns of economic and social evolution.

## Centralised Planning and Local Initiative

Socialist planning implies *centralised direction of the economy* and any underestimation of that inevitably leads to forfeiting of the advantages of the planned socialist system. As socialist production develops, the importance of centralised management increases. The high level of the productive forces, the gigantic scale of modern production and rapid scientific and technological progress objectively necessitate reinforcing of the role of centralised planned direction.

Centralised planned management concentrates primarily on defining the main directions of economic development, on ensuring the necessary proportions and economic connections, on raising the efficiency and tempos of social production, on working out the most important economic, scientific and technical and social problems of the development of the economy, on pursuing a uniform policy in the fields of scientific and technological advance, investment, distribution of industry, wages, prices, profits, finance and credit.

In the Soviet Union the sphere of centralised planning and management includes the tasks and targets of the national

plans, the state budget, the credit and cash plans and the plans drawn up by ministries and government departments. The united state plan co-ordinates the plans of Union republics, ministries and departments. Central bodies decide matters affecting co-ordination of the USSR's plan and those of other socialist countries and questions of developing foreign trade.

Planning is directive in character. The plans approved by the highest bodies are obligatory, which implies strict observance of plan discipline in all links of the economic chain.

Once plans have been adopted, however, their implementation is based not only on immediate directives but on the whole system of economic forms of stimulation, namely, profit-and-loss management, material incentives, etc. When plans are being drawn up measures have to be taken to stimulate their fulfilment by the enterprises and workers concerned.

*Centralised planning is combined with development of the managerial initiative and autonomy of enterprises* and of republican and local managerial organs. Combination of centralisation with the development of managerial initiative on the spot is a most important principle of democratic centralism in directing the socialist economy. No central managing body is in a position to know the concrete conditions of management and the specific features of enterprises located in different economic areas. Bureaucratic administration from above instead of economic substantiation of managerial measures and excessive regimentation and petty tutelage limit the autonomy, independence and initiative of enterprises and lower their sense of responsibility for the results of their work.

Perfecting of the system of management in the Soviet Union proceeds primarily from the need to combine centralised direction with encouragement of local managerial initiative. To that end, the rights of enterprises, Union republics and local managerial bodies in economic and cultural development have been greatly broadened and the role of such important economic levers as profit, price, bonuses and credit has been considerably enhanced.

Unnecessary regimentation of the managerial activity of enterprises is being eliminated and the number of targets and indicators laid down for them from above has been reduced. All this encourages initiative in enterprises in working

out and implementing tighter programmes. Realities, however, face planners with ever new problems. Today it is particularly important to improve the planning of physical indicators, to enhance their role in appraising the performance of enterprises and amalgamations. In this connection the 25th Congress pointed out the need to raise the role of consumer enterprises in the compiling of production programmes, to employ the system of orders and business contracts on a wide scale and to develop long-term, stable direct ties between related enterprises.

The granting of broader managerial independence to enterprises and the extension of the rights of Union republics and local managerial and planning bodies in solving the tasks of economic and cultural development imply a need for improved co-ordination of the activity of all the links in the production and managerial chain and, consequently, enhancement of the role of centralised planning.

## Industry and Area Planning

An important feature of planned direction of the socialist economy is proper *combination of branch (industry) and area planning*. The branch principle of management and planning in industry encourages unity of direction in production, technology and the economy, helps to bring science closer to production, to pursue a single technological policy, to develop economically justified specialisation and co-operation of production and to raise the level of concentration and centralisation.

The decisions of the September (1965) Plenary Meeting of the Central Committee of the CPSU were of prime importance for consolidating branch management and planning in industry. They altered the organisational forms of management in industry, abolished the area system of management through Economic Councils (*sovmarkhozy*) and established the branch principle in the direction of industry. The industrial ministries set up are invested with full powers to direct their industries and are responsible for their performance; they are made responsible for the technical standard of production at enterprises subordinated to them and for

meeting the country's needs for the industrial products of their branches.

In addition to the branch (industry) approach to solving managerial problems, local features are also taken into account in planning work. Area planning in a country as vast and varied as the USSR is of immense economic, political and social importance and has to ensure continuous growth of the economy and culture of all Union republics, starting from proper combination of the interests of the economy as a whole and of those of each republic. The branch principle is therefore combined with area or territorial planning.

The main targets for the development of industries and of the economy as a whole are laid down for Union republics and economic areas. This combination makes it possible to link the development of branches of the economy and those of the integrated development of republics and administrative territories and regions, to locate the productive forces rationally, to improve the social division of labour and specialisation of economic areas, to draw natural resources and raw material supplies into circulation and to establish effective economic links between industries and economic areas.

In present conditions the role and responsibility of republican and local bodies for direction of the economy and for integrated development of their republics and regions is growing steadily along with improvement of sectoral planning. The character of the tasks facing the economy calls, as a rule, for the co-ordinated efforts of many industries and economic areas and includes implementation of a whole system of various measures.

At present, improvement of branch and area planning and of the whole system of planned direction of the economy is closely bound up with consistent implementation of measures to improve the organisational structure and management methods of industry. A two- and three-tier system of management (i.e. ministries and industrial amalgamations) is being established in Soviet industry. Industrial amalgamations, combines and all-Union and republican firms set up as single production and management complexes, enable ministries (or departments) to concentrate on the following:

- 1) improvement of the system of planning and methods of management;

2) implementation of a single technical policy, accelerating scientific and technological progress, improving the quality of output and raising labour productivity;

3) fullest possible satisfaction of the country's needs for products of all kinds.

### **Specific Features of Planning Collective Farm Production**

Socialist planning also covers collective farm production; but the direction of collective farms by the socialist state and the planning of production on collective farms have certain special features due to the specific nature of the co-operative-collective farm form of socialist property. For precisely that reason the state exercises planned direction of collective farm production in special ways.

In the Soviet Union, the collective farm production is planned through a system of government purchasing orders for agricultural raw materials and foodstuffs. Stable delivery plans are established for collective farms for a number of years. A fixed sales plan for farm produce enables collective farms to organise production properly, to determine its structure and the leading branches of farming and specialisation autonomously.

The system of state orders guarantees a stable market for the disposal of collective farms produce and is a most important condition for raising standards of farming and stock-breeding and for consolidating the economics and material and technical basis of the collective farm sector. Through the system of fixed purchases the state organises the distribution and development of the productive forces of agriculture and influences the specialisation of the major zones of farm production.

Since these stable purchasing plans for grain and other produce do not fully meet the state's needs for foodstuffs and agricultural raw materials, they are combined with above-plan sales of produce at higher prices. The combination of fixed plans and above-plan purchases creates a stable foundation for organising and planning collective farm production

and ensures a reasonable balance of the interests of the state and the collective farms.

The planned influence of the state on collective farm production is also exercised through the organisation of supplies of materials and machinery. Collective farm production as a whole is thereby integrated into the general system of planned economic regulation.

### **State Reserves and Planning**

The financial *state reserves of funds and materials* and stockpiling are of growing importance for improving economic planning. Each enterprise, of course, has the minimum necessary current reserves of raw materials and stores, fuel and funds at its disposal to ensure its continuous operation. On a national scale, too, large state financial reserves and stockpiles are needed in addition to current reserves.

Temporary, partial disproportions may arise in the socialist economy due to natural disasters, errors in planning and uneven fulfilment of plans in separate branches of production. The mobilisation and use of state reserves make it possible to offset undesirable effects in the development of the economy. Normal socially necessary current reserves in the sphere of production and circulation and large state reserves are an indispensable condition for planned and continuous development of the economy. The state reserves are of exceptional importance for meeting the requirements of the scientific and technological revolution and for strengthening the country's defence capability.

### **The Significance of Techno-Economic Standards**

Planned management of the socialist economy is inconceivable without *technical and economic norms and standards*, i.e. norms of expenditure of past and living labour on the production and realisation of products, wage rates, rates of

profitability, norms for the use of profits and quotas for the distribution of the national income.

The working out and introduction of norms, rates and standards for the use of equipment, raw materials and stores, fuel and power and expenditure of labour per unit product (work) are most important links in planned direction of the socialist economy. These rates and standards must reflect today's level of development of engineering and technology and of the organisation of labour and production. They are indispensable for planning and maintaining proportions in production, for distributing the product and for organising work and wages. They stimulate increase of labour productivity, reduction of costs of production and a growth in the profitability of socialist enterprises.

The 25th Congress made it incumbent on the USSR State Planning Committee (Gosplan) and the planning agencies to continue work on a system of physical and cost standards for all levels of planning with a view to improving the drawing up of input and output tables, production plans, supply plans for materials and machinery and capital construction plans.

An active means for improving planning and mastering the economic methods of direction is the system of statistics and accounting and book-keeping.

### **Organisation of the Fulfilment of Plans Is the Decisive Link in Socialist Planning**

The centralised development plan of the socialist economy is of immense organisational importance. It expresses the will of the people and their realisation of the objective need for planned development of the economy. The plan is carried out through the relevant practical activities of people and their creative initiative in resolving economic problems is the powerful driving force of the socialist economy.

Planned direction begins with the working out and confirmation of plans. This is an important stage in planning, but the best laid plans can remain wishful thinking if the work

to implement them is not organised. Organisation of the fulfilment of plans is the decisive link in socialist planning.

The success of planning is determined, above all, by the understanding on the part of the leading cadres and of all working people of the scientific principles of the economic policy of the Communist Party and the state, by their level of engineering and economic knowledge, by their creative initiative and organisational ability. The struggle to fulfil plans implies creative application and employment of the whole system of economic laws of socialism and of economic levers and financial and moral incentives to solve economic problems, observance of plan discipline in all the links of the economic chain and the strictest control over the course of implementing the plan.

Economic planning bodies, industrial executives, engineers and technicians and Party and trade union organisations have to attentively study and generalise experience of the work of enterprises, to disseminate this experience in every way, to make it accessible to all enterprises and industries, to raise the general level of management, to train personnel in the spirit of personal responsibility, initiative and independence in work, to organise the economic training of personnel, to carry out broad propaganda of economic knowledge and to develop socialist competition.

#### 4. THE ECONOMIC ROLE OF THE SOCIALIST STATE

The development of socialist society is directed by the socialist state, the need for which is due primarily to the continued existence of imperialist states confronting the socialist world.

On the other hand, there are internal reasons why the state is preserved under socialism. In the stage of socialism the productive forces do not yet ensure an abundance of products and labour has not yet become a prime necessity for people. Under socialism, survivals of capitalism in the consciousness of the working people have not yet been overcome. In organising production and work, socialist society makes broad use of the principle of personal and collective material interest. The state is therefore necessary in order to exercise

the strictest accounting and control over the measure of labour and the measure of consumption, to safeguard socialist property, to strengthen socialist labour discipline and to carry out comprehensive education of the people.

The whole variety of tasks fulfilled by the socialist state can be reduced to two groups. The *first* is connected with administration, i. e. protection of the rights and freedoms of citizens, of socialist law and order and socialist property, and coercion of persons evading social labour. The *second group* is associated with planned organisation of the production, distribution, exchange and consumption of material wealth in socialist society. The activity of the socialist state in performing the first tasks belongs wholly to the sphere of relations in the superstructure, while performance of the second group, on the contrary, belongs to the realm of economic relations.

There is a certain interplay, of course, between the basis and the superstructure. "Politics," Lenin said, "is the concentrated expression of economics." Politics is determined by economics, but in turn has an active influence on economics.

At all stages of the development of the socialist system, the *fundamentally new economic role of the socialist state* is expressed in its direction of the planned organisation of production, distribution and exchange, *and is wholly determined by socialist production relations, i. e. by the economic basis*, in the creation of which it is most actively involved.

The guiding role of the socialist state in the economic life of the country is due, above all, to the fact that the preponderant part of the means of production is in its hands, around nine-tenths of all the means of production in socialist countries being the property of the whole people.

For the first time in the history of humanity the socialist state has become the state of the working people. It expresses the interests of the working people and all its activities are carried out with their support and active involvement. The guiding and directing force of the socialist state is the Marxist-Leninist Party.

In its practical activities, the socialist state is guided by Marxist-Leninist theory. Underlying its economic policy is a scientific analysis of the objective processes of development of socialist society, which makes it possible not only to

assess the results of the past correctly but also to determine the trends of development in the future.

The economic role of the socialist state differs in principle from that of the state under capitalism. Whereas the bourgeois state, while exerting a certain influence on the economy, is not in a position to create a planned economy and to plan and direct development of the economy as a whole, the socialist state directs the development of the socialist economy in every way on a country-wide scale and is the decisive force in its development. And while the bourgeois state interferes in economic affairs and influences the capitalist economy in the interests of the monopolistic bourgeoisie, the socialist state exercises planned direction of the economy in the interests of the working people. The bourgeois state, in regulating individual aspects of the development of the capitalist economy, at the same time sharpens its antagonistic contradictions and competitive struggle and aggravates the anarchy of social production, while the socialist state, in directing the whole economy, reinforces the planning principle in socialist society.

The basic content of the socialist state's activity becomes economic-organisational and cultural-educational work.

The economic policy of the socialist state has a profoundly scientific and revolutionary character. It does not passively adapt itself to existing economic conditions but intrudes actively into economic affairs and introduces progressive changes in the material conditions of social life. The Marxist-Leninist Party and the socialist state go deeply into the essence of economic relations and detect emerging tendencies and long-term prospects, so as to effectively use the economic laws of socialism and its advantages and creative opportunities. The policy of the socialist state, Lenin said, is a "generalisation and consummation" of economics.

In fulfilling the will of the people and acting in their interests, the socialist state directs all economic and political life along the road of socialism and communism.

The economic role of the socialist state is most diverse. Basing itself on economic laws and applying them consciously in its activities, the state organises socialist production, plans the socialist economy and manages its operation; it also employs commodity-money relations in order to strengthen

planned direction of the economy and develop the initiative of enterprises on the principle of profit-and-loss accounting. The state fixes the volume and structure of social production, investments and commodity circulation, decides the rates of growth of branches of the economy, organises more and more rational distribution of the productive forces throughout the country and deals with the problems of developing all types of transport. It draws up and implements measures to promote scientific and technological progress, raise the efficiency of social production and labour productivity and to reduce costs of production and circulation. Through its proxies, the state manages the operation of public enterprises in all the spheres of the economy on the principle of profit-and-loss management, organises the work of millions of people and employs the country's labour resources in a planned way.

The socialist state organises the distribution and use of the aggregate social product and national income. To further the growth of production and consumption it pursues a unified policy in relation to wages, institutes a system and procedure of payment for work in accordance with the socialist principle of distribution according to work and controls its implementation. The state determines the general level of prices and fixes prices for the most important types of product, organises home and foreign trade and the working of the system of credit and finance, sees to fulfilment of the budget, regulates the currency and encourages raising of the purchasing power of money. The state manages housing, public utilities and communal services and the health and social security services.

The socialist state maintains the economic, political and cultural ties between town and country, directs the development of agriculture, organises the procurement of farm produce, guides the activities of co-operative and collective farm enterprises.

Public education is also within the competence of the socialist state. The state occupies itself with problems of the training of skilled labour power, encourages cultural and technical growth of the working people and guides the development of science and technology.

Its role in the matter of comprehensive education of the working people is especially great and important and includes

cultivation of a communist attitude to work, a careful, thrifty attitude to socialist property and conscious conduct and morality.

The socialist state directs the economy on the basis of democratic centralism, which is a fundamental principle of the management of the socialist economy that combines centralised planned direction with a democratic spirit based on the initiative and creative activity of the broad masses of the working people.

In addition to its economic-organisational and cultural-educational functions, the socialist state also has other functions.

The socialist state organises the country's defence capability and the protection of socialist property. It strengthens and extends economic, political, scientific and technical and cultural relations with the countries of the world socialist system and with developing states, exercises a monopoly of foreign trade and in the interests of peace and social progress develops relations with capitalist countries.

The socialist state is an instrument of strengthening and developing socialism and building communist society.

With progress towards communism, the economic-organisational and educational activity of the state will grow. In mature socialist society these of its functions are further developed; its planning activity increases, socialist management and direction of production are improved, the working masses are more and more actively involved in the management of society's affairs and state bodies are broadly democratised. As communism approaches, the political functions of state economic bodies will gradually wither away,

With the triumph of communism on a world scale the political superstructure and all its administrative functions will wither away. Production relations will cease to be class relations. The state, too, will wither away, but the social forms of economic life and planned organisation of production and distribution will not disappear. In communist society they will be developed still further.

## COMMODITY-MONEY RELATIONS UNDER SOCIALISM

### 1. THE NEED FOR COMMODITY-MONEY RELATIONS UNDER SOCIALISM

In commodity production, as we know, the product of labour is produced for sale, for market exchange. Such production came into existence long before capitalism, but only under capitalism did it receive its fullest development.

The transition to socialism is accompanied with radical changes in the whole system of production relations. The undivided supremacy of socialist property means that labour power ceases to be a commodity. Under socialism production has a directly social character, but for all that commodity-money relations still exist. Things are produced by plan as commodities and enter consumption by being exchanged for money.

The experience of building developed socialist society indicates a need for consistent use of commodity-money relations also in the conditions of the transition from socialism to communism. The urgency and importance of this problem are plainly visible in the light of the measures to improve the planned management of the economy outlined in the decisions of the CPSU. The 25th CPSU Congress in pursuance of the line charted by the 24th Congress pointed out the need to use economic incentives and levers more efficiently in order to improve price formation, enhance the influence of economic accounting, finance and credit on production, to improve the organisation of settlements.

Other socialist countries, too, are facing problems of further improving commodity relations. Everywhere these problems are linked with raising of the efficiency of production and a further rise in the well-being of the people.

What are the reasons for the existence of commodity relations under socialism and what is their new content?

Under socialism such a basis of commodity-money relations as social division of labour is preserved, although the latter can also develop without commodity-money relations. The history of human society disproves the idea that commodity relations are eternal and unalterable, stemming, as it were, from human nature.

The need of commodity relations with private property is quite understandable, since the means of production belong to individual owners. In these conditions the social division of labour can only be effected and expressed through spontaneous exchange of commodities: anarchic commodity production takes the form of economic relations between people.

For a certain period, however, production of commodities also remains necessary, even when social ownership of the means of production prevails. At one time this circumstance was explained by one cause, the existence of the two forms of socialist property. Needless to say, this is a factor of essential importance. As long as the social division of labour develops and there is national (state) property and co-operative-collective farm property, the normal form of economic link between them will be commodity relations which, through equivalent exchange, meet the interests both of co-operatives (collective farms) and of the people as a whole and make it possible to plan and stimulate collective farm production.

The existence of commodity relations under socialism, however, is not fully explained by the existence of two forms of socialist property. The point is that the actual conditions of building socialism and communism call for broad utilisation of commodity relations not only in the sphere of the interrelations of the two production sectors of socialist society but also within the leading public sector. In recent years commodity relations have also become more common in the co-operative-collective farm sector. Consequently the need for them under socialism is due to other objective circumstances besides the existence of two forms of social ownership.

Lenin believed that the importance of commodity relations went beyond the limits of direct links between industry and peasant farming. He suggested that it was necessary

to employ them widely in order to organise the operation of all socialist enterprises. For the first time in Marxist literature he posed the question of the need to transfer state enterprises onto profit-and-loss management based on employing planned commodity-money relations.\* Attempts to renounce forms of this kind, he remarked, meant trying to skip the first phase of communism.

When social ownership of the means of production completely dominates, comradesly co-operation among people will pervade all society and people will manage the economy jointly and organise the whole process of creating material wealth in a planned way conforming to the nature of the modern productive forces and the social character of the process of production.

As joint owners of the means of production and workmates people are aware of the need to work in accordance with the will of the whole group and to subordinate their own activity to the interests of society as a whole and to its directives. The economic link between the members of socialist society maintained by the directives of balanced relations are objectively necessary for the purposes of planned, co-ordinated economic management. Direct social regulation of production organically includes material stimulation of labour. The level of development of the productive forces under socialism is still not high enough for the communist principle of distribution according to needs to be implemented. Essential distinctions in labour remain and work itself has not yet become a prime necessity for all members of society. In these conditions the individual labour of every worker and of the body of workers of enterprises is not simply integrated administratively into the system of social co-operation by order of society, but is also brought in through the medium of material incentives. Co-ordinated management by the joint owners is effected through the direct instructions they draw up, connected with the material stimulation of work and permanent socialist control over the extent to which the expenditure of labour of individual workers and of the body of workers of enterprises is socially necessary. This system of planned relations makes it necessary to apply the principles

---

\* See Chapter VIII.

of equivalence in the exchange of products and to organise accounting and control of the measure of labour and of consumption.

In the movement of the social product through all the links in the process of reproduction a rational system of management in the interests of society necessitates stimulation and control by employing the principles of equivalence of exchange. At the same time the essential differences in work prevent direct expression of social labour in units of socially necessary labour time. The need for material stimulation and social accounting for labour through the process of exchange therefore imparts the form of commodity circulation to the process of reproduction, i. e., exchange of products as commodities. Society issues a directive to produce such and such a product and deliver it to the point of consumption. At the same time it stimulates and controls the whole of this process through a system of commodity circulation. Direct guidance by instructions and commodity-money relations are consequently interconnected in a unified system of relations conforming to plan.

Through the system of circulation society stimulates every one of its members and all the links of the economic mechanism in such a direction that their activity constantly ensures ever fuller satisfaction of society's growing needs and induces their further growth. The planned production and planned circulation of commodities are governed by objective necessity, which is expressed in the operation of the basic economic law of socialism.

The need for commodity relations under socialism thus stems from the specific features of socialist ownership of the means of production and the character of socialist labour, i. e. from the features of planned management of the economy when the level of development of the productive forces is still inadequate for distribution of material wealth according to the needs of the members of society and calls for economic stimulation of the process of production in which direct accounting for the social expenditure of labour is still substantially hampered.

The need for commodity production is sometimes attributed to the relative isolation of enterprises in the socialist economy. This isolation is described as a specific form of exis-

tence of socialist property. It is alleged that separate enterprises have a share of social property at their disposal as the property of a given body of workers.

In fact, however, state enterprises under socialism belong to the whole people rather than to separate bodies of workers. The social character of the process of production calls for consolidation of public property and development of the whole economy according to plan.

The most typical thing about socialism is not the isolation or separateness of enterprises but their unification on the basis of public property.

In other words, it is not the isolation of enterprises that corresponds to public ownership of the means of production but their unity, not the fragmentation characteristic of private property but planned co-operation of labour on the scale of the whole economy. There will always be a certain separateness of enterprises in the economic and technical respect as long as they remain independent units in the system of social division of labour. Some separateness, and a need to account for the socially necessary expenditure of labour in each of them, will remain in communist society as well, but that is not to say that commodity production will also be preserved.

Under socialism, the need for accounting and control and material stimulation of every enterprise through the use of commodity relations gives rise to the specific managerial autonomy or independence of individual enterprises. Each socialist enterprise acts as a commodity producer to which society affords the opportunity, in accordance with the national economic plan, to make the most effective use of the means of production belonging to either society as a whole or to a group of working people (a collective farm or other types of co-operative). The enterprise receives a certain equivalent from society corresponding to its production results.

Commodity relations do not exist under socialism because socialist enterprises are isolated producers; but rather the specific independence of socialist enterprises, which gives them certain features of isolation, is the result of commodity relations.

The Programme of the Communist Party of the Soviet Union indicates that commodity-money relations will wither

away when the transition to a single communist form of ownership and to the communist system of distribution is completed.

## 2. THE FUNDAMENTAL DIFFERENCE BETWEEN COMMODITY-MONEY RELATIONS UNDER SOCIALISM AND UNDER CAPITALISM

*In socialist society commodity-money relations are a fundamentally new type of economic relations between people, compared with preceding formations. They are maintained in order to satisfy social needs and in the interests of the all-round development of every member of society.*

The production of commodities in socialist society differs from capitalist commodity production primarily in being based on social ownership and in the directly social character of socialist production.

Already during the transition period from capitalism to socialism commodity production acquires new qualities, but it still has a dual character, since there is still private property in the means of production.

After the victory of socialism the production of commodities is fully based on social ownership and is carried on by socialist producers. Private commodity production no longer exists or is reduced to a quite insignificant level. For the first time in history all commodity producers are united by social ownership of the means of production and their activity is subordinated to the interests of society as a whole.

Under socialism, labour power is not a commodity, since the working people themselves are the joint owners of the means of production and there is no exploitation of man by man. Under capitalism, however, the dominance of commodity production is based above all on the fact that labour power is a commodity.

When private property predominates commodity production always implies the possibility and inevitability of whole strata of commodity producers being ruined. Under socialism the production is based on relations of comradesly cooperation and mutual assistance, support for lagging enterprises, their planned bringing up to the level of the

advanced ones and promoting the highest level of well-being for all socialist producers.

In private property conditions commodity production develops blindly and always harbours the possibility of crises of overproduction. Under socialism the production of commodities develops in conformity with a plan in the interests of the general welfare; at the same time the possibility of crises of overproduction is eliminated.

In capitalist society, commodity relations are the universal and prevailing form of economic link through which the unity of social production and exchange is realised spontaneously.

Under socialism, the economic unity of society is brought about by socialist ownership of the means of production and the commodity form of relations is not the main economic link between producers but is merely one of the forms of planned economic relations between people. In the Soviet Union, the Communist Party and the Government act on the principle that directive planning is the guiding and determining factor and that commodity-money relations can and should be used to strengthen planned direction of the economy and to develop the initiative of enterprises and industrial combines on the principles of profit-and-loss management. Commodity-money relations in the Soviet Union have a new inherently socialist content. Neither direct orders nor commodity forms of relations are by themselves adequate to ensure development of the socialist economy. Both are objectively necessary in interconnection. Commodity relations presuppose that socialist society directs the whole process of production and circulation of commodities according to a plan.

Under socialism commodity relations in the main are elements in a system of planned relations and co-ordinated management, directing and regulating the socialist economy, and their role is to materially stimulate the growth of socialist production, economical management and the fullest satisfaction of the needs of society, and to ensure systematic, planned accounting and control of the course of the production and circulation of commodities.

Thus *commodity production under socialism represents commodity relations of a special type developing according to*

*plan and differing in principle from spontaneous commodity production.* Under socialism the commodity form is given a fundamentally new content and expresses relations of directly social production.

The development of commodity production in socialist society also implies the existence of a *market of a special kind*, since the whole process of planned development of production, distribution and exchange takes place through the mediation of commodity relations, through a system of supply and demand determined in a planned way and expressing the directly social character of production.

Commodity relations, while playing a considerable role in stimulating and cheapening production, are used at the same time for planned establishment of the ratio between demand and supply and for a better and more accurate assessment of consumer demand as regards the quantity, quality and range of products.

The practice of building socialism has demonstrated the possibility of planned satisfaction of needs on the basis of constant rapid growth of socialist production and of the socialist market. Commodity relations must be employed in a planned way with the economic forms corresponding to them (i.e. planned prices, finance, profit-and-loss accounting, credit and contractual relations) so that the productive activity of enterprises under socialism can be flexibly adapted to concrete needs. Experience has shown that it is necessary, in order to ensure constant rapid growth of production and the necessary product-mix and quality and so consequently to meet the growing needs of all members of society, for directive planning to be constantly linked with a system of economic value levers. Under socialism there is thus an objective need for a market organised on a planned basis.

Denial of commodity relations and the market under socialism is based on an erroneous interpretation of individual statements made before the socialist revolution or when adequate experience had not yet been accumulated. At that time the view prevailed among Marxists that commodity relations would disappear along with the abolition of private property in the means of production. These views have been refuted by practice which has conclusively shown that commodity relations are also necessary in the first phase of communism.

By virtue of the non-antagonistic contradictions of social labour inherent in socialism the output produced according to plan by socialist enterprises needs additional public recognition. Commodity exchange and the sale of goods are also an additional form of recognition of their usefulness to society and of the fact that the labour expended on them was socially necessary. Commodities, prices and money cannot directly express the expenditure of labour which is only outwardly expressed in the definite proportions of commodity exchange, i. e. in value form.

Socialist enterprises are faced with the task not simply of producing output, but output intended for commodity exchange, for exchange for money, through which planned social accounting and control over their performance is effected. The economic testing of the performance of enterprises through the market and their stimulation through commodity relations do not in general contradict planned management of the economy but are one of its forms.

Marxist-Leninist theory rejects as untenable statements that commodity relations under socialism are conceivable only as "free" (i. e. spontaneous) commodity relations not subject to planned regulation. It also rejects all sorts of mistaken conceptions that substitute market regulation for the leading role of centralised state planning.

A favourite interpretation of socialism by bourgeois economists consists in picturing it as a spontaneous market economy. This is the theory of "market socialism", which has been adopted by both the revisionists and Right-wing socialists. It demands "freedom" for commodity relations and the provision of possibilities for their spontaneous development. Some variants of this "theory" allow for a certain (very limited) influence by the state on market relations, but the dominant role is assigned to the spontaneous market. Exponents of this theory interpret public, social property as the property of individual bodies of workers and individual enterprises and commodity relations as the sole form of economic connection between them and regard the planned economy as an adjunct to them. According to this theory, it is not commodity relations that are an element in the socialist planned economy but the planned economy that represents elements of some sort of universal and all-embracing system

of commodity production. If matters really were like that every body of workers would look only after its own interests and nothing would link it with society except commodity exchange. Commodity relations of that kind would be in antagonistic contradiction with socialist ownership.

Certain contradictions that arise under socialism between the interests of individuals and those of society cannot be resolved on the basis of spontaneous relations. If commodity relations were given free rein and spontaneous development, even under socialism that would inevitably lead to anarchy in price formation, spontaneous differentiation of income and unevenness in the development of industries and areas. And ultimately it would lead to a considerable waste of resources and efforts and to undermining of socialist relations.

In reality the interests of the individual under socialism do not contradict the interests of society as a whole, for every working man and woman has an interest in maximum development of social production. Growing needs are satisfied through collective efforts, maximum concern by each one for the interests of society and society's concern for the interests of all its members.

Commodity relations do not develop in socialist society on the basis of the principles of competition and market struggle which would contradict its very nature but are linked with the need to apply the principle that he who works more and better shall systematically receive a larger share of the social product from society. It will easily be noted that both the theory of denying commodity relations under socialism and theories calling for their "free" development agree that only spontaneous commodity relations are possible; but statements of that kind have long been disproved by the experience of building socialism.

### **3. COMMODITIES AND THEIR PROPERTIES UNDER SOCIALISM**

#### **Commodities of a Special Type**

As far as commodity relations of a special type are concerned, the general definition of a commodity given for private property commodity production is inapplicable to

socialism. Commodity as a product of socialist enterprises is no longer a commodity in the old sense of the word, since it is not intended for spontaneous exchange. It is no longer a form of link between private producers and does not function as a product of capital.

Just like commodity relations, a commodity under socialism is a *commodity of a special type*. In socialist society a *commodity is a product produced according to plan by socialist enterprises to meet the growing requirements of socialist society and enters consumption through socialised exchange*.

This definition emphasises the fundamentally new character of a commodity under socialism as compared with a commodity of private production and its new content and helps us correctly to answer the questions, once much discussed, of whether the means of production distributed within the state sector are commodities or not. It also applies to means of production because they too are intended for planned satisfaction of the needs of socialist society, enter productive consumption through exchange and are transferred from one enterprise to another by way of systematic purchase and sale regulated by centralised planning.

Clearly, the means of production distributed between state enterprises express relations developing within the state sector. Commodities sold by state enterprises to collective farms express relations between the state and the latter. Much of the trade turnover characterises relations between the state and individual consumers. The specific character of relations in each of these spheres of exchange does not obliterate what they have in common, i.e. that products enter productive or personal consumption through exchange for money.

The question whether the means of production are commodities is of great practical significance and is linked with the possibility of using commodity relations (the forms of trade and credit) in the conditions of centralised distribution of the means of production for carrying out capital construction, realising scientific and technological advance, and so on.

As a result of the prevalence of socialist property, products have ceased to be commodities in the former sense of the

word, i.e. they are no longer the outcome of the capitalist economy and its antagonisms; but they function as commodities of a special type, products that retain certain properties of a commodity but possess features typical of socialist relations. Products will completely lose the properties of commodities when socialist production relations have been completely transformed into communist ones. A commodity will then be converted into a simple product of labour intended for social consumption.

### Use Value and the Value of a Commodity

Commodities of a special type, like all commodities in general, have two properties, *use value* and *value*. The category of use value developed over the long course of history. In conditions of private commodity production it already represented social use value, because a commodity is not a useful thing for the producer himself but is intended for some one else's consumption. At the same time its production is dictated solely by the interests of the given producer, who makes products for the consumption of others in his own, private interests. In the socialist system, the social character of use value is further developed; use value is here directly social use value intended to meet the growing needs of society and production is organised in its interests.

Use value therefore acquires special significance under socialism.

For capitalists, the use value of the commodities they produce is of no consequence; it is a matter of indifference to them what commodity to produce provided it increases the scale of profit and capital. Commodities can satisfy the meanest wants and damage health. But all that is no matter to the capitalists, because they are interested in use value solely as a vehicle of value and surplus value.

As can be seen from the decisions of the 25th CPSU Congress, socialist society attaches special significance to the question as to what needs exactly are to be met by the output of production, to the quality and range of products and to the usefulness of a given product to people. Underestimation of use value in individual cases of business practice

means a violation of the fundamental interests of socialist society.

The great importance of use value under socialism does not mean that the society can ignore value and its forms. But here, too, value has a new meaning. It expresses the expenditure of directly social labour embodied in a commodity and the production of commodities on the basis of social ownership of the means of production.

Socialist society is interested in reducing the value of a unit of product, because that is the decisive means of expanding and developing production. But a reduction of value is not an end in itself under socialism.

As already noted above, commodities have value and use value under socialism because the labour expended on their production has a dual character, i.e. it is at once *abstract* and *concrete* labour.

## The Dual Character of Labour under Socialism

The dual character of labour in socialist society is not connected with the contradictions of private and social labour, since private labour does not exist under socialism. Under socialism abstract and concrete labour are two aspects of directly social labour and the relations between them are different in principle from those under capitalism.

Under capitalism, the social character of private labour is expressed through abstract labour; under socialism, it is what the different concrete forms of socialist labour have in common that is expressed through it. Essentially different types of labour are equated through the form of abstract labour, i.e. skilled and unskilled labour, mental and physical, urban labour and rural labour. These different types of labour receive objective expression as a definite quantity of expended socially necessary labour.

In socialist conditions abstract labour is the expression of the directly social labour of producers united by social ownership.

The special form of expression of directly social labour as abstract labour is the result of contradictions of a non-antagonistic character existing in labour itself. Here we are

dealing with the lower stage of development of directly social labour; under socialism the contradictions of labour are not antagonistic in character because there is no private labour and there is no opposition between private and social labour and no antagonistic interests as is the case under capitalism. The non-antagonistic contradictions of labour creating commodities consist in that under socialism there is a need on the one hand for co-ordinated (planned) management in the interests of all society and that this planned management, on the other hand, is only possible with a proper combination of personal and collective interests and the interests of the whole people, to which the former are subordinated. And that means that directly social labour should receive additional recognition by society and be evaluated and controlled, in particular, through exchange. Although the labour of each member of society in socialist conditions is directly social labour, it can only be directly expressed as a share of the total social labour after it has been systematically evaluated and controlled by society through value relations.

There are contradictions between use value and value and between concrete and abstract labour under socialism; and the contradictions of a commodity express the contradictions of the labour that creates it.

The use of commodity relations implies a certain measure of autonomy of individual enterprises. This can give rise at certain moments to some discrepancy between their interests and those of society, which in turn will inevitably become manifest in the contradiction between value and use value. One and the same use value can have different individual values, according to the efficiency of the producers themselves and the objective conditions of social production. In attaining a definite level of development of production, society is not always able to ensure its optimum structure and an optimum product-mix. And an inadequate level of development of the productive forces does not make it possible immediately to ensure the necessary product-mix and the full gamut of use values to compensate the discrepancies arising between the possibilities available and the actual satisfaction of needs. Commodity relations of themselves can aggravate the contradictions existing in socialist society

and serve as the soil feeding them (for example, profiteering, boosting prices on the collective farm market, and so on).

The socialist system, however, creates conditions such as guarantee planned elimination of contradictions in the interests of society as a whole.

Thus, commodity relations are employed by socialist society for planned combination of the interests of individual workers and enterprises and those of society.

The aim of socialist production and the contradictions of commodity relations are evidence that society cannot evaluate the work of individual enterprises or of its individual members solely on the basis of value indicators. In order to satisfy the needs of society as a whole and to combine the interests of society correctly with those of individual enterprises, it is advisable to employ both value and physical indicators and indices in planning.

In socialist society commodity relations imply planned social accounting and control over the course of production and exchange. The categories of commodity production themselves are employed to ensure such accounting and control: accounting for socialist property, costs of production, distribution according to work, accumulation, and so on.

In socialist society commodity and money fetishism do not exist. The economic organisation of society based on social ownership removes its basis. The motion of things, the products of socialist labour, is the result of pre-planned social relations between the members of society, to whom it is quite obvious that their activity depends on the planned, conscious organisation of comradesly co-operation between people freed from exploitation.

## The Magnitude of a Commodity's Value

*The social value of a unit product is determined by the average socially necessary expenditure of labour, which has an objective character, expressing the average level of labour productivity attained in society.*

Since the consumer value of things is measured, as said above, in a dual way, value may, therefore, be related either

to a unit of the physical measure of a given thing (a ton of coal, a litre of liquid, a unit of mechanism, etc.) or to a unit of the effect produced by its application (for instance, one calorie). The interest of society in the greatest possible efficiency of production and, consequently, in the greatest possible effect of products when consumed, makes it increasingly necessary to relate value to a unit of useful effect.

For example, the Guidelines for the Development of the National Economy of the USSR for 1976-1980 envisage as an expression of the process of reducing the cost of new articles that in fixing wholesale prices of new articles, particularly machines and equipment, their level per unit of useful effect should be reduced.

The magnitude of the outlay on producing output at individual enterprises is determined by a number of factors, some of which are dependent on the workers of the given enterprise and others on the objective conditions in which it operates. The application of scientific advances at any enterprise, the organisation of work and production, the skill of the workers, efforts to raise labour productivity and economise on resources and the development of a communist attitude to work are all factors that largely depend on the enterprise itself and on its body of workers. The natural factors, on the other hand, and also the location of production, transportation facilities, the proportions of the economy, the organisation of supplies to enterprises and the level of science and technology in society, in the main do not depend on an individual enterprise.

The circle of enterprises producing a given type of output is established in a planned manner. In planning them the state cannot ignore the socially necessary outlays, otherwise the criteria for developing production would be completely lost.

The value of a product serves as just such a social criterion indicating the level reached on average by labour productivity and, consequently, determining the performance of individual enterprises.

Although the social costs of production are planned under socialism, that does not mean that any planned expenditure of labour is socially necessary. Socially necessary expendi-

ture of labour is an objective category and is determined by the actual average outlay and the prevailing average conditions of production.

Under private ownership the differences between individual and socially necessary outlays inevitably lead to the enrichment of those enterprises in which the individual outlays are lower than the socially necessary ones, and to the impoverishment and ruin of those in which the individual outlays are higher than the socially necessary ones. The patterns of the formation of socially necessary labour in private property conditions are manifested in the ruin of individual enterprises (especially of petty producers) and in the waste of a vast mass of labour and material resources.

The features of socially necessary outlays under socialism are manifested primarily in their not being formed in the course of competition between different enterprises or spontaneously but under the influence of a plan. Planned exchange of commodities in accordance with their social value means that those enterprises are most encouraged materially in which outlays are lower than are socially necessary. Socialist society, however, directs its efforts to bringing lagging enterprises up to scratch and securing growth of production in society as a whole. There is no rivalry under socialism. Socialist enterprises are not interested in ruining each other; on the contrary, they strive to help each other.

In socialist conditions all the enterprises required to meet society's needs are developed without the risk of their being ruined and without enriching themselves at the expense of others.

Planned accounting for socially necessary outlays of labour and the organisation, on a national scale, of efforts to reduce them play a tremendous role in developing rational organisation of production and stimulating labour and in making production cheaper. Continuous technological progress and a steady rise in labour productivity create the objective conditions in socialist society for a systematic reduction of the social value of a unit product. One of the main trends in using the category of value under socialism is that of stimulating cheapening of commodities. Reduction of value per unit product is one of the ways of achieving maximum

results for the least outlays in the interests of society and a most important element in developing the whole economy in keeping with the basic economic law of socialism.

Abolition of anarchy in production, planned location of the forces of production and establishment of the ratios between the branches of the economy, the provision of conditions for broad, free exchange of experience, planned fixing of standards for various types of expenditure and organised efforts to reduce them, the development of material and moral incentives to interest production workers in reducing value per unit product—all demonstrate the essential advantages of socialism over capitalism in reducing costs of production.

#### 4. MONEY AND ITS FUNCTIONS IN SOCIALIST SOCIETY

##### The Essence of Money under Socialism

*The need to produce goods as commodities under socialism implies a need for money; developed commodity relations presuppose the existence of a universal equivalent.*

In private property conditions money is the means of spontaneous accounting for labour and of spontaneous economic relations between people.

*In socialist society money is a universal equivalent of a special type that is used for planned exchange of commodities, for accounting and control, for economic links between enterprises and branches of the economy and between the members of socialist society. Through the circulation of money economic interrelations are systematically realised both within socialist production itself and between production and consumption. The currency of money stimulates the most rational forms of business management. Thus, money under socialism is money of a special type, fundamentally different from money under capitalism. But it is not labour coupons or tokens either. Money is not expressed directly in hours of labour and cannot be; it is money-commodity.*

In the process of exchange, the use value of the money-commodity serves as a means of expressing the value of all other commodities. Through the concrete labour expended on the production of the money-commodity abstract labour is expressed. All commodities express the labour expended on them through the money-commodity. In the process of exchange, too, the commodity form is changed into the money form. A circulation of commodities and money takes place. Labour coupons, however, do not circulate. Karl Marx repeatedly emphasised that the most essential difference between labour coupons and money was that the former did not circulate, i.e. no change of the form of value took place during their movement, no conversion of the commodity form into the money form, and *vice versa*.

Consequently *in socialist society money expresses the production relations characteristic of the supremacy of socialist property.*

Under private property in the means of production money has the inherent property of universal exchangeability. In socialist society this property of money is not fully manifested but is substantially restricted. One cannot use money, for example, to convert social ownership of the means of production into private ownership. Land, factories, collective farms and state farms cannot be bought for money. Labour power is also not bought or sold. Money only retains the property of universal exchangeability within limits determined by the character of social ownership and planned development of the economy. The role of money under socialism is restricted and hence *there is no fetishism of money*. Money does not rule people but they themselves are masters of their relations. Consequently, money does not act as an elemental force in socialist society.

### **Money as the Measure of Value and a Means of Planned Accounting for Labour Expenditure**

In socialist society money serves primarily as the *measure of value*, i.e. as the measure of the socially necessary labour embodied in commodities which is expressed in a definite quantity of the money-commodity. The expenditure of social

labour may only be expressed in daily economic turnover through the equating of a given commodity with the money-commodity.

Under socialism, all commodities are the product of directly social labour. Any commodity whose value is not subject to frequent fluctuations could therefore function as money (for example, any metal); but in the given concrete conditions the money-commodity in socialist countries is gold.

That is explained, first of all, by the new social system's having inherited money circulation from capitalist society; the prices of commodities have inevitably been expressed in gold in the conditions of the transition from capitalism to socialism. The socialist countries, moreover, are linked not only with the world socialist market but also with the world capitalist market, on which gold functions as money.

In functioning as the measure of value, money functions ideally and operates through the standard of prices, in the establishment of which a definite quantity of gold is taken as the unit in which the prices of all commodities are expressed.

When paper money circulates the quantity of gold represented by each unit of paper money acts as the standard of prices. Under socialism there is no need for gold currency. The planned organisation of the economy makes it possible to resort to the currency of symbols of money; and society does not need to spend unnecessary resources on currency of the money-commodity.

If we assume that each unit of paper money represents a definite quantity of gold, then with a given value of commodities their price level depends on the movement of the value of gold.

But changes in value under socialism are not automatically accompanied by a change in prices and in fact it is not necessary in practice for all fluctuations in the value of gold and commodities to be reflected in prices. From time to time socialist society reviews the relations between the content of the standard of prices and the level of commodity prices in a planned way. Since the bulk of commodities are produced in enterprises belonging to the socialist state, the

latter not only sets the standard of prices but also, by planning prices, fixes their general level.

The state influences the real magnitude of the standard of prices expressed in money symbols. Long periods of divergence between the content of the money standard and the level of prices are possible in theory and in practice, but that does not mean absence of a relationship between the value of gold and the level of prices.

The internal link between the value of gold and the level of prices makes itself particularly felt when this discrepancy becomes significant. The official rate of exchange then ceases to express the actual gold content of the currency and the prices of commodities involved in the country's foreign trade and expressed at a given rate of exchange, prove unrealistic. That creates difficulties for the tourists and undermines profit-and-loss accounting. Economic policy then has to take these essential changes into account and bring the gold standard of prices into line with the actual level of prices.

The monetary unit in the Soviet Union is the rouble, which serves as the standard of prices. Since January 1, 1961, the official gold rate of exchange of the rouble, its gold content, has been fixed at 0.98 gramme of gold; the level of prices was reduced by 90 per cent, which brought it into line with the gold content of the rouble and consequently led to more accurate accounting of the value of commodities and made it possible to compare costs of production within the country more accurately with commodity prices on the world market.

## Money as the Medium of Circulation

The money of socialist society performs the function of *medium of circulation*. In the conditions of private property the circulation of commodities and money contains a contradiction that is manifested in the products of private labour having to find recognition by society as products of social labour, which can cause the ruin of producers and entails the possibility of economic crises.

In socialist society all labour has a directly social character and the turnover of commodities is organised according to

plan. The movement of commodities on the lines of *C-M-C* contains no antagonistic contradictions and is simply the specific form of planned social control and accounting.

The process of circulation is one of the most important forms of checking how far planned production corresponds to the needs of society.

As the medium of circulation under socialism money today *predominantly serves the retail trade turnover and gives effect to distribution according to work*. Factory and office workers employ money as the medium of circulation to acquire consumer goods, and collective farms and collective farmers employ it to realise the produce raised by them for sale, using the money received for their produce to acquire the manufactured goods they need. Wholesale trade turnover, however, is mainly mediated through clearing accounts.

The possibility of crises of overproduction is eliminated under socialism. The overstocking of individual commodities is simply the result of incompetent planning in separate branches of production or the result of bad work by individual enterprises or mistakes in the planning of trade turnover.

The planned character of commodity and money circulation in socialist society affords the possibility of conscious regulation of the quantity of money and planned maintenance of its stability. The objective law of the quantity of money needed for circulation, by which the amount of money in circulation equals the sum total of the prices of commodities divided by the rate of circulation of money, operates under socialism. Thus, in contrast to spontaneous currency of money, all the factors determining the quantity of money necessary for circulation are shaped under the influence of the planned activity of socialist society. By planning the quantity of commodities to be realised, market prices, the scale and time of payment of various revenues to the working people, the socialist state thus acts systematically on the amount of money in circulation. Since trade turnover, the state budget, finance and credit are elements in the planned system of the economy, the socialist state has the chance to take the objective conditions determining the amount of money in circulation into account.

The stability of money under socialism is ensured, above all, by the masses of commodities in the state's possession, which it sells at planned state prices. Along with planned growth of production and trade turnover in all socialist countries the commodity basis of money is also consolidated.

The gold reserves of the socialist state are also of no little importance in ensuring stability of money within the country.

### Money as the Medium of Saving and Formation of Cash Reserves

Under socialism money fulfils the function of *saving and of the formation of cash reserves*. Working people have the opportunity to save and to keep their savings in the form of deposits in savings banks or other banks or in state loans.

In the course of reproduction socialist enterprises inevitably accumulate cash reserves which they deposit in banks.

The state budget, which redistributes a considerable share of the national income, plays a major role in the formation of cash reserves. The advantages of the state budget under socialism lie in the possibility of maintaining a constant excess of revenue over expenditure, thus permitting the accumulation of cash reserves, which are deposited in the State Bank.

No need to hoard arises from the internal relations of socialist management, i.e. no need to hold reserves of the money-commodity itself, gold. But with the coexistence of two opposing world economic systems, the socialist and capitalist, a certain proportion of the monetary reserves of the socialist state have to be held as a *gold reserve*, i.e. as a hoard.

The gold reserve plus the mass of commodities in the state's possession, is one of the forms of guaranteeing the money. It makes it possible to extend foreign trade and to increase the quantity of commodities inside the country, to grant credits to other socialist countries for settling account with capitalist countries and to extend credit to developing countries.

## Money as the Means of Payment

Under socialism money performs the function of *means of payment*.

The periods of delivery of commodities by producer enterprises do not always coincide in economic turnover with those of the purchasing enterprises paying for them. This is due to various causes (transport conditions, differences in the circulation of funds, the system of settlements, etc.). In such cases money functions as the means of payment and does not enter turnover directly as the medium of circulation.

Money functions as means of payment in the paying out of wages and in other money forms of distribution according to work, in the repayment of credits, in fulfilling various obligations to the state budget and in other kinds of payment. This function is closely linked with the whole operation of the system of credit and finance, with the credit and clearing functions of banks and with distribution and redistribution of the national income. It is made use of by the socialist state to maintain control through the banking and financial systems over the course of the production and circulation of commodities.

By making use of the function of money as means of payment the socialist state gets the opportunity to employ clearings through banks broadly in relations between enterprises, which limits the sphere of cash turnover and strengthens planned control of the country's total money turnover.

Money's function as means of payment objectively influences the quantity of money needed for circulation, which is augmented by the sum required for payment and reduced by the quantity of money that functions alternately as medium of circulation and means of payment. Furthermore, since credit sales are also made in the sphere of retail trade, the total of credit sales of commodities must be deducted from the sum of money required for circulation. In paying for these commodities money functions as means of payment.

## World Money

Since money represents the money-commodity, gold, in the socialist economy, it also performs the function of *world money* on the world socialist market and on the world capitalist market. Its movement on these markets, however, is associated with different social relations.

On the world socialist market money expresses socialist production relations and forms of comradesly co-operation and mutual assistance between socialist countries.

In relations with capitalist countries money turnover expresses the contradictions characteristic of the competition and struggle between the two opposing world economic systems.

In settling accounts with each other the socialist countries use a collective currency (the transferable rouble), which has a real gold content. Accounts are mainly settled by book entries and through clearing, but that does not exclude payments in gold and the extension of credits in gold whenever one country or another needs gold for settlements with capitalist countries. The Soviet Union, being one of the world's biggest gold producers, not only uses gold for payment of accounts on the world market but also exports gold as a commodity.

### 5. THE LAW OF VALUE AND PRICE IN THE SOCIALIST ECONOMY

#### The Need to Employ the Law of Value

In private commodity production, the law of value spontaneously accounts for commodity producers' expenditures of labour through the mechanism of spontaneous fluctuation of prices and acts as the regulator of the distribution of social labour and of proportions in the economy.

The existence of commodity production under socialism means that the law of value also operates in socialist society but it operates within the system of economic laws of socialist society and in interaction with them. It is employed by society consciously and according to plan.

Under socialism, the law of value has ceased to be the regulator of the economy.

The law of value requires that exchange of commodities should take place in accordance with their social value, which is determined by the socially necessary expenditure of labour. It orients every enterprise to carry on production in keeping with the level of the socially necessary expenditure of labour and stimulates lower production expenditure.

For a long time the question of the law of value under socialism remained unclear, but the practice of managing the economy has confirmed with full clarity that it does operate in socialist society.

In all the socialist countries social labour is accounted for through value categories and there are still no other means to this end. In those sectors of the economy where costs of production were accounted for in value form within narrow limits until recently (e.g. on Soviet collective farms), it eventually proved necessary to use the appropriate value categories consistently and more fully. Experience has shown that the accounting for prime cost, which is a part of the value of products, is also a quite indispensable element of socialist management on collective farms.

Socialist society, in keeping with the basic economic law of socialism and with the general law of economy of labour, systematically directs the development of production in such a way as to secure a reduction in value per unit product. The system of socialist management must ensure that enterprises producing with an outlay below that socially necessary receive a greater benefit than those with average outlays. Social value per unit product is the criterion in this respect.

The objective need to reduce value is realised in the interests of society by reducing the socially necessary expenditure of labour and through continuous technological progress and raising the productivity of labour.

The main thing in socialist society's use of the law of value is to stimulate cheapening of production, reduction of value per unit product and increasing of the efficiency of production.

The objective need to lower social value per unit product has to be taken into account by society in all its economic

practice, in introducing new machinery and methods in establishing their efficiency and in planning the whole process of production and circulation.

Use of the law of value enables socialist society to take the national economic efficiency of production as its starting point in its direction of the economy, and not only the performance of individual enterprises. Social value per unit product is lowered both by achieving proper organisation of the activity of separate enterprises and through planned measures adopted by the state on the scale of society as a whole.

The most important forms of planned use of the law of value and of stimulating a lowering of the socially necessary expenditure of labour are a planned system of prices, profit-and-loss accounting and finance and credit.

## Price and Price Formation under Socialism

The law of value is the law of prices. *Under socialism price is also the money expression of value.*

Where private property predominates the process of price formation has a spontaneous character, but in socialist society it is basically planned. Prices are mainly fixed in a planned manner in keeping with the economic laws of socialism.

Planned fixing of prices corresponds to the nature of the socialist economy. With a high concentration of production spontaneous price formation would inevitably lead to the development of monopolistic tendencies in socialist enterprises which would lead to spontaneous accumulation of revenue in socialist enterprises and individual workers, to marked differentiation of income, to spontaneous redistribution of resources between enterprises, to unequal, irregular development of individual industries and areas, to large losses and ultimately to undermining of the very system of socialist production relations.

The law of value requires correspondence between the prices of commodities and their value. At the same time, the price form itself implies the possibility and necessity of a certain divergence in magnitude from value.

The approximation of price to value is primarily linked with price having to compensate for the social cost of production and ensure the possibility of renewing and extending production, in which not only past, materialised labour must be reimbursed but also the necessary labour of the workers and the expenditure of surplus labour that is the source of extended reproduction and covering various social needs. In other words, the price of a commodity must reimburse the expenditure of socially necessary labour; society and individual enterprises will know what it really costs them to produce a given output. Price becomes a means of accounting for costs of production.

Under socialism, social costs assume a value form, i.e. are expressed in definite prices. If the price is fixed without regard for the socially necessary expenditure of labour, society and individual enterprises will lose their criterion for developing production. For example, specialisation of enterprises is advantageous to society only when it leads to cheapening of the product, but that can only be confirmed when the prices of commodities correspond to their actual value; otherwise the cheapening of product may prove simply illusory.

Since the approximation of price to the socially necessary expenditure of labour ensures normal sources of extended reproduction, while reduction in the socially necessary expenditure of labour gives enterprises certain advantages, the stimulating role of price in social production can only become manifested when price reflects the social value of the product.

Consequently, *the operation of the law of value implies above all approximation of the prices of commodities to their value. But planned, conscious application of the law of value in the socialist economy does not exclude but presupposes a deviation of price from value.* The law of value operates within the system of the economic laws of socialist society; therefore concrete prices are formed under the influence not only of the law of value but also of the other economic laws of socialism in which the basic economic law of socialism plays the determining role.

The deviation of price from value reflects objective necessity when it is subordinated to the tasks of continued growth

of socialist wealth and satisfaction of the growing needs of the masses, when it is employed for material stimulation of production, raising of the rates of development of one industry or another. An important role in this respect is played by stimulating economical use of production assets.\*

Growth of production of various types of product is stimulated through the medium of prices. Thus, the raising of the prices on finished goods or a preferential price for means of production for a given industry can be employed as one of the stimuli for its development. In agriculture, for instance, the raising of prices of industrial crops played an important role in increasing their production. The economically justified prices for farm machinery are very important for stimulating collective farm production.

The deviation of prices from value is used to stimulate the introduction of substitutes for the scarcest and most expensive products, the saving of non-ferrous metals and the substitution of plastics or of iron and steel for them.

Prices are used to stimulate the introduction of new equipment and technologies as is the case when prices are fixed at which the buyer finds it profitable to introduce new machinery and the producer to make it.

With planned fixing of price, study and accounting for the ratio between supply and demand are of great importance. In the socialist economy, society's needs are taken into account in advance in production plans, but that does not exclude the likelihood of disproportions arising during their fulfilment. It is not unlikely that discrepancies of a drawn-out order may develop when for some reason or other it is impossible to satisfy certain needs for a more or less prolonged time. Discrepancies can also result from miscalculation in planning.

In socialist society disturbances of the balance of demand and supply do not entail an automatic change of prices (except of prices on the collective farm market). But an imbalance as regards means of production can cause interruptions in deliveries to various enterprises (or overstocking), which in turn will affect the level of prices indirectly

---

\* This question is also discussed in Chapter X in connection with analysis of the process of price formation.

(through increasing cost of production). When demand for consumer goods greatly exceeds their supply and this is not adequately taken into account in the price, speculative, profiteering tendencies may develop on the collective farm market, which will have effect on workers' real wages.

In planning prices the socialist state cannot ignore this. In this price policy it does not orient itself on temporary market-determined fluctuations, but takes the balance of demand and supply in general into account in fixing prices. Otherwise, a disproportion can arise between the people's money income and the supply of commodities for them. Taking the relationship between demand and supply into account assists in establishing the necessary proportions in the economy.

But however widely prices deviate from value, only the socially necessary expenditure of labour is the objective and at the same time most rational basis for determining them. To link their basis with any other factors (for example, with the use value of commodities) is objectively impossible because production plays the determining role in the life of society and its costs determine the possibility of satisfying needs. An objective criterion for comparing different use values, moreover, does not in general exist. That does not exclude certain degree of social usefulness (that is quite obvious to society) being able to exert an influence on the fixing of concrete prices. It is advisable, for example, to stimulate through prices improvement in product quality and the employment of new machinery that is socially more useful and more efficient than old types.

Thus, *account has to be taken in price policy of a whole number of circumstances that inevitably lead to price deviating from value.* Society's interest in stimulating the development and application of new progressive equipment (or products specially needed by consumers) and priority satisfaction of some given need, the stimulation of improved quality and economical use of raw materials in short supply, taking account of demand and supply and the tasks of speeding up the rise of workers' material and cultural standards facing the society, can all be expressed in certain deviations of price from social value. Such deviations are also caused by the need to redistribute the national income in the

interests of society as a whole. Consequently, account has to be taken in fixing prices of the operation not only of the law of value but also of the other economic laws of socialism. Such are some objective factors that engender the possibility of a deviation of price from value; but these deviations are only expedient within certain limits. *Excessive divergence of prices from value*, as the experience of socialist construction has demonstrated, *lead to results that are negative for production*. The finding of the optimum solution here in order to develop the economy towards communism is one of the most important tasks of state prices policy.

Lowering of value per unit product cannot ultimately be expressed other than in a reduction of prices, otherwise the national economy will not make full use of the advantages created as labour productivity rises. Planned reduction of wholesale prices stimulates technological progress while cutting of the retail prices of consumer goods is an important factor of growth of real wages and of consolidating the country's currency.

Socialist society employs prices as one of the factors ensuring growth of the people's welfare. As production rises and the value of products is lowered and demand and supply are increasingly brought into correspondence, the tendency to lower commodity prices inevitably gains ground, which is an essential factor in raising the people's standards of living.

### **The Special Features of Applying the Law of Value under Socialism**

Whereas the law of value operates spontaneously in conditions of private property, with the supremacy of socialist ownership it is used by socialist society in the main *in conformity with a plan* and is accomplished through planning of the prime cost of products and prices, development of profit-and-loss accounting and planning of trade, finance, credit and monetary circulation. Only on the collective farm market do elements of its spontaneous operation manifest

themselves; but as social production grows on collective and state farms and the volume of sales of consumer goods through state and co-operative trade increases, these elements gradually diminish and are overcome.

*Planned application of the law of value means that it ceases to be the spontaneous regulator of social production under socialism.* Optimum proportions in the socialist economy are not formed through the mechanism of its spontaneous operation but are shaped in a planned way, through forecasting by socialist society of the whole course of economic development. The level of prices in socialist society does not by itself determine the rates of development or proportions in the economy, but the law of value and prices do have a definite regulating influence on production also under socialism, are a most important factor in stimulating development of production and rational conduct of the economy and are employed for planned maintenance of the necessary proportions.

If the law of value were the regulator of socialist social production the proportions in the economy would be determined through the free movement of prices and through spontaneous regulation of proportions on the basis of the interplay of market forces; but that would entail constant fluctuations in socialist production, differentiation of incomes and unevenness of development. All problems would be solved by roundabout ways through the spontaneous regulation of capital investment, which would inevitably cause great losses owing to spontaneous adaptation to demand and would ultimately damage the common interests.

*Thus, the regulating effect of the law of value under socialism is only an element in the unified planned economic mechanism that regulates production.*

Planned use of the law of value brings out the immense advantages of socialism over capitalism.

Socialist society is in a position to forecast the course of development of social production scientifically in accordance with objective economic laws and to determine the proportions of the economy.

Society also uses the law of value in a planned way to stimulate growth of production and to establish the required correlations in the economy. Within the system of the

economic laws of socialism it *becomes an element in the planned development of the economy.*

Operation of the law of value is not of itself able to maintain the socialist character of the economy's development. Socialist society cannot ensure planned and economical redistribution of its material and human resources in the interests of society as a whole simply by manipulating prices and certain value levers. It redistributes resources directly, primarily by a system of plan directives, prepares the machinery and trains the appropriate skilled cadres, gives material assistance to those industries where development is needed in the interests of the socialist economy, of the transition to the second phase of communism and of ensuring ever fuller satisfaction of society's growing needs.

The law of value is not an eternal law and continues to operate only in the first phase of the communist formation. After society has taken fullest advantage of commodity relations, the need for commodity exchange will pass and the conditions will be created for taking account of social labour directly in terms of working time and the law of value will quit the historical scene. Under communism, of course, society will still be keenly interested in the expenditure on producing output being within the socially necessary limits and in its steady decrease; but it will no longer be accounted for in value terms, nor through commodity exchange, but in direct terms. The conversion of labour into a prime necessity will ensure the direct interest of every member of society in reducing productive outlays and in developing production in every way in the interests of society as a whole.

The dialectics of historical development is such, however, that the withering away of commodity-money relations in the future will be combined with objective need to employ them in every way at present and to perfect them in order to stimulate growth and cheapening of production, technological progress and rational organisation of the socialist economy.

The firmer the planned socialist economy is consolidated and the surer the ratio between all the elements of the economy is maintained, the greater are the possibilities for employing commodity-money relations and the law of value as

planned relations fostering increase of the efficiency of production. Under developed socialism these relations are more and more organically bound up with planned development, so that the possibilities are created for more successfully overcoming their inherent contradictions. The contradictions themselves, however, will remain so long as commodity relations continue, but society will have more and more favourable opportunities for averting their harmful effect.

## THE PROCESS OF SOCIALIST PRODUCTION

### 1. THE FEATURES OF THE LABOUR PROCESS UNDER SOCIALISM

#### The Material and Personal Factors of Socialist Production

The main content of the process of production is the labour process, which is man's action on nature with the aim of creating the products required to satisfy his wants. Labour is an eternal natural condition of human life.

The simplest aspects of labour are the purposive activity of man or *work proper, the instruments of labour and the objects of labour.*

*Labour power is the personal factor of production and the means of production—the material factor.* In order to produce material wealth, people enter into certain relations with each other and their action on nature is effected through definite social relations.

In socialist society the material and personal factors of production function as vehicles of socialist production relations. They are combined on the basis of socialist ownership of the means of production, which enables people rationally to regulate the interchange of matter between themselves and nature and to do so with the least expenditure of effort.

The instruments and objects of labour in socialist society are not capital and they cannot be used as a means of exploiting hired labour. They are employed for the purpose of satisfying the growing needs of the working people of town and country.

Under socialism the category of labour power undergoes a radical change. The antagonistic breach between workers and the means of production is eliminated; on the basis of

socialist property the capacity for labour and the material factors of production become in their unity the property of the producers of material wealth themselves. Labour power ceases to be a commodity and the system of wage labour and exploitation of man by man is abolished. The form of "employment" of factory and office workers preserved in socialist society means planned involvement of workers in social production and has nothing in common with the purchase and sale of labour power. As joint owners of the means of production the workers cannot sell their labour power to themselves. The "employment" of factory and office workers expresses the relations of workers freed from exploitation with society as a whole as represented by an enterprise or an association or combine of enterprises.

Socialist ownership and an equal relation to the means of production create a need for the involvement of all able-bodied members of society in social labour. Labour in socialist society has a universal character, which is expressed in the principle "He who does not work, neither shall he eat".

Socialism requires the obligatory participation of every able-bodied person in social production and other spheres of useful activities and at the same time guarantees every person the right to work, i.e. the right to a job paid according to work, including the right to choice of profession, type of occupation and employment in accordance with his/her vocation, abilities, training, education, and with account of the needs of society.

Free labour for oneself and for society does not exclude the application of certain measures to individuals who have not overcome old attitudes to work, but the measures have nothing in common with capitalist coercion. Under socialism, coercion is used in the interests of all society against individuals evading work. The main way of involving such individuals in labour is the influence by the organisations of the working people themselves, expressing the will of society as a whole.

In the process of production the active role is played by the worker who consciously uses the implements and objects of labour to make products.

Under socialism, the means of production serve as the

material factors for creating products to supply the needs of the producers themselves. As a result, the worker's attitude to them is brought into line with his true role in the labour process, in which he is their master, he applies them and not they him.

The subordination of the instruments and objects of labour to the production worker means at the same time establishment of the supremacy of living labour over materialised labour, which is expressed in a heightening of working people's role in the process of production, in developing of their creative initiative, free development of their physical and mental energy and an increase in their purposive action on the means of production.

The labour of people of socialist society is *creative in character*, i.e. it operates as a force consciously controlling the factors of nature and is transformed from a heavy burden into a matter of high social duty. The individual under socialism gets the chance to express his abilities in labour in an all-round way and to feel himself a really human being.

### **The Directly Social Character of Labour**

People are linked together in the process of production and work for each other in one way or another. Their labour, therefore, is always social labour.

In a society based on private ownership of the means of production labour, though social in nature, appears directly as private labour, as the private affair of each producer.

Socialist socialisation of the means of production, as already noted above, converts private labour into directly social labour. In the place of labour scattered and disunited by private property, we have labour organised in a planned way.

The material foundation of directly social labour is socialist property and planned co-operation of labour on the scale of society as a whole. In this connection Frederick Engels said: "From the moment when society enters into possession of the means of production and uses them in

direct association for production, the labour of each individual, however varied its specifically useful character may be, becomes at the start and directly social labour."\*

The existence of the two forms of social property lends certain features to directly social labour in the different sectors of production.

In enterprises belonging to all the people the labour process is carried on with the aid of means of production owned by society as a whole and is organised by the state on the basis of a national plan. In co-operative economies (on collective farms) labour is carried on with the aid of the means of production owned by the collective farms themselves (in the USSR and the Mongolian People's Republic on land belonging to the state), under the determining influence of the state. National planning mainly defines the main directions for the development of production on collective farms. Labour on the collective farmers' personal small holdings is not organised directly by the plan but is regulated by the development of the common economy of the collective farms and the development of socialist production as a whole.

### **The Labour Process and the Process of Value Formation**

The existence of commodity relations means that products are created under socialism as commodities and that the labour process is simultaneously a process of creating use value and the value of the commodity. As the embodiment of the labour of the united socialist producers, value conditions the movement of products and exerts a stimulating effect on it, so facilitating achievement of the aim of socialist production.

Formation of the value of products consists in the transfer to the new product of the old value contained in the means of production consumed and in the creation of new, added value. In making use values needed by society living

---

\* Frederick Engels, *Anti-Dühring*, p. 354.

labour preserves the value created by past labour in a definite concrete form, which becomes a component of the product owing to purposive use of the means of production. And in its abstract form this same living labour simultaneously creates new value.

After realisation of the product, the value of the means of production consumed in the process of production, forms the money or amortisation fund reimbursing the production funds consumed, i.e. the wear and tear of machinery, equipment, buildings and fixtures, and the raw and other materials expended. Without that further development of production is impossible. The amortisation fund is a common fund of the united producers who carry on the process of production and reproduction of material wealth jointly and according to a plan.

In the quantitative respect, the size of the amortisation fund is determined by the value of the means of production consumed, which means that society is compensated for the means of production expended, as a rule, in accordance with the average social norms, rather than individual ones. Lowering of the actual norms below the social ones or raising them above, therefore, increases or reduces social wealth. The value form of the amortisation fund requires past, embodied labour to be expended more economically in social production.

The new value added to the previously existing value of the means of production is connected with the functioning of labour power and embodies the living labour of free producers which is included in the aggregate social labour according to a plan.

Socialist society usually recognises such an expenditure of living labour as is determined by the functioning of average labour power in socially normal conditions of production. These conditions determine the average level of the productivity of social labour and are a criterion for enterprises. An excess above the average level is an additional source of growth in social wealth, while a lagging behind it points to inadequate technical equipping and organisation of labour.

The value of a new product, as a result, consists of three elements: the value of the means of production consumed

$c$ , the value created by the necessary labour  $v$ , and the value created by the surplus labour  $s$ . The whole is defined by the formula  $c + v + s$ . The last two elements of this formula ( $v + s$ ) together constitute the new value.\*

## Necessary and Surplus Labour. The Working Day

The new value constitutes the net product of society. The part of it created by necessary labour, however, is destined to satisfy the personal requirements of the workers employed in material production. The other part, created by surplus labour, is destined to meet social needs. The first part is necessary product, the second surplus product. The antagonistic contradictions between these two parts of newly created value characteristic of capitalism have been abolished in socialist society.

In socialist society the working people themselves are the masters of production and themselves resolve the problems of how the social product will be used. The antagonistic character of the division of the newly created product into necessary and surplus is eliminated. "The total product of our community is a social product," Marx wrote in *Capital*, describing labour under socialism. "One portion serves as fresh means of production and remains social. But another portion is consumed by the members as means of subsistence. A distribution of this portion amongst them is consequently necessary."\*\*

The main form of the necessary product under socialism is the funds for the individual consumption of the workers in material production distributed according to work through wages and the remuneration of collective farmers and used mainly to satisfy their personal wants. At the same time, a considerable share of the working people's personal needs is met from social funds.

---

\* It should be borne in mind that each of the symbols used here has a fundamentally different social meaning under socialism than under capitalism.

\*\* Karl Marx, *Capital*, Vol. I, p. 63.

What is new in principle in the content of the necessary product under socialism is that it not only ensures restoration and maintenance of work capacity but also provides for workers' all-round development. This purpose is served by the fund of prime necessities of the workers in material production formed of the appropriate quantity of foodstuffs, clothing and other consumer goods. The size of this fund corresponds to the value of the necessary product. Another source of this fund, in addition to social production, is the personal small holding (allotment) of collective farmers, which plays an auxiliary role.

The value form of the fund of the necessaries of life for workers in material production does not mean that labour power has value under socialism. As already mentioned it is not a commodity and does not have value. In that connection, there is no upper limit to growth of the fund of prime necessities. As production grows socialist society directs an ever increasing quantity of consumer goods in this fund, so ensuring uninterrupted growth of consumption and an ever fuller satisfaction of the working people's growing requirements.

The surplus product is also used in the interests of the working people in socialist society (to extend production and for management, the development of science and culture, national defence and other social needs).

The radical change in the content of the necessary and surplus product finds expression in the new social and economic nature of the working day. In socialist society the worker creates during the necessary working time the material wealth consumed by himself and the members of his family. During surplus labour time he creates the material wealth needed for extending production and satisfying other social needs. This time represents surplus labour time and labour during this time represents surplus labour. On the whole, the working day in socialist society is the time the producer works for himself and society.

Labour expended on meeting social needs is just as necessary for the working people in socialist society as labour expended on satisfying their own individual wants. On this basis, the conditions are provided for unity of the personal and social interests of members of society.

The quantity of necessary labour in socialist society is connected with the level of development of production and consumption attained; the quantity of surplus labour, with the needs of growth of production and satisfaction of other social needs. Taking into account the working people's needs for material and cultural wealth, the situation at home and abroad and other objective factors, socialist society consciously regulates the length of the working day.

Socialist relations of production radically alter the content of the category of productive labour.

Under capitalism, only labour creating surplus value is productive labour. It is wage labour reproducing the value of labour power in the process of production and creating in addition surplus value appropriated by the capitalist.

Under socialism, productive labour is the labour of people directly participating in material production and creating products to satisfy the steadily growing material and cultural needs of society as a whole. During the necessary working time the worker produces the necessaries of life for his own constant reproduction. This labour is necessary not only to the individual worker but also to society, since it serves as the basis for its existence. But the labour creating only the necessary product does not yet function fully as productive labour because it does not ensure the development of production and satisfaction of general needs. Satisfaction of the material and cultural needs of all society requires that the worker also produce surplus product.

*In socialist society, therefore, by productive labour is understood labour occupied in the sphere of material production and taking part in the creation of both necessary and surplus product.*

Labour that is not directly involved in creating material wealth is not productive labour, but that in no way belittles the social importance of work in other spheres of labour. The activity of people occupied in the state apparatus is connected with the performance of the functions of directing all the aspects of social life in the national interest. The work of people in the fields of education, culture, health, etc., is also of tremendous importance for the development of society. Under socialism, all forms of activity in the people's interests are socially useful labour.

Socialist property in the means of production determines the distribution of the social product in the interests of all members of society. Unity of production and consumption is thus created on the scale of society. The more is produced the more is available for the producers' consumption. They *work together for themselves and for society*, which is the essence of the material incentives to work characteristic of socialism. As socialist society develops the degree to which people's needs are met grows and the needs themselves also grow; at the same time the workers' material interest in growth of production is increased.

## 2. THE SOCIALIST ORGANISATION OF SOCIAL LABOUR

The socialist organisation of social labour is based on relations of comradely co-operation between people freed from exploitation, on the creative character of labour and on its planned organisation on the scale of society. Each member of society and each body of working people is interested in the successful work of other members of society, of other bodies of working people and of society as a whole.

*The creation of higher organisation of labour is a most important task of the socialist state and of all working people after the socialist revolution.*

### Socialist Co-operation of Labour

The advantages of the new type of social organisation of labour are realised in socialist co-operation of labour. Having eliminated the antagonisms inherent in the capitalist process of socialising production, socialism develops its social character further. At the same time the social form, the scale and the character of co-operation of labour are radically altered.

The deepening of the social division of labour is an expression of consolidation of the social character of production and a most important condition for developing co-operation of labour. The Soviet economy unites diverse types of labour performed by millions of workers in industry, agriculture

and transport, in enterprises in various branches and economic areas.

The production relations of socialism are characterised, within the framework of socialist co-operation of labour, by the comradesly co-operation and mutual assistance of workers engaged in different types of work. The exploitative character of the division of labour inherent in capitalism, the antagonisms between mental and physical work and between town and country are abolished and anarchy in the development of social production ended.

*The primary link in the division of labour within society is the socialist enterprises, which represent co-operation, based on machine production, of the labour of workers freed from exploitation and associated in a single collective body by the general technology of production. Co-operation of labour within socialist enterprises is co-operation of workers of different trades and professions in making a definite line of products required to meet social needs.*

Production ties between socialist enterprises are regulated by a single state plan and have a stable character, which eliminates the sudden turns in specialisation and co-operation, inherent in capitalism and associated with competitive struggle and the drive for profits and creates the conditions for their co-ordination with a rational distribution of production.

*Socialist co-operation of labour is a union of free workers. The new social productive force engendered by their joint labour belongs to them. Each individual worker and the body of workers as a whole are interested in the development of production and therefore the attitude to collective labour is altered. A desire for mutual exchange of experience and mutual assistance, for comradesly co-operation in the labour process arises among workers.*

## **Socialist Labour Discipline**

The new relations taking shape between people in the process of socialist production bring about a radical change in the character of labour discipline.

Strict and accurate observance by workers of the system

of work established by the technological process and well co-ordinated activity of the whole body of workers are a necessity of large-scale machine industry. The technical basis of modern industry calls for free, conscious discipline, which can only be established under socialism.

Speaking of socialist labour discipline, Lenin pointed out that while feudal organisation of labour rested on the discipline of the stick, and capitalist on the discipline of hunger, "the communist organisation of social labour, the first step towards which is socialism, rests, and will do so more and more as time goes on, on the free and conscious discipline of the working people themselves who have thrown off the yoke both of the landowners and the capitalists".\*

The main method of creating socialist labour discipline is that of persuasion, which corresponds to the position of workers in socialist production, and financial encouragement of each worker for success in work. In isolated cases, society resorts to measures of coercion against inveterate offenders against discipline.

The overwhelming majority of workers, collective farmers, engineers and technicians in socialist enterprises strictly observe labour discipline; but there are still cases of breaches, e.g. absenteeism and lateness, slackness in fulfilling production duties and obligations and a negligent attitude to socialist property. Individual bodies of workers do not conscientiously fulfil their mutual obligations and cases of non-fulfilment of plans are met, which disrupts co-ordinated working of collective bodies, leading to delays and stoppages, and irrational use of means of production and working time. Education of the working people in the spirit of a socialist attitude to labour is therefore a most important task of the socialist state.

The development of socialist production involves a need to heighten the degree of organisation and responsibility of each member of society to the body of workers to which he or she belongs and to society as a whole. At the same time, strengthening of labour discipline fully accords with the democratic principles of the socialist system and determines their development and extension.

---

\* V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 420.

## One-Man Management and Involvement of the Masses in Control of Production

Co-operation requires unified control and management of the joint labour process. "All combined labour on a large scale," Marx pointed out, "requires, more or less, a directing authority, in order to secure the harmonious working of the individual activities, and to perform the general functions that have their origin in the action of the combined organism, as distinguished from the action of its separate organs."\*

The establishing of socialist production relations abolishes the management as a function of exploitation, which is characteristic of capitalism, and ends the arbitrariness of employers and rightlessness of workers.

Socialist management organises the utilisation of the productive force of social labour in the interests of the working people themselves. It operates in the form of *one-man management* based on the support of the broad masses of the workers and their direct involvement in management and control.

In the production process the whole body of workers is subordinated to the will of one person, the leader or manager empowered by the socialist state, or the elected representative of bodies of working people, who runs the business in the interests of all society and is personally responsible to society for the matter entrusted to him. Without this, co-ordinated activity of a large number of people, and consequently the existence of co-operation of labour in general, is impossible.

The will of the individual leader or manager in socialist society, however, is not counterposed to the direct producers as a power alien to them. It conforms with the interests of society as a whole. The managers are the proxies or agents of the people. A feature of socialist management is the *organic combination of one-man management with broad involvement of the working masses in control of social production.*

---

\* Karl Marx, *Capital*, Vol. I, p. 313.

## Socialist Competition

Co-operation of labour under socialism engenders creative labour activity of workers which takes the form of *socialist competition*, the source of which is the social contact in joint activity between people freed from exploitation. Its basis is comradesly co-operation and mutual assistance of the working people.

As a result of the change in the character of labour and of the position of the working man in society, people naturally strive under socialism to increase the efficiency of labour. Raising of the working people's cultural and technical standards and technological progress create the conditions in which this striving comes out in advanced, progressive examples of work.

The development of socialist competition means the spreading of advanced experience among the broad mass of workers. The socialist system ensures all-round study of positive experience and its quick introduction, and creates conditions in which the force of example exerts a mass influence and increasing effect on the development of production.

The spread of advanced work methods leads to constantly improving production on the basis of the highest achievements of science and engineering and the most progressive forms of organisation of work. At the same time, the developing of creative labour activity is a way of cultivating communist consciousness in the working people and promotes growth of their skill and cultural standards, cultivates an attitude of not tolerating deficiencies, a sense of collectivism and a consciousness of the social importance of the work of the individual.

As a result, socialist competition becomes a method of communist development based on maximum activity of the working masses.

Through the trade unions and other social organisations the socialist state directs competition of the working people towards solution of the most vital tasks of developing production, ensuring rapid spread of advanced experience and comparison and publicity of labour results. In the course of competition a sharp struggle is waged against inertia and

sluggishness, aversion to innovation, red tape, bureaucracy and formalism and to convert guidance of competition into an organic part of industrial management.

The central task of socialist competition is to increase production efficiency in every way. In present conditions the things that are now in the forefront in coping with this task are advancement of labour productivity, improvement of quality, reduction of cost, better use of equipment and the economical use of raw materials and supplies. Competition is becoming more and more closely linked with raising of the technical standards of production through all-round mechanisation and automation and improving the skill and general educational training of workers and collective farmers.

Socialist co-operation of labour by widening the scope of joint, systematically organised work and radically changing the relations between workers in the course of their activity, creates a social productive force incomparably more powerful than that under capitalism.

### 3. THE SOURCES OF GROWTH OF PRODUCTION UNDER SOCIALISM

The features of the socialist labour process find expression in the *advantages of socialist production*, in the high and stable rates of its growth. Exactly "an increase in output and an improvement of quality are the main and decisive conditions for raising the people's standard of living," Leonid Brezhnev said in the Report of the CPSU Central Committee to the 25th Congress.\*

Growth of socialist production depends on the mass of labour expended on producing output and on its productivity connected with change in the conditions of labour as a result of technological progress.

---

\* L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy, XXVth Congress of the CPSU*, p. 50.

## Rational Use of Manpower Resources

*An ever higher proportion of labour used in social production* is characteristic of socialism, which is due in the first place to the universal character of labour. In socialist society the parasitic classes are eliminated, unemployment is abolished and the conditions are provided for the broad involvement of women in social production.

The manpower resources of the socialist countries are growing steadily as a result of high rates of population growth. For example, despite the devastating wars experienced by the Soviet Union, its population increased from 159 to 256.7 million between 1913 and 1976.

According to the latest population census, 115 million persons (47.8 per cent of the total population) were employed in the Soviet economy (exclusive of persons engaged in domestic chores). Persons employed in the economy, as well as students, account for 92.4 per cent of the total able-bodied population.

In view of the high level of employment *further increase in the number of people engaged in social production* is difficult and increasing importance is assumed by rational use of manpower resources.

The socialist economic system makes it possible to *concentrate a large part of society's manpower resources in the branches of material production* where the social product and national income are created. In the Soviet Union, in 1975, 75.4 per cent of all those occupied in the economy were working in these areas of production, including personal subsidiary small holdings.

Extension of the social division of labour associated with the separation from agriculture of new branches of production and with technological progress in agriculture is bringing about a fall in the numbers of workers in agricultural production.

As socialist society develops, an ever greater role is played by *labour in the non-productive sphere*, ensuring satisfaction of the cultural and intellectual needs of members of society and improvement of the standard of living of the working people. The non-productive sphere actively affects the development of production, promoting the cultural and technical

standards of the working people and improving their health. As the scale of production widens and its efficiency increases society gets the opportunity, along with fuller satisfaction of the material needs of the people, to allocate more working time to meeting its growing cultural and intellectual requirements, which consequently brings about growth in the numbers and percentage of workers employed in the fields of education, science, culture, medicine and service industries.

At the same time, the importance of better organisation of education and the health service grows, and of improving quality in the service industries, increasing the efficiency of scientific research, perfecting organisation of the work of people in the administrative and managerial apparatus catering for the needs of management, of personnel keeping records and accounts, etc.

An important part in ensuring better use of manpower resources is played by planned organisation of migration from area to area in accordance with shifts in production distribution.

The mass of labour applied in production depends on its *intensity*, i.e. on workers' expenditure of labour over a definite period of time. In any society the labour process implies a certain intensity, without which production is impossible. The *average social intensity of labour* is governed by the development of engineering, working conditions and the reproduction of labour power under the influence of the prevailing system of production relations.

A tendency to overintensification of labour is characteristic of capitalism, which undermines the working people's health. In socialist society a level of intensity comes about that ensures socially normal conditions for the reproduction and functioning of labour power and is necessary for the development and full utilisation of modern machinery and methods.

Increase in the volume of production under socialism is primarily achieved through the introduction of new and progressive machinery and methods, better organisation of production and application of the most rational methods of work. But at times the intensity of labour is still below that is socially normal and does not ensure full utilisation of the machinery. Improvement of the use of working time is an important reserve of growth of socialist production. "A con-

dition for economic revival," Lenin wrote in his article "The Immediate Tasks of the Soviet Government", "is the raising of the working people's discipline, their skill, the effectiveness, the intensity of labour and its better organisation."\*

With a given number of workers employed in the sphere of material production and the socially normal level of intensity of labour *the mass of labour applied varies with the length of the working day.*

In socialist society the length of the working day is a matter resolved in the interests of the working people, with due regard for society's needs for industrial products, available manpower and the level of efficiency of labour.

As socialist society develops the working day is shortened since satisfaction of man's growing cultural and intellectual needs acquires ever growing importance along with satisfaction of his physical wants. Such development in turn exerts an active influence on production since the productive force of labour depends on man's working skills and all-round development.

In the Soviet Union today the average length of the working week in industry is 40.7 hours, which is 18 hours less than in 1913.

Shortening of the working day leads to reduction of the fund of labour time, but at the same time it becomes possible to improve its use. The time spent on raising the skill of workers also increases, which fosters growth of the proportion of skilled labour. With a shorter working day, too, rational use of people's leisure time becomes increasingly important.

The mass of labour used in production is dependent on the *workers' skill*, since trained labour is multiplied simple labour. More skilled workers make more products of better quality in an equal space of time. By providing broad opportunities for people's all-round development socialism extends society's manpower resources by increasing the mass of skilled labour.

In the Soviet Union illiteracy has been wiped out in town and country, and a huge body of specialists with a higher

---

\* V. I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, p. 258,

and secondary education has been trained. The transition to universal secondary education of young people has in the main been completed. The trade and vocational training of workers is broadening in scope all the time and the annual output of specialists with middle or higher qualifications is growing. Improvement of the standards of general and specialised education is also of great importance, as is perfecting of industrial training and raising of workers' skill.

Increase of the mass of labour used in material production is an important source of growth of the social product and the existence of definite limitations on its increase does not lessen its importance as a source of growth of production for we have here living, creative labour, which exerts a determining effect on the whole process of production, including the growth of labour productivity.

#### **4. THE LAW OF STEADY GROWTH OF THE PRODUCTIVITY OF SOCIAL LABOUR**

Every new social system creates a higher productivity of labour, which is the expression of society's progressive advance, of development of its productive forces and of the progressive character of the new relations of production. Under different socio-economic formations, however, the growth of labour productivity has different significance, depending on the character of the production relations predominating in society.

Under capitalism the growth of labour productivity is confined to the narrow limits imposed by private property in the means of production, by disinterestedness of the workers in accelerating technological progress and raising the efficiency of social labour and by the anarchy of social production. Growth of labour productivity under capitalism is therefore unstable.

Socialism removes the obstacles to growth of labour productivity inherent in capitalism and provides the broadest opportunities for it. Socialist organisation of social labour systematically unites the working people free of exploitation with means of production corresponding to the latest advances of science and engineering. "Communism," Lenin

wrote, "is the higher productivity of labour—compared with that existing under capitalism—of voluntary, class-conscious and united workers employing advanced techniques."<sup>\*</sup>

Growth of labour productivity is seen in reduction of the social expenditure of labour on output of products, i.e. in lowering their cost. From the social point of view productivity of labour is also increased by an improvement in the quality of products that brings about a saving of labour during their productive or personal consumption. By saving labour society gets the chance to extend output of products.

Under socialism, a steady rise of labour productivity is an objective necessity, emanating from the very essence of socialist production relations and the requirements of the basic economic law of socialism.

The advantages of socialism are most vividly expressed in the rates of growth of labour productivity. The annual average rates of growth of social labour productivity in the USSR were 190 per cent higher than in the USA in the period 1951-1975. As a result of its faster growth of labour productivity, the USSR has moved ahead of many capitalist countries of Western Europe and considerably narrowed its lag behind the United States.

Steady growth of labour productivity plays a decisive role in the development of socialist production. In the stage of developed socialism society's demand for raising labour productivity as the chief source of production growth increases substantially. Simultaneously the immense production, scientific and technological potential, the implementation of the scientific and technological revolution and the advancement of the working people's cultural standards and technical competence create real prerequisites for a substantial reduction in labour inputs in manufacturing products. One should bear in mind a number of other circumstances pointed out at the 25th CPSU Congress, which makes the task of raising labour productivity especially urgent: the problem of growing manpower shortage, the rising cost of energy and raw materials, the increasing expenditures for environmental protection, the need to develop the infrastructure. According to the guidelines for economic development between 1976 and 1980

---

<sup>\*</sup> V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 427.

adopted by the 25th CPSU Congress, increases in labour productivity will account for 85-90 per cent of the increment in national income, roughly 90 per cent of the increment in industrial output and the entire increment in agricultural output.

Increase of labour productivity, as Karl Marx pointed out, is determined by the workers' average skill, the level of development of science and its degree of technological application, the social combination of the production process, the scale and efficiency of the means of production and, finally, natural conditions.

Socialist society, unlike capitalism, where private property and the drive for profits push the interests of individual capitalist enterprises to the fore, systematically controls expenditure of labour at all stages of the manufacture of products, regulates the links between single enterprises, combined enterprises and branches of the economy, consciously utilises the latest advances of science and engineering and the most progressive forms of organising production on the scale of the whole economy, thereby ensuring a raising of the efficiency of social production as a whole.

The decisive trend in struggle to raise productivity of labour is acceleration in every way of technological progress in the economy, and the most rapid introduction of the latest scientific and technical advances. In the course of technological progress the proportion of living labour in the total expenditure of labour in the output of production decreases, while the proportion of embodied labour increases in such a way that the sum total of labour embodied in a commodity becomes smaller. As a result, living labour uses a larger mass of instruments of labour and processes a larger amount of the objects of labour, thereby becoming more productive.

Technical advance is directly linked with the development of progressive branches of industry, electrification of the economy, the use of cheaper types of fuel, the broader introduction of chemical processes, rational distribution of the productive forces in relation to the location of natural resources and fuller utilisation of these resources. In agriculture new machinery and methods enable the most progressive systems of land cultivation to be introduced, a larger quantity of produce to be obtained per hectare, the adverse effects of unfa-

vourable weather on the harvest to be attenuated and production to be intensified. The development of technology makes it possible to raise the level of specialisation and co-operation in industry and to increase its concentration.

With technological progress, too, is linked improvement of the quality of products, which is equivalent to an increase in volume of production and, other things being equal, to an increase in labour productivity. Conversely, a falling off in quality is tantamount to a reduction in the volume of production and a lowering of labour productivity.

The development of technology has its effect on better utilisation of materials in industry, fuller processing of raw materials, greater returns on assets and reduction of the standard rates of expenditure of raw materials, supplies, fuel and power, which in turn also promotes raising of the productivity of social labour.

Steady raising of the productivity of labour is a fundamental problem of the economic strategy of the CPSU and an indispensable condition for the development of socialist industry and raising of the well-being of the working people. It is indicated in the Report of the CPSU Central Committee to the 25th Congress that "in order to carry out successfully the diverse economic and social tasks facing the country, there is no other way than that of *promoting the rapid growth of labour productivity and achieving a steep rise of efficiency in all areas of social production*. Emphasis on efficiency—and this must be repeated again and again—is the key component of our entire economic strategy."<sup>\*</sup>

## 5. THE ADVANTAGES OF TECHNOLOGICAL PROGRESS UNDER SOCIALISM

A broader arena for the application of machinery, i.e. of modern instruments of labour, is the way the advantages of socialism in technical advance are expressed.

Under capitalism, machines are employed as a means of intensifying exploitation of the worker and increasing surplus

---

<sup>\*</sup> *Documents and Resolutions. XXVth Congress of the CPSU, Moscow, 1976, p. 52.*

value and capitalists' profits. Under socialism, machinery is a powerful means of increasing the output of products satisfying the growing needs of the members of society and lightening their work, which is the basis and the source of the advantages of applying machinery and consequently of the advantages of accelerating technological progress and perfecting socialist production as a whole.

### **The Economic Expediency of Employing Machinery**

Since the aim of socialist production is realised by increasing the quantity of output produced in society and improving its quality, growth of output with the given manpower resources of society depends on reducing the expenditure of working time on their manufacture, on their value, since the economic advisability of using machinery under socialism is determined by the extent of their effect on increasing output and saving labour.

The following are involved in forming the magnitude of the value of the products of machine industry: the embodied working time corresponding to the wear and tear of the machinery; the expenditure of fuel and power, lubricants, cleaning and wiping materials and raw materials in the process of production; and the working time of the workers producing articles by means of the machines.

The generalised criterion of the economic efficiency of machinery is *the saving of aggregate working time*. The absolute magnitude of the economic effect is defined as *the difference between the total expenditure of labour on the products, manufactured during the functioning of a new machine, and the expenditure in earlier conditions of production* (manual labour or the use of an old machine).

The use of a machine promotes growth of social production if the labour embodied in it is *less* than the living labour saved by using it. Expenditure of labour on producing the output is then reduced and working time is thus released either to extend output of this product or to organise the output of new products needed by society.

"The use of machinery for the exclusive purpose of cheapening the product," Marx wrote, "is limited in this way, that less labour must be expended in producing the machinery than is displaced by the employment of that machinery."\*

The more labour time the use of machinery saves society, the greater are the possibilities for growth of production and consequently the greater the efficiency of the machine from the social angle. Conversely, when the making of any machine requires as much labour as is saved by its use, the sum total of the labour needed to make a given product is not reduced. All that happens is the transfer of labour to the industry making the machines, while production as a whole remains on the same scale. Such a machine, if we ignore the effect it has on working conditions in the process of production, is ineffective from the point of view of society.

In capitalist society the economic expediency of using machines is determined by the saving of capital. The capitalist does not pay for all the worker's living labour but only for the equivalent of the value of his labour power. In view of that he finds it expedient to use a machine only when its value is less than the value of the labour power it displaces. Whenever its value is equal to or higher than that of the labour power it releases the capitalist does not use it but retains manual labour in spite of the saving of social labour it would engender.

Thus, the approach to the use of machines is different in principle under socialism and under capitalism. The criterion of socialist use of machinery is *the saving of social labour and growth of social production in order to satisfy society's wants*. Under capitalism, it is the saving of capital and increase of the capitalist's profit. The first criterion defines the economic limit of the application of machinery by the total saving of social labour, the second by its saving of paid labour.

The extension of the economic limit of the application of machinery under socialism promotes acceleration of technological progress, primarily because such an obstacle to its use as the value of labour power is removed. Low pay, even in industrial capitalist countries, is an obstacle to mechani-

---

\* Karl Marx, *Capital*, Vol. I, p. 370.

sation. In the United States, automation is introduced above all in the industries where the level of wages is highest.

The use of machinery with a view to the total saving of social labour makes it possible to begin the replacement of manual labour by machinery and of old machines by new ones earlier and, consequently, to get greater experience of operating them, which presents favourable opportunities for designing improved models.

Determining of the economic limit to the use of machinery by the total saving of social labour does not, of course, justify the introduction of equipment that is below the contemporary standards of world science and engineering. The needs of socialist society are best satisfied by the use of machinery of the most progressive design and highest efficiency, requiring the minimum expenditure on its manufacture of labour time, metal and other materials. Rapid introduction of progressive technology into production is also required by the interests of strengthening the community of socialist countries and the competition of the two world economic systems. In developing new designs world experience must be constantly taken into account so that the designs are not inferior to the best foreign models but, on the contrary, superior to them.

Extending the economic limit of the application of machinery also accelerates technological progress by increasing the sources of means for improving production on the basis of new techniques. The labour time saved by society is channelled into research and development and extension of the scale of application of new technology. Even when only part of the saving effected is used for these purposes, as is most often the case, technological progress is still accelerated. Delay in applying machinery that makes it possible to economise on labour time deprives society of the corresponding resources of accumulation and consequently retards technological progress.

The socialist mode of distributing products makes both society as a whole and individual socialist enterprises interested in applying new technology, but the part of the saving of social labour from its use, reflected in wages, is normally counted in the costs of enterprises and industrial combines; therefore its use, while not reducing their costs but saving society labour or lightening it, is stimulated by reimbursing

the extra outlays from special funds. For this purpose USSR ministries and departments have funds for mastering new techniques and equipment, from which they can reimburse enterprises' planned outlays on designing and experimental work, pilot runs and other work involved in the preparations for producing new lines of output prior to serial production. There is also a centralised fund for paying bonuses to workers who develop and introduce new machines and processes.

### **The Social Consequences of Technological Progress under Socialism**

There is a radical change in the social consequences of technological progress in socialist society, namely, the effect of applying machinery on the condition of the working people. Capitalist use of machinery, which operates as a tool of exploitation, inevitably imposes a heavier burden of wage slavery on the workers, causes unemployment, worsens the material condition of employed workers, enslaves them mentally and limits their possibilities of creative activity.

Socialist application of machinery, however, by ensuring saving of labour and growth of output, *improves the workers' well-being*. This above all is the new impact of the machine on the condition of the working people.

The subordination of socialist industry to the interests of society makes it necessary to employ machinery to lighten labour and to improve working conditions. The results of introducing new machinery under socialism is to eliminate heavy physical labour, improve and elevate the status of labour, remove the harmful consequences of certain types of work and improve safety techniques and labour protection. The new designs of machines take account of the need for growth of productivity, and at the same time of lightening social labour. In certain cases machines that do not raise the productivity of labour but notably improve working conditions are also used.

The application of machinery under socialism does not lead to unemployment. The high growth rates of production create

favourable conditions for full employment of the workers released by the introduction of new machinery. Socialist organisation of the economy ensures planned employment of society's manpower resources and the training of skilled labour power.

The development of technology under socialism is directly linked with a change in the content of labour and elimination of the man-oppressing division of labour among the workers of enterprises that has developed in capitalist industry.

The development of the productive forces has given rise to a need to end narrow trade demarcations and one-sided specialisation of workers, a problem that has become specifically acute with all-round mechanisation and automation. The servicing of automated lines and contrivances and of machine-tools calls for knowledge of the general, scientific and technical principles of industry on the part of workers. Under capitalism, however, the raising of workers' qualifications and skills encounters obstacles and proceeds very slowly. Unskilled labour power becomes cheaper so that capitalists strive to use such machines as replace skilled labour by less skilled. The detail-worker remains and is only done away with under socialism. The new society, as Marx pointed out, has "to replace the detail-workers of today, crippled by life-long repetition of one and the same trivial operation, and thus reduced to the mere fragment of a man, by the fully developed individual, fit for a variety of labours, ready to face any change of production, and to whom the different social functions he performs are but so many modes of giving free scope to his own natural and acquired powers".\*

Elimination of the old narrowly specialised division of labour goes hand in hand with a change in workers' trades. Many narrow trades have disappeared in the economy of the USSR, while new ones limit workers' all-round development less and less. There is a tendency, for example, in the composition of trades, for the proportion of lathe operators to diminish and that of adjusters, maintenance fitters and electricians to increase.

Socialism removes the obstacles to increasing workers' skill,

---

\* Karl Marx, *Capital*, Vol. I, p. 458.

creates the conditions for raising their general education and broadening their specialised knowledge. Skilled mechanised labour is increasingly replacing manual labour and work aided by machines and mechanisms in turn is giving way to ever more skilled labour in automated production. The new trades do not so much call for physical effort as ability organically to combine physical and mental work.

A steadily growing part of working time is taken up by functions linked with mental work. Physical work *continues* to exist but more and more assumes new qualities as higher skills come to be organically combined with work by brain.

The new effect of machinery on the workers' condition radically alters his attitude to it. Under socialism he is vitally interested in its use and actively and creatively involved in improving it.

To make use of the advantages of technological progress associated with its new social consequences requires the socialist state to solve a number of major problems. One of the most crucial is to develop machines of the highest efficiency that at the same time improve working conditions. There is also a growing need to improve the training of skilled workers, systematically to redistribute and retrain the workers released by the introduction of new machinery and processes.

## **The Planned Character of Technological Progress**

Under socialism the development of technology is the affair of society as a whole. Socialist property enables the state to pursue a uniform technical policy on the scale of the whole economy and to draw up plans for producing and employing new machinery. In socialist society technological progress has a planned character.

The technical policy of the socialist state takes the latest advances of Soviet and world science and engineering into account, decides on that basis the main lines of technical development so as to obtain the maximum economic effect and to lighten and improve working conditions, and accordingly draws up long-term and current plans for the development of technology. The state co-ordinates the activities of:

economic bodies, enterprises and research and development organisations and design bureaus, concentrating the efforts of scientists and engineers on the key scientific and technical problems. The best designs of new advanced equipment are selected for introduction in the economy.

The planned character of technological progress leads to conditions accelerating the development and introduction of new technology, from the design and experimental work and making of prototypes to mass production. Socialism opens up possibilities for forming an efficient link between fundamental research and practical application of its results.

The socialist relations of production ensure planned dissemination of advanced technical experience and know-how in all branches of the economy. Enterprises have an interest in developing social production as a whole and in exchanging advanced experience. Therefore, "commercial secrecy" and the hushing-up of new technology associated with it is done away with.

The concentration of vast financial and material resources at the disposal of the socialist state remove the obstacles to technological progress associated with the limits of individual capitals under capitalism. It becomes possible to co-ordinate on society's scale plans for the introduction of new technology, production plans, financial plans and plans for the supply of materials and machinery. Society organises expansion of the manufacture of new machinery in accordance with its growing needs for it, ensuring a faster rate of development of mechanical engineering as the basis of technological progress, than of other branches of the economy.

Under socialism the unevenness of technological progress in the different industries is gradually overcome and as social production increases on the basis of accelerated development of the engineering industry the technical level of enterprises in the heavy, light and food industries, agriculture and other industries is raised. The interruptions and stagnation in technical development linked with the periodic crises of overproduction inherent in capitalism are terminated.

The advantages of technological progress caused by the socialist relations of production relate both to industry and to agriculture. The development of technology in socialist agriculture does not come up against any social restrictions.

Public ownership of the land relieves the peasants from having to spend money on buying and leasing land, thereby increasing the funds available for acquiring machinery and enabling large enterprises to be set up enjoying broad opportunities to apply machinery, and eliminates the process of the dividing up of farms. In socialist society the restrictions on the development of farm machinery caused by farming on rented land are also ended: socialist enterprises have an interest both in outlays bringing in quick returns and in major investments calculated to have a long-term effect.

The new status of workers in production and planned utilisation of the labour power released by technical advance end the limitations on the introduction of technology that exist under capitalism due to the latent over-population in rural areas. The relations between town and country are based on assistance of every kind from industry in the technological re-equipping of agriculture.

Technological progress in farming is inseparably linked with the land, the main means of production in agriculture. Preservation and use of the soil and raising of its fertility, plus the application of more advanced machinery and methods, are indispensable for growth of agricultural output. By putting an end to private property in land socialism creates the conditions for introducing progressive systems of cultivation, ensuring a stable improvement of soil fertility and raising of the productivity of stock-breeding.

## **The Scientific and Technological Revolution**

The discoveries of science in recent decades have led to a radical alteration of former concepts of many natural phenomena and to a fundamental transformation on this basis of the techniques and technology of production. Study of the atomic and molecular structure of matter, for instance, has laid the basis for developing new materials and substances. Chemistry has opened up the possibility of turning crude oil and natural gas into plastics and fibres. Study of the electrical phenomena in solids and gases led to electronics. Inves-

tigation of the structure of the atomic nucleus led to discovery of ways of harnessing nuclear energy. The new discoveries in mathematics have had an immense influence on the development of automation and control systems. The advances in biology have made it possible to intensify farming considerably. As a result, there has been a steep increase in the influence of science on the development of production. Science has become, in effect, one of society's direct productive forces.

The current revolution in science and engineering, like the technical revolutions that took place in the development of human society in the past, has been engendered by the effect of social needs. It is linked with the firm establishment of the communist social formation and represents a new stage in the development of productive forces objectively conditioned by the transition of human society to communism.

The qualitative leaps in science and engineering that have occurred in advanced capitalist countries serve the interests of the monopolies, strengthen their position and exploitation of the working people. The monopolies have turned the results of the latest discoveries to purposes of militarisation and unleashing aggressive wars, lending scientific and technological progress in capitalist countries a lop-sided, abnormal character, which leads on the whole to extreme sharpening of all the internal and external contradictions of capitalism.

The current scientific and technological revolution is bringing about radical changes in the implements of labour, replacing conventional types of machinery by automatic machines.

A characteristic of automatic machines is that they contain an element of automatic regulation and control of the production process. This element is provided by automatic modelling and controlling cybernetic devices performing control and regulation functions. Man is thus relieved of the need to tend the working machine directly. The worker's role in the labour process is reduced to control and supervision. "As soon as a machine executes, without man's help, all the movements requisite to elaborate the raw material, needing only attendance from him, we have an automatic system of machinery," Karl Marx wrote.\*

---

\* Karl Marx, *Capital*. Vol. I, p. 360.

In automated production man, in Marx's words, stands by the side of the labour process. This, of course, does not remove him from the production scene but only alters the direction of his activity. It remains for man to develop and improve automatic equipment and to supervise its operation. The role of living creative labour is thereby enhanced.

The scientific and technological revolution has produced qualitative shifts in the objects of labour, which consist in the use of man-made synthetic materials and, consequently, in a lessening of the dependence of industry on objects of labour obtained from nature. Plastics and synthetic resins are being successfully substituted for natural raw materials and substances and often are superior to them in their physical and chemical properties. The new methods of physical chemistry enable such natural types of raw material as crude oil, wood and coal to be used more fully and processes in the iron and steel industries and others to be intensified. Automatic machines and the wide application of electricity and of chemical processes in production are leading to radical changes in the production technology.

The Soviet Union's advance to the forefront in a number of decisive fields of world science and technology and the implementation of the breath-taking programme of technological modernisation of the national economy are the legitimate result of the advantages of socialism in scientific and technological progress. Of course, the advantages of socialism come into play not of their own accord but by means of overcoming the non-antagonistic contradictions existing in socialist society, in the process of struggle between the new and the old.

In view of the decisive role of scientific and technological progress in production development the Communist Party attaches first priority to its acceleration and actively supports everything that is new and progressive. The technical policy worked out by the 25th CPSU Congress ensures co-ordination of all directions in the development of science and technology, both the advancement of fundamental research and the solution of applied problems directly linked with scientific and technological progress. The current task is to speed up, on the basis of a uniform technical policy pursued in all the sectors of the national economy, the technological

modernisation of production, to introduce on a broad scale advanced technology and processes making for an increase in labour productivity and improvement of product quality, an increase in returns on assets, an economy of material resources, an improvement of working conditions, an enhancement of environmental protection and a rational utilisation of natural resources.

It is contemplated to change over from developing and introducing individual machines and processes to developing, manufacturing and applying on a mass scale highly-efficient machine systems, equipment, instruments and processes ensuring mechanisation and automation of all production processes, particularly auxiliary, transport and warehousing operations, to apply on a wider scale readjustable technological facilities enabling the manufacture of new products to be organised rapidly. In addition to improving existing processes, advanced research will be done on fundamentally new technology and processes. In the power industry, for instance, greater attention will be paid to research into direct conversion of heat and later of nuclear energy to electricity, the problems of nuclear fusion control, superconductivity and other crucial fields.

The tenth five-year plan is keynoted by an organic link of all its sections, all sectors of material production with advanced science. The 25th CPSU Congress defined accelerated introduction of scientific and technological achievements into production as a cardinal task. In the Report of the CPSU Central Committee L. I. Brezhnev said: "The revolution in science and technology requires radical changes in the style and methods of economic work, a determined struggle against sluggishness and red tape; it requires true respect for science and the ability and desire to take advice from and reckon with science. It requires an improvement of planning and economic incentives in order to create the conditions that can in full measure expedite the passage of new ideas all along the line from invention to mass production and erect a reliable economic barrier to the manufacture of obsolete products."\*

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 58.

## DISTRIBUTION ACCORDING TO WORK. SOCIAL CONSUMPTION FUNDS

Every mode of production has its characteristic mode of distribution. Whatever the ownership of the means of production the same are relations in distribution.

Distribution links production with consumption; but that does not mean that its role in the development of production is passive. Distribution exerts an active influence on the development of production, accelerating it or slowing it down.

Transfer of the means of production to ownership by society means that the whole output produced becomes the property of the working people and goes to meet their personal and social needs. The necessary product, as said above, goes into the personal consumption of workers in material production and ensures the reproduction of labour power, while the surplus product, which goes to extend social production and develop the non-productive sphere, is also fully utilised in the interests of the working people.

Under socialism, the distribution of consumer goods and services among the members of society takes two forms: (a) distribution according to work; and (b) satisfaction of needs from social consumption funds.

### 1. DISTRIBUTION ACCORDING TO WORK—AN ECONOMIC LAW OF SOCIALISM

The greater part of the necessary product is distributed among the members of society in accordance with the quantity and quality of the labour expended by each working person.

*Distribution according to work is an economic law in socialist society.* Distribution according to work exists primari-

ly because production is carried on under the undivided sway of socialist ownership of the means of production, and nobody, consequently, is entitled to appropriate the results of another's work.

Distribution according to work is necessary in the stage of socialism because the level of development of socialist production is such that there is no abundance of consumer goods and people's wants are not fully and comprehensively satisfied. In such conditions, society has to distribute the resources of consumer goods available among working people in accordance with their contribution to social production. The material remuneration of each working person therefore varies with the quantity and quality of his or her work for the benefit of society.

Besides, under socialism labour has not yet become a prime vital necessity for all working people.

Consistent observance of the requirements of the law of distribution according to work stimulates working according to one's ability and the development of the very ability to work. In seeking to earn more, the working man or woman improves his or her skill and adopts the experience of the leading workers in production. Implementation of the principle "From each according to his abilities, to each according to his work" is a powerful stimulus for raising labour productivity and best enables individual and public interests to be combined. It is also of the greatest moral significance, since workers are conscious of the fact that they are working for themselves rather than exploiters and that their personal interests are fully linked with the common interests.

Consequently, *the law of distribution according to work determines such a utilisation of stores of consumer goods that they are supplied to each working person in accordance with his or her labour contribution to social production.* In socialist society, Karl Marx wrote, "the individual producer receives back from society—after the deductions have been made—exactly what he gives to it. What he has given to it is his individual quantum of labour".\*

---

\* Karl Marx, *Critique of the Gotha Programme*, in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, Moscow, 1976, p. 17.

Operation of the law of distribution according to work ensures *personal material interest in work* and on that basis the involvement of all able-bodied persons.

Distribution according to work is one of socialism's great advantages over capitalism. It rules out unearned income and parasitic consumption, which diverts huge material and manpower resources from production under capitalism. At the same time, its consistent application of the principle "Equal pay for equal work" guarantees equality of people regardless of sex, age or nationality. Finally, distribution according to work encourages the development of workers' abilities, thereby stimulating development of production. "The basis of socialism, the indefeasible source of its strength, the indestructible pledge of its final victory," Lenin said, was the principle of "He who does not work, neither shall he eat".\*

Distribution according to work, however, does not guarantee full equality of people, since their wants are not yet met equally. A worker's earnings depend on his physical development, general education and trade training and on other factors; but even with equal earnings the level of well-being varies from person to person, since one has no family and another has many children, and so on. Socialism ends the economic inequality of people caused by monopolisation of the means of production by individuals and the system of exploitation of man by man. Society, however, as Lenin said, "is *unable* at once to eliminate the other injustice, which consists in the distribution of consumer goods 'according to the amount of labour performed' (and not according to needs)".\*\* Distribution according to work rules out exploitation of man by man; its "inequality" or "injustice" consists solely in the identical legal criterion being applied to different individuals.

The economic law of distribution by work begins to operate during the transition from capitalism to socialism, once social ownership of the means of production is established. Distribution according to work done becomes a dominant form of distributing consumer goods. In the stage of developed socialism requirements of the law of distribution ac-

---

\* V. I. Lenin, "On the Famine", *Collected Works*, Vol. 27, p. 392.

\*\* V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 466.

ording to work are more and more fully met; and the whole system of distribution according to work is perfected.

The law of distribution according to work will remain operative until society enters the higher phase of communism. The transition to the communist mode of distribution according to needs will be completed when an abundance of material and cultural values is ensured and labour becomes a prime necessity of life.

Bourgeois economists deny the objectively necessary character of distribution according to work under socialism. To discredit it they interpret it as an arbitrary, administrative measure not called forth by objective necessity. The arguments above show how untenable these views are.

Right-wing revisionists in effect oppose distribution according to work, denying the need for centralised regulation of wages and planned fixing of prices under socialism. In such conditions, however, the level of earnings in separate industries and enterprises could not correspond to the quantity and quality of work. The bodies of workers of enterprises operating in more favourable conditions would derive part of their earnings from what is due to the workers of other enterprises and industries. Group interests would push common interests into the background.

"Left" revisionists openly oppose distribution according to work in favour of wage levelling. They have denounced personal material interest and efforts to raise standards of living as "counter-revolutionary economism" and advocate "share and share alike" distribution of products. Their theories are reactionary petty-bourgeois views of socialism as equality in consumption. Their translation into reality, i.e. the levelling out of distribution undermines stimuli to work and improve workers' skill and causes immense harm to the development of social production.

## 2. PAYMENT ACCORDING TO QUANTITY AND QUALITY OF WORK

Workers in socialist industry receive their share of the social product created by them in the form of *personal income*, most of it being remuneration for work paid to them

in cash and representing the bulk of the necessary product. The other, smaller part of the necessary product they receive from social consumption funds.

The incomes of workers under socialism are not the price of labour power, since the latter is not now a commodity. *Payment according to work expresses the relations of comradely co-operation and mutual assistance between workers, who are the joint owners of the means of production and are working for themselves.* This explains the circumstance that the scale of payment for work is not established under socialism in the same way as under capitalism. Under capitalism the upper limit of wages is the price of labour power and earnings can only be raised through persistent struggle by the working class against the capitalists. Under socialism there is no such upper limit and working people's incomes rise as production develops. In socialist society, of course, the level of wages is connected with the reproduction of labour power: the worker uses his wages to reproduce his labour power; but in developing production socialist society increasingly ensures such a satisfaction of needs that the reproduction of labour power is attended with all-round, harmonious development of the individual.

*Thus payment for work under socialism is part of the national income jointly produced and owned by the whole of society (or of the gross revenue of a co-operative) distributed according to plan between workers for their personal consumption in accordance with the quantity and quality of their labour inputs in common production.*

How are the quantity and quality of work measured?

The *quantity of work* is the expenditure of the energy of muscles, nerves and brain. It cannot be measured directly in the labour process. Society therefore usually uses length of working time as the criterion of the quantity of labour, but it does not reflect the expenditure of labour accurately, as an hour of heavy, intensive work represents a greater expenditure of energy than an hour of relatively lighter work. The intensity of work can vary among workers doing the same job. Accordingly, *given identical conditions, payment for work is fixed according to the output of each worker and where that is impossible according to the time worked.*

The concept of *quality of work* includes the complexity of

the work done, the working conditions and the social importance of the branch of industry concerned.

In estimating the quality of work, the main criterion is its complexity, requiring a certain level of skill in the workers. In socialist society, payment is fixed in direct relation to workers' *skill* because more skilled labour is more productive and creates more product per unit time. On the other hand, it is necessary to interest workers in improving their skill. *The level of workers' skill is taken account of in the grades of wage scales while the qualifications of engineers, office workers and executives are reflected in the salary scales.*

Differences in the standards of skill are not rigid. Scientific and technological progress tends to raise workers' qualifications gradually bringing them closer to the level of engineers and technicians, which is being felt in the reduction of pay differentials both between engineering and technical personnel and workers, and among workers themselves.

Estimation of the quality of work is related to the conditions in which it is performed, namely, to how heavy, injurious or dangerous it is. These factors characterise a person's expenditure of energy from its quantitative aspect but, as they are not reflected in the length of working time, they are included in practice under the qualitative characteristics of labour.

Conditions of work must be taken into account in payment, because the worker expends additional energy on overcoming unfavourable conditions; and in industries with heavy, injurious or dangerous conditions it is important to attract a sufficient number of workers. It is therefore not enough simply to reimburse the extra expenditure on food in these jobs, because that merely levels up the conditions of pay. It is important to provide definite privileges for those working in heavy, difficult conditions.

Working conditions are taken into account primarily through *differentiation of rates in the first grade* (category) in wage scales. In the Soviet coal industry, for example, the rate for the first category in underground work is higher than that for surface work. In the hot shops of iron and steel works earnings are higher than in normal shops. Those working in the mountains or the Far North also receive higher earnings. Higher pay is also established for night work. But workers in

injurious, unhealthy jobs also have shorter working hours (without loss of earnings), in addition to higher pay and are also eligible for longer holidays and for special meals paid for by the enterprise.

Technological progress leads to the elimination of heavy physical labour. Safety techniques are also being improved. The differences between working conditions in various industries are consequently diminishing and correspondingly favourable conditions are being provided for reducing pay differentials.

Workers in industries of vital importance for the development of socialist production also receive higher pay. Socialist society pays special attention to industries that constitute the foundation of production, like coal and iron and steel, and fixes higher wage rates in them in order to attract sufficient number of workers.

A decisive condition for growth of working people's incomes is raising of the productivity of labour. In this connection the question arises: What should the ratio be between pay increases and productivity? With a given number of workers, the growth of the productivity of social labour is expressed in an increase in the aggregate product and the national income, of which the wage fund is part. If this fund grows at the same rate as labour productivity, that will substantially limit the possibility of accumulation and further development and improvement of production. Furthermore, in such a situation, society will be unable to enlarge social consumption funds to the necessary extent. Priority growth of labour productivity over growth of pay is therefore necessary for objective reasons.

The ratio between the growth of productivity and of pay is not the same, of course, at different periods of development and in different sectors of social production. In certain conditions, there can be more rapid growth of pay than of labour productivity in individual industries. In the 1960s, for example, earnings on Soviet collective and state farms grew faster than labour productivity, which was due to the need to bring pay levels in agriculture up to those in the other industries.

The ratio between growth of productivity and wages is regulated by altering piece rates, but absolute daily earnings increase at the same time.

### 3. THE TWO FORMS OF DISTRIBUTION ACCORDING TO WORK

Under socialism, distribution by work takes two forms: (1) wages and salaries of factory and office workers, and (2) remuneration of the work of members of agricultural co-operatives (collective farms). These forms of distribution according to work are due to the two forms of socialist ownership of the means of production.

#### The Essence of Wages

Employees of state production enterprises receive wages (and salaries), the specific features of which, as a form of distribution according to work, is that they are paid from a fund that is public property.

It is necessary to differentiate between money, or nominal, wages and real wages. Nominal wages are the sum of money that a worker receives for his labour. The real wages are the amount of consumer goods and services a worker can buy with his money earnings. Real wages depend on the scale of nominal wages and the level of prices of goods and services.

The *level of wages* is regulated by the state on a nationwide scale, because public ownership requires equal pay for equal work in the whole state sector of the economy. The state employs the *wage* form of distribution according to work as the *main instrument for organising social labour and increasing its productivity*, as an economic lever for ensuring planned development of socialist production.

In the Soviet Union the wage fund is planned for the whole economy and for individual industries and enterprises. The level of wages and salaries for different categories of factory and office workers is fixed in a planned way, taking into account their qualifications, working conditions and the need to stimulate labour in key industries. Wage planning also makes it possible to influence the distribution of labour power between industries and areas of the country, to establish definite proportions in the distribution of the national

income and to maintain a proper balance between the population's money income and the mass of commodities on sale.

Trade unions play an active role in organising wages. Their central bodies take part in drawing up basic wage scales. The managements of enterprises agree many specific problems with the enterprise trade union committees, such as the distribution of trades and jobs between time work and piece work, the grading of workers and the fixing of output quotas. Decisions on these questions are taken in accordance with standard recommendations approved by government bodies.

In fixing wages and salaries observance of state discipline is of major importance; violations of it eventually interfere with observance of the law of distribution by work.

The pay of factory and office workers consists of two parts, basic and supplementary.

The *basic wage* is workers' pay based on the current wage scales and the salaries of engineers, technicians and office staff based on general state rates, plus the bonuses paid to workers from the wage fund. *Supplementary pay* consists of bonuses paid to workers from the incentive fund derived from the profits of the given enterprise.

## Basic Pay

There are various forms and systems of basic pay employed in accordance with the concrete conditions of an industry. The commonest is the *piece-rate* system, which is established in accordance with the quantity and quality of output. Piece-work earnings depend directly on workers' expenditure of labour, given equal technical facilities.

Under capitalism piece rates are a means of increasing the exploitation of workers; but under socialism they combine the common interests (increase of productivity) and the personal interests of each worker (increased earnings). In socialist society an increase in output with piece rates goes hand in hand with an increase in the workers' earnings and in the income of all society.

Piece rates, however, are only employed whenever the output of a worker or of a relatively small group of workers can

be estimated. They are paid both for the performance of individual production operations and for the final collective results, i.e. output of finished product. In the first case the link between pay and total production results is weak and piece rates do not stimulate improvement of product quality adequately. It is therefore becoming increasingly common to pay according to the final results of the work of the group, i.e. by collective piece rates. Under the collective piece-rate system, wages are calculated from the output of the work group and are distributed among its members in accordance with their grading and the hours worked. In order to go over to this system, however, every worker has to learn related, interconnected operations so as to be able to take over from his mates whenever necessary. While preserving the personal material interest, this system makes wages commensurate with the end result of the work of the whole group and so encourages cohesion of the workers and the development of comradesly co-operation.

In socialist industry, a whole series of piece-rate systems is used: *direct piece rates* with all products turned out paid for at the same rate; *progressive piece rates*, with a higher rate for each article produced over and above the established norm and with progressively rising job prices (the system used when it is especially necessary to boost production); *piece rates plus bonus*, with all the articles turned out paid for at the ordinary piece rate and bonuses paid for improvement of qualitative indicators (saving of raw materials and fuel, improvement of product gradings, etc.). At present the piece rates plus bonus system is the most widespread.

The development of engineering, and especially of automation, and the introduction of strictly regulated technological processes are making for a certain reduction of the role of piece-rate payment.

In addition to the piece-rate system, *time work payment* is also employed, with earnings dependent on the length of the time worked and the worker's skill. Time rates are differentiated in relation to skill, working conditions and the importance of the work done. With this system there is no direct, immediate relation between the results of a worker and his or her wages. It is used on jobs where direct rate setting and job evaluation are impossible and where thoroughness is espe-

cially important (for instance, in a number of repair jobs) and the results of work are not subject to subsequent direct verification.

With the *simple time-work system* wages depend on skill and the time worked and are fixed in the form of monthly salaries or of time rates (per hour, day, occasionally month). With the *time-work plus bonus system* wages depend not only on the time worked and skill but also on the quantitative and qualitative results.

A prerequisite of proper differentiation of wages is the fixing of work norms, i.e. fixing of the time allowed for the performance of specified jobs; it is a most important condition for managing production and is a means to better organisation of work and production in keeping with the latest achievements in science and engineering. The basis for correct norming is *technically substantiated output quotas* reckoned on the use of progressive equipment and the achievements of leading workers.

Workers' wages are paid on the basis of a wage-rate system that includes first-category wage scales, wage schedules, and wage zones.

*First-category wage scales* are the hourly, daily, or monthly wage rates for the least skilled workers. They are fixed with due regard both for the importance of the given industry and for the working conditions. Higher first-category rates are fixed for piece workers whose work is more intensive than time workers'.

*Wage schedules* are scales showing the ratio between the rates for different levels of skill within a trade. Workers are usually graded into six work categories according to their skill. Rate schedules are supplemented by a *wage-rate book* that contains the description of the work and know-how required of workers. The schedule and wage-rate book enable both the complexity of a job and the workers' skill to be taken into account in calculating wages.

The Soviet Union is divided into five *wage-rate zones* differing in their climatic conditions, price levels and the availability of manpower. These differences are reflected in the zonal (district) wage coefficients (from 1.0 for the first zone to 1.5-1.7 for the fifth zone). In the ninth five-year period the field of application of district wage differentials was widened

and long service bonuses were instituted in the North-European part of the USSR.

The elements of the wage-rate system listed above are needed for consistent compliance with the requirements of the law of distribution by work and for implementing the principle of equal pay for equal work. They are all therefore fixed by the state in the interests of uniformity. As was laid down at the 25th CPSU Congress, in the tenth five-year period the wage-rate system will be further improved as the basis for state regulation of wages.

The wages paid in conformity with the wage-rate system are supplemented with *bonuses* from the wage fund.

A bonus is an additional, smaller part of a wage, which is paid for attaining specified targets. It was said at the 25th CPSU Congress: "Bonuses should promote, more than they do at present, the boosting of labour productivity, the speediest bringing of enterprises to their rated capacities, improvement in the use of the operating equipment, introduction of new equipment, economical use of primary materials and other materials, and higher quality of products."\*

The basic pay of engineers, technicians and office staff is fixed in the form of *monthly salaries* differentiated according to the complexity of the job and in part to the industry.

The wage system is improved along with the growth of labour productivity and changes in production conditions.

During the ninth five-year plan (1971-75) a broad programme of improvement of wages was implemented. The minimum wage in the sectors of material production was raised from 60 to 70 roubles; at the same time big increases were granted to people in the middle categories of industrial and office workers. The ratio of wage rates between industries and categories of workers was improved, taking into account working conditions and skill, the role of the wage-rate system in raising productivity, reducing costs of production and improving product quality. In eastern areas of the country a zone coefficient was introduced where it had not existed before, or it was increased. The wage rates of medical

---

\* A. N. Kosygin, *Guidelines for the Development of the National Economy of the USSR for 1976-1980*, XXVth Congress of the CPSU, Moscow, 1976, p. 42.

workers, schoolteachers and instructors at pre-school childcare centres were raised.

In accordance with the decisions of the 25th CPSU Congress it is contemplated to introduce during the tenth five-year period new wage rates in the non-productive sphere and begin a new stage of raising the wage minimums of factory and office workers. Wage differentials in the different sectors of the economy will be improved and preferential wage rates for persons employed in areas with difficult and unfavourable working conditions will be widened.

### **Bonuses from Enterprise's Profits**

*Part of the pay of industrial and office workers takes the form of bonuses paid out of the material incentive fund of the enterprise where they work, a fund that comes out of the enterprise's profits.\**

Bonuses are that part of pay which substantially depends on the efficient operation of the enterprise. How the plan will be fulfilled and consequently the size of the deductions paid into the material incentive fund depend on the efforts of the whole body of workers. The bonuses paid from profits directly represent the relationship between worker and enterprise; in the final analysis, however, they are paid from the national fund and their distribution is governed by the law of distribution according to work.

Bonuses paid from the enterprise's profits substantially strengthen individual workers' interest in the overall results of the work of the whole body of workers and thereby stimulate development of socialist production.

### **Payment for Work on Collective Farms**

Work on collective farms, as in state enterprises, is remunerated in accordance with the quantity and quality of each member's expenditure of labour on the common farm;

---

\* The ways in which the material incentive fund of enterprises is raised and used will be discussed in greater detail in Chapter X.

but the remuneration has its own special features, owing to a collective farm being an enterprise based on co-operative property.

Work on a collective farm is paid from *funds belonging to the given farm rather than to socialist society as a whole*. Therefore the level of earnings on every collective farm is primarily dependent directly on its income.

The economic law of distribution by work was implemented for a long time on collective farms by means of workday units. These were a conventional unit of labour for estimating the quantity and quality of collective farmers' work on various jobs and was evaluated on each collective farm. The workday unit was the measure for distributing among the farmers that share of income in kind and cash which was earmarked for distribution according to labour. Labour expended on the common farm as calculated in workday units was remunerated both in kind and in cash.

The workday unit was a necessary form of distribution at a certain stage of the development of collective farming, because collective farms initially were unable to provide a guaranteed level of earnings. The economic strength of most of them was not high enough to provide the funds needed for guaranteed pay within previously determined limits.

Raising of the income of collective farms created the economic conditions for the use of money as the sole measure for accounting, for distributing products and for a gradual transition to guaranteed cash payments, which is the most progressive form of remuneration and a better stimulus to raising of productivity on collective farms.

In 1966, in accordance with the decisions of the 23rd Congress of the CPSU, guaranteed monetary pay on a level with that of state farms was recommended to all Soviet collective farms. A collective farm short of funds for guaranteed pay can borrow from the State Bank for up to five years to offset the difference between what is needed for guaranteed pay and the farm's own means allocated for this purpose in its production and financial plans. In this way the state guarantees pay on a level with state farms to any collective farm provided it fulfils its plan.

At present, the overwhelming majority of Soviet collective farms have changed over to cash payment. Guaranteed pay

has largely narrowed the gap between farmers' earnings and those of industrial and office workers. On the other hand, there has also been an appreciable levelling out of collective farmers' earnings in the various areas of the country.

The introduction of guaranteed pay did not, however, close the gap between earnings on collective and state farms, since collective farmers were paid from the funds of their farms and the state was not directly involved in forming the wage funds of collective farms, but only indirectly, through credit.

Since a State Bank loan only makes up for the lack of funds for payments on a collective farm within the limits determined by the plan of that collective farm, earnings are lower on farms failing to fulfil their plans than on state farms. On the other hand, on collective farms with high income earnings remain, as before, higher than on state farms.

On collective farms, furthermore, a certain part of labour is still paid in kind, and that part is exempt from the cash earnings.

The guaranteed payment of the labour of collective farmers (in cash and kind) is based on the wage scales for corresponding categories of state farm workers. Cash payments are made at least once a month, while produce is distributed (against cash earnings) at the times it becomes available.

In order to link guaranteed pay more closely with the end results of collective farming, i.e. the volume of produce raised, which can only be finalised at the end of the agricultural year, collective farms reserve a fund for *supplementary pay* in cash and kind at the end of the year, which is paid for overfulfilment of plan targets for produce or for exceeding the average yield over the preceding three to five years. In dairy farming supplementary pay is paid together with basic earnings during the year.

Distribution according to work is realised mostly in cash and remuneration in cash has become the beginning of the process of distributing products, which enables the workers to receive their share of consumer goods through trade. Trade under socialism consequently is a necessary intermediate link in implementing socialist distribution according to work.\*

\* This issue will be discussed in Chapter XII.

#### 4. SOCIAL CONSUMPTION FUNDS

In addition to distribution according to work, the needs of workers in socialist society are also met through *social consumption funds*.

The distribution of benefits from social consumption funds among the members of society largely takes place irrespective of the quantity and quality of work.

The social consumption funds are national property (except those belonging to collective farms). For the most part they are formed from the state budget and are used in a centralised way. A smaller part comes from the profits of enterprises (social-cultural and house building funds) and on collective farms from their income. These consumption funds are used by enterprises and collective farms themselves.

Social consumption funds are divided into two parts, one for *expenditure on maintenance of the non-able-bodied*, mostly in the form of cash payments; and the other for *the provision of various material benefits to the population, mostly services, either free of charge or on easy terms*.

Society's outlay on the maintenance of the non-able-bodied consists primarily of *pensions* for the old, the disabled and war invalids, and the children and old people whose breadwinner has died. *Family allowances* are paid to mothers of large families from state funds. During the ninth five-year plan, allowances were introduced for the maintenance of children in families where the per capita income of the family does not exceed 50 roubles a month. This part of the funds also includes the temporary disability and sickness benefits and maternity allowances paid from the state social insurance funds. In the tenth five-year period it is intended to introduce partially paid leaves for working mothers for the care of a child under one year of age. Allowances for the maintenance of non-able-bodied persons (except the family allowances for mothers of large families and single mothers) are fixed depending on the recipient's earnings in the last period of employment (which reflects the specific character of the provision for the non-able-bodied in socialist society).

The other part of the social consumption funds becomes available to people in the form of *various concessions and*

*free services*, including the provision of good housing at low rents, expansion of the network of facilities for children, free education, the organisation of recreation and medical care, and so on.

Citizens of the USSR are guaranteed the right to housing, to health protection, to maintenance in old age, in the event of sickness, and likewise in the event of complete or partial disability or loss of breadwinner by the Constitution of the USSR.

The social consumption funds come from both the necessary and the surplus product.

*The establishment of social consumption funds under socialism is directly linked with operation of the main economic law of socialism.*

The interests of society as a whole dictate a certain degree of equality in meeting some of the needs of the people. Provision for the non-able-bodied, for example, is the social duty of all working people under socialism since, with social ownership of the means of production, such persons have no other source of income than the social consumption funds. Guaranteed provision for working people in case of disability enhances the interest of all employed persons in the development of production and eliminates uncertainty about the future. The providing of free education and medical care for the members of society is also dictated by their common interests. Socialist society has a vested interest in growth of the cultural standards and in the good health of all working people and it cannot expect these normally to be met from earnings, since lower-paid members of society would have had less access to medical service and to education for their children, if they had to pay, than higher-paid categories.

In the USSR social consumption funds are steadily growing, that made it possible to improve the provision for pensioners appreciably, in particular, to raise the minimum disability pensions, to introduce the same qualifying age for old-age pensions for collective farmers as for factory and office workers, to increase students' grants and to lengthen the minimum annual paid holiday of factory and office workers, and so on. Conditions have been improved for the social upbringing of children in crèches and kindergartens, the

health services and cultural and communal facilities for both the urban and the rural population.

In the tenth five-year period the volume of social consumption funds in the USSR will increase 28-30 per cent. Special efforts are being made to improve the conditions for the upbringing of the younger generation, social insurance and pension benefits, and so on.

Meeting workers' needs from *social consumption funds makes it possible to develop forms of organising collective consumption* (crèches and kindergartens for children, public catering and social facilities for recreation, etc.), *which undoubtedly will predominate in communist society*. As socialist society develops they become increasingly a necessity and ensure economical provision of the services sphere, so encouraging its maximum development.

## 5. INDICATORS OF THE PEOPLE'S STANDARD OF LIVING UNDER SOCIALISM

The working people's *standard of living* is determined in the course of the production and distribution of national income, largely by two basic factors: (a) *working conditions* (length of the working day and labour protection) and (b) *the level of real income* received. In view of the social distinctions remaining under socialism there is a differential both in the standard of living of various categories of working people and in the structure of their incomes.

Let us consider the indicators of the standard of living of factory and office workers, above all their *working conditions*. In 1960 the Soviet Union completed the transition to a 7-hour and 6-hour working day without reduction of pay. The average established length of the working week for adult workers in industry was 40.7 hours in 1975 as against 47.8 hours in 1955. Taking into account the shorter working day on the day before the holidays the average length of the working week of industrial workers is 40 hours. Compared with the pre-revolutionary period, the working week is nearly 18 hours shorter, which in itself means an improvement in workers' standard of living. In 1967 we went over to a 5-day working week with two days off. The length of the working

week remained unchanged, but total leisure time during a week increased through reduction in the time taken travelling to work. Conditions for recreation and rest improved. Besides working conditions and safety techniques are constantly being improved. The Soviet Union has now attained the lowest rate of industrial accidents in the world.

The key indicator of the standard of living of industrial and office workers is the level of their real earnings, which depends in its turn on the level of nominal cash earnings (after tax is deducted) and the level of prices of goods and services.

The real wages of factory and office workers are steadily rising through increase in their average monthly earnings with stable retail prices for goods and services. In 1965, for example, the average monthly earnings of factory and office workers were 96.5 roubles, in 1970, 122 roubles, and in 1975, 146 roubles. In 1980, the average monthly earnings of factory and office workers will be not less than 170 roubles.

The real incomes of collective farmers consist of their remuneration for work on the farm, income from their small holdings, and receipts from social consumption funds. With cash payment for work their real income, it should be noted, as with workers, varies with the level of retail prices of goods purchased by them in state and co-operative shops and with the level of prices on the collective farm market. To the extent that the collective farmer's payment in kind and the produce of his personal small holding are consumed by a collective farm family they directly enter the indicator of the standard of living. As for the part of produce that is sold on the market, its real level as income depends on the level of both market prices and of state retail prices of goods for collective farmers.

The policy of the CPSU provides for overcoming consistently the essential difference between town and country. Therefore, the remuneration rates for collective farmers are rising faster than the pay of factory and office workers. Between 1965 and 1975 they rose by 81 per cent (the workers' pay went up by 51 per cent), and in the tenth five-year period they are to grow by another 24-27 per cent, i.e. by a larger amount than the average pay of factory and office workers (which will be 16-18 per cent).

The incomes of the whole population are increased appreciably from social consumption funds. Rapid growth of social consumption funds is the material basis for major achievements in provision for the disabled, in the field of public health service, in the provision of good housing and in rapid rise of cultural standards.

The raising of the working people's standard of living is summed up in the steady growth of the population's real income. In 1975 the real incomes of the Soviet population (in per capita terms) were 96 per cent higher than in 1960. During the tenth five-year period they will grow by another 20-22 per cent. In absolute terms this increment will surpass that achieved during the preceding five years.

The increase in the working people's incomes is the economic basis of the socialist way of life.

In the stage of developed socialism there takes place improvement of socialist production relations, including relations of distribution, a process that is being realised through consistent application of the principle of distribution according to work, through its flexible adaptation to the growing level of socialist production and to rising needs of the working people and through planned enhancement of the role of social consumption funds.

## Chapter VII

# ACCUMULATION AND CONSUMPTION UNDER SOCIALISM

## 1. FEATURES AND PECULIARITIES OF SOCIALIST ACCUMULATION

A condition of society's existence and development at any historical stage is the production of use values meeting man's varied needs. The constant renewal of this condition is the process of social *reproduction*, which may develop on either an *unchanged* or a *growing scale*. Extended reproduction is characteristic of the present-day development of society and means that a definite share of the social product is used to increase the volume of production, i.e. is accumulated.

The objective necessity of extended reproduction is due, above all, to the need to satisfy the vital wants of a growing population. The needs of society and its members, however, do not remain unchanged but tend to grow under the influence of various factors, the determining influence on the course of social reproduction and consequently on accumulation and consumption being their social form.

The Soviet Union's economic potential and needs of its economy have reached a high level. On this basis the 24th CPSU Congress mapped out a policy line for the ninth five-year period of considerably improving the people's well-being. This policy, reaffirmed by the 25th Congress, determines the general orientation of economic development for a long time ahead. The tasks set by the Party are being fulfilled with such a combination of accumulation and consumption as makes it possible to meet the rapidly growing needs of developed socialist society as fully as possible.

## The Essence of Socialist Accumulation

*Socialist reproduction* differs radically from reproduction in antagonistic socio-economic formations. It is not brought about spontaneously but *on the basis of conscious consideration of the requirements of the economic laws of socialism*. Socialist reproduction develops in conditions in which the antagonism between the social character of the process of production and the private form of appropriation has been abolished and the basis laid for crises-free development of the economy. Production grows steadily at a high and stable rate and as it increases, it ensures systematic improvement of the well-being of the people.

Under socialism reproduction and accumulation have specific features of their own. In the first place they exclude exploitation of man by man. Under socialism the accumulated share of the social product belongs to society and is its property. The social product, augmented through accumulation, constantly becomes social property and is owned by the working people themselves. Consequently the working people emerge again and again from the process of reproduction and accumulation as joint owners of the augmented mass of products and increased social wealth. The whole course of socialist accumulation strengthens the uniting of labour power with the means of production on the basis of socialist property. Thus, socialist production relations are reproduced on an expanded scale as accumulation grows.

Along with the increase in social property personal property also grows but not beyond the limit of personal needs. The growing needs of the members of socialist society are satisfied in two ways: (1) by increasing that part of the social product that the working people receive by spending their earnings; and (2) through the growth of social consumption funds. The size of personal incomes is, consequently, organically linked under socialism with the dynamics of the social consumption funds, the importance of which increases as we move towards communism.

*Accumulation under socialism is the increase of public wealth, above all, increase of the main production assets and creation of the material prerequisites for steady growth of the people's well-being.*

## The Sources of Socialist Accumulation

In the process of creating material wealth the implements and objects of labour are constantly expended. If they are not fully replaced, it will be impossible to resume, and consequently to expand, social production. The necessary product is also fully expended by society on the reproduction of labour power and on raising workers' living standards. *Accumulation can therefore only take place at the expense of the surplus product.*

Under socialism the antagonism between necessary and surplus product disappears. In pursuing the task of steadily improving the workers' well-being, society has a direct interest in increasing and rationally distributing the whole of the newly created value, i.e. the national income, between the different types of productive and non-productive needs, i.e. between accumulation and consumption.

The amount of newly created value and of its components (necessary and surplus product) depends (1) on the mass of labour applied in material production (how many people are working, how long and how intensively); (2) on the productivity of social labour (how many use values are produced per unit of average working time). Systematic use of the advantages of socialism offers opportunities for full use of the manpower resources of society and faster raising of the productivity of social labour than under capitalism. The amount of new value therefore grows at a stable and high rate under socialism. From 1951 to 1975 national income increased by 590 per cent in the Soviet Union, 90 per cent in Great Britain, 230 per cent in the USA, 120 per cent in France and Italy, and 280 per cent in the Federal Republic of Germany.

In socialist society the scale of the necessary product is determined by the level of the development attained by the productive forces, the historically formed standard of living and the due need for constantly improving the well-being of production workers. The necessary product includes a definite volume of material wealth ensuring, in the given conditions, that the vital needs of workers and their families will be met and labour power reproduced and developed in an all-round way. These wants take shape within the frame-

work of global social production, so that the necessary product, given equal quantity and quality of labour, is roughly the same for all industries and enterprises. With each new cycle of reproduction the quantity of use values created by necessary labour is increased by a certain amount, while the growth of the people's well-being stimulates further growth in social production.

One of the prime conditions of extended reproduction is the conversion of a definite share of the surplus product into means of production that are again and again involved additionally in the process of production. This part of the product, because of its natural form, is mainly only suitable for accumulation. At the same time, consumer goods can also be accumulated for the purpose of attracting additional workers into production. Consequently, part of the surplus product is used to make additional means of production and necessities of life over and above the quantity needed to maintain production and consumption at the level attained.

Only part of the surplus product, however, and not the whole of it, is used for the needs of accumulation. A definite part is used to satisfy a number of society's non-productive needs, and another part goes into the personal consumption of workers in material production. The surplus product, for example, covers expenditure on realising the product and on supporting all branches of the non-productive sphere of socialist society, i.e. education, culture, health, the apparatus of management, defence, and so on.

Thus, *socialist accumulation reflects the objective need to use part of society's surplus product to augment the assets of the economy and in the first place to expand production assets for the development of production in order steadily to improve the well-being of the people, which is done through investment in building new assets and reconstructing old ones and increasing reserves.*

The problem of maintaining an optimum balance between accumulation and consumption is of prime importance for socialist society and is linked with the need for fullest use of the advantages of socialist accumulation, for ensuring rapid increase in the scale of accumulation and for accelerated development of large-scale highly concentrated, mechanised and automated social production.

## 2. CONCENTRATION OF SOCIAL PRODUCTION

Socialist accumulation goes on an ever increasing scale and on a constantly changing technical basis, while economic processes develop that tend to raise the effectiveness of accumulation and extend its scale. One of these processes is the concentration and enlargement of socialist production. The need to step up the efforts to concentrate production and set up large associations and complexes has been emphasised in the decisions of the 24th and 25th Congresses of the CPSU.

### **Scientific and Technological Progress and the Development of Socialist Large-Scale Machine Industry**

Socialism inherits large-scale machine industry from capitalism at a definite level of development for each country. After victory of socialism it continues to develop in two directions: (1) it assumes an increasingly large scale and continually advances to a higher technical level in the industries comprising it; (2) it systematically embraces industries hitherto not mechanised.

The current stage in the development of large-scale machine industry is characterised, as was said above, by accelerated rates of scientific and technological progress; by universal application of electricity and the discovery of new sources of energy; by the development of fundamentally new implements of labour and the advent of a new element in the machine system, i.e. automatic devices regulating and controlling production processes; by enhancement of the unit capacity of all types of equipment; by the completion of all-round mechanisation and the gradual automation of production processes; by the discovery and application of fundamentally new materials; by ever broader use of lasers and the techniques of radiation chemistry; by various forms of specialisation and a wider use of mass and flow-line production.

All these factors create favourable objective conditions for progressive extension of the scale of socialist production and further raising of its level of concentration.

## The Main Trends in Concentration of Socialist Production

Concentration of production proceeds along several lines, primarily by *intensification of production processes* at operating enterprises through their modernisation and enlargement by using accumulated internal resources and centralised investment. *Large new enterprises* equipped with the latest machinery are also built.

Heightening of the degree of concentration is markedly affected by increasing the unit power of machines, tools and units.

Concentration of production is also manifested in *increasing the output and raising the efficiency of labour*.

The process of concentration brings about a decline in the share of output of relatively small enterprises, while the number of the biggest enterprises and their share in the social product grow appreciably.

Concentration of production also occurs in agriculture. Co-operation of farming and the establishment of a network of state farms have brought about a transition to a system of large-scale socialist farming, and as accumulation increases and technical equipment improves, collective and state farms tend to grow in size. This is attributable to the development of specialisation and agro-industrial integration.

Large-scale machine industry has undoubted advantages over relatively small-scale production. By increasing the process of concentration, socialist society derives economic benefits, but the principle "The bigger the better" does not always justify itself. This is a matter that can only be rationally solved by taking the whole complex of factors and conditions into consideration.

## Optimum Size of Socialist Enterprises

In a socialist economy the development of large-scale machine industry implies, (1) growth of production within the limits of each operating enterprise through accumulated internal reserves and centralised sources; (2) the building of new enterprises of a size determined by the achievements

of technological progress and production organisation and the availability of raw materials and power.

The scale of concentration cannot be assessed by any one indicator, for example, the number of workers employed in enterprises. The extending of automation and intensification of production processes in every way enable large-scale production to be organised with a relatively small number of workers (power stations, certain chemical works, and so on).

The advantages of large undertakings are manifested in the more favourable opportunities they offer for introducing new equipment and technology, for the use of the most economic types of raw materials, supplies and power, the application of advanced experience and the development of specialisation and co-operation, flow-line and mass production. But there are definite limits to the concentration of production beyond which its effectiveness may begin to decline.

The law of the benefits of scale is not absolute even in industry. "In agriculture, however, which is distinguished for the incomparably greater complexity and variety of its relations, the full applicability of the law of the superiority of large-scale production is hampered by considerably stricter conditions," Lenin said in this connection. "... Large-scale production in agriculture is superior to small production only up to a certain limit. . . . It also goes without saying that this limit differs in different branches of agriculture and under different social-economic conditions."\* The building of extremely large enterprises involves, for example, an increase of internal carriage, leads to a worsening of working conditions and hampers the organisation of rational production management.

*The optimum size of enterprises* is determined in each case by the concrete conditions and factors. By the optimum size of a socialist enterprise we understand such productive capacity as ensures the most effective technical and economic performance in the given conditions of time and place with the minimum outlay and best meets the needs of the economy.

---

\* V. I. Lenin, "Capitalism in Agriculture", *Collected Works*, Vol. 4, pp. 119-20.

In present conditions, intensification of production processes is exerting more and more effect on concentration of production. In the tenth five-year period modernisation of operating works will make it possible to increase output considerably with the same production floor space and with the same or a smaller work force.

But the development of large-scale socialist machine industry is not limited to the processes of its concentration at individual enterprises. It also implies rational use of the opportunities offered by combining and integrating production, establishing production and research cum production combines and associations within industries and between industries. Towards the beginning of 1976 they accounted for 24 per cent of industrial output. In the tenth five-year period the establishment of such associations will be completed.

Production associations are a new stage in the concentration and enlargement of production and in increasing the degree of its socialisation. They are formed as integrated production-economic complexes, in which science and production closely interact and specialisation and co-operation are widely developed. It was pointed out at the 25th CPSU Congress that the establishment of production associations in industry, the enlargement of building and assembly organisations, inter-farm co-operation and agro-industrial integration in agriculture conform to the specific features of the present stage of economic development and improve the organisational structure of the national economy and management.

In socialist society these combines have nothing in common with capitalist monopolies and their drive for maximum profit so as to enrich capitalists. The main criterion of efficient performance for production amalgamations in socialist society, just as for individual enterprises, is raising of the productivity of social labour in the interests of the working people. The development of large-scale machine industry also implies improvement of the sectoral direction of enterprises on the principles of profit-and-loss accounting and management and planned co-ordination of inter-industry relations within economic regions and the economy as a whole.

Concentration of socialist production is brought about by its specialisation, by development of the social division of labour and of the social character of the process of production. Specialisation is one of the pre-conditions for concentration of production. All this in turn multiplies the advantages of socialist industry and the conditions for the growth of accumulation and further development and perfection of the technical basis of society.

Thus, socialist accumulation helps intensify concentration of production, which in turn makes for further growth of accumulation. At the same time, the structure of social production is altered.

### 3. THE STRUCTURE OF SOCIALIST PRODUCTION

The structure of socialist production is seen, on the one hand, as the ratio between its material and human factors—the means of production and the work force involved in producing the social product. This ratio can be expressed by comparing the mass of the means of production employed in the process of production and the number of workers needed to operate them. On the other hand, it has a value expression in the ratio of the value of the means of production employed and of the newly created value needed for the reproduction and all-round development of labour power. In relation to the value structure of production its *technical structure* is decisive.

#### The Dynamics of the Structure of Socialist Production

Technical structure tends to rise in the course of scientific and technological progress. This means that the same number of workers are capable of operating a larger volume of means of production and turning out a larger volume of output. In other words, the volume of the means of production employed grows faster than the number of workers, which tends to raise the productivity of their labour. The socialist economy is developing steadily in this direction.

If we compare the growth of main production assets in Soviet industry, on the one hand, and the average annual increase in the number of workers, on the other, we find that in 1975 these indicators were respectively 130 and 20 per cent as compared with the 1965 figures. The structure of production in individual industries and groups of industries varies within fairly wide limits. In the power industry, for instance, the main production assets in the period 1966-1974 increased by 120 per cent and the work force, by 24 per cent; in the fuel industry the respective changes were a 90 per cent increase and a 10 per cent decline, in mechanical engineering and metal-working, the increases were 136 and 36 per cent respectively, and in the food industry, 95 and 10 per cent respectively. In agriculture, the structure of production is lower than in industry mainly because of historical lag in its technical level. In the tenth five-year period in the USSR sweeping measures are being taken towards all-round mechanisation and automation of the extractive industries. Agriculture is being consistently put onto an industrial basis and equipped with highly productive machinery. All this is making for levelling out of the structure of socialist production.

The ratio between the value of the means of production applied and newly created value dependent on the technical structure of production is the *value structure of socialist production*.

It should be borne in mind, however, that this value structure differs fundamentally in its social and economic content from the organic composition of capital, from the ratio of constant to variable capital. Under capitalism, growth of organic composition is attended by intensified exploitation of wage labourers, deterioration in their conditions and an increase of unemployment. In socialist society, such a relationship is eliminated and there is no relative overpopulation. The fundamental difference is that under socialism the fund of necessities of life does not express the value of labour power, because labour power has ceased to be a commodity. Along with the growth of production assets and raising of the level of the technical equipment and productivity of labour under socialism there is a steady increase in accumulation and the living standards of the people.

The ratio of the value of production assets and newly created value under socialism is affected by many factors, some of which tend to raise the value structure of socialist production and others to lower it. Increase in the productivity of labour is accompanied by a reduction in the value of the elements of production assets, which tends to lower the value structure of production. But (1) with an increase in the productivity of labour, there is a lowering of the value of the goods making up the national income; and (2) it is necessary, so that the productivity of labour can be raised substantially, for new equipment and technological processes to be introduced and the volume of production assets per worker to be expanded. This increment in production assets of necessity precedes an essential increase in the national income. Consequently, the factors making for a rise in the value structure of socialist production ultimately come into play, as the effectiveness of the use of existing production assets improves.

Under capitalism, a change in the composition of capital is linked with the interests of opposing class forces and their antagonistic clash. Under socialism there is no place for antagonistic contradictions but non-antagonistic contradictions do appear in the dynamics of the value structure of socialist production. They are resolved by society in the interests of growth of production and improvement of the living standards of the working people.

Analysis of the technical and value structure of production has theoretical and practical importance. In capitalist society the raising of the composition of capital is accompanied with intensified exploitation of the workers and an increase in unemployment. In socialist society, the growth of the technical and value structure of production reflects fundamentally different relations and produces different social and economic consequences.

The dynamics of the structure of socialist production reflect its progressive growth and on this basis steady improvement in the well-being of the working people and their all-round development. In combination with the growth of socialist accumulation, as will be shown below, raising the composition of production is the basis for full employment of the able-bodied population and systematic distribution

and redistribution of labour power between the subdivisions and branches of industry and individual enterprises. It also gives rise to priority growth of production of means of production.

### **Guaranteed Employment of the Able-Bodied in Socialist Society**

With the establishment of the undivided sway of socialist ownership of the means of production *a solid economic foundation is laid for guaranteed employment of the whole able-bodied population.*

The decisive conditions for guaranteed full employment are: (a) abolition of exploiting classes and their parasitic consumption and (2) planned development of the socialist economy. Under socialism, the whole surplus product is at the disposal of society and its collective bodies and is used to extend and perfect social production, to improve the well-being of the people. Here productive consumption includes that part of the social product that is lost irretrievably under capitalism in the parasitic luxury consumption of the exploiting classes. With high and stable rates of growth, the resources for socialist accumulation increase rapidly and production is further extended, drawing into it and into other spheres of activity both the natural increase of the able-bodied population and the manpower released as a result of technological progress.

Vast new construction and extension of industry and the radical social changes in the countryside have led to the complete elimination of unemployment in towns and of agrarian overpopulation in the Soviet Union as early as the first five-year plan period.

In socialist society the rates of accumulation are faster than the growth rates of employment, which is a major factor guaranteeing work for urban and rural working people and improving their well-being. Socialist production only answers its purpose when it guarantees full employment of the able-bodied population.

## Redistribution of Manpower Between Enterprises and Industries

Unless the structure of production changes, a certain mass of means of production requires the former mass of living labour, so that the demand for labour grows *pari passu* with increase of the volume of productive accumulation. A certain rate of accumulation enables the demand for labour power and available labour resources to be balanced.

With a rise in the composition of socialist production the quantity of living labour relatively diminishes; and the faster the rate of technological progress and growth of labour productivity in material production and its separate spheres, the more marked is the reduction in the relative demand for labour power.

The structure of production and the demand for labour power change differently in individual industries, depending on the rates of technological progress. In separate industries this demand may decline in absolute terms in certain conditions, as well as relatively. In the period 1940-1975 the average annual number of factory and office workers in Soviet industry increased by nearly 167 per cent, including 310 per cent in the electrical power industry, 160 per cent in the iron and steel industry, 330 per cent in the chemical and petrochemical industries, 290 per cent in mechanical engineering and metal-working, 90 per cent in the light industry and 90 per cent in the food industry. In the coal mining, lumbering, wood-working and pulp-and-paper industries the increase in the numbers of workers slowed down substantially after a certain time or even ceased at all.

Thus technological progress, by altering the structure of production, is an important factor in the distribution and redistribution of labour power and its movement in the process of socialist reproduction.

All this means that raising of the composition of socialist production is inseparably linked with problems of accumulation and consequently of consumption.

#### 4. THE RATIO OF ACCUMULATION AND CONSUMPTION

##### Accumulation and Consumption Funds and Their Structure

With extended reproduction all the newly created value or national income is divided into a consumption fund and an accumulation fund.

The *accumulation fund* is a part of the surplus product allocated for extending production, increasing fixed production and non-productive assets, material current assets and reserves. Thus the accumulation fund, broadly viewed, includes resources being used to expand assets for non-productive purposes, housing and the building of social amenities.

The *consumption fund* is used to meet the working people's material and cultural needs both in the sphere of production (the necessary product) and in the non-productive sphere. This fund is therefore formed both from the necessary product and from that part of the surplus product allocated for non-productive consumption. It includes the personal consumption of the population, the material expenditure on institutions catering for the public and on research institutions and management.

What are the laws governing the ratio of the accumulation and consumption funds? In socialist society, both these funds have one and the same social nature and are not antagonistically opposed to each other; the development of society implies the necessity for an optimum combination of the expanding scale of production and steady growth of popular consumption. It is impossible to improve the workers' standard of living without developing the productive forces, i.e. without accumulation; but the development of production and acceleration of its growth rates are impossible without increasing production and without improving the people's well-being.

The optimum combining of accumulation and consumption is a contradictory process, because at any given moment an increase of one of them means a reduction of the other. Under socialism this contradiction is not antagonistic in character and is resolved by developing production at high rates;

along with rapid growth of social production the resources both for accumulation and consumption are increased.

The ratio of accumulation and consumption is established in different ways in different historical conditions, different countries and different stages of economic development. Today, in socialist countries, 20 to 30 per cent of the national income goes into the accumulation fund and 70 to 80 per cent into the consumption fund, which ensures high rates of growth of socialist accumulation and substantial improvement of the well-being of the people; the ratio varies with the concrete tasks of any particular period of economic development.

The optimum ratio of accumulation and consumption reflects the dynamic process of the development of rapidly changing economic factors. With developed socialism the growth rates of both accumulation and consumption tend to draw together, which is linked with the sweeping change of the whole Soviet economy towards fuller meeting of the working people's needs. During the ninth five-year plan the accumulation fund was 25 per cent and the consumption fund 75 per cent. In the tenth five-year period the consumption fund will increase by 27-29 per cent as compared with the 1975 figure, while the accumulation fund will rise by 17-23 per cent. Consequently, the rate of accumulation is reduced somewhat.

In the long run the proportion of accumulation may diminish or grow a little, depending on the needs of the developing scientific and technological revolution and other objective conditions.

## Factors Determining the Scale of Accumulation

Since the *accumulation fund* is part of the national income, *its volume* consequently *depends* primarily on the conditions determining the size of the national income, i.e. on the *mass of labour applied and its productivity*.

The advantages of socialism ensure faster growth rates of labour productivity, the number of workers in industry and the national income than under capitalism, which enables so-

cialist society to increase the scale of accumulation rapidly.

The scientific and technological revolution is making increase of labour productivity the absolutely dominant factor in growth of the national income and consequently of accumulation and consumption. This factor is to account for 85 to 90 per cent of the total increment of the national income in 1976-1980.

The *scale of accumulation* is directly related, in particular, to the *amount of social wealth*, the most important part of which is *production assets*. With growth of fixed production assets the depreciation charges forming the *amortisation fund* for replacing fixed assets also increase. Since the fixed assets worn out are replaced after their complete wearing out, the amortisation fund is partly used for purposes of accumulation and is allocated in a planned way to expanding production. Depreciation charges grow as fixed production assets increase. In Soviet industry they were nearly 140 per cent bigger in 1974 than in 1965.

Compensation of the wear and tear of fixed production assets takes place in conditions of ever accelerating technological progress; therefore the replaced assets are more efficient than the worn-out ones and are capable of giving a greater output and so of yielding a larger national income in physical terms with the same expenditure of labour. This gives society additional resources for accumulation and consumption and steps up increase of the scale of social wealth.

The scale of accumulation also depends on economical expenditure of material circulating assets (raw materials, supplies and power) in the process of production. Reduction of their expenditure per unit output enables society to produce a greater output with the same material circulating assets, in which the introduction of new technological methods, for example, chemical processes, is especially important.

All these factors appear as free services of past labour embraced and animated by living labour and they grow rapidly in volume along with increase of production and accumulation.

The possibilities of extending production by rational use of the accumulation fund, raising the efficiency of industry,

improving the use of the amortisation fund and renewing the implements of labour, economising more on raw materials, supplies, fuel and power, and improving the organisation of production and work processes were carefully taken into account in the ninth five-year plan and in drafting the tenth.

### **The Optimum Proportions and Effectiveness of Socialist Accumulation**

*In socialist society there is no antagonism between accumulation and consumption.* Accumulation only makes economic sense when it serves the task of increasing the people's well-being. That, however, does not mean that there is no contradiction at all between those processes.

A whole number of concrete manifestations of this contradiction could be cited. Increasing share of production accumulation, for example, accelerates technological progress and the growth rates of production and leads eventually to improvement of the people's well-being; but at any given moment this increase still limits growth of consumption.

The proportions of accumulation and consumption are not rigid and unalterable but are fairly flexible, depending on a whole set of social and economic conditions, namely, the level of the country's productive forces, the efficiency of new equipment, the reserves for making better use of fixed and circulating assets and the rational employment of labour and natural resources.

*The optimum ratio of accumulation and consumption implies such utilisation of available resources as guarantees high and stable rates of growth of production and accumulation and provides the maximum possible increase of the consumption fund and the fund for non-productive accumulation over a comparatively long period.*

The degree to which accumulation influences growth of consumption is determined by *three* main factors: (1) the *rate of accumulation* (the ratio of the accumulation fund to the national income), (2) the *structure of accumulation* and (3) *its effectiveness*.

The *rate of accumulation* determines the conditions for growth of production and raising the level of consumption, but this determining influence is confined to certain limits. The increment of accumulation in socialist society cannot be larger than the absolute increase of the national income, otherwise it will reduce the consumption fund. The rate of accumulation can only be raised as long as absolute growth of both accumulation and consumption is maintained.

What are the minimum and maximum limits of the accumulation and consumption funds?

As was noted earlier, socialist accumulation presupposes guaranteed full employment of the able-bodied population, which means that society has to create a sufficient number of new jobs every year to draw those newly entering the labour force into socially useful activity and to make use of the labour power released in various industries as a result of technological progress. Society can get the necessary number of new jobs by way of new capital construction, enlarging and reconstructing existing enterprises and increasing the amount of shift work in them. When the average cost of a newly created job is known and the need to increase working people's real incomes is kept in view, taking into account the annual increase of population, the minimum limit to socialist accumulation and consequently the upper limit to consumption is thereby set.

Objectively there is also a maximum limit to socialist accumulation, which depends on the three factors mentioned above: the *rate, structure and effectiveness of accumulation*, and is related to the minimum rate of consumption. With an annual population growth of 1.5 per cent, for example, the consumption fund cannot be increased by less than that amount, otherwise living standards will decline.

Accumulation is the lesser part of the national income. Therefore, an absolute growth of consumption is also possible when the *rate of accumulation* grows faster than the national income and the rate of accumulation is increased, but that is possible only so long as the absolute increment in accumulation is less than the absolute increment in the national income.

The possibilities of growth of consumption depend on the *structure of accumulation* and its use in various industries.

A change in the ratio of investment in heavy and light industries, in industry and agriculture and in the various sectors of heavy industry will entail changes in the scale of consumption even though the rate of accumulation is unaltered. In the ninth five-year plan, for example, investment in agriculture and the light and food industries was increased substantially, which was accompanied by a quickening of the growth of real incomes in town and country and a growth of consumption.

Finally, *the raising of the effectiveness of accumulation*, which depends on technological progress and other factors, has a great effect on increasing consumption.

There is a close connection between the growth rates of production and volume of accumulation: growth of social production depends on accumulation and the accumulated resources, in turn, depend on the rates of production growth. The socialist system ensures high and stable rates of extended reproduction together with steady increase in the absolute scale of accumulation and consumption.

### **The Law of Socialist Accumulation; the Steady Rise in the Well-Being of All Members of Society**

*An essential feature of the law of socialist accumulation is that its operation is accompanied by the development and consolidation of social property and a steady rise in the well-being of the people.*

The socialist system has removed such obstacles in the way of improving the people's well-being as economic crises, unemployment and other social evils of capitalism. As a result of abolition of the system of exploitation, standards of living have become directly dependent on growth of social production and productivity of labour which gives every working person the chance to satisfy his or her material and cultural requirements more and more fully.

Working people's standard of living is ensured by the provision of work for every able-bodied member of society. The

number of jobs in production and other spheres of labour in the Soviet Union is constantly increasing.

Rising living standards are also expressed in the steady improvement of working conditions, shortening of the working day and the lightening of work through improvement of production.

The decisive factor in growth in living standards is raising of the earnings of factory and office workers and of collective farmers' incomes from the social economy. Growth of money incomes is accompanied by an increase in the turnover of retail trade and public catering. The income working people derive from social consumption funds also plays an increasing role in improving their standard of living.

The socialist system creates very broad opportunities for raising educational standards. Only half a century ago the majority of the population of the USSR was illiterate. In the ninth five-year period (1971-1975) the Soviet people completed the transition to universal compulsory secondary education. The scale of training specialists and skilled workers is steadily widening.

The network of cultural institutions is being constantly extended and cultural services improved, as is illustrated by the increase in the number of theatres, libraries, clubs and cinemas, the expansion of radio and television services, the increase in the output of books and circulation of newspapers and magazines.

Year by year socialist society increases its care for the people's health.

The socialist system is laying the basis for radical improvement of the people's housing conditions. The 25th CPSU Congress has outlined a broad programme of social development and further advancing of the working people's living standards. It is planned, in particular, to build 545-550 million square metres of floor space.

The working people in socialist countries have the best opportunities in the world to enjoy various social benefits, to obtain an education, to receive medical attention and to improve their cultural standards, not to speak of the possibility of participating in the management of industry and in political affairs.

## The Socialist Law of Population

The radical changes in the position of the masses of the people under socialism are associated with operation of the *socialist law of population*. In political economy we mean by this the law governing the improvement of the people's welfare, which primarily reflects the possibility of applying labour to the means of production. The operation of this law is determined by the main economic law of socialism and the associated character of appropriation of the results of production and features of the process of accumulation.

In capitalist society accumulation is accompanied by growth of unemployment and deterioration of the condition of the working class, so that consumption by the masses of the people inevitably lags behind the growth of production and the increase in society's wealth. In contrast, socialist accumulation provides opportunities for applying the labour of all the able-bodied population. Under socialism, the results of production and accumulation are appropriated by society with the aim of all-round development of every one of its members. And that, above all, determines the improvement of the people's well-being.

The essence of the socialist population law is that the *accumulation and growth of social wealth lead objectively to rise of the people's well-being and to full employment of society's labour resources*.

The more production is developed the greater the wealth the workers create by their labour. The people's well-being depends not only on the scale of accumulation and the amount of social wealth but also on the social conditions determining the whole character of a given society. The extent to which the working people enjoy the fruits of accumulation is determined by the character of the process of reproduction.

The socialist population law implies that the growth of social wealth ensures involvement of the whole able-bodied population in socially useful work and a steady increase of employment, and guarantees improvement of all the living conditions of the working people and all-round development of the individual.

Thus socialist accumulation sets the aim of more fully meeting the growing needs of society and of all its members. Along with that, social wealth increases, common ownership of the means of production is consolidated and socialist relations of production are developed, which creates broader and broader scope for scientific and technological progress and growth of the productive forces in general and consequently for a further advance in the people's standard of living.

\* \* \*

This analysis of the essence, of the fundamentals of reproduction and accumulation completes the first stage of our examination of the laws governing the development of a socialist economy. It provides an opportunity of explaining the conditions in which the assets of individual enterprises are reproduced and their revenues formed, and of substantiating the necessity for, and the principles of, profit-and-loss accounting and management and the formation of an accumulation fund (i.e. growth of fixed and circulating assets) in each enterprise.

## PROFIT-AND-LOSS ACCOUNTING AND MANAGEMENT

In the preceding chapters we have examined the more general laws of socialist economic development. The essence of socialist relations of production and of the main economic law of socialism were analysed in one of the first chapters, which enabled us to demonstrate the planned character of the development of a socialist economy. Discussion of the planned character of socialist production shed light, in turn, on the essence and role of commodity-money relations and of the law of value in an integral system of socialist relations of production developing in a planned way. Then on that basis we analysed the process of socialist production and its workings, in a general way, which was followed by examination of the law of distribution according to labour and the correlation of accumulation and consumption in socialist society.

In the course of examining these problems we defined the general patterns of development of a socialist economy and of its growing over into a communist economy.

Further study of the economic laws of socialism calls for a more concrete approach to the analysis of production and economic ties in socialist society, above all consideration of the economic processes in the primary links in the social division of labour against the background of and in close connection with the general relations of the economy.

Under socialism these primary links or basic units are state and co-operative production enterprises.\* It is in them

\* The term *predpriyatiye* ("enterprise", "undertaking", "concern", "production unit"), in Soviet usage, is broadening today as production becomes increasingly concentrated and centralised. It not only embraces

that labour power is directly united with the means of production and material wealth produced. Increase of the national income and growth in social wealth depend, in the final analysis, on the successful working of each enterprise. The economy of each socialist country consists of a great many such economic cells, all of them mutually interconnected in their economic activity.

Production relations between socialist enterprises are established in a planned way and develop as relations of comradesly co-operation and mutual assistance in order to meet the growing material and cultural needs of the members of society. The production activity of enterprises and associations is based on a combination of centralised direction and managerial independence (autonomy) and initiative, and is carried on in conformity with the national economic plan on the principles of profit-and-loss accounting.

The socialist state, relying on objective economic laws, directs the economy in the interests of society as a whole, determines the proportions of social reproduction, the rates of development of the various industries, and so on. Each enterprise or association produces and disposes of its output in accordance with the plan. That gives rise to economic relations between society as a whole and each individual enterprise, between society and associations of enterprises of various kinds, and between the enterprises and associations themselves. These relations are manifested in profit-and-loss accounting and management.

## **The Essence and Organisational Principles of Profit-and-Loss Accounting**

Profit-and-loss accounting is an economic category of socialism in which certain aspects of the socialist relations of production find expression. It is a complex system of mutual economic interrelations between socialist society as a whole and its individual production units (enterprises, associations)

---

separate, individual mills and factories, but also covers integrated works and combines and other kinds of production amalgamations with an official overall balance sheet and autonomous management.

and between the units themselves, relations that take shape in the production process in connection with the socially necessary expenditure of labour and its reduction which is a *sine qua non* for ensuring regular satisfaction of the growing needs of all society and for distributing the net revenue of enterprises.

In practice, profit-and-loss accounting operates as a method of managing the economy associated with central planning, the essence of which is that each enterprise assesses its outlays on production and the results of its economic operations in money form, covers its expenditure by its cash income and ensures profitable production. The most important features of the method are its self-covering nature and profitability.

Under socialism this method of managing the economy makes it possible to combine the interests of society as a whole with those of the bodies of workers of individual enterprises and concerns and of each separate worker. Since the means of production are socially owned and output is distributed in the interests of the working people themselves, production workers have an interest in greater production of needed goods, in improving quality, in economising labour. They cannot be indifferent to waste of material assets, because that is tantamount to waste of social labour. Achievement of maximum results in the interest of society with the least expenditure of labour and means of production is the indefeasible law of thrifty management which is realised through consistent use of profit-and-loss accounting at all levels of the socialist economy. This applies both to individual enterprises and their sub-units, and to state-owned industrial associations and industrial ministries.

Profit-and-loss accounting based on common social ownership of the means of production differs in principle from capitalist profit-and-loss accounting which serves private interests. With the aim of obtaining high profits capitalists strive first of all to save on the wages of workers; they achieve this primarily by increasing the intensity of labour and economising on working conditions and outlay on safety, which leads to a growth of industrial accidents. Such profit-and-loss accounting intensifies the sharpening contradictions of capitalism.

Under socialism, profit-and-loss accounting is an important lever of planned management of the economy and serves the interests of all society and raising of the workers' standard of living. It enables the interests of society to be combined in the best way with those of the workers of individual enterprises and of each separate worker.

In state enterprises which are public property, profit-and-loss accounting is based on the following basic principles.\*

The key principle is the *operational and managerial autonomy of the enterprise* and it consists in the fact that each enterprise is assigned material and financial assets that continue to be the property of the whole people. The enterprise enjoys certain rights, has its own balance sheet and is a juridical person. It is responsible to the state for the safe-keeping and rational use of the assets received and must fulfil its contractual obligations to other enterprises. In carrying on its operations in conformity with the national economic plan, it uses the resources made available to it autonomously. In striving to achieve maximum results with minimum outlay it exercises technical, organisational and managerial functions aimed at ensuring loss-free operation and increasing the profitability of production.

Thus, when we speak of managerial autonomy we have in mind the relative independence of enterprises and associations. Their activities are regulated by centralised planned direction on the part of the state. The state sets all units assignments regulating all the main aspects of their operation. The national plan is the basis for the autonomous financial relations between various economic units and for their operation.

Another principle of profit-and-loss accounting is that of *material incentives*. This means economic stimulation of enterprises and material encouragement of their organised work force and of each of its members. For this purpose such levers as profit, prices and bonuses are used. The material encouragement of workers takes the form of various bonuses and other rewards from the incentive funds. Enterprises that fulfil their state plan assignments and ensure

---

\* In co-operative enterprises and on collective farms profit-and-loss accounting has certain special features which are discussed in Chapter XI.

profitable production are eligible to material encouragement. In fact the net income of an enterprise depends on the quantity and quality of its output realised. As the quantity of realised output increases and its quality improves so the net income of an enterprise increases. What is more, it depends to a considerable extent on the amount of expenditure on production and marketing. The lower the enterprise's production outlays per unit product the greater at a given price its net income is.

The body of workers of an autonomous, profit-and-loss enterprise therefore has an interest in introducing new and improved technique and technology and in adopting advanced methods of organising production and raising the qualifications of workers, all of which has a decisive influence on increasing labour productivity, reducing the prime cost of output and increasing the enterprise's profit. As its profit increases an enterprise gets greater opportunities for developing and improving production, for encouraging workers materially and for undertaking social and cultural measures and the building of housing.

The principle of material interest is supplemented by the *material responsibility of the body of workers of the enterprise* for safeguarding and correctly using the assets assigned to them and for fulfilling national economic plans and various obligations. An enterprise has a material responsibility both to the state and to the other enterprises and organisations with which it is linked by business contracts. Material and administrative responsibility makes it possible to strengthen plan and financial discipline and to economise on available material and financial assets.

The state employs various forms of control over the operation of autonomous economic units. One of these is known as *rouble control*. The varied activity of each enterprise is expressed in value indicators like profit, cost, profitability, and so on. The financial resources of an enterprise depend on its performance. Overexpenditure of material and financial assets, deterioration of product quality and mismanagement all have an adverse effect on its financial position. An enterprise is obliged in all circumstances to make on time various payments and settlements with the state and the other enterprises with which it has business relations.

Rouble control is exercised primarily by credit and finance organs whose sanctions induce financially autonomous enterprises to use their available resources rationally, to maintain a regime of economy, to lower the cost of output and to increase profit.

The principles considered here are inseparably linked together and constitute an organic whole. Their consistent observation enables profit-and-loss management to be carried on most effectively.

The forms of the organisation of profit-and-loss accounting and management do not remain constant in the different links and levels of the economy, but alter in accordance with the development of the productive forces and perfecting of relations of production.

The existence of profit-and-loss accounting under socialism, like that of commodity production, is conditioned by the special features of the forms of social ownership of the means of production and the special character of labour under socialism and of the necessity to reward it materially.\* The special nature of the forms of socialist property and the need for material incentives for labour are determined in turn by the inadequate level of development of the productive forces. In the transition to a single national communist form of property and to the communist system of distribution commodity-money relations will gradually outlive themselves and wither away, and that applies in equal measure to the value form of profit-and-loss accounting existing under socialism.

Thus, *profit-and-loss accounting, being an economic category, is simultaneously a method of planned management of the economy based on managerial and financial autonomy, the employment of commodity-money relations and the material (financial) interest and responsibility of enterprises.*

Under socialism the role of profit-and-loss accounting is immense. Its application is linked with the main and other economic laws of socialism and its categories. Profit-and-loss accounting stimulates increase of the quantity and improvement of the quality of output and lowering of production outlays

---

\* The reasons for the existence of commodity-money relations under socialism were considered in Chapter IV.

on the basis of scientific and technological progress, which corresponds directly to the aims of socialist production.

Profit-and-loss accounting is linked with operation of the law of balanced economic development, the law of value and such value categories as prime cost and profit. The law of value orients enterprises on average socially necessary expenditure, taking the economic and technical conditions into account. The greater the reduction of the expenditure on output achieved by an enterprise the more it is materially rewarded. Correct use of value categories ensures development of the economic initiative of an enterprise, directed to economising expenditure of materialised and living labour, with the price of the commodities produced having the greatest significance. An enterprise can obtain a valid profit if the prices at which it realises its output and acquires commodities needed for production reflect the socially necessary expenditures. In profit-and-loss accounting, operation of the law of value is manifested, in the last analysis, in the interestedness of an enterprise or association in economising on all expenditure.

In striving to reduce outlay per unit product financially autonomous enterprises improve the technique and technology of production and employ new forms of work organisation. As a result, expenditure of working time is reduced and the productivity of social labour is raised. Consequently operation of the law of steady growth of labour productivity is manifested through profit-and-loss accounting.

Lowering of the cost of output leads to an increase of enterprises' profits, which is one of the main sources of socialist accumulation and of extending production and which creates the conditions for improving the material well-being and cultural standards of the people.

Profit-and-loss management is linked with the law of the planned, proportionate development of the national economy. Under socialism scientifically substantiated planning and shaping of the proportions of reproduction require the employment of value, commodity-money categories, including profit-and-loss accounting. Use of the principles of the latter, above all material interest stimulates enterprises to include latent reserves for the growth of production in their plans and to fulfil the plans in all their indicators. In that a cor-

rect combination of centralised planning and local planning at the enterprise or association has a most important role to play.

Thus, profit-and-loss accounting is associated with operation of the whole system of the economic laws of socialism. The fullest and proper carrying out of its principles encourages consolidation and development of socialist relations of production.

### **The Development of Profit-and-Loss Accounting at the Present Time**

The new stage in the development of the Soviet economy has entailed perfecting of the methods of management. The September (1965) Plenary Meeting of the CPSU Central Committee noted shortcomings in the organisation of centralised planning and in the economic performance of enterprises. The economic levers of management were not adequately used in the practice of direction. A great many plan indicators, not always well co-ordinated, were sent down to enterprises from above. And enterprises were extremely limited in their use of the material and financial assets allocated to them and of a considerable part of their profit.

The old system of material rewards had not interested the workers of enterprises in improving the quality of output. Enterprises had only limited means for material rewards, and about half of them had none at all. A need had matured for further consolidation of centralised planned direction in organic combination with the development of managerial autonomy and strengthening of the initiative of enterprises.

Any social production, of course, must be managed. Karl Marx stressed that any joint work carried out on a comparatively large scale had to a greater or lesser degree to be managed. The character of the managing of social production, moreover, is determined by the form of ownership of the means of production.

Large-scale machine industry engenders an objective need for centralised direction of social production. Under capitalism, however, in which private ownership of the means of production predominates, it is impossible to arrange the man-

agement of social production from a single economic centre. Only under socialism is it necessary and possible to organise planned centralised direction of social production on a national scale.

Centralised direction of the economy according to a plan drawn up in advance, carried out by the socialist state in the interests of society as a whole and of every worker, is one of the advantages of socialism over capitalism. Only national centralised planned direction makes it possible to use material and human resources in the most rational way. The methods of management, moreover, largely determine the efficiency of social production. As we have already remarked, the productivity of labour depends on the skill of workers and on technical, natural and other factors. Centralised management under socialism makes it possible to unite all these factors organically and so stimulate raising of the productivity of labour; it has to constantly maintain the necessary level of organisation, discipline and individual responsibility of the workers.

Soviet experience indicates that the form and methods of centralised management do not remain unaltered, but are perfected along with development of the productive forces and of socialist relations of production.

At the stage of developed socialism centralised planned direction implies more effective utilisation of commodity-money relations, profit-and-loss accounting and active involvement of workers in management and in mobilising reserves for raising labour productivity, improving the profitability of production and product quality.

In the period when socialism was being built in the Soviet Union there were difficulties in the way of consistent application of the principles of profit-and-loss accounting, difficulties linked with a number of circumstances, primarily with the need to create branches of modern machine industry almost from scratch. The home and external conditions of the country dictated the carrying out of this task in the shortest possible time and that, in turn, called for huge outlays of materials and labour. In the post-war years, when the economy had been restored, and technique and the economy had been raised to new heights, new industries developed, the scale of production grew, the social division of labour was

extended, the scientific and technological revolution began to develop, the existing autonomous organisation of production ceased in many ways to meet the needs of further development of the productive forces. It became necessary to find new forms of direction of the economy corresponding to the present-day level of the Soviet economy.

As already mentioned, the September 1965 Plenary Meeting of the Central Committee adopted decisions, confirmed in many later decisions of the CPSU, which were aimed, in conformity with the level of development of the productive forces reached, at improving methods of economic management in combination with centralised state planning and the development of profit-and-loss accounting with broader use of commodity-money relations, the law of value and value categories (profits, prices, prime costs, profitability, etc.). Such combination encourages raising of the efficiency of social production, progressive development of economic relations, primarily between the body of workers of an enterprise and society as a whole. The 25th CPSU Congress reaffirmed the need to reinforce simultaneously both these principles of democratic centralism. The Report of the CPSU Central Committee stated in part: "On the one hand, centralism must be developed and a barrier thereby raised to departmental and parochial tendencies. On the other, it is necessary to promote democratic principles and local initiative, to relieve the upper echelons of management from petty matters and ensure speed and flexibility in decision-making."\*

In accordance with the Party decisions economic planning was improved by way of fuller mastery of the economic laws of socialism, of ensuring economic proportionality, of the development of broad economic initiative in all financially autonomous units and of obtaining maximum output for the minimum expenditure. And as already said, the devised system of economic management envisaged reducing the number of centralised plan indicators and improving those retained, in order to extend the autonomy of enterprises.

Combination of centralised direction and managerial autonomy at enterprise level is primarily ensured by giving financially autonomous units directive plan indicators, namely,

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 72.

assignments for increasing the volume of output, improving labour productivity, raising the degree of profitability and economic rationality, and so on. These guiding indicators make it possible to shape the basic proportions of the economy, co-ordinate production and consumption and ensure continuity of socialist extended reproduction. Indicators like profit are of key importance. Profit is one of the main sources of the assets of enterprises and of the state revenue. It is therefore necessary for every normally functioning financially autonomous enterprise to make a profit in accordance with the results of its operation within the limits of social standards and to have the wherewithal to pay the necessary deductions into the state's centralised funds as well as to ensure the development and improvement of production, and also to have the means for material rewards and improving the social and cultural facilities for its workers. In addition, it is inadmissible for enterprises to make a profit through not observing state prices or raising prices without justification, or through breach of the product-mix and standards established by the state.

In spite of the importance of profit, one must not overestimate its role. It cannot be the sole or decisive indicator in assessing the performance of an enterprise. At today's level of development of the economy a proper combination of centralisation and managerial-operative autonomy of enterprises, as we have already said, can be ensured by using several leading indicators in centralised direction of the economy.

In present management conditions enterprises plan many indicators independently. Their autonomy has consequently been extended as a result of reducing the number of plan indicators confirmed from above and improving those retained. Enterprises have been given the chance to decide independently many matters of developing production.

Enterprises have come to enjoy greater autonomy in their interrelations with each other and with other economic bodies. Given a guaranteed market they are able themselves to plan and produce additional output. The improving of supplies of materials and equipment, organised on a territorial and industry principle, operates in the same direction. Direct links between enterprises, between supplier and

consumer, have become more common and the role of contractual relations has grown considerably. The business contract is becoming the decisive document in relations between financially autonomous units. The range of the sanctions applied against enterprises that do not fulfil their contractual obligations has been extended.

Consolidating of profit-and-loss accounting and combining of the interests of each worker with the interests of the whole body of workers of an enterprise, and of the interests of the enterprise with those of all society are both encouraged by *material stimulation*, the object of which is to interest the collective of workers and each individual worker in an enterprise in the adoption, and in ensuring fulfilment, of high plan indicators and in the effective use of material, financial and labour reserves.

The system of material stimulation existing before we went over to the new system of management had essential shortcomings that have now been largely eliminated. Much attention is now being paid to stimulating enterprises and production collectives and profit plays an important role in this. The funds created out of profits are devoted to developing production, material rewarding of workers of the enterprise and to improving their social, cultural and housing conditions.

Financially autonomous enterprises now have a special *production development fund* made up of a deduction from their profits and of depreciation allowances earmarked to replace worn-out fixed assets. The formation of this fund poses the problem of its correct use, of providing the enterprise with the necessary equipment, building materials and other material and technical resources. In addition to the production development fund, a *material incentive fund* is formed from part of the profits obtained, and also a *fund for social and cultural measures and housing construction*.

The *material incentive fund* is earmarked for financial rewarding of the whole body of the enterprise's workers and of each individual worker in accordance with their contribution to the common results. The *cultural and housing fund* is set up in order to improve housing conditions, cultural and welfare services and medical care for the workers of the enterprise. It also raises the interest of the whole body

of workers in improving the technical performance of the enterprise.

The 25th Congress of the CPSU advanced the task of increasing the effectiveness of the use of economic incentives funds, to make their size at every enterprise directly dependent on the performance results: the degree of intensification of production, labour productivity, improvement of product quality.

In addition to the material interestedness of the enterprise in raising the efficiency of production, its material responsibility to other enterprises and the state has also been increased. This is motivated by the transfer of enterprises to financing their fixed production assets and circulating assets from their own sources.

The role of credit has been enhanced considerably. Under the new conditions of management, expenditure on modernising equipment and reconstructing enterprises can also be covered by bank loans in addition to the development fund. The enterprise is obliged to repay these loans on time, which impels them to use their available resources more effectively. The mutual material responsibility of enterprises for observance of their obligations has also been enhanced.

Thus, profit-and-loss accounting is being consolidated by improving centralised planning, enhancing the role of economic levers based on commodity-money relations and the material concern and responsibility of the enterprise in the interests of rational management of the economy. Much work has been done in recent years in the USSR to improve the management of enterprises and industries. The quality of centralised direction has been raised and there has been a marked extension of the involvement of the working masses in management, all of which is having its effect in raising the efficiency of production.

The 25th CPSU Congress emphasised the need for further all-round improvement of the country's entire economic mechanism, the economic incentives and levers which are the basic means of assessing the performance of economic units enjoying operational autonomy, such as profit-and-loss accounting, profit, prices, bonuses. Greater importance is attached to such factors as improvement of product quality, acceleration of the rates of growth of labour productivity,

improvement of the use of production assets and financial resources, fulfilment of product delivery plans in accordance with contracts and orders on hand.

The Report of the CPSU Central Committee attached special importance to having all these factors more fully harmonise the interests "of the worker with the interests of the enterprise, and the interests of the enterprise with the interests of the state, inducing the enterprises to adopt (and, of course, carry out) demanding plans, economise on resources, reduce cost prices and, at the same time, master the manufacture of new articles more quickly and produce the required range of high-quality goods".\*

With the scientific and technological revolution, accelerated development of the productive forces, growth of the scale of social production and more far-reaching specialisation, the process of concentration and centralisation of production has been intensified and the socialisation of production has been taken ever further.

The rapid growth of the socialist economy makes it necessary to constantly improve profit-and-loss relations. With developed socialism profit-and-loss relations have gone beyond the limits of relations between enterprises and have spread to higher levels of the production apparatus, to all-Union and republican firms, associations and combines. Today science is becoming more and more united with industry and there is now a need to include research and development organisations in the amalgamations being formed and to transfer them onto profit-and-loss accounting and management.

Large self-sustained production associations have great advantages compared with separate autonomous enterprises. Matters of scientific and technological progress are decided much more quickly and skilfully at this level, computers are employed more effectively in production control and management and much faster growth of labour productivity is achieved.

At the same time, the formation of production associations is an important element in improving the system of management not only in individual industries but in all social production. They represent a fundamentally new phenome-

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 71.

non in production management, an integrated production-economic complex, in which science and production combine organically with the development of broad specialisation and co-operation.

There is much in common between the organisation of profit-and-loss accounting in big associations and enterprises, but there are certain specific features. They can decide matters of the interrelations of suppliers and customers much more independently. They have their own economic levers for managing the production units that form part of them, levers that reflect the features of the associations themselves and of their industries. Therefore a stereotyped approach to creating financially autonomous production associations is impermissible. The basis for their formation is economic expediency. The master schemes of management developed in the USSR make it possible to give profit-and-loss management a new structure in industries and to introduce financial autonomy at all levels from enterprise (or association) up to industrial ministry.

The new methods of economic stimulation of production call for perfecting of all its other economic levers, especially the system of price-fixing. The revenue of an enterprise depends not only on the results of the work of its whole body of workers but also on the prices of the output produced. The fixing of prices such as will stimulate technological progress, lower production expenditures and improve product quality is also of great value as regards an enterprise's obtaining an economically justified profit.

Considerable work has been done in the USSR in recent years in adjusting the wholesale prices of industrial output. They have come to reflect socially necessary outlays more fully, thus encouraging consolidation of profit-and-loss accounting. At the same time, there is a need for further improvement of the system of wholesale prices and for strict observance of pricing discipline in all units of the economy. The attempts of some factory managers to overstate the planned costs of their products in order to increase profits contradict the interests of society.

Bourgeois economists try to represent the improvement of methods of planning and industrial management and the development of commodity-money relations in the Soviet

Union as a reversion to capitalist methods of management. Their allegations, however, bear no resemblance to reality. The improvement of the economic mechanism now under way in the USSR reflects the change in production conditions and the emergence of new economic tasks and is directed to more effective use of the advantages of socialism, consolidation of centralised planned direction of the economy with simultaneous extension of the rights of enterprises and consistent organisation of profit-and-loss accounting at all levels.

The reinforcing of profit-and-loss accounting creates favourable conditions for raising the productive forces and presents new opportunities for improving the people's well-being. At the same time it improves socialist relations of production.

## THE ASSETS OF ENTERPRISES. TURNOVER AND CIRCULATION OF ASSETS

The profit-and-loss management of state-owned socialist enterprises in the USSR is effected through use of the assets (material and financial) available to them. These assets, while put at the disposal of separate state-owned enterprises (associations), nevertheless remain the property of society as a whole. Co-operative and collective farm enterprises also have assets at their disposal, but in contrast to those of state-owned enterprises, these assets belong to separate organised groups of working people. In their economic nature they are of the same type as the assets of state enterprises.

Like the other economic categories of socialism the assets of enterprises express a certain aspect of socialist relations of production, namely, the relations between society as a whole and the individual enterprise, its production work force as regards use of the resources put at its disposal. The production assets of socialist enterprises (associations) are utilised in the process of producing material wealth for the purpose, in the long run, of meeting the growing needs of the working people of socialist society.

### The Turnover of Assets and Its Stages

The assets of enterprises take both a *material, natural form* and a *value, money form*.

As we know, the value of the means of production used up in the process of production is imparted, by the labour of the

production workers, to the product newly made. At the same time, the labour of the workers, assuming abstract form, creates new value. Once a commodity has been produced it passes from the sphere of production into that of circulation. The monies obtained as a result of realisation are expended by the enterprise to replace the means of production used up, to pay the wages of its workers and for other needs.

In their movement, the assets of an enterprise go through the stages of production and circulation, changing their form in the process.

So as to be able to start the process of production, each enterprise must have a certain aggregate of means of production. *The first stage in the movement, or turnover, of assets* is the acquiring of the needed instruments of labour, raw materials, fuel, etc., for money. Any departure from this process, for whatever reason, has a negative effect on the smoothness of the enterprise's working.

An enterprise must have money to pay the earnings of its workers and employees as well as to acquire the necessary means of production; but in contrast to capitalism this is not the purchase of labour power because the workers of socialist enterprises are themselves the owners of the means of production.

*In the second stage of the turnover of assets* the means of production acquired by the enterprise are employed in the process of production and function as production assets. The stage is completed by the passage of the assets from the productive to the commodity form; and in it, in accordance with the national economic plan, labour power is directly involved. As a result of the action of the production workers on the object of labour by means of the instruments of labour, a new product is created differing both in natural form and in value form from means of production employed in the second stage. The product, passing through the circulation phase, is then used according to its purpose either in personal or productive consumption. Its value differs from that of the means of production used up by the amount of the new value created in the process of production.

At this stage in the turnover of assets a social product of definite amount is created, providing a certain quality and mix of products. The second stage is therefore the decisive

one; hence there is a special need to ensure rhythmic, efficient organisation of the whole process of production. Failure to fulfil set production assignments leads to disturbance of the regular, planned working of the enterprise (association) concerned or of its separate units and of other enterprises associated with it.

*The third stage* is that of realisation of the product.

At this stage in their turnover assets pass from the commodity to the money form. In socialist society, the money form, although playing a limited role, nevertheless is of certain importance for smoothness and a normal process of production. The enterprise reimburses the means of production used up and its expenditure on wages and receives its net income in money form.

Planned realisation of output makes it possible to return assets to the sphere of production in good time, thus creating the conditions needed for uninterrupted working of inter-related enterprises. But if realisation of the output is delayed that can disrupt the smoothness of production, necessitate an increase in the enterprise's assets and additional withdrawal of material and financial assets from the national economy.

Conversion of the commodity form of the assets of an enterprise into the monetary form is the beginning of a new cycle in their turnover.

Thus, the assets of socialist enterprises, passing through three stages in the course of their turnover, consecutively assume money, productive and commodity forms. *The conversion of assets from one form into the other and their passage through the stages of production and circulation is known as the turnover of assets.*

These stages follow one another; but the assets are simultaneously present in all the stages, alternately adopting the money, productive and commodity forms. At any given moment the assets are in all three forms, which is a *sine qua non* of uninterrupted operation of the enterprise. Breach of the principle of the simultaneous existence of assets in all forms leads to negative results, means a delay at some stage or other during their turnover and consequently disturbance of normal working conditions in the enterprise concerned and others linked with it. The turnover process can be represented symbolically as follows:

$$\begin{array}{c}
 L.P. \\
 \uparrow \\
 M-C (m/p) \dots P \dots C'-M'
 \end{array}$$

where  $M$  is money,  $C (m/p)$ —means of production,  $P$ —production,  $C'$ —the commodities produced, and  $L.P.$ —labour power. It should be borne in mind that at the beginning of the turnover, society advances (for one circulation) the necessary sum of money to pay wages to the workers of an enterprise.

The turnover of the assets of socialist enterprises differs radically, in essence, from the turnover of capital. It does not serve to extract capitalist profit but to develop the production of material wealth for the fullest possible satisfaction of the growing needs of society as a whole and of each of its members. Hence the difference in the turnover formula; under capitalism one element in it is labour power as a com-

modity ( $M-C \begin{matrix} \nearrow m/p \\ \searrow l/p \end{matrix}$ ); in socialist society labour power is not a commodity and does not figure in the turnover of assets. Wages are an independent element in the movement of assets and express the planned and direct involvement in the process of production of the workers of the enterprise, who are joint owners of the means of production and are paid for their work in accordance with its quantity and quality. The first stage of the turnover of assets is therefore expressed as follows:

$$M-C (m/p)$$

Turnover of the assets of socialist enterprises is free of the antagonistic contradiction inherent in the turnover of capital. The movement of assets is planned in socialist society at all stages; but that does not mean that non-antagonistic contradictions do not arise in the process. Production of poor-quality goods, breach of the product schedule and mix, and so on, can lead to disturbance of normal operation and

to adverse phenomena in the development of social production. The uninterrupted operation of enterprises largely depends on balanced development of all branches of the economy, employing progressive standards for the use of material, labour and financial resources.

### Circulation of Assets

Ensuring continuity of production necessitates the establishment of a proper ratio between the various elements of assets at each stage of production. Given that, the turnover of assets can move continuously through one stage after another and having done so can consecutively take on the appropriate forms.

*The turnover of the assets of an enterprise, taken not as a single act but as a regularly repeated process, is called the circulation of assets.* This circulation is accomplished during a definite period of time (the circulation time), its length depending on various factors.

Society has an interest in reducing the *circulation time* of an enterprise's assets, because that, in the final count, ensures its obtaining maximum results for the least expenditure of means of production, a point that deserves special attention in today's conditions of accelerated scientific and technological progress.

The circulation time of an enterprise's assets is determined by the length of the processes of production and circulation. The most important component in circulation time is the *production time*, during which the assets are expended productively. Production time, in turn, consists of three parts: (a) the working period; (b) breaks in the labour process; (c) the time during which the assets are in production stocks. During the *working period* the production workers of the enterprise, putting the instruments of labour into action and acting on the objects of labour with them, create the finished product of the enterprise. The length of this period varies with different industries and branches of the economy, being determined by the number and duration of the operations. The scientific and technological revolution is reducing this period significantly through the application of more perfected

instruments of production, the introduction of progressive technology and organisation of labour, improvement of the design of the finished items, and so on. In the end, as a result of shortening the working period, living labour becomes more productive.

In many industries there are *breaks* in the working period, mainly owing to the need for natural or chemical action on the object of labour, drying, for example. Such breaks originate in the production stage and are therefore classed as production time. The development of science and the application of its findings in production enable these breaks to be shortened, which leads to reduction of the consumption of assets in this phase.

In order to ensure normal working of an enterprise some part of its assets must be constantly tied up in *production stocks*.

Assets exist as production stocks from the moment materials, etc., arrive at the enterprise until they begin to be productively consumed. Both society and the enterprise have an interest in tying up the minimum of assets in stocks necessary to ensure continuous operation of the enterprise.

Another component of the turnover time of assets is their *circulation time*, that is the time during which they are in the sphere of circulation, i.e. from arrival of finished goods in the enterprise's warehouse until the acquisition of new means of production for the production stocks. Circulation time includes the period output remains in stock, the time taken by its transportation and realisation and also the time taken to buy and deliver new means of production to the enterprise. The factors playing the most important role in reducing circulation time are punctual, smooth operation of the enterprises themselves, well-organised marketing of finished goods and proper organisation of the supply of materials and equipment.

Thus, one part of assets is continuously in the stage of production and another in the process of circulation.

The assets of socialist enterprises are divided into *production assets* and *circulating assets*. The first include the means of production either held in stock or being used in the process of production, and the second—unrealised output, material values used in the process of circulation (packing cases

and containers, certain equipment, etc.) and liquid assets. The unproductive assets of an enterprise (which include housing, medical institutions, crèches and kindergartens, etc.) must be distinguished from its production and circulating assets. They do not pass through the stages of turnover and are not directly connected with the process of production.

## Fixed and Circulating Assets

In their natural form production assets comprise instruments of labour and objects of labour. This division is inherent in all social and economic formations; but in each of them it has its own economic nature determined by the form of ownership. Thus, the instruments and objects of labour in a capitalist enterprise take the form of fixed and circulating capital, but under socialism there is no category of capital. Under socialism the means of production are divided into fixed and circulating assets according to their mode of movement.

*Fixed assets* are that part of the means of production that are involved in many production cycles without changing their natural, material form. Their value is transferred in bits during production to the product created. They include buildings and structures, power and production equipment, transmitting mechanisms and various forms of transport, minor equipment and certain other items.

In contrast to fixed assets *circulating assets* are fully used up, as a rule, in the course of one production cycle and their value passes wholly to the finished product. Circulating assets include raw materials, fuel, ancillary materials and other supplies.

The role of fixed assets in economic life is enormous, since they are the material and technical equipment of enterprises, and the growth of labour productivity and output depends mainly on them.

High growth rates are characteristic of fixed production assets under socialism. Between 1940 and 1975 they increased more than 11-fold in the USSR; and during the ninth five-year plan alone (1971-75) they increased by 50 per cent. As compared with the 1965 level (that is over ten years) they

more than doubled. The scale of investment intended to increase fixed assets rises year by year.

The fixed production assets of the USSR are distributed over many branches of the economy; most of them are used in such leading industries as mechanical engineering, power generation, the iron and steel and the fuel industries, which reflects the high level of development of the productive forces in the country.

The structure of the fixed production assets primarily determines their qualitative state. In 1974 the fixed assets of Soviet industry were distributed as follows: 29.2 per cent in buildings, 19.6 per cent in structures, 11.6 per cent in transmitting mechanisms, 8.1 per cent in motor mechanisms and equipment, 26.8 per cent in working machines and equipment, 1.2 per cent in measuring and control instruments and devices and laboratory equipment, 2.1 per cent in means of transport and 1.4 per cent in other fixed assets.

The structure of fixed assets varies in the different branches of the economy, primarily because of the specific character of the process of production. In manufacturing industries buildings, machinery and equipment have the greatest weight. In the extractive industries structures and installations form a great part of the fixed assets and equipment a comparatively small one.

The structure of fixed assets varies from enterprise to enterprise within an industry as well as between industries, depending on the degree of mechanisation of labour, modernisation of the technology of production and organisation of work, on the volume of production, natural conditions, etc.

The structure of the fixed assets of the economy as a whole and of separate industries and enterprises does not remain unchanged. Essential shifts take place, because of technological progress, in the ratios between their various components. In this, the most effective element is the increasing proportion of the most active part—machines and equipment directly affecting the objects of labour. Growth of labour productivity and of the volume of output depends in large measure on them. Their proportion is increased in today's conditions through the development of complex overall mechanisation and automation of production processes.

## Physical Wear and Tear and Obsolescence

Fixed production assets consist of the most varied instruments of labour having both use value and value. In the process of production they gradually lose their use value, undergoing *physical wear and tear*. At the same time their value depreciates as it is transferred by concrete labour to the finished product.

The intensity of the depreciation of fixed assets during their use depends largely on their production load and maintenance conditions. With proper care and employment they remain physically useful until their value has been fully transferred to the product. If fixed assets become useless too quickly part of their value may be lost to society irretrievably; and in that case it will be necessary to use part of the surplus product to reimburse society's fixed assets fully.

In addition to physical wear and tear, the instruments of labour suffer *obsolescence*. When investigating the capitalist mode of production, Karl Marx distinguished two forms of obsolescence. The first was associated with the fact that the production of new machines becomes cheaper owing to heightening of the productivity of labour, with the consequence that the machinery in use is significantly depreciated in value. The second form of obsolescence arises as a result of inventions and the introduction of more economic and productive machinery. In both cases, Marx noted, however new and physically viable a machine was, its value depended not on the working time actually embodied in it but on that which was now necessary to reproduce it per unit capacity. Therefore it loses more or less of its value.

Under socialism obsolescence of the instruments of labour also occurs in two forms caused by technological progress. The limits of the application of machinery are greatly extended, but here, too, especially now with the scientific and technological revolution, more productive machinery and equipment is being created, while the use of obsolete technique slows down growth of labour productivity, a circumstance that necessitates the introduction of new, more perfected equipment.

In contradistinction to capitalism the replacement of obsolete machinery and equipment is carried out in a planned way under socialism, which makes it possible to reduce losses from obsolescence considerably. This presupposes efficient utilisation of fixed productive assets. What is more, the replacement of old operating machinery by new ones is only economically expedient when the gain from using the new machinery is more than the remaining part of the value of the old machine. If the old machinery continues to be used in such circumstances society suffers a loss. Under socialism the replacement of obsolete machinery and equipment is a most important means of lightening labour and raising its productivity, and increasing production of material wealth. In the ninth five-year period about 40 per cent of fixed assets were renewed in industry, and 56 per cent in agriculture.

We noted above that the value of fixed assets is not transferred to the output all at once, but gradually over their whole service life. The part of their value that is transferred represents *depreciation* or *amortisation*, which forms part of the gross outlay of financially autonomous enterprises on production, in money form, as *depreciation allowances*. After output has been realised, this part of the process is paid into the depreciation fund which is then used to replace fixed assets.

The magnitude of depreciation allowances depends mainly on the value of the instruments of labour and their service life and is usually determined by means of the *rate of depreciation*, which is taken as a percentage of the book cost of the fixed assets. In the USSR the rates of depreciation charges are fixed according to types of fixed assets. The average rate of depreciation allowance for all industrial fixed productive assets was 7.4 per cent (including 3.5 per cent for capital repairs).

The weight of depreciation allowances in the structure of productive expenditure on output varies from industry to industry. In 1974 the proportion of depreciation in oil extraction was 36.4 per cent, in the chemical industry—8.5 per cent, in the iron and steel industry—8.3 per cent, in light industry—1.1 per cent of all expenditure; and for industry as a whole it was 5.7 per cent.

The proportion of depreciation is not constant. Technological progress leads to the weight of depreciation allowances in total production outlays rising steadily. Karl Marx remarked that it was most characteristic for raising the productive power of labour that the main portion of constant capital should grow rapidly together with that part of the value that was transferred to commodities in consequence of wear and tear. Under socialism depreciation allowances also grow and their growth moreover occurs mainly through the depreciation of production equipment, which is evidence of technological progress.

Depreciation allowances play an immense role in socialist reproduction, ensuring simple reproduction of fixed assets, and in conditions of continuous technological progress function as a factor favouring reproduction of fixed assets on an extended scale. This comes about due to the fact that the accumulated depreciation fund can be expended on acquiring new instruments of labour even before full wearing out of the fixed assets being used and on modernising instruments of labour in use, thus increasing their productivity, or on acquiring new, more efficient equipment to replace that worn out. In studying these aspects of the process of reproduction, Karl Marx stressed that depreciation could serve either to expand production or to improve machinery in order to increase its efficiency. Thus, reproduction is realised over a certain interval of time and if we consider it from the social aspect, it is reproduction on an extended scale: extended either extensively, by broadening the field of production, or intensively, through employing more efficient means of production.\*

The depreciation fund is used for reproduction of fixed assets, which takes the form of capital construction, the buying of new machinery and equipment and major repairs.

In carrying out of *major repairs* and *overhauls* units, vital parts and components of machinery and equipment are replaced and production buildings restored or reconstructed. As a result, the physically worn out part and the value of fixed assets are restored. Modernisation of the implements of labour is also often carried out at the same time. In such

---

\* See Karl Marx, *Capital*, Vol. II, Moscow, 1971, pp. 171-72.

cases not only are fixed assets restored to their original working condition but their capacity is increased. In the end the fixed assets become more productive and this leads, essentially, in some cases to their renewing and their extended reproduction.

Fixed assets are also reproduced in the form of capital construction. In the place of outworn instruments of labour, more perfected machines and equipment are introduced and new production buildings and structures are erected. This used to be done mainly from part of the depreciation allowances which were paid into the centralised fund of society. Since the September 1965 Plenary Meeting of the Central Committee, however, another procedure for employing depreciation allowances has been introduced. Under the new management conditions a considerable part of depreciation allowances remains directly with the enterprise and is employed to renew and modernise and reproduce its fixed assets. This has created better conditions for employing more efficient technique, ensuring continuous turnover and circulation of fixed assets and corresponds in greater measure to the principles of profit-and-loss accounting. Another portion of the depreciation allowances is employed centrally to finance investment.

This explanation of the essence of the turnover and circulation of the assets of socialist enterprises allows us to pass on to consideration of their effective utilisation.

### **Improving the Use of Assets**

Fixed productive assets are a most important part of the national wealth and are a decisive factor in its growth. At the end of 1975, the fixed assets of the USSR were valued at over 800,000 million roubles. With rapid growth of fixed assets improvement of their structure and raising the efficiency of their use are becoming more and more important and make it possible to maintain high growth rates of production and to increase the consumption fund.

In today's conditions the raising of the standard of use of fixed assets in every enterprise has become of vast importance in order to increase the volume of output, reduce

costs and improve the profitability of the enterprise. This is mainly achieved by intensifying production processes, e.g. employing high-speed methods of cutting metal, reducing the length of melts, and so on. Production indicators can also be improved by lengthening the time machinery and equipment is used, by increasing the coefficient of shift-working on it, eliminating idle time, lengthening the periods between overhauls and improving the quality of the repairs themselves. The 25th CPSU Congress set the task of improving the performance of machines and equipment by working in shifts. In mechanical engineering, for instance, the coefficient of shift work is to increase by an average of 20-30 per cent.

In addition to fixed and circulating assets, enterprises also have cash and disposable stocks, as was mentioned above.

*The circulating assets of an enterprise consist of its circulating assets expressed in money plus its cash and disposable stocks.*

At the end of 1974 the circulating assets employed in the Soviet economy were valued at around 294,000 million roubles,\* including stocks of goods and materials valued at 221,000 million roubles. As production increases the size of circulating assets also grows (between 1965 and 1974 by over 100 per cent).

Efficient use of its circulating assets by each enterprise is of exceptional importance for the economy. The same output can be produced with different amounts of circulating assets; and that is not a matter of indifference to society. It has an interest in each enterprise producing the maximum output with the minimum circulating assets. The resources so freed can be used to extend social production. A positive result can be achieved by shortening production and circulation time, i.e. by speeding up the rate of turnover of circulating assets, which means cutting the time taken in completing each full cycle of their turnover.

The rate of turnover of circulating assets is mainly accelerated by shortening the production cycle through higher productivity of labour and also by strict observance of the norms laid down for stocks of raw materials, fuel and other assets. The tenth five-year plan provides for an acceleration of

---

\* Not including the circulating assets of collective farms.

the turnover of circulating assets by an average of 3 to 5 days.

The key thing here is proper organisation of *supplies of materials and equipment*. Prompt, continuous provision of the means of production needed saves enterprises from having to accumulate production stocks above the authorised level.

Prompt realisation of the finished product also has a big influence on accelerating the turnover of circulating assets; it is mainly determined by the way the plan for product mix and quality is fulfilled. The rate of turnover of circulating assets also depends on prompt payment of accounts by customers and other factors.

The structure of circulating assets varies within any one industry, as well as between the enterprises of different industries, owing to different levels of technical equipment and improvement of the technology and organisation of production. The specific conditions of a given industry therefore determine the concrete ways of reducing the amount of circulating assets employed.

Effective use of the assets of enterprises is a most pressing problem of Soviet economic development, because, given rapid scientific and technological progress, the volume of output and reduction of outlays on its production are more and more determined by the standard of the technical equipment of enterprises and rational use of productive assets. By improving the standards of using fixed productive assets, losses due to obsolescence of equipment can be reduced and possibilities provided for accelerating the rates of extended reproduction with the same proportion of accumulation in the national income.

Another task in improving management is to enhance the interest of enterprises in improving their use of plant, raw materials, fuel and power and ancillary materials and to ensure their smooth operation.

Until recently Soviet enterprises used to receive fixed and circulating assets from the state on terms that did not stimulate their efficient use. The degree to which productive assets were used, moreover, was not fully reflected in evaluations of enterprises' performance, so that the latter were not therefore duly concerned about proper and effective utilisation.

tion of the additional investment and assets assigned to them. Many had much uninstalled and surplus equipment. Taken with other circumstances that had a negative impact on the effectiveness with which investments and productive assets were used.

In accordance with the decisions of the September 1965 Plenum of the Central Committee, a new procedure for using assets was established. First of all, *payment for assets* was introduced. Before the economic reform was begun, enterprises used to pay deductions from their profits into the state budget regardless of the fixed productive and circulating assets assigned to them; but now, under the new management conditions, each enterprise is obliged to make payments into the budget in accordance with the value of its fixed and circulating assets. The rates of payment, moreover, are fixed for several years ahead so that a normally functioning enterprise has the chance to build up incentive funds and cover planned expenditure from the remaining profits, which has definitely had an effect on the use of the assets available to them and on the introduction of more effective machinery. With the institution of payment for assets it is unprofitable for an enterprise to hold uninstalled equipment above plan and materials above the authorised standards.

*As an instrument of profit-and-loss accounting stimulating effective use of assets, payment for them is a concrete form expressing the relation between society as a whole and a given financially autonomous unit concerning the distribution of part of the net income between them.* As a result of its introduction the volume of the fixed and circulating assets of an enterprise and their use have become a most important factor in dividing the surplus product between it and the state.

The perfecting of management not only presupposes a better use of assets but also implies enterprises' enhanced interest in expanding them.

In the new conditions enterprises are able to obtain credits from the State Bank for expanding and improving production.

Measures have also been taken to improve the effectiveness with which circulating assets are used. Before the economic reform, for example, there used to be a procedure by

which an enterprise could obtain additional allocations from the state budget, not subject to repayment, to offset a lack of circulating assets caused by its own poor performance (delay in realising output, surpluses of materials, etc.), a procedure that tended to lower its responsibility for preserving assets and using them effectively; in the new conditions this practice has been abolished. Enterprises now have to obtain a loan from the State Bank at a definite rate of interest. This has enhanced the role of credit in the reproduction process.

Improving the effectiveness of the use of assets has had a favourable effect on all aspects of the economics of enterprises and is a major condition for solving the main economic task, building the material and technical base of communism.

## **COSTS OF PRODUCTION AND PRICES IN SOCIALIST SOCIETY. PROFITS OF ENTERPRISES**

### **1. COSTS OF PRODUCTION**

#### **The Essence of Costs of Production**

As we have already said, the process of producing material wealth in any society implies the purposive activity of people, i.e. labour, and the expenditure of material resources (instruments and objects of labour). If we disregard the material basis of means of production existing in natural form, the process of production comes down to expenditure of labour. This expenditure is *the costs of production, and consists in the expenditure of past labour embodied in the means of production and living labour expended on making a given product*. When commodity-money relations exist, social costs of production take a value form and in their aggregate form the value of the product.

The economic nature of costs of production differs in the various social and economic formations. Under capitalism, for example, they express the relations of exploitation of wage labour by capital. Under socialism, they express socialist relations of production and do not come about spontaneously, in the course of competition, as they do under capitalism, but *in accordance with the requirements of the objective economic laws of socialism and on the basis of a plan drawn up in advance*.

Under capitalism, a lowering of costs of production is accompanied, as a rule, with a worsening of the position of the working people and an increase in the wealth of the capitalists; but under socialism, in which there is no exploitation of man by man, the lowering of costs of production leads to an increase in social wealth and an improvement of

the living standards of the people. In socialist society, therefore, the working people are interested in reducing the outlays of enterprises on output.

As it was explained in Chapter IX, each socialist enterprise has production assets at its disposal, which are turned over and circulate. In the process, some of the value of the output is isolated and takes the form of *prime cost*, which represents the costs of socialist enterprises. These costs express in money form the expenditure of past, embodied labour and a part of the input of living labour. The expenditure of embodied labour is expressed in the price of the means of production consumed and part of the input of living labour in earnings.\* The other part of the input of living labour, which is expressed in the net income obtained by the enterprise and the centralised net income of the state, is not part of prime cost but, together with it, forms the social costs of production.

Thus, *the costs of socialist enterprises are less than the social costs of production. The prime cost of products in money form expresses part of the social costs of production.* Socialist relations of production are expressed in prime cost.

Prime cost plays an important role in the development of socialist production and is of major importance for introducing profit-and-loss accounting. No enterprise can maintain a normal process of reproduction without covering its costs. Improving the profitability of an enterprise largely depends on lowering the prime cost of output, which is contingent, in turn, on improving its technical equipment, work organisation and ability to use the assets available to it rationally.

Under socialism the state fixes the prices of commodities for production and consumer use in a planned way. The basis for forming prices is the prime cost of articles. It is not, however, the prime cost at an individual enterprise, but the prime cost in a given industry, i.e. the average outlay which is formed, in the final analysis, by the individual outlays of all the enterprises in the industry.

---

\* Not counting bonuses for the overall results of the enterprise's performance.

## The Structure of Costs of Production

Socialist society is interested in reducing costs of production. The discovery and use of reserves for reducing them are an integral part of planning and cost accounting and an analysis of the structure of costs.

All outlays on output are grouped by the following *elements of production*: wages and payments into the social insurance fund; raw materials and supplies; fuel and power; depreciation allowances to reimburse the value of the used-up part of the fixed assets; other expenditure associated with the management and servicing of production. Thus, expenditure on raw materials and supplies in Soviet industry in 1974 was 64.6 per cent of the total outlay on the output of industry, on ancillary supplies 4.3 per cent, on fuel 3.6 per cent, power 2.5 per cent, depreciation 5.7 per cent, wages and social insurance 14.8 per cent, other outlays 4.5 per cent. The structure of costs varies from industry to industry and from enterprise to enterprise, primarily because of the considerable differences in the ratio of the expenditure of living and embodied labour.

Outlays on production are grouped according to their *productive purpose* as well as according to their economic elements, which makes it possible to determine (in money form) the outlay per unit of finished product. The expenditure of an enterprise involved exclusively in producing its output constitutes *works cost*. Works cost plus non-productive outlays form *full cost*. Under present conditions in the USSR, plans of reducing prime costs are handed down, wherever necessary, by ministries and government departments to enterprises and associations. The planning, accounting and analysis of costs are of major importance to enterprises. They make it possible to disclose latent production reserves and to lower costs of production and realisation. The cost plan at an enterprise is dovetailed with the plans for realisation, investment and the commissioning of new productive capacities, supply of materials and equipment, etc., which makes it possible to take measures to use available plant more productively and introduce advanced technique, progressive technology and work organisation, reduce expenditure of raw materials, fuel and power, introduce cheaper types of raw

materials, reduce outlays on transportation, and so on, in order to reduce costs. At the same time the lowering of costs calls for constant attention by the body of workers to improving product quality.

## Ways of Reducing Costs of Production

*Reducing the cost of output, i.e., the costs of an enterprise, is an objective necessity of socialist production, which creates the conditions for increasing socialist accumulation and growth of the working people's well-being.* In present conditions, reduction of cost per unit of output has acquired special importance as it has a decisive bearing on the fulfilment of the targets of the tenth five-year plan for investment and raising of real incomes.

Production outlays are reduced primarily through *growth of labour productivity*, which diminishes the input of living labour per item of output and hence expenditure on pay. That, however, does not mean a lowering of workers' wages; on the contrary, they are increased. If both these indices rise at the same rate, of course, costs will not be reduced, because everything saved will go on the rise of *earnings*.

Raising labour productivity economises on the past labour embodied in means of production as well as on living labour. Some of the value of instruments of labour is transferred to the finished product and so is incorporated in costs in the form of depreciation charges; as technology progresses their proportion in total expenditure on production increases; that, however, does not mean that the absolute magnitude of depreciation charges increases per unit of output: their amount is reduced because more productive machines have been introduced into the process of production. Karl Marx wrote that in proportion to the development of the productivity of labour "*in every aliquot part of the aggregate product the portion representing depreciation of machinery and the portion formed by the newly added labour—both continually decrease*".\* The increase in productivity is consequently not only expressed in a reduction of outlays on wages but also in a reduction of depreciation charges per unit of output.

\* Karl Marx, *Capital*, Vol. III, Moscow, 1971, p. 109.

Labour productivity is raised and product cost reduced as a result of the introduction of advanced technique, modernisation of existing plant, all-round mechanisation and automation, broad use of electricity and the application of chemistry on a broad scale, and through improving work organisation and production technology, raising the cultural and technical standards of the workers in socialist society, and so on. Some of these factors depend mainly on the enterprise; for example, work organisation in shops, sections and other production divisions of the enterprise. Other factors are largely determined by external conditions. This refers to the development of science and engineering in society as a whole, the distribution of the productive forces, the introduction of progressive forms of production organisation, etc. Some factors are simultaneously linked with the performance of the enterprise and general national economic conditions. In analysing growth of labour productivity as a key factor affecting the reduction of costs of production, we must take all these closely connected and interdependent circumstances into account.

During the ninth five-year plan (1971-75) the Soviet Union made great strides in all of these directions. The output of highly productive equipment was considerably increased. The quality of production plant was improved and its life and reliability increased.

Rapid tempos of technological progress and renewal of fixed production assets are also observable in the tenth five-year period.

The introduction of new technology and complex mechanisation and automation of production processes go hand in hand with modernisation of existing equipment, which helps increase its productivity.

Increase of labour productivity and reduction of production costs also depend in many respects on the effective use of available equipment.

The application of progressive technology is a major reserve for lowering the cost of output in the whole economy.

In many industries, outlays on raw materials and supplies, fuel and power, and other elements of circulating assets form a considerable proportion of the prime cost of products. The

demand for these items tends to grow as the economy develops. Reduction of their expenditure per unit of product is a most important reserve for reducing cost. Expenditure on materials can be lowered by developing and introducing new scientific, engineering and design solutions and new technological regimes for processing raw materials, by reducing the weight of articles, and so on.

*Reduction of consumption of metal* is of great importance in lowering cost and *fuel economy* has a marked effect, since expenditure on fuel occupies a large place in production outlays.

In present conditions, power available per worker and collective farmer is increasing rapidly. And as the mechanisation of heavy and laborious processes and automation of production develop, use of *electricity* increases rapidly. Power economy therefore becomes an increasingly tangible factor in lowering the cost of products.

A major reserve for lowering prime cost is *the reduction of outlays on the production of tools and fittings and their proper maintenance and on the servicing of production and management.*

A factor of immense importance for *enhancing* the efficiency of social production is the improving of product quality, which is tantamount in effect to increasing output and saving on labour on a national scale. The documents of the 25th CPSU Congress attach great importance to the steady raising of product quality. The task is to improve the quality of all types of products, to widen their range, increase the output of new types of articles which stand to meet the requirements of the day.

All these ways of economising on productive expenditure can be used comprehensively *given a steady rise in the cultural and technical standards and productive activity of the workers of enterprises, the introduction of scientific job organisation and management, a broad scale of socialist competition to raise production efficiency and improve all performance quality indicators.*

Socialist society attaches prime importance to the factors of thrifty management.

## 2. THE NET INCOME OF SOCIALIST ENTERPRISES

### The Essence of Net Income

Among the economic categories of socialism that express the relations between society as a whole and individual enterprises, the net income of enterprises plays a major part.

The net income created by any enterprise is the whole of the surplus product and that part of the necessary product that is made available to workers in material production through social consumption funds. Its amount is defined as the difference between the social value of the output of the enterprise and its sectoral prime cost.

The net income of an enterprise realised may differ substantially from the amount of its net income, the reason being that the wholesale prices of various kinds of product are not correlated in the same way to value. When the price is higher than value, an enterprise receives a greater net income than was created by it; and when the price of products is lower than their value, the net income realised is smaller than the net income created in the respective industry. Deviations may also occur when the prices of means of production purchased have been fixed below or above their value. That lowers or raises, as the case may be, the prime cost of the output of the user enterprise and consequently increases or reduces the scale of its net income realised, provided the selling price remains unchanged. The total net income of the enterprises makes up the net income of the given industry, and the total net income of all industries, the net income of society.

The net income of socialist enterprises is social property. It is expended on extending social production and meeting the common needs of working people. The more net income enterprises yield society with simultaneous growth of the wage fund, the greater are the opportunities to extend the country's production and more fully satisfy the people's needs.

The socialist nature of net income is also manifest in the specific forms of its distribution.

The net income of an enterprise is divided, in the final

analysis, into two parts, one of which remains at its disposal and is expended on meeting its various needs, while the other is transferred to the state budget. The nature of the two parts is identical: they are both social property.

The division of net income into these two parts is due to the fact that (1) the bulk of it should go into the state's centralised fund so as to meet national needs and (2) a certain part must be left at the disposal of the financially autonomous enterprise so as to maintain a normal course of extended reproduction and material stimulation of its organised workers in fulfilling output assignments and economical expenditure of the means of production.

So far we have discussed the two forms of net income that express its ultimate distribution; but it must be remembered that a certain part of the net income is separated off in many industries in the course of its formation and is transferred to the state as turnover tax, which is one of the main sources of state budget revenue. Unlike the deductions from profits, turnover tax does not depend on actual costs and is a previously determined amount. In its social and economic nature, therefore, turnover tax is not a tax in the proper sense. The rest of an enterprise's net income figures as its profit.

## **Profit and Its Use**

The category of profit, which expresses the relations between society and individual enterprises, is an integral part of profit-and-loss accounting, since a certain part of it remains to meet the enterprise's needs.

The profit of a socialist enterprise reflects the relations of social ownership, comradely co-operation and mutual aid of production workers freed from exploitation; it differs radically from capitalist profit based on ever increasing exploitation of man by man.

Capitalist profit is formed spontaneously, as a result of fierce competition among entrepreneurs and monopolies. The profit of socialist enterprises is formed on the basis of planned processes of the production and realisation of goods.

Underlying its formation are such planned variables as volume of output, production range and price. That does not, of course, exclude deviations from the plan indices; but differences in the level of profit between enterprises and industries come about primarily through the action of planning factors, while capitalist profit is redistributed in bitter struggle among capitalists according to their power, i.e. according to their capital.

Quantitatively profit is the difference between the proceeds of an enterprise from its sold output and its outlays on production and realisation. Calculated per unit of product profit is the difference between the enterprise's wholesale price (without turnover tax) and the actual prime cost of product. With the same social value of output the amount of profit may vary in the separate enterprises of a given industry, because, though having a different productivity of labour and consequently a different individual value, enterprises realise their output at the same price.

Within certain limits, the ratio of the profit of enterprises to their assets expresses how effective enterprises' production is or how profitable they are, while its ratio to the prime cost of product expresses the degree of effectiveness of current expenditures.

In today's conditions of scientific and technological progress when the efficiency of industry depends largely on the intensity with which equipment is used, the definition of profitability as the ratio of profit to fixed production assets and circulating assets has been introduced. This method, however, is not suitable for comparing the efficiency of different branches of the economy and can only be employed to compare the efficiency of production in enterprises of one industry (or the production of mutually interchangeable items) and the effectiveness of the use of resources by a given enterprise over a definite period of time. This method also has the drawback that it does not fully reflect the effectiveness of the use of living labour. It is difficult, moreover, to relate the value of fixed assets to the various types of product made by different industries. The ratio of profit to the prime cost of product is therefore used to determine the profitability of separate types of product, which is the way it is determined both in industrial and agricultural enterprises.

Profit-and-loss accounting implies use of part of the profit in the interests of the enterprise and its body of workers. The economic laws of socialism require that an enterprise's use of its profit should not contradict the social interest but should stimulate the enterprises' better performance in the interests of society as a whole.

Soviet enterprises now spend part of their profit on capital investment and on supplementing their circulating assets on the scale envisaged in the state plan. By spending some of its profit on meeting its own needs, an enterprise has a greater interest in making a profit of the planned amount. When an enterprise fails to fulfil the profit plan, the part of the profit left to it is diminished.

A major factor in raising the material interest of the workers of enterprises in their work is the allocation of part of the profit to various enterprise funds, i.e. *the material incentive fund, the fund for social amenities and housing construction and the development fund.*

The contributions to the first two funds, since they are spent on meeting the personal needs of the workers, are limited in the final analysis by a definite norm in relation to the wage fund, the point being that bonuses from profits are a form of wages and with national social ownership there should be no inequality between bodies of workers in the initial conditions for receiving supplementary rewards. So that enterprises will not strive to inflate their wage funds, the initial quotas for building up these incentive funds are fixed according to the wage fund for the base year (directly preceding the current five-year plan period).

In order to interest enterprises in increasing their output and improving their performance on the basis of intensified production, contributions to the incentive funds are made dependent on an increase in the volume of realised output (profit), the fulfilment of contractual obligations for product deliveries, growth of labour productivity and profitability and raising of the share of new output in the total production.

In addition to contributions from profits, the material incentive fund also includes the bonuses payable to workers on the basis of wage rates and the development fund includes the part of depreciation allowances earmarked for complete restoration of fixed assets, returns from disposing unused

property listed as fixed assets and a share of compensation for development work received from other enterprises.

Apart from these newly instituted funds, the already existing *funds for awarding bonuses for the development and introduction of new machinery, the delivery of output for export, the production of goods from industrial wastes and for performance in the country-wide socialist competition* have been retained.

The bulk of the profit of enterprises and economic organisations is paid into the state budget in the form of *payment for assets, fixed payments and contributions from free residual profit*.

*Payment for assets* is a deduction paid from the net income of enterprises to the state, which varies with the actual total of fixed production assets and rated circulating assets of the enterprise.

*Fixed payments* are made by enterprises operating in better conditions (natural or organisational and technological) and having, as a result, lower costs of production and higher profits. The differential income of the enterprises is transferred to the state budget at a strictly fixed rate (in roubles per ton or as a percentage of the price).

*Free residual profit* is the sum remaining after the deduction of payment for assets, fixed payments, interest on credit, contributions to the incentive funds and for planned investment and payments on long-term loans.

In the new management conditions, the role of the free residual profit has been essentially altered (it used to be known as profit tax), because payment for assets and fixed payments are now top priority. An enterprise is not, however, exempted from the payment of free residual profit even when it is not fulfilling its profit plan. The sums are transferred to the state budget in planned amounts once every ten days throughout the year. When an enterprise does not fulfil its profit plan, the total payment for the year is so specified that the residual profit (after top priority payments and deductions to the works funds) is distributed between the other needs and the free residue in proportion to the amounts envisaged in the plan.

The sequence of distribution of the profit of state enterprises in effect today is as follows: *payment for production*

*assets and fixed payments into the state budget; payment of interest on bank credit; formation of the works incentive funds; the financing of planned investment and repayment of credit obtained for capital investment; financing of the increment to the enterprise's circulating assets; the covering of spending on the maintenance of housing and communal facilities; the transfer of contributions to higher administrative bodies; the payment of unused free residual profit into the state budget.*

The fact that the scale of profit is contingent on the volume and quality of an enterprise's operation makes it possible to use profit as a criterion of its economic performance and a stimulus for better fulfilment of state plan assignments.

### 3. THE WHOLESALE PRICES

#### The Nature and Structure of Wholesale Prices

The relations between enterprises in socialist society are primarily manifested in the purchase and sale of output at planned wholesale prices.

There are different wholesale prices corresponding to definite stages in the movement of products from production to consumption. There is the *works wholesale price*, at which the production enterprise sells its output. This price consists of the prime cost of the product and the profit of the enterprise. At the next stage of the movement of commodities the *wholesale price of industrial marketing organisations* is used, which additionally includes the costs and profits of the marketing units and also, for a number of consumer goods (cereal products, sugar, etc.), the turnover tax levied on a fixed scale.

There is a difference in the wholesale price structure of means of production and consumer goods; the prices of the former contain a smaller proportion of net income than those of the latter. In 1974, the proportion of net income (profit and turnover tax) in Soviet wholesale prices for the branches of heavy industry was 22.6 per cent and for the branches of the light and food industries, 30.3 per cent. The

corresponding figures in 1958 were 16.6 and 38.8 per cent respectively, which indicates a certain levelling out of the wholesale prices of means of production and consumer goods in relation to their value.

The prices of consumer goods, however, still correspond to their value to a greater extent than the prices of means of production. The existence of prices of means of production that are below value is possible because means of production are mainly marketed within the state sector. The surplus product created during their manufacture is fully realised through the sale of consumer goods and the state receives the full sum of net income, including that not incorporated into the prices of means of production. The economically necessary level of prices in exchange between socialist enterprises is such as guarantees reimbursement of their expenditure and the obtaining of a profit that covers their demand for extending production and stimulating their organised workers.

The case is different with the prices of personal consumer goods sold to the public. Their transfer to the personal ownership of the population through the trade network implies on the whole complete reimbursement of cost, otherwise society would lose the net income needed to meet its general needs.

The price system in the Soviet Union took shape under the impact of historical conditions. Originally, in 1921-23, the difference between the levels of prices of means of production and consumer goods was slight. Later the requirements of economic development (especially the need to find funds for industrialisation) led to a raising of the prices of consumer goods, while the prices of means of production were raised less.

In the period 1948-54, the opposite process occurred; retail prices were reduced by approximately half, while the wholesale prices of means of production were raised, with the result that their deviation from value was substantially reduced. Another step in the same direction was the reform of wholesale prices in 1967, when the prices of certain means of production were raised again.

It was necessary to bring the wholesale prices of means of production closer to their value because the lowered prices had been distorting estimates of the economic effectiveness of capital investment and new technology. Lowered prices of

means of production exaggerate the efficiency of mechanised compared with manual labour and so reduce the demands made on new machines. Another negative effect was that the wholesale price level of various materials was not related to their value in the same way. *The correct approach to pricing is for prices to correspond to the socially necessary expenditure of labour.*

The wholesale prices of the means of production are being gradually brought closer to their values, mainly by reducing their cost by raising the productivity of labour.

### **The Principle of Planning Wholesale Prices**

The planning of wholesale prices in the Soviet Union combines centralisation with the granting of a certain measure of autonomy to Union republics and local authorities.

The Soviet Government sets the wholesale price level of manufactured goods and farm produce as a whole and of separate groups of products, general freight rates and tariffs for electricity, heat and gas. The State Committee for Prices of the USSR Council of Ministers confirms the concrete prices for those types of product for which the government fixes the general price level and provisional wholesale prices for the most important new types of product. The Councils of Ministers of Union republics or republican bodies authorised by them, in turn, confirm the wholesale prices of products falling outside the jurisdiction of the country-wide bodies.

Industrial enterprises also have certain rights in the planning of wholesale prices. They fix the prices of their output required for their own capital construction and internal needs (where prices have not already been fixed for them), of semi-finished goods, devices and equipment produced over and above plan to single orders, and of services rendered to other organisations.

The planning of wholesale prices is a complex economic job in which various factors have to be taken into account; and it is through planned pricing that the law of value is consciously applied in directing the economy.

The general principles of pricing—value as the basis of prices; the taking into account of the ratio of supply and demand; the use of prices to regulate production and consumption—have already been discussed in Chapter IV.

Here we shall consider the special features of the planning of wholesale prices of means of production.

Planned development of the economy necessitates uniform wholesale prices of means of production in the consumption area. Such uniformity is established through a free destination system, under which all consignees pay the same price for the product regardless of their location. Thus transport expenditure on delivery of merchandise to consignees' stations are met by the marketing organisations and are averaged into the uniform price. A wholesale price in the case of free destination, however, is only suitable for those products that are made in a few areas only and are distributed centrally throughout the country. At present, free destination is used for pig iron, steel, tubes, industrial hardware, oil products, technical rubber goods, cement, window glass, timber, agricultural machinery, etc.

Uniform wholesale prices are differentiated as *general* and *zonal* prices. Zonally differentiated prices are needed because freight charges constitute a fairly large item in the prices of many goods. The use of uniform wholesale prices for them would make it difficult to estimate the economic effectiveness of the location of industry. The building of new production centres reduces the length of freight haul and lowers zonal differences in wholesale prices.

Uniform wholesale prices are at variance with the different levels of cost at the various enterprises because of variations in their equipment, zonal differences in wage levels, different natural production conditions (e.g. variations in the thickness and depth of coal seams) or length of haul of raw materials. All this calls for the fixing of differential *group* (factory) *transfer prices for enterprises* based on the uniform wholesale price, i.e. a price higher than the basic one for some and lower for others. (To equalise management conditions, differentiated fixed payments from profits into the state budget are also employed.)

It is of great importance to co-ordinate *the prices of interchangeable means of production*. If one of the two inter-

changeable items is more effective, it should also have a higher price. For example, the effectiveness of peat, coal and gas burnt in the furnaces of power stations is reflected in the different amounts of electricity generated. It therefore makes economic sense to fix the prices of power fuel mostly in accordance with its heat-producing capacity.

It is also of great importance to fix a *diminishing price per unit of efficiency of new machines*. The outlay on developing new machine designs and the fact that they are initially produced in small quantities entail fairly large additional expenditure. If the prices of these machines were based on their actual prime cost, they would be quite high, which would have an extremely deleterious effect on the introduction of new machinery, since it would be unprofitable for consumer enterprises to buy the new models. The prices of new machines are now fixed taking into account the economic effect their application will yield, so that they will be profitable to both producer and user. The pricing procedure is the same as regards new lines of consumer goods.

Wholesale prices must also take *product quality* into account. Thus a surcharge is added to the wholesale price when a given product is classed in the top-quality category and a discount is made on products in the lower category.

Other factors are also taken into account in the planning of wholesale prices, which should be so fixed as, on the one hand, to stimulate the introduction of progressive types of raw materials and power and advanced production processes, and, on the other hand, saving of materials in short supply.

As production expenditure is reduced, the level of wholesale prices must be lowered so as to encourage enterprises constantly to reduce costs.

Choice of the unit for which the price is fixed is a matter of great importance in wholesale pricing, as it stimulates widening of the range of products and more economic use of raw materials. It would be wrong, for example, to fix the prices of machines by weight, as that would encourage output of bulky models.

As already mentioned, wholesale prices were re-organised in Soviet heavy industry in the middle of 1967: (1) their general level was raised in connection with the institution of payment for assets and the increase in the scale of con-

tributions to works' incentive funds; (2) profitability was levelled up considerably in the different industries. Thus, to eliminate unprofitableness in the mining of coal, iron ore and chemicals, the prices in these industries were raised; conversely, prices of the output of the engineering industries were lowered, as profitability had proved to be rated too high in them. The main purpose of this revision of prices was to bring them closer to the socially necessary outlay.

Other measures were taken later to improve the wholesale prices of industrial goods. Their role in stimulating technological progress and improving product quality was heightened. Stepped prices were set for certain types of products, which are reduced as production costs are reduced, production is extended and the products become obsolescent. Thus, the general wholesale price level of engineering goods was lowered by 12 per cent at the beginning of 1973 and in electronics, radio engineering, electrical engineering and instrument making, by 15 to 20 per cent, or more. The profitability of these industries had risen too high compared with the rates of 1967. The new prices are more in line with the technical standards of the product.

Since the beginning of 1973, new wholesale prices have been introduced for the output of the light industry. The need to revise its prices was dictated by the rise in outlays on raw materials (cotton, wool, etc.). The general wholesale price level in the light industry was raised on an average by 9 per cent; but this rise did not affect retail prices. Prices in other industries and freight tariffs were adjusted. Wholesale prices need to be revised periodically in all industries, since scientific and technological progress and other factors of production lead to changes in the cost of products.

The 25th CPSU Congress set new tasks in improving wholesale prices in the tenth five-year plan period. It is of special importance "to increase their role in stimulating scientific and technological progress, renovation of output and improving its quality and the rational utilisation of material resources".\*

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 188.

## *Chapter XI*

# **PROFIT-AND-LOSS ACCOUNTING IN SOCIALIST AGRICULTURAL ENTERPRISES. DIFFERENTIAL RENT**

Agriculture is an integral part of the socialist economy, but, while developing on the basis of its common objective economic laws, it has a number of special features distinguishing it from the other sectors.

Socialist agriculture has very complex and varied economic relations. The foundation of agrarian production relations under socialism are the two forms of socialist common ownership represented by two forms of farm organisation, namely, state farms and co-operative (collective) farms.

The form of land ownership is of essential importance for the development of agrarian relations. In the Soviet Union as a result of victory of the socialist revolution proletarian nationalisation of the land was first carried out. There is also national state ownership of the land in the Mongolian People's Republic, as already mentioned. In other socialist countries, land confiscated from landowners and capitalists was divided up in the course of agrarian reforms, becoming the property of those who tilled it, while some was nationalised.

Agricultural production has a number of other distinctive features. Its chief means of production is the land, which has the remarkable property that, if cultivated properly, it steadily improves. In the relations between the socialist state and agricultural undertakings special importance therefore attaches to care for maintaining and increasing the fertility of the land in every way. Other characteristics of farming are the lack of coincidence between the periods of production and work, the broad natural basis of production, the limited nature of the optimum periods for field work, the close in-

terlocking of the economic and natural process of reproduction. Lenin remarked on the absolutely unavoidable features of agriculture, as a result of which large-scale machine production will never have all the features in it that it has in industry.

Agriculture is also distinguished by the specific structure of its surplus product, which is divided roughly into two parts: (1) the typical surplus product created in all normally functioning enterprises; (2) extra, differential surplus product formed in separate zones and enterprises by virtue of higher productivity of labour in them due to differentiation of the natural factors. In certain economic conditions this differential surplus product takes the form of differential rent, or rent revenue.

In those farm enterprises in which the technical standards of production have been raised, a special form of extra surplus product also comes into being, but it is transient and inconstant, realised on some collective and state farms only, since with developed socialism the latest achievements of scientific and technological progress quickly become available throughout agriculture.

Differentiation of the effect of natural, technical and economic factors on the level of labour productivity in any one zone or group of agricultural undertakings is of fundamental importance for organising profit-and-loss relations between the state on the one side and collective and state farms on the other.

## 1. GROUND RENT UNDER SOCIALISM

### **Abolition of Private Monopoly Ownership of Land and Absolute Rent**

Under capitalism there is absolute and differential ground rent. The objective reason for absolute rent (which is appropriated by the landowners) is the monopoly of private property in land.

Nationalisation of the land and its sharing out as the property of peasants mean correspondingly either the abolition

of private property in land or the abolition of big landed estates.

The abolition of big landed proprietorship also puts an end to absolute rent. With small-scale agriculture, carried on mainly to satisfy the need of the tillers themselves, absolute rent does not usually exist.

The abolition of absolute rent frees the village of survivals of feudalism, lowers the price of farm produce by the amount of the rent and fosters the raising of the well-being of the working people. But the causes and conditions for the occurrence of differential rent or rent revenue remain under socialism. "The question as to whether private property in land exists has nothing whatever to do with the question of the formation of differential rent," Lenin said.\*

The economic conditions for the existence of differential rent in socialist society is the existence of two forms of common property, public state property and co-operative-collective farm property; and of commodity-money relations.

### **Differential Rent and Differential Rent Income in Socialist Society**

The natural conditions for the formation of differential rent is *the limited area of usable land in general, and of medium and good land in particular, and the differences in the natural basis of farming stemming from that.* The differences in natural conditions lead to a different volume of produce being obtained from areas of different fertility with the same outlays. That also determines the different outlays made by enterprises per unit of product, which may be lower or higher than the average for the branch of the economy.

When the individual value of produce is lower than its social value, a *supplementary difference of revenue* is obtained, which is *the material basis for rent revenue or differential rent.*

---

\* V. I. Lenin, "The Agrarian Question and the 'Critics of Marx'", *Collected Works*, Vol. 5, pp. 121-22.

An additional profit arising as a consequence of differences in costs of production also exists in manufacturing industry. But there its basis is rapidly changing production factors, so that it is not firmly delimited. But in agriculture and the extractive industries the additional differential revenue acquires *stability* since it is associated with unreproducible natural conditions of production.

The natural basis of the higher productive power of labour is not of itself either the source or the reason for differential rent. The additional differential revenue is also not linked with a redistribution of profit among the different branches of industry. It arises as a consequence of monopoly in land as an object of economic activity. The source of any ground rent is the *surplus labour* of people applied to the given area of land.

The cause of differential rent, consequently, is *monopoly working of land, exclusive use of the forces of nature, ensuring lower costs of production per unit of output*. "...The limitedness of land does indeed presuppose monopolisation of land, *but of land as an object of economy and not as an object of property rights*," Lenin wrote.\*

In the socialist economy of the USSR the right to carry on economic activities on the land is vested in collective farms and state-owned agricultural undertakings (state farms). Various mutual economic relations arise between them and the state as regards the production and distribution of differential revenue. Can they be considered rent relations?

There are three points of view on this matter. Some economists maintain that these relations have the character of rent in identical measure as regards both collective and state farms. Others consider that differential rent only exists under socialism in the co-operative-collective farm sector of agriculture, while differential revenue reflects an essentially different relation as regards state farms. The third opinion holds that the grounds for the existence of rent relations have generally disappeared under socialism.

In the co-operative-collective farm sector, the differential product obtained is owned by the collective farm concerned

---

\* V. I. Lenin, "The Agrarian Question and the 'Critics of Marx'", *Collected Works*, Vol. 5, p. 121.

and becomes an additional revenue of that farm, taking the form of *differential rent*. Part of this revenue, once it has been redistributed to a centralised fund, is converted from co-operative property into national property, i.e. changes its owner. Here rent relations arise between the state and collective farms as the owners of the two different forms of common socialist property.

The separation of land tenure from land ownership is the key economic premise for the existence of differential rent as a specific relationship between two subjects (owners) in regard to the production and distribution of the additional net income of co-operative enterprises obtained from better and more favourably located land. As the owner of the land, the state utilises it economically, centralising a part of the differential revenue.

Collective farmers, as co-owners of public property in general and of landed property in particular, utilise it economically in the form of free land tenure. In the Soviet Union, the land has been assigned by law to the collective farms gratis and in perpetuity. The differential rent produced in the co-operative-collective farm sector is paid into the national fund of net income and is used by the state in the interests of all the people, including the peasantry. It therefore has nothing in common with payment for land and does not contradict the principle of free land tenure.

*Under socialism, differential rent expresses the relations of comradely co-operation and mutual assistance between workers of town and country freed from exploitation.* These relations have become possible on the basis of the two forms of common socialist property. Common ownership has ended the exploitative form of ground rent, i.e. payment of rent for land. The collective farm peasantry obtained the possibility of free land tenure.

State farms, which are located on more fertile and better situated land, enjoy certain advantages. This accounts for their differential revenue. However, the profit-and-loss relations existing in respect of this revenue within the national sector differ essentially from the rent relations in the collective farm sector.

Although state farms produce their output as commodities, they do not own it.

The relations between the state and publicly owned enterprises in respect of differential additional product in principle are in no way different from their relations in respect of the whole of the surplus product created and of the gross income. Therefore, so far as state farms are concerned, it would be more legitimate to describe their additional differential revenue not as rent but as a differential rent income belonging to society as a whole. The fact, however, that the owner of the land is simultaneously the producer on the land does not exclude the possibility and necessity of leaving a share of the differential revenue on state farms to stimulate intensification of production and raise the efficiency of land use.

Differential rent income exists in the extractive industries as well as on the state farms, and in the exploitation of forest and water resources, i.e. in all branches of socialist production where it is possible to monopolise use of the natural basis of the increased productive power of labour.

## **The Forms of Differential Rent. Intensification of Agriculture**

Under socialism, differential rent and differential rent income exist in two forms: I and II. The additional net income derived from the differential advantages of greater natural fertility and better situated areas of land forms the basis for *differential rent I* and *differential rent income I*.

Differences in the natural fertility of land are taken into account in the economic relations between the state and agricultural enterprises. Procurement prices, for example, are differentiated according to natural economic zones.

In socialist society, differential revenue also takes the form of *differential rent II* and *differential rent income II*, which represent the additional differential revenue created by additional expenditure of labour and means of production on one and the same area of land, i.e. by more intensive farming.

Like differential rent and differential rent income I differential rent and differential rent income II are derived from the differences in the fertility of land; the reason for the difference between the outlays of enterprises per unit of produce here is artificial economic fertility.

Thus, differential income II is only another expression of differential income I and in essence is identical with it.

As agriculture becomes more and more intensive, the role of differential rent and differential rent income II and their weight in the total mass of differential revenue tend to grow, since differential income II can be derived from poor land as well as from good. Additional investment in the use of chemicals and land improvement often proves to be more effective on land considered poor at a given moment than on average and good land.

The March 1965 Plenary Meeting of the CPSU Central Committee laid the firm foundation of the present agrarian policy of the CPSU and charted a scientifically grounded and comprehensive long-term programme of all-round intensification of agricultural production in the conditions of the scientific and technological revolution.

In pursuance of its policy of consistent intensification of agriculture, the CPSU worked out a new approach to planning and distribution of capital investments, increasing substantially their share and volume in this sector of the national economy. Whereas in the period 1961-70 the share of capital investments in agriculture for purposes of building production facilities was 18 per cent of their total sum in the national economy, in the next decade between 1971 and 1980 it will grow to 23 per cent. In the period 1961-70 the volume of such investments amounted to 110,000 million roubles, and in the period 1971-80 it will reach 260,000 million.

The 25th CPSU Congress decisions provide for investment of 171,700 million roubles in agriculture during the tenth five-year plan period, which is 41,000 million roubles more than in the five years before. State investments will amount to 115,700 million roubles and those by collective farms, 56,000 million.

These funds will be spent to develop the whole range of operations in agriculture, including the building of production facilities, housing, cultural and service establishments, and the purchase of machinery. Conditions are being provided for reinforcing the material and technological basis for agriculture and transferring collective and state farm production on to an industrial basis.

Investments in agriculture are concentrated in three main directions. The *first* envisages all-round mechanisation of production processes in crop-farming and stock-breeding. During the decade after the March 1965 Plenary Meeting of the CPSU Central Committee Soviet collective and state farms were supplied with over 3 million tractors and 900,000 grain-harvesting combines, 1,800,000 lorries and special-purpose motor vehicles, and a great deal of other agricultural machinery. The power-to-man ratio in agriculture doubled over the period.

The 25th CPSU Congress emphasised the need for further technological modernisation of agriculture on the basis of new technology and the introduction of flow-line industrial methods of production, and a mass-scale application of advanced processes. Between 1976 and 1980 agriculture will be supplied with 1,900,000 tractors, 1,350,000 lorries, 538,000 grain-harvesting combines and much other modern machinery. Measures have been provided for enhancing substantially the efficiency of machines and tractors used on collective and state farms, and for improving and developing the repair facilities in agriculture.

The *second* major direction of scientific and technological progress in socialist agriculture is land reclamation. Under the ninth five-year plan 6.4 million hectares of irrigated land and over 8 million hectares of marshland was made available to cultivation. Large-scale work to improve the lands in the non-black earth belt has got under way.

A characteristic feature of land reclamation at present is the provision of irrigation facilities in large grain-growing areas to guarantee a stable increase in crop yields.

The *third* direction of scientific and technological progress in agriculture is the growing use of chemicals. Between 1965 and 1975 the amount of chemical fertilisers used in agricultural production increased 180 per cent, of chemical weed and pest killers, more than doubled. Under the tenth five-year plan Soviet collective and state farms will be supplied with 467 million tons of fertilisers as against 307 million tons in the previous five years.

The measures outlined in the tenth five-year plan are expected to boost the gross output of agriculture by 14 to 17 per cent, the annual average grain harvests increasing by

18-21 per cent to reach 215-220 million tons in the period 1976-80. The increment in production will be secured primarily by raising the yields of all agricultural crops and the productivity of animal husbandry. At the same time, keen attention will be paid to improving the quality of agricultural produce.

The practical experience in developing agriculture during the eighth and ninth five-year plan periods has graphically demonstrated the immense significance of the course laid by the March 1965 Plenary Meeting of the CPSU Central Committee. Notwithstanding the extremely adverse weather conditions, the annual average gross output of agricultural produce in the USSR increased 13 per cent during the ninth five-year plan period from its level in the preceding five years. The annual average grain harvest grew by 14 million tons.

The major organisational and economic measures taken by the CPSU and the Soviet Government to develop agriculture have been backed up by the broad development of nation-wide socialist competition to increase output and procurement of farm and dairy produce.

The intensification of agriculture has a planned, universal character in socialist society embracing all collective and state farms. As costs of production are reduced on most farms, the individual value of which is the regulating factor, the social value of agricultural products is also lowered.

Technological progress in socialist agriculture creates the conditions for a general raising of the absolute level of the economic fertility of the land, but differences will remain between the quality of relatively better and relatively worse land. Marx pointed out in this context: "So far as the increase in productivity is concerned, it assumes that the increase in absolute fertility of the total area does not eliminate this inequality, but either increases it, leaves it unchanged, or merely reduces it."\*

As the indices of intensification are evened up, there may be a relative, or even an absolute, reduction of differential revenue and differential rent, which would be offset by a faster growth of surplus product as a whole.

---

\* Karl Marx, *Capital*, Vol. III, p. 660.

## The Nature of Rent in Socialist Society

Under socialism, differential rent and rent income differ radically in their social and economic essence from capitalist rent.

Under capitalism, ground rent expresses the production relations between three classes: landowners, capitalist tenant farmers and exploited workers.

*In socialist society, economic relations with regard to surplus differential revenue take shape between agricultural enterprises and the socialist state on the basis of common ownership of the means of production; and differential rent is one of the components of society's surplus product used in the interests of all the working people.*

Under capitalism, rent is appropriated mainly by the landowner class and, being used mainly for the parasitic consumption by the exploiting classes, has an inhibiting influence on development of the productive forces in agriculture. In socialist society, differential revenue is spent according to plan to meet the needs of extended socialist reproduction by being used both by the agricultural enterprise (the part left in its possession or use) and in a centralised way (the part levied for national accumulation and consumption funds). Planned pricing, taxation and the financial system are all used for this purpose.

The distribution of differential rent and rent income under socialism expresses the relations of comradesly co-operation between the working people of town and country, and vividly demonstrates the community of their vital interests.

## The Specific Form of Ground Rent During the Transition from Capitalism to Socialism

During the socialist transformation of agriculture in countries that have built or are building socialism, a *specific form of intra-co-operative ground rent develops.*

Since co-operation of agriculture was developed in these countries in circumstances in which the land was divided up

in peasant ownership, there was at first an objective necessity in the co-operatives to distribute income according to two principles, mainly according to work and partly according to the quantity and quality of the land contributed.

This gave rise to a specific form of rent economically realised from the privately owned, labour-earned landed property of the peasants within producer co-operatives. "Whatever the specific form of rent may be," Karl Marx stressed, "all types have this in common: the appropriation of rent is that economic form in which landed property is realised, and ground-rent, in turn, presupposes the existence of landed property."\* *This special form of rent is an economic category of the transitional period from capitalism to socialism.* It expresses an aspect of the relations of production within co-operatives and differs radically from the absolute rent proper to capitalism.

The specific form of ground rent has a dual nature: according to its cause (private peasant property in land) it is not socialist, but according to its source (the collective work of producers united in a co-operative) it is linked with the economic basis of socialism.

This rent played an important part in the socialist transformation of agriculture. The retention of private property in the land handed over by peasants to the co-operative and the receiving of a rent income for it along with distribution according to work encouraged middle peasants to join co-operatives *en masse* without delay and speeded up the development of collective, socialist land use. The peasants became accustomed in this way to joint labour, and gradually freed themselves from a private-property psychology.

The predominantly earned character of this special type of rent, however, does not clash with the elements of unearned income, so that it to some extent complicates a more consistent implementation of the requirements of the law of distribution according to work and generates certain contradictions inside co-operatives.

During socialist construction, distribution according to work is used on a wider and wider scale in producer co-operatives and increases both in amount and proportion,

---

\* Karl Marx, *Capital*, Vol. III, p. 634.

while the proportion of income distributed in accordance with the area and quality of land falls. In most socialist countries today the overwhelming majority of peasants' co-operatives share out their income among the peasants on the socialist principle of distribution according to work. Private property in land, even where it exists juridically and is maintained in the conditions of collective socialist use of the land, gradually loses its economic content, which is leading, in turn, to the gradual extinction of this specific form of ground rent.

### **Socially Necessary Expenditure of Labour in Socialist Agriculture**

In agriculture and the extractive industries the formation of social value has certain essential features.

The social value of farm produce is not determined, as a rule, by the average conditions, but by the *expenditure of living and materialised labour on the poorest and worst situated land*. Hence, there is a difference between the total of the individual and social values. That does not, however, contradict the law of value. Marx emphasised that it was "indeed the effect of the law of value, not with reference to individual commodities or articles, but to each total product of the particular social spheres of production made independent by the division of labour: so that not only is no more than the necessary labour-time used up for each specific commodity, but only the necessary proportional quantity of the total social labour-time is used up in the various groups".\*

The scale of social consumption influences the value of a given product by determining the socially normal conditions in which the aggregate expenditure of labour is recognised by society as objectively necessary.

The demand of socialist society for food and raw materials is not covered by developing agricultural production on best and average land only. The amount of such land is limited. Social consumption of agricultural produce is therefore also met from relatively poor land. *The individual outlays on the poorest land are socially necessary.*

\* Karl Marx, *Capital*, Vol. III, p. 635.

The concept "poorest land" is not always a given quality of cultivated land. It alters with the dynamics of social needs and improvement of the technical base of production. The socially necessary expenditure is therefore determined by those conditions in which production is relatively large.

Lenin attributed the regulating role of the expenditure in the worst objective conditions of production to the limited nature of land. It is this factor that prevents the formation of value in accordance with average productivity of labour, which is characteristic of agriculture under any mode of production. Socialist farming is also carried on with a limited amount of land. If value were determined by the expenditure of labour on other than the worst lands, there could be no such thing as differential rent in general.

In the sphere of commodity circulation differential rent is due to the levelling up of prices of similar goods. In contrast to what happens on the spontaneous capitalist market, in socialist society the levelling out of prices takes place in the stage of retail trade rather than wholesale. Retail prices ensure the realisation of differential rent, while the wholesale procurement prices for farm produce, which are differentiated according to natural economic zones, redistribute rent from the farms that create it in commodity form to the centralised fund of the state. The differentiation of procurement prices by zones itself means actual acknowledgement by the socialist state of the regulating role of the expenditure of labour made on the worst natural production base.

Given relations of financial autonomy between enterprises and the state, all normally operating farms must be reimbursed for their outlays and carry on accumulation. The fixing of socially necessary costs according to average conditions would create a situation in which the collective and state farms operating in unfavourable natural and climatic conditions would not be able to maintain a normal process of extended reproduction.

Similar commodities are equal in value regardless of variations in the expenditure of living and materialised labour in their production. When products from average and best land are therefore retailed in accordance with the social value determined by expenditure on the poorest and worst situated land, that means observance of equivalence in exchange and

not its violation; it does not imply, however, that society, in addition to compensating the individual outlays of normally functioning farms, must indemnify badly managed farms situated in the same natural conditions, for the outlays of these farms cannot be recognised as socially necessary.

*The amount of the socially necessary outlay on the worst land is formed on the basis of the average organisational and technical conditions of production.* Differences in these conditions, moreover, can be more or less overcome, so that it would be wrong to regard a temporary unfavourable combination of them in any one area as the conditions for socially normal economic activity.

The quantitative definitiveness of the socially necessary outlay in agriculture develops irrespective of the concrete social form of production. Similar produce has an equal social value wherever it is grown—whether on collective farms, state farms, or personal subsidiary small holdings.

Furthermore, the process of formation of uniform social value takes place on the basis of relative differentiation of outlays according to natural economic zones, within which a *local (zonal) value* is formed that reflects the local production conditions. This value acts as a special intermediate stage in the process of reducing the individual outlays of farms to those socially necessary.

Uniform social, zonal and individual values are mutually *interconnected*. In relation to uniform social value local value functions as a special variety of individual value. The formation of zonal value consequently does not contradict the process of forming uniform social value.

The objective process of forming local value dictates a need to take account of "the difference in the localities, in the goods demanded and the equivalents offered"\* in organising relations of financial autonomy between agricultural enterprises and the state. This "difference in the equivalents" underlies the zonal principle of state procurement pricing of farm produce. As relations based on financial autonomy develop and the socially necessary expenditure of labour alters, it becomes necessary to improve the differentiation of

---

\* V. I. Lenin, "Speech Delivered at the Third All-Russia Food Conference, June 16, 1921", *Collected Works*, Vol. 32, p. 447.

prices of individual goods according to natural economic zones.

Lenin did not link socialism with the disappearance of differential rent. His attitude found expression in the "Fundamental Law on Socialisation of the Land" signed by him, which reads, in part, as follows: "The surplus income derived from the natural fertility of the best areas of land, and from their more advantageous location in relation to the sales market, is put at the disposal of the Soviet authorities to meet social needs."\*

## 2. THE DEVELOPMENT OF PROFIT-AND-LOSS MANAGEMENT OF AGRICULTURAL ENTERPRISES

### **Improvement of Profit-and-Loss Management of Agriculture**

The principles of profit-and-loss management, on which the relations of the socialist state with national and co-operative enterprises are built, are being further developed under mature socialism. The March 1965 Plenary Meeting of the Central Committee of the CPSU played a particularly important role in consolidating their consistent use. Previously profit-and-loss accounting in agriculture had been of a rather formal character, since state procurement prices for a whole series of products did not even reimburse their costs of production.

Delivery prices for state farms had been lowered as far as possible, which prevented their carrying on their production activity on the principles of profit-and-loss accounting.

In compliance with the decisions of the March 1965 Plenary Meeting of the CPSU Central Committee and the 23rd Party Congress, state farms were being gradually transferred to profit-and-loss accounting during the eighth and ninth five-year plan periods. At the same time, the initiative and operational independence of state farms were being widened,

---

\* *Dekrety Sovetskoi vlasti* (Soviet Decrees), Vol. 1, Moscow, 1957, p. 409.

and the responsibility of the collective bodies of enterprises for their performance results enhanced. In accordance with the Directives of the 24th CPSU Congress, the transfer of all state farms to profit-and-loss accounting had been completed by the end of the ninth five-year plan period. Under the new conditions of management the state farm sector of agriculture has become profitable on the whole, which is a major result of implementing the decisions of the March 1965 Plenary Meeting of the CPSU Central Committee, and later plenary meetings and congresses of the CPSU.

The improvement of relations of financial autonomy in agriculture assumes the reimbursement of all production expenditure, the maintenance of extended reproduction, the creation of economic incentive and other funds, and prompt repayment of bank loans from farms' own resources. In this connection the fixing of scientifically substantiated wholesale procurement prices is of the greatest significance. For a long time, for example, state farm delivery prices were lower than the procurement prices established for collective farms and did not always meet the requirements of consolidating profit-and-loss accounting and management.

In the conditions of the economic reform produce sold to the state by state farms and other state-owned agricultural enterprises transferred to financial autonomy is paid for at the procurement prices for collective farms. This is encouraging capital investment in agricultural production, stock raising, and the securing of an increment in state farms' own circulating assets basically from their income from realised produce.

Financial autonomy presupposes broadening of the role of both short-term and long-term credit in the economic activity of agricultural enterprises and the extension to state farms of the credit terms and periods established for collective farms. State farms lacking their own funds can employ long-term loans to acquire and introduce new machines, finance capital investment of a productive character and intensify productive processes, and also to extend and organise production of mass consumer goods and improve their quality. Bank loans can, in part, also be used for building housing and social amenities. The fixed non-production assets of state farms, however, are mainly increased by grants

from the state budget and their own funds for social amenities and housing.

The transfer of state farms to profit-and-loss management is enhancing the role of profit to a certain extent in the forming of their fixed and circulating assets and in economic stimulating of their workers. But it does not mean any depreciation of the significance attached to indices of the net and gross production of state farms in all their financially autonomous operations.

The institution of *payment for production assets* is of very great importance. These payments being made from the state farms' actual profits stimulate them to use their assets better.

*Funds for encouraging the work force of state farms to improve the results of productive activity* are formed from profit (after tax, i.e. after deducting the payments to the state for the use of production assets), namely: the material incentive fund, social amenities and housing fund, the insurance fund and the fund for consolidating and extending production. The profit remaining after deductions for these funds is used to pay bonuses on the results of the country-wide socialist competition, to finance increments to circulating assets, to raise the herd, repay bank loans, finance centralised capital investments and cover losses on housing management.

Financial autonomy assumes a considerable extension of the managerial independence of state farms and helps reduce the number of indicators and indices set for farms by higher organisations.

The following *plan assignments* have been established for financially autonomous state farms in the new management conditions:

*production*—the volume of sales to the state of the most important types of produce (in natural units);

*labour*—the total wage fund and standard of labour productivity;

*finance*—total profit, appropriations from the budget and payment for assets;

*capital investment*—the total volume of centralised capital investment and the commissioning of fixed assets (expressed in money terms);

*supply*—the volume of deliveries of new machines, fertilisers,

building materials and other means of production distributed by higher organisations.

All other planning indices are worked out by the enterprises themselves and used by the planning authorities as calculation data in drawing up plans.

The development and strict observance of these relations between the state and agricultural enterprises does not entail isolation and separating of the latter. State farms, like other financially autonomous state enterprises, are interrelated units of a single economic organism, united by common ownership of the means of production on a nation-wide scale.

The relations organically combine centralised planned administration of socialist agricultural enterprises, as the decisive principle, with managerial, operational autonomy of collective and state farms. The firm plans for procurement of farm produce for several years ahead, introduced for every farm after the March 1965 Plenary Meeting of the CPSU Central Committee, have promoted stable conditions stimulating growth of farm production and have opened up broad scope for managerial initiative.

In accordance with the decisions of the 25th CPSU Congress this procedure of procurement will be preserved in the tenth five-year plan period.

The centralised planning of procurement in kind does not contradict extension of the financially autonomous activity of agricultural enterprises. The main thing is ensuring that state plan-orders for farm produce are economically justified, taking into account the specialisation of the farm. Underestimation of centralised planning, failure to assign farms a commodity production plan for a definite range of produce and the absence of price stability can introduce elements of anarchy in farm production and lead to opposing the interests of farms to the national interest.

A decisive measure in implementing financial autonomy is the mutual co-ordination of commodity turnover plans between industry and agriculture. If the production needs of collective and state farms are not fully reflected in supply plans, in other words, if the production programme of industry is out of touch with orders of farms for the means of production they need, financial autonomy will be weakened and made less effective.

The progress of agriculture calls for increasing co-ordination of the volume of production with the subsequent use of farm produce for productive and personal purposes. The realisation of commodities is not a simple formal transaction. Thus, despite the population's demand for the whole marketable produce of collective and state farms, some areas of the country occasionally experience difficulties in realising their product because of the seasonal character of production and lack of processing capacity. To overcome these difficulties calls for extension of processing facilities and raising the mutual contractual responsibility of the parties involved in realising collective and state farm produce.

### Prime Cost and Profitability

*The prime cost of farm produce is that part of its value isolated in the process of reproduction that reimburses the price of the means of production consumed and the wages of the workers.* There are certain differences in determining its magnitude between state farms and collective farms. The point is that the level of pay for the same work varies from collective farm to collective farm. The prime cost of collective farm produce is therefore determined in one of two ways: (a) the expenditure of farmers' labour is calculated in prime cost as their actual pay in cash and kind (*actual cost*); or (b) according to state farm wage scales (*standard conventional cost*).

Actual cost is used to analyse the results of the economic activity of the collective farms themselves. Calculation of standard cost makes it possible to compare the data on all farms; the planning bodies use it to determine the level of state procurement prices and for other estimates. With the introduction of guaranteed pay on collective farms at state farm standards, the difference between the calculations of the prime cost of collective farm produce has largely been eliminated.

The structure of collective farm costs differs from that of state farms. The expenditure of living labour per unit of produce is much higher on the collective farms. The weight of materialised labour (depreciation of fixed assets, expendi-

ture of supplies and raw materials) is far higher in state farms' outlays per unit of produce, because the standard and productivity of the machinery available to labour is higher on state farms than on collective farms. As more machinery becomes available to collective farmers the differences in the cost structure of the two types of farm produce will gradually disappear.

The most important task of Soviet agriculture is to reduce the cost of farm produce, which will ensure growth of the *profitability* of both state and collective farms.

In managerial practice the standard of profitability is calculated in two ways.

(1) It is determined as the ratio of the net income (profit) of an enterprise to its production assets, a ratio that to a certain extent characterises the economic effectiveness of the use of assets. This index is only calculated for the farm as a whole, because the same production assets function in several sectors of the farm and it is almost impossible to apportion them to the individual types of produce.

(2) It is determined as the ratio of profit to the costs of the output, which enables the effectiveness of the production of concrete types of produce of crop and stock farming to be calculated and compared. The aggregate profitability of the farm is also calculated in this way either for the marketable produce or for gross output.

Soviet agriculture is still less well provided with production assets than industry. In addition a different procedure is used in agriculture to realise net income. The standard of profitability should therefore be higher than in industry, which will help create the conditions for overcoming the historically developed lag in the level of mechanical power available to farm labour.

### **Profit-And-Loss Accounting on Collective Farms**

Profit-and-loss management of collective farming is based on making use of the same economic laws as operate in the state sector. But the concrete forms in which these laws are manifested and implemented in farming have certain special

features arising from the nature of collective farmers' co-operative property in the means of production.

A collective farm has all the main features of a financially autonomous undertaking. Like a state farm it has operational, managerial autonomy. The principle of paying for itself is organically inherent in the nature of a co-operative enterprise. And since it has its own means of production and produce, its economic autonomy is therefore considerably wider, and the range of the problems it handles itself greater.

As the owners of their own means of production, collective farms are interested, above all, in expanding production and in realising their gross (and not just net) income. In evaluating their profit-and-loss activities and determining their economic efficiency, great importance is attached to such absolute and relative indices as the gross income per collective farmer (statistical average for the year), per hectare of crop area, per 100 roubles of the farm's indivisible (investment) funds, and so on. The indices of profitability calculated on the basis of a farm's net income depend both on the state of the production sector or of the farm as a whole and on the conditions of realisation. In evaluating the economic efficiency of a farm, therefore, they have to be taken into account only in so far as they indicate actual changes in the sphere of production.

The main means of production in agriculture, as we have said, is the land. For that reason the increment in output per hectare of land, in terms both of value and, especially, physical quantity, is the key criterion in improving management of farms. The absolute numbers employed in agriculture are falling, so that the raising of labour productivity must not only offset that factor but also ensure increase of both gross and marketable output, and of gross and net income per unit area of land.

The collective farm system is an integral part of the single Soviet planned economic system. The feature of planning collective farming is that only the volume of state procurements by type of produce is established by a centralised procedure for each farm. All the other plan indices are set by the collective farms themselves.

The state planning of procurement, which covers the bulk of all farm's marketable produce, does not contradict but,

on the contrary, encourages development of the relations of collective ownership. As large-scale commodity producers, collective farms are themselves interested in such planning, which gives them the possibility of a guaranteed and stable market.

The social aspect of state planning is no less important; it disciplines collective farmers, gives them firm confidence in tomorrow, makes them fully aware that their work is useful to society. At the same time, the membership of the farm as a body develops a sense of responsibility for the fulfilment of the state plan-orders.

The practice of planning collective farming that took shape after the March 1965 Plenary Meeting of the CPSU Central Committee was consolidated in the Model Rules of a Collective Farm adopted by the Third All-Union Congress of Collective Farmers in November 1969. The Rules stress that in compiling its plan a collective farm proceeds from the need (a) for extended reproduction in the co-operative economic unit, (b) to fulfil the state procurement plan, and contracts for farm produce and above-plan sales of grain and other produce needed by the state, and (c) to satisfy the material and cultural needs of its members.

Collective farms are using commodity-money relations on a relatively wide scale in their economic links with other enterprises and with the state, and sell some of their produce to the consumer co-operatives and on the collective farm markets at prices determined to a certain extent by the play of supply and demand.

The law of distribution according to work has its own specific expression in collective farming. The level of pay depends on the gross income of each agricultural co-operative and the proportion of that income that is distributed according to work. Under developed socialism, the differences in the levels of earnings between farms is diminishing; the rates of pay for work of equal quality are being levelled out; and the scale of remuneration for work of collective farmers and industrial workers is gradually being narrowed.

The decisions of the 25th CPSU Congress provide for still higher rates of growth of remuneration on the collective farms compared with those in the state sector of the national economy. It was emphasised at the same time that re-

muneration on the collective farms would grow on the basis of raising labour productivity and would be improved by maintaining uniformity in remuneration of work of identical complexity, difficulty and intensity in co-operative and state agricultural enterprises.

Growth of the marketability and of the cash incomes of collective farms, and raising the degree of equivalent exchange in sales of farm produce to the state consolidated the guarantee principle in material stimulation of collective farmers and led to the replacement of remuneration according to labour-day units by direct cash payments.

More and more collective farms, following the example of state enterprises, are setting up special bonus funds to reward collective farmers, using a part of the net revenue from realised produce for the purpose. The institution of such special-purpose incentive funds on collective farms is an essential step towards bringing the concrete forms of material stimulation of labour in the state and co-operative-collective farm sectors of the socialist economy closer together; it has also appreciably enhanced the interest of collective farmers in the output in value terms and financial operation of their farm and encouraged more efficient management. The chief factor in stimulating the work of collective farmers, however, is the level and forms of their basic earnings.

The bonus fund is distributed, in most cases, in proportion to the basic earnings. This procedure, however, is not without its shortcomings, because it does not take into account observance of discipline, degree of fulfilment of farm assignments, or seniority. There is need for stricter criteria of the labour involvement of collective farmers in the common economy in the awarding of bonuses.

An historical feature of collective farms is the existence of *indivisible (or investment) funds*. When the collective farm system was taking shape, the indivisible funds were opposed to the *share contributions*, which were returnable to peasants in the event of their withdrawal from the collective farm.

The indivisible funds, which are not subject to distribution, are the bedrock of the collective farm system. They concentrate the bulk of the farms' property, which grows year by year. The indivisible funds of each farm are supplemented

each year by a deduction of a definite percentage from its income.

Ever since the system came into being the indivisible funds of the farms have been growing and improving in quality. In volume per unit of land and per working farmer, and in their structure and social and economic importance they have come very close to the assets of state-owned farms, which reflects the development of co-operative-collective farm property and its approach to the level of national public property. The Model Rules provide for planned replenishment of the fixed and circulating productive assets, which constitute the indivisible funds.

The production and financial activities of collective farms are carried on the basis of consolidating financial autonomy and broad application of material and moral incentives (a) to raise productivity of labour and the effectiveness of social production, and (b) to cultivate a communist attitude to work among collective farmers.

Though an independent, financially autonomous enterprise, a collective farm is not isolated from the system of the national economy as a whole. On the contrary, it is the basic cell of the collective farm system, which is a component part of a single planned economy managed on the Leninist principle of democratic centralism.

In developed socialist society there is a rapid rise both of production and culture in the countryside, the incomes of collective farmers are growing and the common economy of the co-operatives is growing stronger. The scale of gross and net income, however, the rate of profitability, the growth rates of farms' fixed and circulating assets, the level of earnings and other economic indicators of collective farms vary appreciably from zone to zone of the country and sometimes also within zones, which is due in no small measure to the factors determining the scale of differential surplus revenue.

The Programme of the CPSU poses the task of creating increasingly equal economic conditions for raising the earning power of collective farms carrying on reproduction in dissimilar natural and economic conditions in different zones and within zones, a goal which will make for more consistent application of the principle of equal pay for equal work over the whole collective farm system.

In connection with the transfer of state farms to new conditions of planning and material stimulation rent income and some other factors in the state sector of agriculture are seen to be operating in the direction of differentiation of the economic indicators between different natural economic zones and within them. Therefore, the problem of providing more or less uniform economic conditions for the reproduction process on an extended basis assumes great urgency both in the co-operative and the state sector.

### **3. SCIENTIFIC AND TECHNOLOGICAL PROGRESS AND LEVELLING UP THE ECONOMIC CONDITIONS FOR RAISING THE INCOMES OF AGRICULTURAL ENTERPRISES**

The levelling up of the economic conditions for the operation of agricultural enterprises is an intricate and many-sided process involving various aspects of social and economic relations. Its material basis is the growth of collective and state farm production, consistent intensification of farming.

#### **The Key Factors in Creating Equal Operational Conditions**

The Programme of the CPSU stresses that the main way to advance agriculture and satisfy the country's growing needs for farm produce is *all-round mechanisation and intensification of production processes*, i.e. the achieving in all collective and state farms of a high standard of farming and stock raising on the basis of science and advanced experience; a steep rise in the yields of all crops and increase in output per hectare for the least expenditure of labour and assets. Intensive methods of farming, of course, are linked both with additional investment and with more rational use of the means of production and living labour itself applied to the land.

A far-reaching inter-zonal differentiation of the level of economic development of farms has taken place historically

within the co-operative-collective farm sector. The evening up of these levels on the basis of financial autonomy will take a more or less protracted time. An essential role in it will be played by *developing sectoral and territorial social division of labour in agriculture, and further specialisation and concentration of production* on the basis of inter-enterprise co-operation and agrarian-industrial integrations.

The natural conditions considered worst for certain crops are often quite good for others. Specialisation makes it possible to produce more with the same outlays and so reduce unit costs.

Specialisation, by encouraging concentration and rational distribution of crops in the light of natural and economic factors, tends to reduce the range of soils under each crop. Large-scale production facilitates the organisation of processing in the immediate vicinity of collective and state farms or on the farms themselves. All this tends to contract the natural basis for differential revenue from fertility and location.

The main factors in intensifying farming are *scientific and technological progress and the steady growth of the power available to farm labour*. In accordance with the decisions of the 25th Congress of the CPSU the power supply per worker in agriculture will increase from 17 h.p. in 1975 to 28 h.p. in 1980. This will make it possible to come close to completing the all-round mechanisation of grain and beet farming, to raise considerably the standards of mechanisation in cultivating and harvesting other crops, and in arduous stock farming and feed production operations.

The transfer of farming onto an industrial basis is a major step towards equalising the economic conditions for managing collective and state farms.

Solution of these problems will be facilitated by the development of *a system of machines for all-round mechanisation of production processes adapted to the conditions in each zone*. The varying degree of mechanisation of the different branches of agriculture is responsible for the unequal economic position of farms in different agricultural zones and for their different levels of profitability. Thus, a relatively low level of profitability was characteristic, for example, of farms in the non-black-earth zone, which derived their main income

from dairy farming and growing vegetables and potatoes, i.e. from poorly mechanised branches. In the black-earth zone, however, farms obtain their income mainly from the sales of cereals, production of which is much more highly mechanised than that of other crops.

The all-round mechanisation of stock farming and other technically underequipped branches of agriculture will bring a relatively faster growth of incomes and profitability in areas less favourable to the development of agriculture.

The decisive factor in improving soil fertility and intensifying collective and state farming is the *application of chemicals in agriculture* which helps make up for the deficiencies of nutrients and trace elements responsible for the relatively low and unstable natural fertility in certain parts of the country. The application of fertilisers in combination with various forms of amelioration improving the air and moisture conditions of soils is particularly effective.

The carrying out of a system of ameliorative and other measures to improve the quality of land in a radical way is a matter of top priority, above all, for intensifying farming in the non-black-earth zone with adequate, or even excessive, stable moisture.

As the production and application of mineral fertilisers increase, *the trend towards bringing the economic fertility of soils previously considered poor up to that of the best is strengthened*, which will, of course, lessen the economic differentiation of farms in the various zones of the country.

In accordance with decisions of the March (1965) Plenary Meeting of the CPSU Central Committee, certain work has been carried out on collective and state farms (liming, cutting and application of peat, amelioration, etc.) with funds systematically allocated from the state budget, and it has brought about faster growth of the revenues of farms less advantageously situated as regards soil and climate.

Within the system of measures to level up the economic conditions for farming an important place belongs to increasing the economic fertility of the land and accelerated development of agriculture in the vast non-black-earth belt of the country. In the Russian Federation alone this belt covers 29 regions and Autonomous republics situated in thickly populated industrial areas. It is planned to increase the out-

put of basic agricultural products in these areas 100-150 per cent towards 1990.

The implementation of the long-term comprehensive programme of agricultural development in the non-black-earth belt worked out by the Communist Party will enable a substantial increase in the productive forces of this vast territory and essentially level of the inter-zonal differences in the economic conditions of the reproductive process in Soviet agriculture.

Technical modernisation, complex mechanisation, application of chemistry and amelioration imply ever wider use of the economic potential to increase the output of crop and stock farming and reduce dependence on the elemental forces of nature. The 24th Congress of the Communist Party of the Soviet Union posed the task of speeding up development of industries making means of production for agriculture, and the equipment and machines needed for processing, transporting, storing and marketing of farm produce.

The introduction of industrial methods in farming has led to the setting up of inter-collective farm and joint state and collective farm production units and associations, and is promoting the technical and territorial integration of farming and industry.

The setting up of agrarian-industrial associations and enterprises is an important way of raising the efficiency of agricultural production, of levelling up the economic conditions for increasing the incomes of agricultural enterprises located in different natural economic zones and inside these zones. The deepening of the social division of labour and the increase in concentration on the basis of inter-enterprise co-operation and agrarian-industrial integration legitimately result in that the indicators of highly efficient, profitable farming become common to many collective and state farms. The wide variations in cost of production of identical goods, in size of gross and net income, and in degree of intensification of productive processes are eliminated. More uniform economic prerequisites are being created for extended reproduction on all collective and state farms involved in inter-enterprise co-operation and agrarian-industrial integration.

Agrarian-industrial associations are not only a new organisational form in the further course of socialising socialist

industry and agriculture, but are also an important social and economic phenomenon in the transformation of rural areas and in eliminating the essential distinctions between town and country.

### **The Role of Commodity-Money Relations in Levelling Up Farming Conditions**

The levelling up of the economic conditions of farming on collective and state farms is largely linked with further *development of commodity-money relations, and above all with improving the system of state wholesale procurement prices (i.e. the purchasing prices for collective farms and delivery prices for state farms).*

The price level in socialist society is established in a planned way for the various spheres of commodity-money relations. Procurement prices, for example, serve in the profit-and-loss financial relations between the socialist state and socialist agricultural enterprises, and have primarily to reimburse the outlays of the latter and ensure their planned rates of accumulation. At the same time, these prices are utilised to redistribute part of the net income created in agriculture to the state's centralised fund for resolving the national tasks of communist construction.

In 1958, during the reorganisation of the system of machine and tractor stations, uniform state procurement prices differentiated according to natural economic zones were introduced, which took into account all the expenses borne by the state in maintaining the stations and buying produce from collective farms.

Shortly after, however, the prices of spare parts were raised and payments for machinery formerly owned by the stations began to come in ahead of schedule. The procurement prices began to go down. As a result, the cash incomes of collective farms from the sale of produce far from always compensated them for its cost. In 1962 the procurement prices of meat and dairy products were raised by 35 per cent, but this raising of the equivalence of commodity exchange between state and agricultural enterprises proved inadequate.

The system of pricing farm produce was fundamentally altered by the March (1965) Plenary Meeting of the CPSU

Central Committee. On the basis of its decisions there was a steep rise in procurement prices; as a result, the average purchasing and delivery price level rose between 1958 and 1965 by 38 per cent for all farm produce, including 45 per cent for meat and dairy products. This enhanced the role of procurement prices as a measure of the socially necessary expenditure of labour.

Prices were differentiated more by zones and brought more in line with the features of production in different soil and economic conditions, so that they had a more stimulating effect. All this implied further development of the zonal principle in the price structure of agriculture. Greater zonal differentiation of procurement prices enables differential rent I to be transferred more effectively to the state and reduces its effect on the economic indices of collective farms.

The development of animal husbandry was retarded by the low profitability of producing meat, milk and other dairy products. The procurement prices of milk and cream were therefore raised in 1970, and new procurement prices for stock and certain other types of products introduced; but profitability on the whole is still far below that of crop farming.

In compliance with the decisions of the March (1965) Plenary Meeting of the CPSU Central Committee 50 per cent extra payment of the procurement price of cereals and certain other crops was also introduced for quantities sold to the state over and above plan. This procedure was later extended to meat and dairy products. Although this dual system of fixed prices for the same type of produce, established at one level for sales according to plan and at another level for sales over and above the plan, is increasing the differentials in the profitability of different farms and areas, nevertheless, it is an economically necessary and justified measure while the development of agriculture still lags behind the growth of demand for food and raw materials. The introduction of incentive prices for above-plan sales has helped provide stable economic conditions stimulating the advancement of crop and stock farming.

Changeover of the pricing system of farm machinery and other industrial means of production to a procedure of averaging transport costs by natural economic zones or Union

republics was begun in 1971. This helps offset the effect of differential rent I from location on the development of the earning power of agricultural enterprises.

Conditions have thus been provided for collective and state farms in all zones of the country that allow them an adequate rate of return on almost all agricultural produce.

The objective conditions for developing agriculture necessitate raising the role of procurement prices as an instrument of accounting for socially necessary sectoral expenditure and for shaping optimum intersectoral and inter-regional proportions in agriculture. It is also necessary to reflect the consumer properties and quality of commodities better in pricing practice.

The gradual evening up of the economic conditions in which the agricultural enterprises of various economic and geographical regions operate may lead to extension of the range of farm produce for which zonal differentials are made in procurement prices.

An economic lever for regulating collective farm revenues of some importance in overcoming existing differentials in the incomes of agricultural co-operatives, and the earnings of collective farmers between zones, and especially within zones, is *income tax*. For a long time it was levied on the gross revenue of farms, but since 1966 has been charged only on the net income of a farm, less a deduction corresponding to a profit rate of 15 per cent and also less the farm's payments into the centralised Union social insurance fund for collective farmers. The freeing of collective farms with a profit rate less than 15 per cent from income tax, and also of those farms that are unable to provide an earnings fund of 60 roubles a month per member, had led to the economically weakest farms getting the chance to divert considerable funds to earnings.

In 1970 the rate of income tax was differentiated on a scale of 12 to 25 per cent of the total net income of collective farms. The differential is established in accordance with the farm's profitability; the higher its profitability, the higher too is the proportion of taxable net income. This method of taxation is fostering a levelling out of the revenues used internally on the various farms for consumption and accumulation. The system of income tax on collective farms ensures

payment into the state's centralised net revenues of a certain share of differential rent II.

*The conditions and forms of material incentives on collective and state farms are being brought in line with each other.* This has become especially noticeable since the introduction of guaranteed earnings on collective farms at the level of state farm job and piece rates. Since there are no great inter-zonal and intra-zonal wage differentials, orientating on state farm wages has meant not only a raising of the pay of collective farmers on most collective farms but also a levelling up of the conditions of reproduction of labour power on all collective farms.

The state helps collective farms to guarantee earnings at state farm job rates by extending them credit for the purpose for five years.

The gradual levelling out of economic differences in the conditions of farming on collective and state farms involves further improvement and extension of the system of *state insurance* for crops and collective farm property. Karl Marx remarked that the part of the surplus product going to provide insurance, plus the part used to extend the process of reproduction, must be maintained even after abolition of the capitalist mode of production.

In individual areas of the country, natural calamities (droughts, floods, hurricanes, etc.) sometimes cause damage, disturbing the stability of collective and state farms' sources in income. The state insurance system has to indemnify the financially autonomous farms for a certain part of the material loss suffered so that they can carry on the process of reproduction uninterruptedly on an un-reduced scale. The provision of the economic conditions mitigating the adverse effect of natural contingencies on the economics of agricultural enterprises has broad social implications in addition to its purely economic importance. The definite guarantee of stable income tends to improve living and cultural conditions in the countryside and retain cadres, especially young ones.

A single system of compulsory insurance for all co-operatives has now been introduced in the Soviet Union. The insurance premiums for collective farms are fixed and differentiated according to Union republics, each of which has its own independent insurance fund; but whenever necessary, in-

insurance funds are redistributed between republics on a repayment principle.

The state insurance system provides for the partial compensation of collective farms for losses caused by such disastrous natural calamities as drought, and so guarantees stability of income and prevents a steep fall in rates of accumulation during lean years.

The economic measures increasing the incentives for collective and state farming play an important role in improving food supplies for the working people and raw materials for industry. The improving of economic relations between industry and agriculture and the consistent application of profit-and-loss accounting and management based on understanding of and compliance with objective economic laws tend to strengthen the alliance of the working class and the peasantry and promote the building of the material and technical base of communism.

As a branch of material production, agriculture is exposed to the influence of a variety of factors, economic, social, political, organisational and natural. A comprehensive approach and all-sided analysis are therefore especially necessary for its successful development.

The Communist Party of the Soviet Union strives to take into account the whole complex of factors determining the development of agriculture, including the problems of supplying rural areas with the requisite machines and fertilisers, broadening the scale of capital construction, improving the land, training personnel and perfecting the organisation of production.

Implementing under the tenth five-year plan a sweeping range of measures to advance agriculture, as was charted by the 25th Congress of the CPSU, will lend the reproductive process in this key sector of the national economy still greater stability and bring about a further increase in the efficiency of crop farming and animal husbandry. The economic strategy of the CPSU in the field of agriculture aims to solve two interrelated and interdependent problems: to guarantee uninterrupted and dependable supply of the country with foodstuffs and agricultural raw materials and to build up reserves indispensable for this purpose; and to continue levelling up steadily the material, cultural, housing and service

---

facilities available to the population in town and country, to the working class and the collective farmers, which is one of the key programme targets of the CPSU. The solution of these problems will contribute to building up the material and technical basis of communism and creating a socially uniform communist society.

## COMMODITY CIRCULATION

### **Its Necessity and Essence**

Exchange, like production, under socialism is directly social in character, serving to meet the needs of the people and the whole economy. Because of the need for commodity-money relations under socialism exchange takes the form of commodity circulation, a planned intermediary link between production and consumption (both productive and personal). So it operates on the basis of systematically organised social production and is organically linked with it.

Scientific and technological progress is leading to further extension of the division of labour, increasing specialisation of production (which broadens co-operation in the form of commodity circulation), widening the scale of this circulation and altering its structure. At the same time there is a reverse process: the development of co-operative links and the increase in the volume of the commodity market stimulate technological progress. In addition, technological progress causes certain changes in the actual organisation of commodity circulation, improves the methods of exchanging the products of labour between the production units of the economy and the forms of supplying consumer goods to the people.

Under socialism commodity circulation takes place in two spheres, (a) means of production and (b) consumer goods, which is due to the fact that the social product, so far as its economic purpose is concerned, consists of means of production and consumer goods.

Circulation, functioning as the mediating means between production and consumption, represents a certain aspect of the relations between the separate branches of the economy,

between enterprises and associations of enterprises, and between the economy as a whole and each member of society.

In socialist society commodity circulation expresses quite different relations than under capitalism. The features of these relations, as a whole and within the various spheres of commodity circulation, are determined by common socialist ownership of the means of production.

Under socialism the means of production, when realised, remain common property and do not become instruments of exploitation. The character of the realisation of consumer goods is also radically altered. Since labour power is not a commodity, workers do not make the exchange  $C-M-C$ , as they do under capitalism. Workers in material production, being the owners of the means of production, do not sell their labour power, their capacity to work. Through distribution according to work they receive payment and acquire the consumer goods they need by completing the circulation act  $M-C$ .

### **Commodity Circulation and the Process of Reproduction**

Circulation is an organically necessary link in socialist extended reproduction. Development of its process is largely determined by the degree of the social division of labour in material production. The main determining factor in social reproduction, its starting point, is the production of material wealth. Commodity circulation brings the product of labour to the consumer, links production with consumption and functions as an essential requisite of continuity of the reproductive process. A condition for maintaining continuity of social production is the ensuring of systematically organised consumption.

The role of commodity circulation is thus not limited solely to bringing the product of labour to the consumer. To ensure that the reproduction process is not interrupted, output must be realised in good time. The enterprise must have its outlays of living labour and means of production reimbursed, for only through reimbursement of these outlays in money form can the normal course of reproduction be continued. This is done by managing the economy by means of profit-and-

loss accounting. Commodity circulation in the form of trade ensures change in the forms of value, a change that is a necessary phase of reproduction. A condition for ensuring continuity of changes in the forms of value (realisation of the product of labour) under socialism is planned organisation both of the turnover of production assets and of commodity circulation as a whole.

Realisation is not only reimbursement of the value of the commodity output but at the same time acquiring of it. The producer enterprises reimburse their production outlays in money form, realise a considerable share of newly created surplus product, while the customer enterprises replace their expended means of production in physical form or acquire the means of production they need for extending production. Workers in industry, agriculture and other branches of the economy, and the population as a whole acquire consumer goods. Commodity circulation, consequently, is effected "by two metamorphoses of opposite yet supplementary character—the conversion of the commodity into money, and the re-conversion of the money into a commodity".\* And whereas the reimbursement of expended means of production is a material pre-condition of continuity of the process of reproduction, the people's consumption of consumer goods is a condition of reproduction of the other factor of the process of production, labour power.

Thus, continuity of realisation, of exchange, is a necessary element in ensuring continuity of the process of reproduction.

Commodity circulation is inseparably linked with the concept of the market. In its economic sense *the "market" is a certain aggregate of the buying and selling of commodities or the sum total of the commodity circulation in a country, economic area, etc.* This volume is determined, on the one hand, by the quantity of goods produced, and, on the other hand, by the effective demand. Moreover, there is an essential difference between the market for producer goods and that for consumer goods. In addition, every commodity taken separately has its own special market; and in that sense we can speak of the textile market, the sugar market, and so on.

---

\* Karl Marx, *Capital*, Vol. I, p. 107.

Under socialism the market differs from the capitalist market in being developed in a planned way and is not a spontaneous regulator of social reproduction. Motives of private enrichment are foreign to it. Under socialism commodity circulation promotes raising of the well-being both of society as a whole and of each of its members individually.

In this connection the influence of consumers on production grows to a still greater extent.

The report of the CPSU Central Committee to the 25th Party Congress says in this context: "It is important not only to remember that the end purpose of production is to satisfy various social requirements but also to draw practical conclusions from this. One of them is unquestionably to give the consumer—whether this concerns primary or other materials, machines, equipment or consumer goods—broader possibilities for influencing production."\*

The absence of antagonistic contradictions between production and consumption under socialism does not exclude certain contradictions and difficulties in effecting the circulation of commodities and, consequently, in the whole process of reproduction. Constant perfecting of the concrete forms of commodity circulation and of the operative mechanism of the commodity market, acceleration of the process of change of the forms of value and through it acceleration of the turnover of production assets are vital conditions for extending the possibilities of socialist reproduction and raising its growth rates.

Commodity circulation takes the form of trade, through a whole system of organisations and enterprises whose job is to supply commodities to consumers and effect the change in the forms of value. Under socialism trade expresses the socialist relations of commodity exchange and is the specific sector of the national economy in which commodities are directly sold.

Planned organisation of trade and planned regulation of supply and demand accelerate commodity turnover, which is an indispensable condition for maintaining high rates of extended socialist reproduction.

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 71.

The basic schemes for realising the aggregate social product will be discussed in detail below. Here we shall only describe the mechanism of commodity circulation as a component of the process of reproduction, the concrete forms of the latter by which the aggregate product is realised in practice.

## Circulation of the Means of Production

*Commodity exchange of means of production takes place between public enterprises and between the latter and collective farms, and also between collective farms.* The interrelations between the different branches of the economy and between production and productive consumption as a whole also take the form of commodity circulation of means of production.

Socialist ownership of the means of production imparts essential distinctions to the circulation of means of production. (1) Means of production cannot become private property and therefore do not change their social character in being realised. They remain common property. (2) The process is carried out in a systematic way and is immune to the spontaneous ups and downs inherent in the capitalist market. (3) The purchase-and-sale process is organised in a planned way not for purposes of private gain but with a view to improving the life of the people by promoting socialist production, stimulating technological progress, extending output of consumer goods, and developing industry, agriculture and the services sphere.

Planned distribution of the means of production is a necessary element of socialist planning of the whole economy. The actual quantity of these means in each branch of the economy determines the quantity of labour power applied in it and the growth rates of industry. Planned distribution of means of production makes priority development of progressive branches of the economy possible and promotes technological progress, effective use of society's material resources and reduction of the costs involved in marketing the means of production.

In the Soviet Union, a considerable part of commodity turnover of the means of production takes the form of *centralised supply of equipment and materials*.

The agencies responsible for supply establish relations between supplier and customer enterprises which conclude delivery contracts stipulating the concrete terms of supply on the basis of confirmed plans.

In the new management conditions, socialist enterprises have more chance to employ commodity relations as a necessary element in developing and consolidating profit-and-loss accounting. The purchaser enterprise can refuse to accept products allocated to it (as excessive, or unnecessary owing to a change in demand). It is in a position to exert economic pressure on the manufacturer in cases of delivery of inferior goods or failure to meet delivery dates. The laws adopted in connection with the economic reform considerably raise standards of material responsibility for the fulfilment of contracts.

The development of permanent *direct business relations* between the enterprises making a product and those consuming it is particularly important. They are established in a planned way with a view to maximum economic expediency.

It is contemplated to complete in the tenth five-year plan period the transfer of associations and enterprises engaged in mass and batch production to direct long-term connections based on long-term economic contracts.

For purposes of organising rational economic ties and stable supply of enterprises, for raising the effectiveness of using material resources in particular, work is being carried on to develop wholesale trade in some means of production through depots, warehouses and shops of territorial supply-and-sale organisations.

The market for means of production is the most important link in the process of circulation, and its development stimulates technological progress, the formation of optimum proportions in the economy and an increasing volume of consumer goods.

During and through the circulation of means of production those material and technical factors that promote realisation of the objective goal of socialist production, i.e. improvement of the people's well-being, are brought into action.

## Commodity Circulation Between the State and Collective Farms

The difference between the two forms of socialist property also determines the features of *commodity circulation between the state and the co-operative-collective farm sectors*. This exchange takes two forms: (1) *sale of means of production to collective farms*; and (2) *state procurement or purchase of collective farm produce*.

As a result of exchange between the state and collective farms there is a change of ownership: means of production sold to collective farms pass from public ownership to co-operative-collective farm ownership, and collective farm produce bought by the state becomes public property.

The steadily increasing production of farm machinery, electrical equipment, chemical fertilisers, and so on, is extending commodity circulation in the supply of means of production to collective farms.\*

The opposite stream in commodity exchange is state procurement and purchase of collective farm produce, the scale of which is determined by the volume both of collective farm production in general and of marketable production in particular, the scale of production from personal small holdings and the economic interest of collective farms in selling produce to the state. In recent years state purchases of the most important crops and farm produce in the USSR have averaged 95 to 96 per cent of the marketable produce of the common economy of collective farms.

Thus, *production and economic relations between the state and collective farms, between town and country, are mediated through circulation*. Collective farms are receiving farm machinery, various equipment, fertilisers, materials, etc. on a growing scale, which helps them to raise the technical standards of their farming, increase labour productivity and lower the cost of farm produce. The state in turn receives more and more raw materials for industry and food for the population, which provides the conditions for speeding up development of the light and food industries and raising the real incomes

---

\* The supply of means of production to agriculture is considered in more detail in Chapter XI.

of workers. Taken together, the interrelations between the two forms of socialist property are realised through all the production and economic links effected through the process of circulation, and common national property exerts a decisive influence on the whole socialist economy and on the process of bringing co-operative-collective farm property closer in character to common, national property.

### Trade in Consumer Goods

The second sphere of commodity circulation is the sale of consumer goods to the population, through which the link between production and personal consumption is realised.

Given developed social division of labour, the link between consumers and producers is realised mainly through trading enterprises.

And in the course of trade the distribution of consumer goods according to work is implemented.

*The wages* received by working people are the *first act in the process of distribution according to work*. The sum total of wages indicates the volume of the social fund of consumer goods and services that working people can receive in accordance with the quantity and quality of their labour.

But the money received by them in the form of wages is not in itself part of the social product. In order to obtain that, it is necessary to perform the *second act of the process of distribution—to exchange the money for commodities*, for concrete consumer goods.

Not all trade in consumer goods, however, is directly connected with distribution according to work in social production. Collective farmers' purchases of consumer goods with the cash proceeds from sale of produce from their personal small holdings fall outside its limits; in this case there is only a specific exchange between different owners. Trade helps realise the cash incomes of a part of the population received in the form of pensions, benefits and maintenance allowances.

The place of trade in the distribution process determines its tasks. *In socialist society trade is to ensure fullest realisation of the principle of payment according to work*.

It is important, so that every worker can buy the consumer goods he or she needs, i.e. to receive his or her share of

the social product, to maintain a definite proportionality between the production of commodities and the money incomes of the population, between the marketable stock of commodities and effective demand.

If this proportionality is upset, the working people will be unable to spend their money incomes or, on the contrary, stocks of unrealised goods will develop. In either case, the economy and the well-being of the working people will suffer. The 25th Congress of the CPSU specifically underscored the need to meet more fully the growing consumer demand in the USSR by increasing the production of consumer goods, improving their quality and widening their range, and also by developing its services. The report of the CPSU Central Committee to the 25th Party Congress stated that a rise of the working people's living standard is inseparable from an increasingly fuller satisfaction of their demand for the most diverse goods and services. By itself a growth of cash incomes does not yet mean a real rise of the living standard. Besides, the shortage of some goods and the limited volume of services diminish the possibilities for providing material incentives for labour, and therefore consumer goods production must go up at a higher rate than the cash incomes of the population.

The problem of proportionality between production of goods and money incomes of the population is linked with the more specific question of the correspondence of the supply and demand for each individual commodity.

Improvement of the working people's well-being goes hand in hand with a rapid change in needs, tastes and aspirations, and calls for steady expansion of the range of items produced. Only by broadening the range of consumer goods and improving their quality can the needs of the working people be met more fully.

In that connection *study of consumer demand* as well as the ordering from industry of those commodities that are in increased popular demand are most important. Orders from trading outlets must be made the basis for decisions concerning the volume of output and the range of consumer goods.

By organising publicity, employing progressive forms of marketing (trade shows and sales, fashion shows, and so on) trading outlets contribute to the introduction of new wares,

and influence both production and the formation of consumer demand, the cultivation of the aesthetic tastes of customers.

Trade in consumer goods is a specific branch of the Soviet economy, employing around 6.6 million people, or 6.6 per cent of those engaged in the economy.

Various forms of trade are used: state, co-operative, collective farm market and intra-collective farm.

The chief form is *state trade* (wholesale and retail). It accounts for around 70 per cent of the total retail turnover.

*Wholesale trade* in consumer goods comes under the USSR Ministry of Trade, and is conducted through a network of specialised depots, ensuring planned distribution of consumer goods over the various areas of the country.

Consumer goods are sold directly to the population through the system of retail trade. In the Soviet Union this system includes the networks of the Ministry of Trade, the workers' supply departments of certain industries and the specialised sales outlets of the Ministries of Health, Culture and Communications.

*Co-operative trade* occupies second place in total retail turnover, its share being about 29 per cent. It is conducted through a network of trading enterprises and catering establishments, of the consumer co-operatives, united in *Centrosoyus* (the USSR Central Council of Consumers' Societies). Consumer co-operatives cater mainly for the rural population.

Consumer co-operatives also organise the purchase of surpluses of farm produce from collective farmers both for the state and for sale in rural areas, and accept surplus produce from collective farms on commission to sell to the urban population through their own special trading network.

The existence of co-operative (collective farm) property, of the personal small holdings and allotments of collective farmers, and factory and office workers, and distribution in kind on the collective farms, accounts for the development of trade *through collective farm markets*, where the surplus produce obtained by collective farmers from both their common, joint farming and their personal small holdings is sold. But collective farms also sell some of their produce there.

As the volume of state and co-operative retail trade grows the proportion of collective farm trade in the total turnover

is steadily declining. Today it is 1.3 per cent of the total retail turnover and 2.3 per cent of retail trade in foodstuffs.

There are elements of spontaneity in trade on the collective farm market, the price level being affected substantially by the relations of demand and supply. The collective farm market, however, is directly affected by state and co-operative trade, the price level being mainly determined by the availability of similar goods in state and co-operative shops.

As payment in cash spreads on collective farms, a special form of intra-collective farm trade is steadily developing, supplying the farmers with products from the common farm. This trade ensures distribution according to work within the individual collective farm by way of commodity-money relations. Its volume is steadily growing.

A main indicator of the rising well-being of workers is increase of retail turnover. In the Soviet Union, between 1940 and 1974, per capita retail trade turnover increased 520 per cent. Sales of manufactured goods are steadily growing.

Further rise in the people's standard of living calls for constant improvement of trade. The Soviet tenth five-year plan provides for retail turnover to increase by 27-29 per cent in accordance with the growth of incomes and expansion of production, and to near 270,000 million roubles in 1980. The range of manufactured goods and foodstuffs, recreational goods and household appliances is being considerably broadened. Convenient forms of retailing are to be widely introduced (advance orders, home delivery, sales by samples) and the supplying of rural areas is to be improved.

*Public catering* is a very important form of meeting the needs of the working people. Unlike other forms of trade, public catering establishments prepare and serve food as well as sell it. The sale of food through the public catering system is part of the turnover of retail trade.

The progressive role of public catering is that it substitutes more productive social production for house work, releasing reserves of labour and improving the living conditions of the working people. The organisation of catering directly at enterprises and in various institutions and educational establishments, and so on, is especially important. Public catering makes it possible to use food resources rationally, to arrange dietic feeding on scientific principles, etc.

The gross turnover of public catering is constantly rising. Between 1940 and 1974, it increased fivefold in physical terms in the Soviet Union (in comparable prices). During the tenth five-year plan the public catering network is to be considerably extended.

Thus, trade in mass consumer goods is being developed in a variety of forms and directions. Through it a considerable part of the social product and national income is realised. Trade is a most important aspect of extended socialist reproduction and has a direct effect on rates of reproduction and economising of social expenditure of labour.

### Costs of Circulation

The planned organisation of commodity circulation involves a certain expenditure of material and labour.

The expenses of supply, marketing and procurement organisations and trading establishments linked with the distribution of goods from industry to the consumer are known as *costs of circulation*.

These costs are divided into two types.

(1) *Costs of circulation connected with continuation of the process of production in the sphere of circulation*: these are outlays on the transport, grading, packaging and storage of goods, and so on. The labour of the workers involved adds to the value of the commodity. In the labour process the value of the material elements consumed (fixed assets, packing materials, fuel, etc.) is transferred to the product, and new value is created.

(2) *Costs due to change in the forms of value, i.e. directly to the sale of commodities*: these are the outlays connected with issue of money, the maintenance of shop assistants, cashiers, bank clerks, book-keepers and accountants, and so on. "The general law is that *all costs of circulation which arise only from changes in the forms of commodities do not add to their value*," Marx wrote. "They are merely expenses incurred in the realisation of the value or in its conversion from one form into another."<sup>\*</sup>

---

\* Karl Marx, *Capital*, Vol. II, p. 152.

The socialist economy and the laws of its development determine the nature of the costs of circulation both in the sphere of the supply of materials and equipment and in the sphere of trade in consumer goods.

The planned organisation of commodity circulation under socialism determines the scale, character and structure of costs of circulation. Under capitalism the antagonistic contradictions of realisation force up the proportion of costs of circulation in the price of a commodity to an exorbitant extent. Competition, the struggle for markets, advertising, middlemen, etc., entail growth of unproductive expenditure and of the net costs of circulation. The monopoly position of enterprises servicing trade also has a big effect on the magnitude of costs of circulation.

In socialist society trade is freed of the huge unproductive expenditure inherent in capitalist trade.

*Under socialism, costs of circulation are, in the final analysis, society's outlays necessitated by planned distribution of the aggregate social product.* Most of them are the expenditure involved in continuation of the process of production in the sphere of circulation, which is evidence of the economical nature of trade.

The lowering of costs of circulation is a way of increasing the profitability of the sphere of commodity circulation and a factor encouraging reduction of prices and, consequently, raising of the well-being of the people.

Lowering of costs of circulation must go hand in hand with improving of the service to customers. This is achieved *by raising the productivity of labour employed in the sphere of circulation.* Other things being equal, an increase in the turnover of goods means a reduction of the level of expenditure in the sphere of circulation.

The following also have a big effect in reducing costs of circulation: (a) *the lowering of expenditure connected with the transportation of commodities,* and (b) *a relative reduction in the expenditure on administration and management and losses of various kinds.* Transport costs are lowered to the extent that the distribution of consumer industries is improved, rational systems of carriage and handling of commodities introduced, and the means and lines of transport perfected.

The effective performance of trade organisations is determined by how far they satisfy the needs of the people and by the magnitude of the profit made by these organisations. *Trading profit is the difference between the retail discount (or mark-up) and the costs of circulation.* Trade organisations are allowed a certain discount on the retail price to cover their costs. Their profit is a source of funds to improve the organisation of trade and to provide incentives for those working in the field of trade.

The socialist system opens up broad opportunities for economic development of the sphere of circulation in order more effectively to meet the growing needs of the people, by introducing new machines in this field, rationalising the whole system of commodity movement, better study of mass demand and improving the skill of workers engaged in trade.

## Retail Prices

Commodities are sold to the public at *planned retail prices*. Socialist common property in the means of production provides the possibility of doing so.

*The basis in fixing retail prices is the value of the commodities, i.e. the socially necessary expenditure of labour.* The greater the expenditure of labour on producing a commodity the higher is its retail price. In current planning, prime cost is taken as the basis of price fixing. An important factor that has to be taken into account here is the *correlation of demand and supply*.

This correlation plays a particularly big role in the establishment of prices on the collective farm market. But in that, as we have already remarked, state trade is the deciding factor. The price level on the collective farm market depends to a certain extent on the degree to which state and co-operative trade meet the public's needs for a given commodity.

In fixing retail prices socialist society takes into account the effect of individual commodities on the standard of living of the masses. Accordingly, in the USSR, the central planning and management bodies, government departments,

republics and local Soviets are involved in working out prices.

The general retail price level and the prices of the most important commodities (bread, meat, milk, textiles, footwear, etc.) are confirmed by the government. The prices for a number of other commodities, including those in the national mix of the republics, are confirmed by the Councils of Ministers of Union republics; the share of these goods in the total is 45 per cent. The retail prices of the output of local industry, made from the local raw materials of a particular region, are fixed by the regional Soviet.

The socialist state employs retail prices as a lever in redistributing the national income, in stimulating consumption of certain commodities and limiting consumption of others. The report of the CPSU Central Committee to the 25th Congress set the task of saturating the market with mass consumer goods at a stable level of state retail prices of basic goods and, as the necessary economic conditions ripen, lowering the prices of individual items.

The lowering of retail prices depends on such factors as growth of labour productivity and reduction of costs of production and circulation. In present conditions the prices of individual commodities can only be lowered when, at their existing prices and falling costs, the market for a particular commodity is to some extent oversaturated.

The retail prices of consumer goods are the point at which the main lines of socialist economic development intersect. Effective observance of the requirements of the main economic law of socialism largely depends on the establishing of scientifically substantiated prices. Socialist society therefore has a vested interest in steady improvement of the whole system of planned price fixing.

## Foreign Trade

A socialist country's sphere of commodity circulation includes its economic relations with other countries, based on the international division of labour, as well as internal processes. These external relations take the form of and are developed as *foreign trade*.

In the Soviet Union a state monopoly of foreign trade is consistently exercised, consisting in the exclusive right of the state to all operations in the export and import of commodities. In practice it is exercised in the name of the state by the Ministry of Foreign Trade of the USSR.

The monopoly of foreign trade fulfils a dual function. On the one hand, it promotes development of the socialist country's economy and protects it against the disruptive influences of capitalist monopolies; and, on the other hand, it makes it possible systematically to co-ordinate development of the economies of the various socialist countries.

The foreign trade of the socialist countries is growing steadily in volume. In 1974 the foreign trade turnover of the USSR was 23 times that in 1946. During the tenth five-year plan period foreign trade is to increase by 30-35 per cent. Soviet trade with the socialist countries is growing particularly rapidly. Whereas the volume of Soviet trade with developed capitalist countries increased 19 times between 1946 and 1974, its trade with the CMEA member states increased 29 times, and now constitutes 54 per cent of its total turnover.

Foreign trade based on the international social division of labour helps achieve economic efficiency.

The development of trade relations between socialist countries enables them to economise on social labour and lower the national value of commodities. This is done by specialising in the production of individual lines of output, better use of natural resources, production capacities, manpower, etc. The normalisation of relations between socialist and capitalist countries has created a favourable basis for new opportunities of using the international division of labour and developing their trade and economic relations. The development of trade between socialist and capitalist countries is based on mutually advantageous relations.

Increased trade between socialist and capitalist countries is of great political importance, demonstrates the growing influence of the socialist countries on the processes of the world economy and reflects their growing economic strength.

## The Effect of Foreign Trade on Socialist Reproduction

The foreign trade relations resulting from the participation of countries in the international socialist division of labour take shape in a planned way and have an essential effect on the structure of the aggregate social product in each socialist country and on shaping the proportions between the development of Departments I and II in social production, between industry and agriculture, and so on. Foreign trade also affects the degree of concentration of industrial output and boosts technological progress. The proportion of means of production in the volume of mutual trade tends to grow; and with the present scientific and technological revolution, this circumstance is becoming an important condition for the further development of the economy.

In the socialist countries, the proportions between the departments of social production and between individual industries are formed with due regard for both internal demand and the needs of the other fraternal countries, and this is facilitated by joint planning work within the Council for Mutual Economic Assistance (CMEA). For example, in order to meet the needs of other socialist countries for raw materials, fuel, machinery and equipment, the Soviet Union plans their production in the volumes required, which raises the proportion of means of production in the aggregate social product. The countries importing means of production also take this into account when shaping the structure of their national social production.

Imports play a major role in speeding up development of lagging sectors of the economy. Imports, mostly from the Soviet Union, were used to build (almost from scratch) such key industries as iron and steel, non-ferrous metals, chemicals and engineering in Bulgaria, Hungary, Poland and Rumania. Imports of means of production help to maintain adequate rates of technological progress with a still inadequate level of home production of machinery and equipment. By buying technically advanced equipment and complete plants, and acquiring patents and licenses, socialist coun-

tries can thus take advantage of world achievements in science and engineering to accelerate the growth rates of social production.

In the period 1970-75 alone the USSR imported complete plant and equipment for nearly 2,000 industrial projects.

Imports of mass consumer goods, which account for two-fifths of the total imports in the USSR, increase the stocks of goods that are still not produced in sufficient quantities in one country or another and facilitate ever fuller satisfaction of working people's needs.

The CPSU and the Soviet Government are carrying out measures to secure the Soviet Union's broader involvement in the international division of labour, to transfer foreign economic co-operation onto a long-term basis and to enhance the role of foreign economic relations in solving economic problems and in speeding up scientific and technological progress.

It was stated at the 25th CPSU Congress that the task now was to enlarge according to plan the country's export potential through bigger sales of both traditional goods and new lines of products. Another question is one of organising in certain cases specialised production of goods for export.

Foreign trade thus has considerable effect on reproduction of the social product, on its proportions and effectiveness, bringing in additional material resources and enabling the advantages of international division of labour to be utilised.

On the whole, the development of commodity circulation is a necessary stage in the single process of socialist reproduction, through which all the components of the social product are replaced. The process is inseparably linked with the movement and accumulation of financial resources and the development of finance, credit and money circulation in socialist society.

## FINANCE, CREDIT AND MONEY CIRCULATION

Commodity circulation, which is part of the single process of socialist reproduction, takes the form of the movement of material and money assets. During the process of reproduction some of the money becomes separated from commodity circulation and performs relatively independent movement and this entails a need for finance and credit in the socialist economy.

### 1. THE ESSENCE AND ROLE OF FINANCE UNDER SOCIALISM

#### The Features of Finance in Socialist Society

*In socialist society finance constitutes the economic relations involved in the planned formation, distribution and use of financial resources to meet the needs of extended socialist reproduction, raise the well-being of the working people in town and country and to satisfy other social needs.* Finance expresses the relations between socialist society as a whole and enterprises, organisations and the public, and also the money relations between enterprises and organisations.

Under socialism finance is fundamentally different from finance under capitalism.

The function of finance in bourgeois countries is to consolidate the economic and political power of the dominant exploiting classes. Mounting taxes on the incomes of the public furnish the economic basis for functioning of the bourgeois state machine. Capitalist finance, reflecting all the antagonisms of the capitalist system of production, stimu-

lates its decay and exacerbates all the contradictions of capitalism.

Since there are commodity-money relations in socialist society, it is also necessary to use finance to ensure extended socialist reproduction and to perfect it as an instrument for effective organisation and planned development of the economy, and for meeting the growing needs of the people. Solution of these tasks calls for timely and correct accumulation, distribution and utilisation of monetary resources in the economy as a whole, and for control over the activity of socialist enterprises and economic organisations. The material basis of finance as an economic category is social production.

Finance helps socialist society to settle the basic economic proportions in a planned way, to distribute the aggregate product into various funds (replacement, accumulation and consumption), and to create the cash resources in these funds for productive and non-productive purposes. Finance thus plays an active role at all levels of the movement of the social product and national income.

The financial relations of socialist society embrace the finances of enterprises and industries, the state budget, social insurance, and life and property insurance. All these relations are organically interrelated and form a single system of the finances of socialist society. During turnover of the assets of enterprises, part of society's net income is realised and is placed at the disposal of the socialist state in its centralised monetary fund.

## The Functions of Finance in Socialist Society

The essence of finance under socialism is expressed in two main functions: (a) distributive and (b) supervisory and stimulating.

*The distributive function* of finance is manifested in the planned distribution and redistribution of the social product and national income by means of finance.

The national income is distributed into the basic (primary) revenues in the branches of material production where the

net income of society is created and also the incomes of the people directly engaged in the process of production.

The relations of primary distribution arise (1) in the formation of part of the centralised revenue of the state (turnover tax and payment for assets) and the profits of state enterprises; (2) in the distribution of profit in the separate state enterprises into the part paid into the budget and that remaining at the disposal of the enterprise; (3) in the partial extraction of the differential rent and differential rent income arising in agriculture and the extractive industries; (4) in the levying of turnover tax and income tax on collective farming.

The derivative (secondary) revenues of institutions and of the population engaged in any branch of the national economy that does not create national income are derived from part of the basic (primary) revenues. In this way the bulk of the revenues of the non-productive sphere is formed (the remainder being formed from the public's payment for the services of financially autonomous enterprises in the services sphere).

During the distribution and redistribution of the national income relations arise between the state and the socialist enterprises, and between the state and individual citizens.

*The second function of finance* is its employment in the economy to stimulate the most rational methods of management and growth of socialist accumulation by means of certain methods of distributing and redistributing financial resources and *to supervise* the planned use of material resources and manpower by regular checks on the movement of financial resources. This function of finance is most fully expressed in the relations of enterprises operating on a profit-and-loss basis with the state: their contributions to the state budget are maintained at a rate that stimulates the best use of their fixed and circulating assets and manpower. *The supervisory and stimulating function* of finance operates during compilation and utilisation of the state budget, during the determination of contributions to it and appropriations from it. The role of financial system in the building of socialism and communism is growing all the time.

## 2. THE STATE BUDGET

### The Nature of State Budget Under Socialism

The most important link in the finance of socialist society is the state budget. Under socialism *the budget is the form in which monetary resources are centralised in the hands of the state and employed to ensure extended reproduction and satisfaction of all society's other needs.*

The budget is drawn up on the basis of socialist ownership of the means of production, which enables the socialist state to distribute and redistribute more than half the national income in a planned way through it.

The budget of the USSR includes the budget of the Union itself, the budgets of Union republics and local budgets. It is linked with all branches of the economy and is a powerful tool for systematic exercise of the state's economic functions. The financial plans of enterprises and economic organisations are regulated and their fulfilment influenced through the budget.

The budgets of capitalist countries are fully subordinated to the task of consolidating political and economic hegemony of the exploiting classes. Under socialism the state budget is based on regularly developing production and in turn ensures planned shaping of the necessary proportions in production and planned distribution of the national income in order more fully to meet the constantly growing material and cultural needs of the working people.

Unlike the budgets of capitalist states, the budgets of socialist countries not only do not have deficits but they are regularly fulfilled with a surplus of revenue over expenditure, which is an expression of the balanced and continuous growth of social production at a high tempo and of distribution of the national income with a view to continued extension of production and improvement of the people's well-being.

The total volume of the USSR's budget grows together with development of the economy, as will be seen from the following data (in millions of roubles).

	1940	1950	1960	1970	1974	1976 (planned)
Revenue	18,000	42,300	77,100	156,700	201,300	223,700
Expenditure	17,400	41,300	73,100	154,600	197,400	223,500

Under socialism the budget operates as a certain system of financial relations between society as a whole, individual enterprises and the members of society. At the same time, it is the basic financial plan for forming and using a national fund of monetary resources of the socialist state. The plan is the *balance sheet of state revenue and expenditure*. The budget of the USSR is endorsed each year by the USSR Supreme Soviet and is a law binding on all government bodies.

### Budgetary Sources of Revenue

*The main source of budgetary revenues under socialism is the net income produced in the sphere of material production.* The bulk of this net income becomes the centralised net income of the state and provides more than 90 per cent of budget revenue.

In the USSR the following forms are used to divert net income into the budget: (a) *payments from the profits of enterprises (payment for production assets, fixed payments and receipts from residual profits)*; (b) *turnover tax*; (c) *social insurance contributions*; (d) *income taxes from collective farms and other co-operative organisations, and certain other taxes.*

Budget revenues come from receipts from socialist enterprises and organisations, and from taxes levied on the population. The bulk is revenue from public enterprises and organisations.

Collective farms and other co-operatives contribute to budget revenues mainly through turnover tax, but collective farms also pay income tax on their net income.

Budget revenue from the public takes the form of taxes and loans. *Personal income tax* is the obligatory transfer of

part of workers' personal incomes to the budget. Factory and office workers pay income tax on their earnings and collective farmers and other groups possessing personal small holdings pay an agricultural tax. The sources of budget revenue are consequently not only surplus labour but also a certain part of the necessary labour of workers in material production, which is then redistributed to meet social needs and improve general well-being.

Income tax has lost the class significance it had during the transition from capitalism to socialism, when it operated as a weapon for limiting the incomes of capitalist elements.

The weight of taxes in the budgets of socialist countries is not heavy. In the Soviet budget for 1974 state taxes on the population were 8.5 per cent of the total revenue. While constituting an insignificant proportion of the incomes of working people in town and country, taxes regulate the incomes of separate groups of the population, reducing differences in earnings.

Development of the socialist economy is creating the conditions for gradual abolition of personal income tax. At present a tax-exempt minimum of 70 roubles per month has been introduced for factory and office workers, and the tax on earnings less than 90 roubles per month has been reduced. In the United States more than 90 per cent of the federal revenue is derived from income taxes, which swallow up 30 per cent of tax-payers' total income.

A part of the incomes of the public is drawn into the budget in socialist countries through loans, lotteries, etc.

*State loans* are raised by issuing bonds, i.e. interest-bearing or lottery obligations sold to the public. Prior to 1958, there were loans raised on subscription among all persons employed. Between 1947 and 1956 eleven such loans were issued, and the internal national debt under them amounted to 25,800 million roubles. In 1958 the issue of new state loans was stopped and repayment of the bonds already held by the public was deferred for twenty years, with the intention of retiring them in equal annual lots between 1977 and 1996. The Communist Party and the Soviet Government decided, however, to begin repayment before this time and bonds distributed among the population on subscription are being repaid since 1974. All outstanding bonds would be

repaid by 1990, i.e. six years earlier than the original date.

At present a 3 per cent loan is on regular sale, with the bonds freely sold and redeemed at savings banks.

## The Character of Budget Expenditure

Under socialism state funds are expended on *financing the economy, social and cultural measures, science, upkeep of the machinery of government, and on defence*. More than three quarters of all Soviet budgetary expenditure goes on financing the economy, social and cultural services, and science. This is one of the most important features of the budget of a socialist state.

Financing of the economy primarily means the expenditure of budgetary funds on *the building and extension of state enterprises* (investment and supplementing of circulating assets). Budgetary means are used primarily for the industrial development of social production as a whole, for improving its efficiency, and for securing high, stable rates of growth in industry and agriculture.

Soviet budgetary expenditure on financing the economy is constantly growing. In 1940, for instance, its share was 33.5 per cent of the total budget; in 1950 it was 38.2 per cent, and in 1974, 50.5 per cent.

Budgetary funds are also used on a growing scale to finance *social and cultural services and science*, i.e. education, health and physical culture, social security and social insurance. In the Soviet Union this expenditure was 23.5 per cent of the budget in 1940, 28.2 per cent in 1950, and 36.1 per cent in 1974. Expenditure on social and cultural services and science (including investment) comes from the state budget, from the funds of government, co-operative, trade union and other social enterprises and organisations, and from the funds of collective farms. In 1974, they constituted about 25 per cent of the Soviet Union's national income.

The bulk of social consumption funds comes from budget resources.

The state allocates the necessary means for *defence and upkeep of the state apparatus*. In 1965 defence spending

constituted 12.6 per cent of all Soviet budget expenditure, and in 1974, 8.9 per cent. The Soviet Union pursues a policy of peace. But its security interests compel it to maintain its defence capability at a level that would protect the Soviet people against the intrigues of world imperialism.

Part of the budget in socialist society is spent on *upkeep of the state administration*. In the Soviet Union in 1950 expenditure on this was 3.4 per cent of the budget and in 1974, 1.0 per cent. The machinery of the socialist state handles an immense and varied amount of work in administering the economy and cultural development of the whole country. At the same time, the socialist economic system creates the conditions for most economical organisation of state administration.

The budget includes the *social insurance fund*, which is raised from the contributions of enterprises, organisations and offices. The size of the contributions (as a percentage of the wage fund) differs from industry to industry, higher rates being paid by hazardous and unhealthful industries.

In financially autonomous enterprises, social insurance contributions are part of their outlays and are reimbursed from their returns, and are part of the net income of society. In organisations and institutions whose funds come from the budget social insurance contributions are provided for in their own budgets out of the funds received from the state budget.

The bulk of social insurance funds are spent on the maintenance of workers who are disabled or sick, or have reached retiring age, on maternity benefits and allowances for children of families within low-income brackets. The remainder goes on measures to improve the cultural and social amenities, such as the building of holiday homes, sanatoria, children's camps, etc.

State social insurance is administered by the trade unions, but constitutes an item in the total aggregate revenue and expenditure of the state budget. The insurance funds, however, are only part of the assistance for the disabled provided by socialist society. Other assistance comes from the budget appropriations for social security. Funds for assisting the disabled have also been set up by collective farms and co-operatives. In 1965 a centralised country-wide social insur-

ance fund for collective farmers was instituted in the Soviet Union from payments from the gross income of collective farms and allocations from the state budget.

The *state system of property and life insurance* is a reserve built up from the premiums paid by co-operatives and the public to compensate losses due to natural calamities and accidents. Damage suffered by the property of state enterprises is covered from budgetary resources.

State insurance funds are expended as necessary; any unused residue is always put into circulation, used productively and yields the state a net income.

Under socialism insurance is a state measure, undertaken in the interests of the economy and in the personal interests of the people.

The USSR budget also provides for funds for measures arising from inter-governmental agreements on broadening the Soviet Union's economic, financial and credit relations with other countries, relations based on the principles of equality, respect for sovereignty and mutual advantage.

### 3. CREDIT AND BANKING UNDER SOCIALISM

#### The Nature of Credit Under Socialism

Credit and banking play an important role in socialist society. The "credit system will serve as a powerful lever during the transition from the capitalist mode of production to the mode of production of associated labour," Karl Marx wrote.\* And Lenin stressed that "without big banks socialism would be impossible".\*\*

The nature of credit under socialism is different in principle from what it is under capitalism. Under socialism credit develops on the basis of socialist ownership of the means of production; it is devoid of relations of exploitation and functions in accordance with the requirements of the main economic law of socialism and the law of planned, proportionate development of the economy.

\* Karl Marx, *Capital*, Vol. II, p. 152.

\*\* V. I. Lenin, "Can the Bolsheviks Retain State Power?", *Collected Works*, Vol. 26, p. 106.

The necessity of credit is dictated by the pattern of the turnover of assets in enterprises. Since the periods of production and circulation of products are different, in many enterprises and industries idle reserves invariably form in some sectors of the economy while need for additional funds arises in others.

*In socialist society credit is a system of monetary relations by which the idle reserves of enterprises, organisations and the public are mobilised and systematically lent out on condition of repayment, so as to maintain extended reproduction and to meet other needs of the socialist economy.*

## The Sources of Credit

Temporarily idle reserves arise in the economy in a variety of ways. The turnover of productive and circulating assets in enterprises involves a continuous alternation of money, commodity and productive forms, and the process of reproduction is mediated by the movement of money. The money incomes of enterprises come from the production and realisation of output.

Since the time when cash receipts come in from realisation of the products and the time when money is laid out on production needs do not coincide, receipts accumulate and are spent on acquiring raw materials and fuel, stocks of which have to be renewed periodically. On the other hand, the funds set apart to reimburse the value of expended fixed assets and depreciation allowances accumulate regularly in the form of cash and are only spent on restoring, overhauling and modernising existing fixed assets at certain intervals. The wage fund also accumulates as products are realised, and wages are paid periodically. The part of net income remaining at the disposal of an enterprise is also not used immediately. So enterprises come to have idle reserves which accumulate on their various bank accounts.

Some funds may also be temporarily idle on social insurance accounts, and the funds of trade unions and other social organisations accumulate until used. In addition to these sources of credit resources there are the cash reserves of the budget accruing from the surplus of revenue over expendi-

ture and from appropriations and special-purpose funds (e.g. funds for long-term credits for collective farms).

In the course of the turnover and circulation of assets enterprises often have a shortage of funds of their own because they must make fresh outlays while production is still in progress and the product has not been realised. Credit may be needed to supplement circulating productive assets and other circulating assets when work is being carried out to extend or modernise fixed assets, and so on. The idle cash reserves of enterprises and organisations and parts of the budget, however, can only be mobilised and used on the basis of repayment, i.e. on a credit basis.

The material basis for money credit relations is movement of the product. The making of extra funds available to enterprises and organisations on condition of repayment makes it possible to stimulate the production and circulation of goods, and exercise supervision by financial measures.

## The Forms and Principles of Credit

The nature and features of credit relations under socialism are reflected in the *forms of credit*, and since credit is extended through banks, its main form is that of *bank credit*. In these relations the bank figures as creditor advancing loans to state and co-operative enterprises, and occasionally to the public, from temporarily idle resources mobilised by it.

Credit is advanced by banks either on *short term* or *long term*. Short-term credit is advanced as a rule for periods up to one year, and is used for circulating assets, while long-term credit is used to extend fixed assets. The scale of credit relations in the Soviet Union is indicated by the following figures: outstanding short-term loans were 149,300 million roubles at the beginning of 1975. Long-term credits at the same date (including personal loans) totalled 39,400 million roubles. As of January 1972 bank credits for introduction of new technology and credits of the USSR State Bank for expanding consumer goods output and other measures have been extended as part of long-term loans.

Bank credits for enterprises and economic organisations are advanced on the principles of *repayment of the loan*,

*limited period, coverage by material collateral, and lending in accordance with plan fulfilment.* It is characteristic, also, that banks lend for particular purposes.

The development of credit relations is inconceivable without repayment of the loans within a definite period. Under socialism repayment is ensured by the crisis-free, planned conduct of the economy, and in the event of special financial difficulties individual enterprises receive state aid. In practice the repayment of bank advances is guaranteed by the material collateral on which the credit is advanced.

The granting of loans for particular purposes enables the socialist state to employ credit to implement planned development of the economy. Enterprises and organisations are only entitled to obtain bank credit, as a rule, for planned expenditure, and they can only exercise this right to the extent that they have fulfilled their plan assignments.

The principles for extending credit provide for the possibility of exercising real financial supervision and stimulating the operation of each enterprise, and of supervising the use of material, labour and financial resources in accordance with the requirements of the plan.

Credit is subject to *payment*. Under capitalism, loan interest is part of surplus value and expresses relations of exploitation. Under socialism, banks extend credit to enterprises at a rate of interest that represents part of their net income, and private capitalist appropriation of the fruits of production does not exist here.

The rate of interest in socialist society is fixed by the state. The highest rate is charged when payment is overdue. Since interest on loans is paid from profit, the differentiation of interest rates gives enterprises a strong material interest in expenditure and economical use of their own and borrowed funds.

## **The Role of Credit in Developing Social Reproduction**

As an economic category of socialism, credit has certain inherent functions that exert an active influence on the development of the socialist economy. Being involved in the

redistribution of material and monetary resources on the principle of repayment *credit creates conditions for accelerating their turnover, shortening the stage of commodity circulation, and speeding up the process of reproduction.*

In addition, *credit is an economic lever for regulating money circulation.* In this the substitution of credit for ready cash is particularly important. Development of the social division of labour and strengthening of the links between different industries and enterprises also provide broad opportunities for offsetting accounts, i.e. for using clearing accounts.

*The development of credit relations helps consolidate profit-and-loss management, fulfilling of the national plan by enterprises, and their observance of economy.*

Finally, *credit has a growing effect on improving economic links between town and country.* In the USSR collective farms are receiving long-term loans on an ever broader scale for productive purposes; in 1974 their long-term loans totalled 3,234.8 million roubles compared with 621.2 million in 1960. Since 1961 they have also been granted short-term loans for expenditure on crop farming, the purchase of young stock and mineral fertilisers.

The scale of short-term credits for collective farms is growing. In accordance with the decisions of the Plenary Meeting of the CPSU Central Committee in March 1965, the State Bank went over from indirect crediting of collective farms through procuring organisations to direct loans to each collective farm. With direct credit collective farms are granted loans in accordance with their production and financial plans to cover the seasonal shortage of funds on the farm as a whole, including funds for making cash payments to their members; and this has enhanced the role of short-term credit in the development of collective farming.

In the stage of mature socialism credit relations are being developed further because of the growing scale of social production, the far-reaching changes in its quality and the improvement of relations based on financial autonomy. The role of credit in stimulating technological progress and forming the fixed and circulating assets of enterprises, in modernising operating enterprises and in construction has been substantially enhanced. Broadening of the sphere of appli-

cation of credit, combined with extension of the rights and responsibility of enterprises has stimulated more effective development of production.

Today, over half the circulating assets and an appreciable share of the fixed assets of the Soviet economy involve credit. The state gives collective farms, inter-collective farm organisations, consumer co-operatives and the public at large considerable help by way of credit. Altogether more than 75 per cent of the payments for goods and services are made by means of credit.

The development of credit is dictated by the continuous growth of socialist industry, consolidation of financial autonomy, improvement of planning and raising of the role of economic incentives in social production. The volume of credit extended is growing; banks' links with enterprises are widening, qualitative changes are taking place in the character of bank supervision over the managerial and financial activity of enterprises, and the effect of credit on management is growing.

The most characteristic feature of the development of credit in the new management conditions is its enhanced role in the sphere of material production, i.e. its broader use in financing expenditure on the fixed assets of functioning enterprises through the granting of loans for the introduction of new machinery, for the mechanisation and automation of production, for increasing the production of mass consumer goods and services, and the extension of credit methods of financing enterprises and economic organisations by loans for circulating assets, loans for wages, credits for payments, etc. Perfecting of credit methods, the economical use of credit resources and full balancing of credit investment with existing mobilised funds help consolidate money circulation and make the Soviet rouble more stable.

Enhancing of the role of credit in the circulating assets of enterprises, plus measures to extend the rights and responsibility of the latter, ensures effective development of production, since enterprises' need to pay off the loans obtained in the stipulated time means a strengthening of the principle of financial control over their operation.

Until recently enterprises in the Soviet Union made up a shortage of their own circulating assets from the state bud-

get, which lowered their responsibility for preserving these assets and using them effectively. And enterprises sometimes developed a tendency to try and get more circulating assets from the budget since they had no material responsibility for building up surpluses of goods and materials.

Improvement of the mechanism of economic management implies termination of the replenishment of circulating assets from the budget without repayment. Enterprises that have not fulfilled their profit plan, or have permitted losses above plan, now make up the deficiency of circulating assets themselves; and to do so the State Bank will extend them credit only for the time needed.

Before the changeover to the present conditions of planning and economic stimulation, the dominant method of financing investment in business practice in the Soviet Union had been that of unreturnable appropriations from the budget. Long-term credit was extended to state enterprises in comparatively small sums; yet bank financing of investment makes it possible to improve the use of fixed assets. The main condition for granting long-term loans (in accordance with the confirmed development plan of the economy) is their repayment during a certain planned period after the commissioning of the project built.

Now that the role of such indicators as realisation of output and profit (to the extent that they reflect growth of efficiency) has been greatly enhanced, the role of credit, too, in strengthening payment discipline and speeding up settlements between enterprises has grown considerably. The expansion of credit relations has enabled enterprises to receive prompt payment, while penalties, fines and forfeits have essentially increased their responsibility for fulfilling contractual obligations. Great emphasis has been placed in the system of economic methods of production management on a differential approach to lending enterprises money in accordance with their economic and financial performance; and the role of differential rates of interest on loans is increasing. The objective conditions of management at present call for further raising of the role of credit relations.

The 25th CPSU Congress pointed out the need to enhance further the efficiency of the mechanism of credit and finance. In industry credit accounts for half the total circulating as-

sets, while in agriculture and other branches it has a still bigger role to play. The task now is to enhance the role of credit in rational utilisation of productive resources, in accelerating the growth of labour productivity, in reducing prime costs and using production reserves.

#### 4. THE BANKING SYSTEM OF SOCIALIST SOCIETY

##### The Role of Banks Under Socialism

*-The mobilisation of temporarily idle money and the credit financing of the economy is the job of credit institutions, or banks. Evaluating their role in the socialist system, Lenin wrote: "A single State Bank, the biggest of the big, with branches in every rural district, in every factory, will constitute as much as nine-tenths of the socialist apparatus. This will be country-wide book-keeping, country-wide accounting for the production and distribution of goods, this will be, so to speak, something in the nature of the skeleton of socialist society."\**

Under socialism banks are state owned and this function is a state monopoly. They come under the jurisdiction of the higher state authorities and management bodies.

Under socialism, banks, by extending credit and by clearing accounts, facilitate fulfilment of national economic plans, consolidation of profit-and-loss accounting and management, and raising of the profitability of enterprises. They encourage the consolidation of agricultural co-operatives and the economic relations between town and country. The central banks of socialist countries, which are authorised to issue money, are responsible for functional regulation of money circulation in compliance with its objective laws.

Apart from servicing production and circulation of the social product within the country the banks of socialist countries assist the development of international economic relations.

---

\* V. I. Lenin, "Can the Bolsheviks Retain State Power?", *Collected Works*, Vol. 26, p. 106.

In the socialist countries, the state (national) banks function as clearing houses, credit centres and banks of issue. Other banks handle the operations of branches of the economy, like capital construction, foreign trade, etc.

## Bank Profit and Its Sources

In the USSR banks operate on the basis of financial autonomy, and make a profit in the course of their activities. *Bank profit is the difference between the total interest received and the bank's costs.* Whoever pays the interest to the bank, the source of bank profit is, in the final analysis, the surplus product created by the workers in material production. One part of bank profit is used to extend credit operations, while the rest is paid into the state budget. Under socialism, interest is not the price of a loan, as in the capitalist economy, where interest functions as the price of loan capital, of capital as a commodity. In socialist society the extraction of profit is not the objective of banks. The further consolidation of financial autonomy necessitates strengthening of bank supervision over the spending of funds for particular purposes by enterprises and economic organisations.

## The Function of the Banking System in the USSR

The Soviet credit system consists of the USSR State Bank, the All-Union Investment Bank (Stroibank), the USSR Bank for Foreign Trade (Vneshtorgbank), the state labour savings banks, city pawnshops and the mutual aid funds of trade union organisations.

The *USSR State Bank* is the main link of the whole credit system. It organises and regulates money circulation, mobilises temporarily idle funds, advances short-term credit to all industries and clears accounts in the economy, finances and extends long-term credit to all state agricultural enterprises, makes long-term loans to collective farms and other co-operative organisations, and for industrial construction in

rural areas, handles the cash transactions of the USSR state budget, finances foreign trade and settles its accounts, handles accounts between the Soviet Union and other states, and carries on foreign exchange transactions.

Thus, the *State Bank is the bank of issue, the centre for short-term and long-term credit financing of the economy, the clearing house and the state cashier.*

All settlements between business organisations and institutions, payments into the budget, and settlements between institutions or organisations and the public are made through the State Bank. It plays the key role in exercising financial supervision over the production and financial activity of all enterprises. Its main job is to promote consolidation of financial autonomy and profit-and-loss management, fulfilment of national plans for growth of production and development of commodity turnover, and to support initiative in mobilising latent reserves in order to meet society's needs by way of credit.

The organisation of savings in the USSR is also vested in the State Bank, but is carried out by a system of *savings banks* subordinated to it. Savings banks are broadly engaged in providing clearing and cash services for the public at large, and for organisations and institutions. While providing the public with facilities for safe custody of their free cash, the savings banks make the deposited funds available to the economy. They accept deposits from the public and from the branches of social organisations, handle the cash operations involved in remittances and letters of credit, carry out the cash operations involved in receiving tax payments and insurance premiums and paying certain types of pension and assistance, and handle operations in state loans and lotteries. Between 1950 and 1974 the sum total of deposits rose from 1,900 million roubles to 78,900 million, and the average deposit from 124 roubles to 789 roubles.

The stability of the rouble's purchasing power and the prospects of its rising in the future have a stimulating effect on savings bank deposits and their growth is steady. The annual increment adds to the credit resources of the State Bank.

The *All-Union Investment Bank* (Stroibank) finances the investment of enterprises and organisations in all branches

of the economy (except agricultural and certain other industries, which are financed and given long-term credit by the USSR State Bank); extends short-term credit to building contracting organisations and construction projects, clears accounts in capital construction, supervises the fulfilment of investment plans, the observance of compliance with the design and estimates of jobs, and prompt and complete mobilisation and proper spending of the funds being invested in the national economy.

A major criterion in credit financing in accordance with the economic and credit plan is the ensuring of the highest possible production efficiency by the enterprise concerned on the basis of scientific and technological progress. The credit mechanism stimulates attainment of plan targets, encourages increased production of mass consumer goods and services and saturating of the market with high-quality goods of the necessary variety and range in accordance with the public's growing incomes, and accelerates the rate of turnover of commodities and material values.

The *USSR Bank for Foreign Trade* (Vneshtorgbank) handles part of the operations involved in servicing Soviet foreign trade and foreign exchange-and-payment operations.

The bank financial control, in contrast to other forms of control, is directly and daily linked with money circulation (settlements) and embraces both the operations of individual enterprises and the whole process of socialist reproduction, since the State Bank, in the end, handles the money circulation of the whole economy.

The State Bank differentiates in evaluating the performance of enterprises and organisations, depending on their fulfilment of production and realisation plans, and their plans for the accumulation and maintenance of their own circulating assets. Bank control over the process of social reproduction makes it possible, through the mechanism of money circulation, to verify proportionate development of the whole economy and, consequently, the conformity of the plan and the course of its fulfilment with the requirements of the law of planned, proportionate development of the economy.

## Credit for the Public at Large

In the socialist countries, there is a practice of *extending credit to the public from state organisations and enterprises*, mainly on a long-term basis for the building of houses by owner-occupiers, for the purchase of livestock and for other needs. The scale of such credit is steadily expanding.

In large cities there are *municipal pawnshops* which lend money at interest on pledged personal property, mainly clothing, furs, etc.

The job of the *mutual aid funds* of trade union organisations is to help members with temporary loans.

In recent years, short-term consumer credit has developed considerably in the Soviet Union and other socialist countries, mostly in the form of hire-purchase of durable goods. In the Soviet Union, hire-purchase credit rose from 633 million roubles in 1960 to 4,601.8 million roubles in 1974. Credit sales expand the market for goods in comparatively good supply, and offers great advantages to the public.

## 5. MONEY CIRCULATION UNDER SOCIALISM

The development of financial and credit relations in socialist society is inseparably linked with *commodity-money circulation*.

### Clearing Accounts

Under socialism the circulation of ready cash is mainly confined to relations between the socialised economy and the public, and between individuals.

*Settlements between enterprises and organisations are mainly made without cash by way of bank transfers of sums from the account of one enterprise, on its written order, to the account of another.* The concentration of cashless transactions in a bank enables its branches in turn to make wide use of the settling off of mutual accounts.

The system of clearing accounts facilitates rapid and regular movement of commodities from producer to consumer,

reduces the amount of money needed for the process of circulation, speeds up the turnover of funds and strengthens the monetary system.

*In the socialist economy, book entries and ready cash together constitute a single money turnover.* Unity of the two forms is realised through the mechanism of the conversion of the one into the other.

The economic distinction between cashless transactions and ready cash is (1) that cash circulates freely on both the organised and unorganised markets; the movement of book entries, however, is mainly limited to the socialised sector of the economy; (2) the public's accumulation and spending of ready cash to buy goods and services are not directly regulated by the state, but by consistently implementing the socialist principle of distribution according to work and in part through the social consumption funds (pensions, etc.). Socialist enterprises' accumulation and expenditure of liquid book assets are directly controlled by the state.

## **The Planning and Regulation of Money Circulation**

*Normal functioning of money circulation requires a planned proportionate balance to be maintained between the amount of money in circulation and the quantity of goods and services sold to the public at fixed prices.* Planned, stable money circulation in turn serves as an important lever for maintaining the proportions of the economy.

The planning and regulation of money circulation is based on planned development of the economy as a whole which is what makes it possible to improve this circulation in line with the advance of the socialist economy in general. Money circulation is planned on the basis of balancing estimates of the cash income and expenditure of the public, and the banking and credit plans of the State Bank.

The object of *compiling the accounts of the public's income and expenditure* is to establish proper proportions between the public's cash income and the volume of retail trade, paid services and other channels by which the public spends cash. This correlation is primarily maintained by correct determination of the total earnings of factory and

office workers and of the incomes of collective farmers, on the one hand, and of the quantity of consumer goods, the volume of services and the level of retail prices, on the other.

In the Soviet Union, a cash account of the public's income and expenditure is drawn up not only for the country as a whole but also for each Union republic, territory and region, and used for day-to-day regulation of commodity turnover and money circulation.

The emission of money in the Soviet Union is strictly centralised. The State Bank puts money into circulation by government decision in accordance with the needs of circulation.

Money circulation is operationally planned and regulated through the *encashment plan of the State Bank*, which defines all the sources of cash inflow to the bank and the needs for cash provided for in the national economic plan and the state budget. The chief among them is the payment of wages and salaries. The main channel of cash inflow to the bank is the receipts of retail trade.

If the total of cash deposited with the bank is larger than the total outflow the difference is withdrawn from circulation; but if the outflow is larger than revenue, the bank is authorised by the government to put additional notes into circulation.

## Strengthening the Rouble

Planned organisation of money circulation makes it possible to strengthen the currency, which is expressed in its stable and steadily rising purchasing power. Stability of the currency is ensured by planned economic development, growth of goods turnover and stable prices. It was stated at the 25th CPSU Congress that the further strengthening of the money circulation in the country and the stability of the purchasing power of the rouble would be secured by balanced economic development, growing goods turnover and price stability. The currency is also guaranteed by the *state's gold reserves*, since gold can be converted on the world market into commodities needed for the home market.

In the Soviet Union, and in the other socialist countries, there is a state *monopoly of foreign exchange* transactions, whereby the free purchase and sale of gold, jewels and foreign exchange are forbidden. Soviet currency, moreover, cannot be taken in or out of the country (except for small sums under a specified procedure). In the socialist countries, the balance of payments is planned in the light of the inflow and outflow of foreign exchange, and is closely co-ordinated with the planning of foreign trade and other economic relations with foreign countries. All this renders socialist currencies independent of the currencies of capitalist countries and the condition of the capitalist market. The Comprehensive Programme adopted by the 25th Session of the Council for Mutual Economic Assistance envisaged a more active role for the currency, financial and credit relations of its member countries in furthering planned economic co-operation and the development of socialist economic integration.

The process of distribution and commodity circulation and their interrelations in socialist countries are consequently developing in conjunction with finance and the development of credit and money relations, all of which are major aspects of socialist extended reproduction.

## SOCIALIST EXTENDED REPRODUCTION

The theory of socialist reproduction, which provides the scientific grounds for the rates and proportions of the development of the departments and sectors of social production, industry and agriculture, and for the correlation between production, accumulation and consumption, is of primary importance for the planned direction of economic processes.

So far, we have been considering separate aspects and phases of the process of socialist reproduction. Now our task is to disclose the conditions of reproduction in the unity of all its moments, and to show the pattern of this process on a social scale and its features at the different stages of communist construction.

### 1. THE NATURE AND MAIN FEATURES OF SOCIALIST REPRODUCTION

The basis of the development of any society is the production of material wealth.

The continuous renewal and repetition of the process of production is *social reproduction*, which develops on the basis of the organic unity of the production, distribution, exchange and consumption of material wealth. This process includes reproduction of the social product, of labour power and of the relations of production. It may develop on an unaltered scale or an increasing one, as either *simple* or *extended* reproduction.

The social and economic nature of reproduction is determined by the character of the economic system of society,

and the operation of a whole system of economic laws. It is manifested in the goal of social production, in its organisation, rates of growth and proportions, in the principles of distribution, and in the conditions for the replacement of all the constituent parts of the social product.

Under socialism, social reproduction is a continuous, planned process of the development of the productive forces and of socialist relations of production, of constant growth of material production and socialist property, and of raising of the well-being of the people.

*The main feature of socialist reproduction is its subordination to the needs of the working people.* In the course of it there is not only rapid extension of its scale, but also steady improvement of the well-being of the workers and increase of their numbers, while the needs of the working people of town and country are more fully met and their cultural and technical standards raised. The workers therefore have an interest in steady increase in the volume of production, in improving its technical basis, and in raising the productivity of labour. Hence, the decisions of the 25th Congress of the CPSU were aimed at accelerating scientific and technological progress, raising productivity, maintaining high rates of socialist reproduction and on that basis achieving a considerable rise in the people's well-being.

Social ownership of the means of production cements the socialist economy into a single organism and enables society to cognise the internal links and proportions of the economy, to distribute material and labour resources between industries and economic regions, to take into account the growing needs of reproduction, and to maintain high tempos and the necessary proportions in reproduction. Full dominance of social ownership, comradesly co-operation and mutual assistance of workers and production collectives, and their responsibility to society for their assignments, the purposeful character of the whole economic system, and its planned and proportionate character are the most important and inalienable features of socialist reproduction.

Extended reproduction on a steadily growing scale is inherent in socialist society.

Planned, continuous growth of production, the whole system of socialist relations of production and their advantages

ensure high, stable rates of extended reproduction. Social production grows much faster in socialist countries than in capitalist ones. Between 1950 and 1975 the annual average rates of increment in industrial production in the USSR and other socialist member states of CMEA were more than twice those of the developed capitalist countries—9.6 and 4.6 per cent, respectively. Over the period 1971-1975 industrial output in the USSR increased by an annual average of 7.4 per cent, and in the United States and the Common Market countries, 1.2 per cent.

The advantages of socialist reproduction do not mean that it is free of contradictions. The productive forces of socialist society grow rapidly and the relations of production, and their separate aspects, sometimes lag behind this dynamic advance. Further upsurge of the economy depends on how promptly the contradictions arising are overcome. These contradictions, however, are not antagonistic; and they are overcome in a systematic way, and do not give rise to the crises intrinsic to capitalism.

As it develops socialist reproduction becomes more and more mature and complex. In the stage of developed socialism the production apparatus and the volume of social production have reached a tremendous scale. On the basis of social property scientific and technological progress has accelerated, and the possibilities for more complete combination of the achievements of the scientific and technological revolution with the advantages of socialism have widened. The purpose of socialist production is being achieved more and more fully, the welfare of the people is growing, and the skills of the labour force are being advanced. The planned character of the process of socialist reproduction and the balance between its different aspects are being strengthened. The factors intensifying social reproduction have a growing role to play. The tenth five-year plan (1976-80) is known as a plan of improving product quality and raising production efficiency in order to promote the well-being of the people. The social product and labour power are reproduced in organic unity with the reproduction and perfecting of socialist relations of production.

*Socialist reproduction is thus a process of planned, uninterrupted growth of the social product, increasing of the*

*numbers of production workers and systematic raising of their well-being, cultural and technical standards and skills, and with that consolidation and development of socialist relations of production. Its object is more and more fully to satisfy the growing material and cultural needs of the working people of town and country, and to build socialism and communism.*

## 2. THE NATURE AND STRUCTURE OF THE SOCIAL PRODUCT

### National Wealth

The basis for continuous growth of production and improvement of the people's well-being in socialist society is the accumulated stock of material values or national wealth.

*National wealth is primarily the accumulated product of labour, the implements of production, by which all material wealth, buildings and installations for production and cultural and social amenities, stocks of raw and other supplies, and consumer goods are produced.* In short, it is the productive and unproductive assets of the economy, the material and insurance reserves of society, and the stocks of consumer goods.

The accumulated material wealth in which human labour is embodied is the basis of the existence and the development of any human society. At the same time, the concrete, historical form of national wealth is of crucial importance for growth of production and of the standard of the people's well-being.

The process of socialist extended reproduction implies the use on a growing scale of production and circulating assets, the building up of reserve stocks of means of production and consumer goods, increasing the basic non-production assets (housing, schools, hospitals, etc.), and accumulation by the working people of consumer goods on a certain scale.

*Under socialism the accumulated implements of labour and other means of production, housing and consumer goods are the property of the working people of town and country.* They may be public, co-operative or collective farm property, or the personal property of the working people. Na-

tional wealth is therefore employed without hindrance to extend the scale of production further, and on that basis to satisfy the material and cultural needs of the people more and more fully.

During the years of building socialism in the Soviet Union the country's national wealth was multiplied on a vast scale. Thousands of big industrial enterprises and very large power stations were built by the efforts of the Soviet people, thousands of kilometres of railways laid, whole new industries created, hundreds of millions of square metres of housing built in towns and villages, as well as thousands of buildings and facilities for cultural and social amenities. Between 1966 and 1975 the Soviet Union's economic potential almost doubled.

Today, the national wealth of the USSR (not counting the land and forests) is valued at roughly 1,500,000 million roubles, i.e. has increased twenty-fold since pre-revolutionary times. The high growth rates of socialist production made it possible to narrow the gap more and more quickly between the national wealth of the USSR and the USA. The most important part of the national wealth consists of production fixed assets; by 1975 they had increased 30 times as compared with 1913; in 1972 their value was around 70 per cent of the level of the fixed production capital of the USA.

The growing material resources of socialist society enable it to increase the scale of accumulation in industry and agriculture, extend social production and rapidly multiply socialist property. Furthermore, the advantages of a planned economy make it possible to use production assets more effectively and to maintain the high rates of reproduction of the social product.

An indispensable condition for increasing national wealth is to utilise natural resources in the process of production. The Soviet Union has a vast area of farmland, possesses around a quarter of the world's timber; leads the world in proven reserves of iron and manganese ores, apatites, coal and natural gas, and is second in the world for reserves of many other minerals. In socialist society there are no obstacles to using natural resources rationally, since the land and mineral wealth, forests and waters are national property.

A main prerequisite for increasing national wealth is scientific knowledge, production know-how and skills of workers in production. Millions of skilled workers have been trained for all fields in the Soviet Union. Higher and specialised secondary education is rapidly expanded. In 1939, 123 out of every thousand persons employed in the economy had full or incomplete higher or secondary education, and 718 at the end of 1972.

The steady increase of national wealth is enabling the Soviet people to cope with the increasingly complicated problems of laying the material and technical basis of communism, and creating an abundance of material wealth.

The wealth of society is accumulating steadily, year by year, a process that is the consequence of the growth of social production and of the social product.

## The Aggregate Social Product

A great variety of material wealth, means of production and consumer goods, is produced in the numerous branches of social production in the course of a year.

*The means of production and consumer goods produced by society during a certain period, usually during a year, constitute the aggregate social product.* Under socialism, the aggregate social product is the result of production systematically organised according to plan in the public and collective farm and other co-operative sectors of the economy, and of the work of collective farmers and factory and office workers on their personal subsidiary small holdings.

The aggregate social product is produced solely within the *branches of material production*, i.e. industry and agriculture, building and construction, transport and communications, and in the supply of equipment and materials, procurement, trade and public catering, since a number of productive processes are also performed in them. It is not created, however, in the non-productive sphere, although the work done there contributes to socialist reproduction.

Proper assessment of the amount of the aggregate social product (which takes the form of the gross and end product)

is essential for planned organisation of the rates and proportions of socialist reproduction.

The aggregate social product in the USSR is growing at a high rate: in 1975 it was 56 times that of 1913 and 11 times that of 1940.

The contributions to the aggregate social product by branches of material production in the USSR are as follows (in current prices, thous. mill. roubles):

	1965	1970	1974
Aggregate social product	420.0	643.5	816.4
Industry	266.0	409.0	525.6
Agriculture	71.0	103.8	121.7
Transport and communications	18.0	25.7	34.1
Construction	40.0	67.6	86.4
Trade, procurement, materials and machinery supplies	25.0	37.4	48.6

Thus, three quarters of the aggregate social product is created in industry and construction. At the same time, the aggregate social product is the sum total of the output of separate enterprises. On a nation-wide scale there is a good deal of double counting, since the articles and materials of one industry are used many times by others and therefore enter into the value of their product. The product calculated in this way is the *gross product*. As the level of the social division of labour grows, the "stratification" of value increases. This summation reflects the economic ties between enterprises and industries, and between industry and agriculture. At the same time, double counting involves a certain exaggeration of the actual volume of the social product. In order to determine the dynamics and economic efficiency of production it is best to avoid double counting in relation to the social product.

The aggregate product, less double counting, is the *end product*. That is to say, the sum of the value of the annual depreciation of the fixed production assets and the value of the stocks of raw materials, supplies and semi-finished products consumed throughout the country during a year without double counting and of the new value created during the year, i.e. the national income. In the conditions of rapid development and growing complexity of the economy, when performance results are increasingly dependent on a host of intermediate links, it is quite indispensable to orient planning and managerial work on the ultimate economic objectives. In pursuit of intermediate results one may miss the main, ultimate goals. On the other hand, ignoring intermediate links is likely to diminish the ultimate effect substantially. Therefore, in analysing socialist reproduction the indicators of both the gross and end social product which reveal its pattern from different aspects should also be taken into consideration.

### **The Components of the Social Product in Value Terms and Physical Form**

The aggregate product of socialist society is divided into two parts: (1) the transferred embodied labour, or the value of the means of production expended in the process of production (*c*); (2) the living labour embodied, which represents the newly created value or national income of society, the sum total of the value of the necessary and surplus product ( $v + m$ ). The ratio between these parts of the social product is a variable quantity that changes with shifts in the technical equipment and industrial structure of production and other factors.

The newly expended labour and the product corresponding to it are divided into two parts (as we have already said): (a) the *necessary labour* and the *necessary product* which goes into the personal consumption of the workers in material production (*v*); (b) the *surplus labour* and the *surplus product* which is placed at the disposal of society and is then used for accumulation and other social needs (*m*). The neces-

sary and the surplus products are expressed in value terms and distributed in accordance with the nature of public and co-operative-collective farm property.

The socialist system eliminates the antagonism between the necessary and the surplus products. Both are used in the interests of the working people, and only in their interests. A change in their share of the national income is determined by numerous factors: e.g. the requirements of the main economic law of socialism, trends in technological progress, changes in the structure of social production, the growth rates of labour productivity.

In the first phase of communism, in socialist society, the components of the social product and their amount, are determined in terms of prices, but prices, as we know, deviate substantially from value, which reduces the accuracy of the calculated correlations of socialist reproduction and is one reason why there is an ever-growing objective need to bring prices closer to value, and also for broader use of quantitative calculations of the socially necessary labour expenditure on producing goods.

In the higher stage of communism, division of the aggregate social product into its components will continue; but (1) their social content will alter substantially, because communist relations of production will have developed; and (2) they will lose their value form characteristic under socialism, which will substantially broaden the basis for planned social reproduction.

In the course of planned direction of extended reproduction, socialist society determines the volume of consumer goods needed to improve the living standards of the people, the sources for extending production of means of production (machines, raw and other materials, fuel and power), the means for optimum satisfaction of these growing needs. In resolving these problems differentiation of social production and of the aggregate product *according to physical characteristics* is of top priority.

Depending on the economic purpose of the material wealth created by labour, social production is divided into two departments: (a) *the production of means of production* (Department I) and (b) *the production of objects of consumption*, or objects of non-productive consumption (Department

II). In accordance with this division, there is a mutual exchange of activity and of the products of labour between the workers of both departments.

The division of social production into two major departments presupposes a number of internal structural elements. The output of Department I consists of products of the extractive and manufacturing industries, of the implements and objects of labour, of output intended for the production of means of production and of objects of consumption. The products of Department II are divided, according to their purpose, into objects of short- and long-term personal consumption and materials and other products used in the non-productive sphere, and so on.

The division of social production into two departments has a social and economic significance. Lenin, stressing the class character of the distribution of the means of production and objects of consumption under capitalism, wrote that "the former can serve *only* as capital, the latter must become revenue, i.e. must be destroyed in consumption by the workers and capitalists. The former go entirely to the capitalists, the latter are shared between the workers and the capitalists".\* In socialist society, both the means of production and the objects of consumption are the property of the working people themselves; the former, however, are returned into the process of production as social property, while the latter go into the personal or joint social consumption of the whole people.

Multilateral links and relationships develop between Departments I and II of social production, between industry, agriculture and the other sectors of production on the basis of deepening social division of labour. Therefore, proper delimiting of production of the aggregate social product into the two departments both in industry and in social production as a whole is assuming growing importance in planned direction of the socialist economy and in improving its balance.

In the stage of developed socialism, a growing part of farm produce is processed industrially. Its division into De-

---

\* V. I. Lenin, "A Characterisation of Economic Romanticism", *Collected Works*, Vol. 2, p. 152.

partments I and II is therefore becoming more and more important. This is also true of capital construction, in the total volume of which the proportion of housing, cultural and amenity building is growing. The volume of technical and material supplies to scientific institutions is growing steeply, and industries, transport and communication services catering to the everyday needs of the working people are expanding rapidly. All this has to be carefully taken into account in planning the proportions in socialist reproduction.

### 3. THE PROPORTIONS OF SOCIALIST REPRODUCTION

The laws of reproduction are consciously applied in planned management of the socialist national economy and in maintaining the objectively necessary proportions within it. That does not mean, however, their perpetuation in a given state. The proportions change rapidly, necessitating an all-round balance to be maintained between economic factors.

#### Simple and Extended Reproduction

Marx's analysis of the laws of capitalist reproduction opens with an explanation of the conditions of simple reproduction, which is reasonable from both the historical and the logical point of view.

Capitalism was preceded by economic systems characterised by simple reproduction. It is also preferable to begin the analysis of economic processes from their initial conditions: simple reproduction is the major component of extended reproduction. Analysis of the initial conditions is particularly important for socialist reproduction, and for conscious shaping of its proportions.

The resumption of socialist production on its previous scale requires (1) that the product of Department I should be adequate to make good the means of production used up in both departments or that  $I(c + v + m)$  be equal to  $Ic + IIc$ ; since  $Ic$  is made good within the framework of Department I, the remainder of product I ( $v + m$ ) must be adequate to make good  $IIc$ , i.e.  $I(v + m)$  must equal  $IIc$ ;

(2) that the volume of the objects of consumption produced should correspond to the amount of the newly created value in both departments, i.e.  $II(c + v + m)$  must equal  $I(v + m) + II(v + m)$ . Consequently, *with simple reproduction newly created value is not used to extend production but is fully used up in non-productive consumption.*

The conditions of simple reproduction also indicate reserves that have to be built up in order to extend reproduction. For that purpose, society must (1) possess a certain surplus of the means of production produced over and above what is needed to replenish them in both departments, i.e.  $I(c + v + m) > Ic + IIc$ , or  $I(v + m) > IIc$ ; and (2) use the newly created value not only to provide the revenues of the working people but also for accumulation, for increasing the volume of means of production and the manpower used in both departments and in developing the non-productive sphere, i.e.  $[I(v + m) + II(v + m)] > II(c + v + m)$ .

Strict observance of all the conditions of simple and extended reproduction is important for planned direction of the economy, since the latter is inconceivable without the former.

The conditions of reproduction, which Marx illustrated by diagrams, still hold today and will not lose their significance in communist society either. Lenin pointed out that the ratio of  $I(v + m)$  to  $IIc$  and accumulation will both retain their importance under pure communism.\* In drawing up national economic plans the starting point is always the potential of extended reproduction determined by the difference between  $I(c + v + m)$  and  $(Ic + IIc)$ , or  $I(v + m) - IIc$ .

In socialist society, the conditions of reproduction take on a new social content and reflect the value and physical movement of the components of the aggregate social product, consisting of social property and the personal incomes of the working people of town and country. The objective conditions of reproduction and production and economic relations under socialism are established and regulated in a planned way, taking into account the real needs of society.

These conditions are observed during the constant, systematic movement of all the components of the aggregate

---

\* See *Leninsky sbornik* (The Lenin Miscellany), Vol. XI, Moscow, 1931, p. 349.

product in both their value and physical forms, in their movement from production, through distribution and exchange, to consumption. Along with growth of production and development of the social division of labour the volume of realisation of the means of production and consumer goods and exchange of the products of labour between the departments and between branches and enterprises expand, and the volume of sales of consumer goods increases.

Within both departments of social production, and between them, economic relations develop and multilateral exchange of the products of labour goes on, on the basis of a deepening social division of labour, reflecting the insoluble unity of the two forms of socialist property in the process of extended reproduction.

The pattern of socialist reproduction in the USSR may be illustrated by the following data corresponding to the intersectoral balance for 1972 (in current prices, thous. mill. roubles):

$$\begin{array}{r}
 \text{I } 270 c + 101 v + 84 m = 455 \\
 \text{II } 133 c + 57 v + 72 m = 262 \\
 \hline
 403 c + 158 v + 156 m = 717
 \end{array}$$

Of course, these values deviate somewhat from real values, because through prices a share of  $Im$  is realised in the product of Department II. However, the total volume and trends of movement of the appropriate parts of the aggregate social product are reflected correctly.

In Department I there is a systematic, intra-production exchange of the products of labour, which makes good the means of production consumed in it. At the same time, part of the newly created value of Department I (in the form of means of production) is exchanged for objects of consumption produced in Department II. Thus, Department II is supplied with the necessary means of production, while the workers of Department I buy the consumer goods they need; part of the product of Department II, moreover, goes to the centralised fund of socialist society, and is used to support the non-productive sphere and for other needs.

Part of the newly created value of Department I, the surplus of I ( $v + m$ ) over  $Ic$ , is used, through exchange within

I and between the two departments, to expand the volume of the means of production employed in the whole economy, to draw additional labour into the productive process and to maintain the non-productive sphere. A part of the aggregate product corresponding to the amount of newly created value in Department II, i.e. II ( $v + m$ ), is distributed through trade, payments in kind to collective farmers and the outlay of social consumption funds, and enters the consumption of the workers of Department I and II, the non-productive sphere and all the working people of the country. In addition, some newly created value in both departments is set aside in the form of means of production and objects of consumption by society as reserves and contingency stores of various kinds, and for national defence. In the social economy, the objects of consumption are distributed to the workers on the principle "from each according to his abilities, to each according to his work" and through social consumption funds.

Socialist society has an interest in the realisation of the aggregate social product, i.e. the replacing of all constituents in terms of value and in physical form, being carried out in good time and in the appropriate proportions, which makes it possible to accelerate the formation of sources of accumulation and to meet the growing needs of society more fully.

Planned relations between production and consumption are maintained in socialist society by means of proper pricing, the development of commodity-money relations and trade. The deeper the needs of the economy and the public are studied and the more exactly they are brought into production, the fuller and the more rational these relations will be. The absence in socialist society, however, of the difficulties of realisation, organic to capitalism, does not mean that any commodity automatically has a ready market. That only happens when the commodity meets the needs of production and the public. All-round analysis of the needs of society as a whole and of its individual members is therefore most important for realising the aggregate social product. The 24th and 25th CPSU congresses paid particular attention to improving the methods of determining the needs of the economy and working people for means of production and con-

sumer goods, to strengthening the interest of enterprises and production units in increasing output of products needed by society and in greatly improving their quality.

Such are the general conditions of socialist reproduction. In considering them, however, we have not taken technological progress and growth of the productivity of social labour into account; but they have a decisive bearing on the process of socialist reproduction, as it is on them that the objective requirement for priority growth of production of means of production over the production of objects of consumption shows itself during extended reproduction.

### **The Law of Priority Growth of Production of Means of Production**

At all the stages of the Soviet Union's economic development the CPSU has consistently pursued a line of giving priority development to heavy industry, i.e. the production of means of production. Under socialism, *priority growth of production of means of production as compared with the production of objects of consumption is an objective economic law.*

As the technical level of production rises and labour productivity grows the ratio of the expenditure of materialised and living labour in a product also changes. A certain amount of living labour sets a steadily growing mass of implements and objects of labour into motion and creates more products; living labour is saved to a greater extent than materialised labour. This is a major factor bringing into play the law of priority growth of production of means of production.

This law does not operate in isolation but is indissolubly linked with the other factors of reproduction in accordance with the nature of socialism and the concrete historical conditions of economic development. Its operation is conditioned, above all, by technological progress. "The whole meaning and significance of this law of the more rapid growth of means of production," Lenin wrote, "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 as means of production'."\*

Lenin's estimates of the conditions for extended reproduction in socialist society suggest the following conclusions: in contrast to the capitalist conditions production under socialism grows more rapidly both in Department I and Department II; both the technical and the value structure of social production rise; this determines the priority growth of Department I but with a reduction of the gap between the growth rates in the two departments.

Priority development of production of means of production is a general law of extended reproduction. Particularly rapid growth is required in the initial stage of mechanisation of labour. At the same time, raising of the technical level of production is an endless process.

The mechanisation of labour increases, specialisation of production widens, and the services sphere becomes more and more technically equipped. The scientific and technological revolution is exerting a growing influence on this process, accelerating the rate of obsolescence of machinery and, consequently, increasing the scale of renewal of the machine basis of production.

The production of implements of production, i.e. of increasingly sophisticated machinery, equipment and instruments, has a special place in the operation of this law. And the machines that are used to make other machines, and the raw materials and supplies needed for the purpose are decisive in it. The machinery and materials needed to produce consumer goods are also manufactured in Department I. More rapid growth of the production of means of production to make other means of production is, in the final analysis, the basis for growth of the index of fixed production assets available to labour in the economy as a whole.

The task now facing the Soviet economy is to develop fundamentally new implements of labour, materials and processes on a broad scale superior in efficiency to the best at present available in this country and abroad. Implementation of this principle answers the requirements for building the

---

\* V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, p. 105.

material and technical basis of communism. Another matter of first-rate importance is broadly to replace obsolete machinery, carry out all-round mechanisation and automation of the key production processes in industry, agriculture, transport and communications.

The law of the priority growth of Department I does not in itself indicate anything about the degree of priority development; that alters according to the concrete internal and external conditions of socialist reproduction. In certain periods, extended reproduction can be carried on at identical rates of growth in the two departments and even with faster growth of production in Department II; but if that correlation acquires a protracted character, it will inevitably lead to reduction of the surplus of the product of Department I over what is needed to make good the means of production used up in the two departments both in terms of value and in technological effectiveness. As a result, the potential for extended reproduction may be exhausted, and then it will inevitably require faster growth of the product of Department I in order to increase the scale of production.

Consequently, regardless of the correlation between the growth of both departments at a given moment, the law of priority growth of production of means of production always retains its force. With technological progress, its operation creates the foundation for accelerated consumer production.

In socialist society, this law operates differently than under capitalism, and has different social implications. Its requirements come out through operation of the main economic law of socialism. The socialist system opens more scope for scientific and technological progress. And under socialism growth of production of means of production is subordinated to the task of increasing production of consumer goods and improving the well-being of the people.

Production and consumption are always in contradictory unity, conditioning each other's development which is reflected in changes in the ratio between the growth rates of the two departments at different stages of socialist construction. Priority production of means of production, however, operates as an economic law because it ultimately determines the resources and possibilities of extended reproduction on the basis of technological progress.

In the stage of mature socialism new elements develop in its operation: scientific and technological progress has created the conditions for greater economy of both living and materialised labour, which makes it possible to accelerate growth of consumer production, and bring growth rates of Departments I and II closer to each other. But it must be borne in mind that the material and technical basis for industrialising science is being rapidly laid in present conditions, both fundamental and applied research are being extended on a gigantic scale, and the technology of communism is taking shape; new industries are being set up in comparatively short times; a group of the most progressive industries has become clearly delineated in Department I that are determining the progress of technology in all sectors of the economy; agriculture is being put on an industrial basis; transport and communications, the supply of materials and equipment, procurement, trade, catering, the service industries and other infrastructural branches are being equipped with new machinery; the demand for products of Department I increases along with the growth of outlays for environmental protection, which will amount to 11,000 million roubles in the tenth five-year plan period; and faster development of Department I is making it possible to meet the rapidly developing need to renew basic production assets, to complete comprehensive mechanisation and to extend automation of production processes.

Consistent observance of the law of priority growth of Department I goes hand in hand with a vast extension of the scale of socialist property and consolidation of the leading, communistically transforming role of public ownership.

What is the effect of this law on the tempos and proportions of the development of socialist reproduction? And on increasing its efficiency?

### **Change in the Proportions and Efficiency of Socialist Reproduction**

Planned development of the socialist economy calls for an objectively necessary proportionality between its departments and industries; and it is to this end that the socialist state's

planning activity is organised. In Soviet industry, in the course of socialist construction, the growth of production of means of production (Group A) was substantially faster than that of consumer goods (Group B). In 1975 the gross industrial output was 132 times that of 1913, in particular the production of means of production, roughly 312 times, and that of consumer goods, 41 times. But the degree to which Group A industries had priority development varied in the different stages. Their growth rates were particularly high during socialist industrialisation, which was dictated by the need to overcome the country's technical and economic backwardness and strengthen its defence capability in the shortest possible time. In industry, for example, the annual rate of growth of output of means of production was 140 per cent higher than that of consumer goods during the first five-year plan, 15 per cent higher during the fifth, and 50 per cent higher during the seventh.

In the subsequent years the CPSU pursued a course of levelling up the growth rates of Groups A and B in industry, overcoming the lagging of the light and food industry and agriculture. This involved using the available reserves for raising the efficiency of production in order to step up output of consumer goods.

High growth rates of heavy industry, however, retain their importance for future economic growth, laying the material and technical basis of communism and strengthening national defence. All the basic tasks of improving the well-being of the people are also only resolvable on the basis of a further development of heavy industry.

It follows from the report to the 25th CPSU Congress that maintenance of the stable balanced growth of heavy industry is the decisive aspect of the economic strategy of the CPSU. In the tenth five-year plan period, with the general increment in industrial output of 35-39 per cent, it is planned to increase production of means of production by 38-42 per cent and that of consumer goods, by 30-32 per cent.

Powerful growth of production of means of production determines high growth rates in production of consumer goods. Raising the efficiency of socialist industry at a given annual rate of growth of production of means of production ensures higher growth rates in the industries producing con-

sumer goods and in farming, and growth in the well-being of working people in town and country.

In Department I industry production of implements of labour grows particularly rapidly, which continuously broadens the basis for raising the technical level of socialist industry. As we have already said, a most important feature of extended reproduction realised on the basis of technological progress is priority growth of output of means of production for Department I itself. That requirement has been consistently complied within the USSR at the various stages of economic development. Under the tenth five-year plan the power industry, mechanical engineering, electronics, the chemical and petrochemical industries, and the gas industry are to grow particularly rapidly. In 1976-1980 the output of the engineering and metal-working industries is to increase 50-60 per cent, in particular, instruments and automation facilities, 60-70 per cent; computers, 80 per cent. Priority growth of the production of digital programme-controlled and high-precision machine-tools, automatic manipulators, etc. has been provided for. Output of the chemical and petrochemical industry is to increase by 60-65 per cent. Marked progressive shifts in the structure of the light and food industries and agriculture will take place. Thereby the basis will be laid for sweeping improvement in developing all branches of the national economy.

*The establishment of an optimum balance between the growth rates of industry and agriculture* is of crucial importance for planned organisation of the process of extended socialist reproduction, which implies organic co-ordination of their development, fuller mutual satisfaction of their needs in line with the level of production attained and the possibilities available, rational combination of the levels and rates of development of agriculture and the processing industries, and ever fuller satisfaction of the people's needs for farm produce.

Socialist industry is growing year by year at high tempos and collective and state farms have made considerable advances. The workers of the Soviet countryside have achieved a considerable rise in agricultural production with the active help of the urban workers. Under the eighth five-year plan, which ended in 1970, gross annual average farm output was

21.4 per cent higher than in 1961-1965. In the ninth five-year plan period, despite the extremely adverse weather conditions, the gross annual average farm output increased by 13 per cent as compared with the preceding five-year period. Under the tenth five-year plan the annual average farm output is to grow 14-17 per cent from its level in the five years before. Production processes in agriculture are being mechanised and automated on a broad scale; chemistry is being applied more and more widely and amelioration is being developed.

All of this means that the technical equipment and continued advance of agriculture depend directly on accelerated development of the production of means of production, above all, the power, engineering and chemical industries.

The proportions of socialist reproduction, and their establishment, are inseparably linked with the production and distribution of the national income and its utilisation for needs of accumulation and consumption.

#### 4. NATIONAL INCOME AND ACCUMULATION

As we have already said, the aggregate product of socialist society includes the transferred value (amortisation fund) and the newly created value. The former represents the resources of means of production for maintaining simple reproduction; the latter is the *national income*, i.e. the source for improving the well-being of the people and further extension of production and accumulation.

As regards its physical form, the national income of socialist society is the whole mass of consumer goods produced in a year plus that part of the product of Department I intended for expanding the scale of social production and for creating stocks and reserves. Apart from its physical form, national income also has a value, monetary form and is expressed in terms of money.

The aggregate social product and national income grow at a high rate under socialism. Thus, the national income of the USSR increased by an annual average of 8.1 per cent from 1951 to 1975; in the USA the respective figure was 3.1 per cent.

The high rates of social reproduction under developed socialism are due to several objective factors: (a) the complete domination of social property and the development of socialist production in the interests of the working people and their increased well-being; (b) elimination of losses due to crises, the parasitic consumption of exploiting classes, the absence of an antagonism between necessary and surplus product, and an optimum ratio between accumulation and consumption; (c) planned development of the socialist economy, centralisation of productive resources, and their planned, purposeful distribution among the spheres of production, departments, industries and economic areas; (d) a systematically realised tendency to dynamic balancing of the development of all the elements of socialist extended reproduction; and (e) the whole process of combining the advantages of socialism with the achievements of the scientific and technological revolution.

*The rates of growth of the national income are the decisive factor in increasing accumulation and popular consumption, and are determined by the growth of labour productivity and increase in the number of people engaged in the various branches of material production.*

Given technological progress the national income is increased, to a decisive extent, through *raising the productivity of social labour*. During the tenth five-year plan 85 to 90 per cent of the increment to the national income is to come from this factor. The higher the productivity of labour the greater is the physical volume of the aggregate social product and, consequently, the greater the mass of the national income.

The *national income is distributed* in socialist society in a planned way in order to ensure extended socialist reproduction and continuous increase of the well-being of the people. *The primary stage in its distribution takes place in enterprises and the branches of the productive sphere*. The part of it basically corresponding to the necessary product is put directly at the personal disposal of the workers of enterprises in the form of wages, collective farmers' income in kind and cash from the common farm and the incomes of collective farmers and factory and office workers from their personal small holdings. The other part, corresponding in

the main to the surplus product, but also to a part of the necessary product is used for the needs of society as a whole and goes into the centralised fund by way of the contributions to the social insurance fund, collection of turnover and profit taxes, payment for productive assets and fixed payments.

*The national income is redistributed on the basis of its primary distribution.* This is necessary, because in the stage of primary distribution the numerous needs of society still cannot be fully determined. The national income of socialist society is redistributed by concentrating financial resources in the hands of the state and enterprises, and organising a regular movement of these funds in the process of extended reproduction, i.e. their expenditure on productive and non-productive needs. The job is done by the state financial and credit systems. The accumulation and consumption funds are formed from the national income in the course of its distribution and use.

### **The Proportions of Materialised and Living Labour, and of Necessary and Surplus Labour in the Aggregate Product**

The social product and national income, as was said above, grow primarily through raising the productivity of labour, which depends, in the first place, on the technical level of production and raising of workers' skill. These factors also have a bearing on change in the proportions of materialised and living labour in the aggregate product. What is the direction of this change?

There is a proposition that the raising of labour productivity consists in reducing the proportion of living labour and increasing that of past labour in the product, with a diminution of the sum total of the labour included in it,\* but the change in this proportion is a contradictory process.

On the one hand, *factors operate that tend to reduce the proportion of materialised labour and increase that of liv-*

---

\* See Karl Marx, *Capital*, Vol. III, pp. 260-61.

*ing labour*, which is manifested in a lowering of the relative capital intensiveness of production in certain industries, a faster increase in the capacity of a number of technical facilities than in their value, an improvement in the use of fixed production assets, a lengthening of their service life, increased saving of raw materials and supplies, fuel and power per unit product, lowering of the value of raw materials, and supplies, fuel and power as the productivity of labour in the extractive and power industries rises, the introduction of cheaper substitutes and effective new materials, and a reduction of losses from spoilage and other causes.

On the other hand, *other factors operate tending to increase the proportion of materialised labour and to reduce that of living labour in the aggregate product*. Thus, in a number of industries the relative capital intensiveness of production is rising; as production develops the proportion of plant and machinery in fixed production assets increases, and that shortens their average service life and hence increases the proportion of transferred value. Technological progress speeds up the obsolescence of plant and machinery and the introduction of new technology, which tends to raise the depreciation rate. The introduction of new materials often leads to a radical change in the production processes and a steep fall in expenditure of living labour, etc.

In the final analysis, the determining role is played by factors associated with technological progress and tending to raise the proportion of materialised labour and reduce that of living labour in the aggregate product, which is directly due to priority rates of growth in Department I. Thus, whereas the proportion of materialised labour in the social product of the Soviet Union was 43 per cent and that of living labour, 57 per cent in 1940, these percentages were 46 and 54 in 1950, 50 and 50 in 1955, 50.8 and 49.2 in 1960, 54.4 and 45.6 in 1966, 55 and 45 in 1970, and 56.3 and 43.7 in 1972. That means that the *proportion of materialised labour in the social product grows as the technical level of production rises*.

A tendency to *increase the proportion of surplus product* in the national income operates as labour productivity rises, a trend that is generated by the priority growth of labour productivity over wages and priority development of De-

partment I, in which increment of production is used primarily for the needs of accumulation. The priority growth of surplus product is objectively necessary, otherwise there will eventually be a decline in rates of accumulation and growth of the social consumption funds.

With the priority growth of surplus product there is an absolute increase in the necessary labour and its real expression, which is crucial in shaping the proportions of socialist extended reproduction.

*Increasing the proportion of transferred labour in the social product and of the proportion of surplus product in the national income makes for expansion of the sources of socialist accumulation.*

The volume of socialist production is increasing rapidly so that *economical utilisation of material resources* becomes more and more important. With productivity of labour growing the reimbursement of the means of production expended and their replacement by new, more efficient types of technology and raw materials is becoming a major source for expanding production. The volume of these resources is in direct proportion to the rate of technological progress and the degree of technological application of the achievements of science.

Since basic production assets do not wear out immediately, but gradually, the amortisation fund accumulated can be used in order to commission new technology even before the machinery, equipment and productive installations in use have become completely depreciated through physical wear and tear or obsolescence. In present conditions, when the volume of fixed production assets has grown immensely, *depreciation charges have become an essential factor in maintaining extended reproduction.*

Under the impact of the scientific and technological revolution the depreciation periods of implements of production are becoming shorter in the Soviet Union because of their faster obsolescence. This makes it possible to replace worn out technology in good time and to use depreciation funds on a broader scale for purposes of accumulation.

An important trend in the use of amortisation funds for accumulation is *economical expenditure not only of fixed assets but also of circulating assets, raw materials and sup-*

*plies, fuel and power*, which extends the sources of accumulation through more effective use of materialised labour in the process of reproduction. In a sense, the boundaries of the surplus product created in a year are expanded, while the absolute magnitude of the necessary product also increases.

In the course of accumulation the technical basis of social production is perfected, its efficiency raised, and the volume of fixed production and non-production assets increased.

### Socialist Accumulation and Growth of Investment

In order to expand socialist production, develop it at high tempos and ensure the objectively necessary proportions of reproduction, *constant accumulation and the most effective use of resources* are called for. These *resources grow* together with the volume of the aggregate social product and the national income.

In socialist society accumulation is systematic utilisation of the surplus product (1) to increase fixed assets (production buildings and housing, installations, equipment and machinery, draught and productive cattle, etc.); (2) to increase material circulating assets (stocks of raw materials, supplies, fuel and finished products; wholesale and retail inventories; stocks of farm produce; unfinished buildings, etc.); (3) to draw new workers into material production; (4) to increase reserves and contingency stocks in the state and co-operative-collective farm sectors of social production. A certain proportion of the surplus product, consequently, is used for the needs of productive and non-productive accumulation.

Socialist accumulation, like the national income, is increased as a result of increasing the number of *workers in material production*. But the main factor in its growth is raising of the productivity of labour.

As the national income rises, so, too, do the accumulation and consumption funds.

The ratio of the rates of growth of these two funds alters in accordance with the concrete conditions and tasks of economic development. Thus, growth of the accumulation fund

considerably outpaced that of the consumption fund in the seventh five-year plan (1961-1965); but during the eighth and the ninth five-year plan their tempos were much closer. Under the tenth five-year plan the consumption fund is to grow more (by 27-29 per cent) than the accumulation fund (17-23 per cent).

Accumulation primarily takes the form of an increase of *investment* in the economy; and as socialist production rises the scale of investment rapidly expands. If investment during the USSR's first five-year plan is taken as unity, it was 2.3 in the second five-year period, 5.5 in the fourth, 10.3 in the fifth, 19.4 in the sixth, 28.4 in the seventh, and 40.2 in the eighth five-year period. During the ninth five-year plan investment in the economy increased by around 42 per cent; under the tenth five-year plan it is to grow 24-26 per cent. At the same time, commissioning of fixed assets will outstrip the increase in investment, while uncompleted construction will diminish substantially, which is bound to raise the effectiveness of investment.

### **Improving the Structure and Effectiveness of Investment**

The scientific and technological revolution entails vast investment made in a centralised fashion; and with that, development of the process of reproduction mainly depends *on what spheres, industries and economic areas the accumulated resources are directed to and in what proportions; on how they are used and what proportion of the total volume of investment goes on assets aimed at extending, modernising and re-equipping existing enterprises, and on how long it takes to make the investment and run in the new productive capacity.*

In the various periods of the Soviet Union's economic development, investment has been directed in varying degree to different spheres and branches of production. During the pre-war five-year plans and in the first post-war years, the bulk of the funds went into industry, construction, transport and communications. At present the proportion of invest-

ment going into agriculture has been increased. Between 1961 and 1970 a total of 111,000 million roubles was invested in it, and from 1971 to 1980 the figure will increase to 260,000 million roubles. And investment in the consumer goods and food industries is growing. Investment in the most progressive branches of heavy industry (the power, chemical, oil and gas industries, and mechanical engineering) is being increased at very high rates. Investment is made primarily in building projects accelerating scientific and technological progress, contributing to technological modernisation and re-equipment of existing enterprises.

Alteration of the structure of investment is linked also with raising the proportion of machinery and equipment, which play the most active role in creating material wealth, and with reducing the proportion of building and erection work and other capital expenditure. Thus, during the sixth five-year plan machinery, instruments and stocks of minor equipment\* constituted 39 per cent of all capital expenditure, and 40-41 per cent in the eighth and ninth.

The proportion of expenditure on construction of buildings in investment is reduced by enlarging production projects and so making construction cheaper and by laying engineering communications and installing processing units on open sites, by developing and introducing standard plans for mass-production enterprises, by building large enterprises and installing the modern equipment of the highest capacity, and so on.

In the process of socialist reproduction, investments are directed (1) to the building and equipment of new enterprises and production facilities and (2) to the extension, modernisation and technical re-equipment of existing enterprises. During the period of industrialisation the bulk of investment went into new construction. Today it is primarily directed to the modernisation, extension and re-equipping of existing enterprises, the capacities of which are raised by modernising them, replacing obsolete equipment and introducing advanced processes. In 1960, such outlays constituted 55 per cent of the total volume of investments in

---

\* In the investment of state and co-operative enterprises and organisations (excluding collective farms) on production projects.

industry, in 1970, 58 per cent, and in 1974, 66 per cent. This enabled production to be increased, as a rule, without extending production floor space, with lower outlays and within shorter times than new construction.

The use of investments may be *extensive* or *intensive*. In the first case, it is the additional application of known technology already in use for a comparatively long time, and the drawing in of new manpower, while in the second case, it is the application of new machinery and raising of the productivity of social labour. At any given moment, investments are used in both ways, but in present conditions the intensive trend predominates.

The main way of improving the use of investment is technological modernisation of production and reducing the time and cost of construction, which is achieved by directing investment primarily to completing construction jobs already begun and to projects being commissioned, by priority development of construction facilities, improving the preparation of building sites, ensuring complex commissioning of the productive capacity of enterprises, and successful co-ordination of the times when manufacturing and consumer enterprises, and communal facilities, housing and social amenities are commissioned, and by quicker mastering of the newly commissioned production capacities.

During the tenth five-year plan the time taken to build and run in new capacity are being shortened, the capacity of building organisations is developed at high tempos and the degree of industrialisation of building raised, and specialised production bases are being developed for the building industry in the areas of greatest concentration of construction. To raise the effectiveness of investment is in the end to improve the use of production assets, and increase the increment to the national income.

## **Rational Distribution of the Productive Forces**

Raising the effectiveness of accumulation is also linked with improving the distribution of the productive forces, with all-round development and specialisation of the econ-

omies of the Union republics and economic areas of the country, and with proper combination of the territorial and industrial principles of managing the economy.

Three main principles are characteristic of the distribution of the productive forces in the USSR: (1) the bringing of production closer to the sources of raw materials, fuel and power; (2) location of industry closer to the places of consumption; and (3) levelling up the industrial development of Union republics and economic areas.

The eastern areas, for example, are rich in cheap fuel and power resources, so that it is economically profitable to develop the fuel and power industries there, power-intensive branches of the iron and steel and chemical industries, and the timber and pulp-and-paper industries. Major integrated industrial centres are being built in the east of the country. The economic potential and the share of these areas in total industrial output are being increased. Under the tenth five-year plan the eastern areas will account for the whole increment in oil and gas production, roughly 80 per cent of the increment in copper, 45 per cent in wood pulp and nearly 60 per cent in cardboard. On the other hand, the European part of the country and the Urals have large production assets and manpower reserves, so that here industrial growth is effected mostly by modernising and re-equipping operating enterprises with limitation of the construction of new and the expansion of existing power- and water-consuming industries.

The rational use of accumulation on the territorial principle requires effective specialisation of economic regions and Union republics, which does not rule out but implies comprehensive economic development and co-operation of production in industrial centres and areas. Specialisation, combination and integrated development and establishment of corresponding proportions of the economy are key principles of the planned direction of socialist reproduction.

Consequently socialist reproduction in the tenth five-year plan is highly dynamic and balanced. It is also characterised by greater efficiency, accelerated scientific and technological progress, higher labour productivity and improvement of performance in all the sectors of the national economy. This is how this process is assessed in the documents of the 25th

CPSU Congress. All this has a substantial effect on accelerating the tempos of socialist extended reproduction, on shaping its optimum structure and on improving the living standards of the people.

## 5. NATIONAL INCOME AND PEOPLE'S CONSUMPTION

Socialist society has an interest in simultaneous growth both of the consumption and of the accumulation fund, and in optimum proportions being maintained between them. The aim of social production under socialism is to improve the well-being of the people, and that calls for systematic raising of the productivity of labour, increasing the volume of production and high rates of growth of the national income.

The pattern of extended reproduction of the consumption fund on the basis of accelerated growth of the accumulation fund reflects the requirements of the law of priority growth of production of means of production. A fairly large part of the accumulation fund is also absorbed in increasing non-production fixed assets, the use of which directly adds to the consumption fund.

The consumption fund of socialist society is composed of many elements; it includes (1) the personal consumption of the public, including the value of the annual wear and tear of housing and buildings for social amenities (about 90 per cent of the consumption fund); (2) the material outlays on institutions serving the public; (3) the material outlays of scientific institutions and management. All these elements are divided into two parts: (a) *personal consumption fund* and (b) the *social consumption funds for working people of town and country*.

In the Soviet Union, roughly three quarters of the national income are spent on the personal and social consumption of the working people. And as socialist production grows the consumption fund increases steadily.

As social production grows, and with it the consumption fund, the structure of the fund alters. The share of material expenditures on institutions serving the public increases; science is developed more and more, and expenditure on it rises.

Growth of personal consumption is a law of socialist society. In the Soviet Union it is rising rapidly: there have been substantial pay rises for factory and office workers, and increases in collective farmers' incomes in cash and in kind. Personal consumption is also rising by virtue of the considerable increase in the country's housing. The network of trade outlets and catering establishments, public utilities and all types of service for the public is being steadily extended, so too is the network of schools, hospitals and polyclinics. The material and technical facilities of scientific institutions are also being steadily enlarged.

In the process of building communism social consumption funds are being rapidly increased, and their growth rates are faster than those of the personal consumption fund.

The socialist system affords broad opportunities for rapid increase and change in the needs of society and its members, and for meeting the growing needs of the working people of town and country more fully, which is manifest in the high rates of growth and change in the structure of public consumption. Demand for manufactured goods is growing rapidly, especially for the output of the electrical, radio engineering and furniture industries.

The depreciation funds of the non-production assets are steadily rising in value terms as a result of the steep increase in public housing, and this is evidence that the public's needs for housing, schools, hospitals, etc., are being better met. Between 1971 and 1975 a total of 544 million sq. m. of housing was built; and it is planned to build 545-550 million sq. m. of floor space from 1976 to 1980.

The structure of consumption is becoming more and more rational and is more in line with the people's needs; there has been a substantial increase in per capita consumption of meat and meat products, milk and dairy products, sugar, vegetables and melons, vegetable oil, fruit and grapes, fish and sea foods.

During the tenth five-year plan, there will be a further growth and improvement in the structure of the public's diet, and the structure of the consumption of manufactured goods will also be improved so as to provide a broad choice of clothing and footwear (particularly for children), the retail sales of recreational goods and household appliances

will be increased considerably. Special emphasis is put on improving the quality of consumer goods.

As we progress towards communism people's needs are becoming more and more varied, and demands being made on industry are growing and becoming more complex. At the same time, a powerful material and technical basis is being laid to meet these demands and is being steadily widened. It is on this basis that the most important economic process, the reproduction of labour power, takes place.

## 6. THE REPRODUCTION OF LABOUR POWER IN SOCIALIST SOCIETY

Socialist reproduction develops on the basis of reproduction of the productive forces and of the relations of production. The productive forces include two components: (a) the means of production, and (b) people, production workers, who possess certain vital powers and industrial skills.

The reproduction of labour power is part of socialist reproduction, *the process of which implies restoration and development of people's vital powers, provision of employment in material production and other spheres of activity, their systematic training in socially useful work, raising of their industrial skills, the supplying of industry with the requisite manpower, and the distribution, employment and redistribution of manpower resources between industries and economic regions.*

The process of reproduction of labour power is associated, above all, with the operation of the economic laws of accumulation and population, which create the economic basis in socialist society for guaranteed full employment of the able-bodied population.

The socialist system, by continually raising the material and cultural standards of the people, improves the conditions for their reproduction, promoting their physical development, reducing sickness and death rates, extending life expectancy and enlarging the annual increment of the population and manpower resources of the country.

As production develops, the consumption fund grows and its structure is improved, wages rise and the working day is shortened, social insurance develops, all working people get annual paid holidays, measures are taken to protect mothers and children, and free medical aid is made available to all.

Under socialism reproduction of ability to work is no longer solely the concern of the worker alone, since all the working people are the joint owners of the means of production created by their labour and are responsible to society for increasing available material and spiritual wealth. Under socialism, the process of reproduction of labour power is systematically directed by society, which has a vital interest in a steady improvement of its conditions. A rise in the working people's living standards, moreover, is an imperative need of economic development and a condition for accelerated growth of the economy. Modern industry calls for the creation of favourable conditions fostering all-round development of workers' capacities and creative activity, for a high level of special knowledge, training and general culture.

In any society, the provision of jobs for the able-bodied population is a key factor of the process of reproduction. The establishment of the undivided sway of social ownership of the means of production has created everything needed to end relative surplus population. This conclusion of the Marxist economic theory has been confirmed by the experience of building socialism.

Raising the technical level of industry faces socialist society with the job of providing employment for the workers being released on a growing scale. As the scientific and technological revolution develops its importance is increasing and calls for improvement of the mechanism of planned redistribution and employment of released manpower, and for more accurate planning of this social and economic process.

*The reproduction of labour power in socialist society is organically combined with planned distribution of workers between the different sectors of material production and the non-productive sphere, and between the regions of the country. When considering the prospects for further development of the productive forces, Marx wrote that with collective*

production "the regulation of labour-time and the distribution of social labour among the various production groups . . . become more essential than ever".\*

Planned distribution of manpower between the branches of the economy is inseparably linked with development of the social division of labour and of steadily expanding exchange between people. The concrete forms and proportions of this exchange are constantly altering and improving. Thus, manpower employed in industry and construction in the Soviet Union increased from 9 per cent in 1913 to 38 per cent in 1975; in transport and communications from 2 to 9 per cent; in education, science and public health from 1 to 16 per cent; while employment in agriculture and forestry declined from 75 to 23 per cent.

These changes were connected with shifts in the proportions of the economy, the rapid development of industry, the mechanisation of farming, growth of social wealth and the raising, on that basis, of the standard of public services, and the development of education and public health, science, culture and the arts.

Technological progress will continue to dictate a need for an increase in the numbers engaged in industry and a reduction of the number of workers in agriculture. And as the process of releasing manpower in both town and country intensifies, it will call for even more systematic distribution and employment of the able-bodied population in industry and other spheres of activity.

What are the present trends in the movement of manpower, and in its planned distribution and redistribution among the sectors of the economy? (1) The manpower released as a consequence of technological progress, particularly in agriculture, and that resulting from natural growth of the population, is drawn into industry, construction and other branches. (2) Both the productive and the non-productive spheres draw labour from the manpower engaged in housekeeping and tilling personal small holdings (although this reserve is now quite limited). The numbers engaged in the non-productive sphere are increasing at a rather faster rate in connection with the rapid rise in the cultural and daily needs of the

---

\* Karl Marx, *Capital*, Vol. III, p. 851.

working people of town and country. (3) The proportion of people in full-time study continues to grow.

Rational employment of manpower resources tends to become in perspective a major prerequisite for balanced economic development. This problem is assuming increasing acuteness, because the natural increment in manpower resources is bound to diminish in the 1980s. The rapid development of socialist production, changes in its sectoral and territorial structure, and improvement in the people's standards of living add complexity to the task of co-ordinating development of material production and the non-productive sphere with the availability of manpower. Furthermore, growth of the relative numbers engaged in the non-productive sphere is only possible and necessary within strict limits imposed by the level of social production attained.

As the socialist economy develops it continually raises new problems of the distribution and utilisation of *labour reserves in the spheres and branches of the economy, economic regions and centres of population, and of regulating the movement of workers by enhancing material incentives, and so on*. Only socialist reproduction provides the conditions in which planned development of this economic process is possible.

## The Training of Skilled Personnel

At the stage of developed socialism, the approach to training skilled workers for industry is essentially altered. Modern industry presents rapidly growing requirements not only as regards machinery, but also, and primarily, as regards the workers themselves, i.e. those who create this machinery and control it. Specialised knowledge, high vocational and professional training, and a person's general culture are transformed into a *sine qua non* of successful work for wider and wider strata of workers.

Planned training of manpower is characteristic of social reproduction under socialism. The numbers of workers and specialists to be trained for industry and construction, transport and communications, and of drivers, mechanics, agro-

nomists and veterinary workers for agriculture, etc., have to be determined in advance, in a planned way, in accordance with the needs of the continuously expanding economy, and the requirements of scientific and technological progress. The conditions for and content of work are being improved, the qualifications and professional skills of manpower advanced, and more favourable conditions provided for highly productive labour and broad application of the creative abilities of working people. Measures are being implemented to employ manpower more effectively, to accelerate all-round mechanisation of production processes and reduce substantially the proportion of manual labour. Planned reproduction of manpower yields vast benefits to society and a great saving of labour.

The training of cadres of specialists and skilled workers has assumed a vast scale in the Soviet Union. At the end of 1975, 22,700,000 specialists with higher or secondary specialised education were engaged in the economy, including 9,400,000 with higher education and nearly 13,300,000 with secondary. During the tenth five-year plan, 9.6 million more will be trained, especially in the new fields in science and engineering. And at least nine million skilled workers are to be trained in vocational schools for all the branches of the economy, including about 5 million with a secondary education, priority being given to the training of qualified workers for agriculture, the light and food industries, and enterprises serving the daily needs of the public.

The scientific and technological revolution is giving rise to a need for constant retraining of manpower in accordance with the rapid development of science and engineering, and the training of new manpower must take into consideration future needs for skilled workers.

The training of qualified personnel is a decisive aspect of socialist reproduction and raising of the productivity of labour. During the ninth five-year plan around 90 per cent of the growth of industrial production came from the introduction of new technology, higher skill on the part of the workers and the raising on that basis of the productivity of labour, and also the whole increment in farm production, in construction and assembly work and at least 95 per cent of the increment in rail traffic.

All-round mechanisation and automation, and electrification of production processes are causing essential changes in the character of labour; and during the transition from socialism to communism a worker of a new type is being formed, who knows the fundamentals of science and modern engineering and is capable of ensuring high, communist productivity of labour. At the same time far-reaching changes are taking place in the social structure of society.

### **The Change of the Social Structure of the Population During Socialist Reproduction**

*In the course of socialist reproduction the class differences between people are overcome.* This process begins immediately during the transition from capitalism to socialism, when, as was said above, the exploiting classes are finally abolished. At the same time, the working class is transformed from a class of oppressed wage labourers into a truly free class, the leading force of socialist society. The peasantry is transformed from a class of small property owners into a co-operative peasantry. And a people's intelligentsia, coming from the ranks of the workers and peasants, is formed.

The workers, peasants and people's intelligentsia are building a new society by their common efforts. There are no antagonistic contradictions between them, and friendship and co-operation are developing.

In the process of socialist reproduction, the material and technical basis of communism is being laid, and with it a radical change in the social structure of society is being prepared.

Under developed socialism, the job of making an all-round improvement in the life of the people and consolidating the social uniformity of society is being resolved on a broad scale. The working class, collective farmers and intelligentsia are tending to draw closer together, and the social boundaries between them are being erased. The essential differences between town and country and between mental and physical work are gradually being overcome, and the social unity of society strengthened.

The abolition of class differences calls above all for the productive forces to be developed on a gigantic scale and the social division of labour to be carried further. This implies an essential change in the character of exchange activity between individuals, which becomes more and more diversified and effective. Proper application of the laws of socialist reproduction helps lay the material and technical basis of communism, raise socialist relations of production to the communist level.

## 7. THE METHODS OF PLANNING ECONOMIC PROPORTIONS

The laws of socialist reproduction are taken into account in a comprehensive way in economic plans, which are a programme for the development of the productive forces and relations of production over a certain period.

Socialist planning is carried on continuously, as follows from the continuousness of the process of socialist reproduction, which implies an organic combination of long-term and current plans, unity in compiling them, checking them and organising their fulfilment.

The rapidly changing conditions in which socialist reproduction develops demand constant efforts to improve planning. In mature socialist society keen attention is paid in compiling plans to fuller consideration of social needs and to meeting them with the least possible inputs of labour, material and financial resources. Measures are implemented to improve the system of long-term, five-year and annual mutually co-ordinated plans; a fuller combination of the sectoral and territorial principles of planning is ensured; the programme target-oriented method is used in planning on a wider scale, and comprehensive programmes are worked out on key scientific, technological, economic and social problems; terms of compilation of plans are reduced, the organisation and methods of compilation are perfected; and integrated planning of economic and social development is improved.

The different sections of the economic plan are drawn up on the basis of a system of planned quotas for the expenditure of output and social labour in material production, in

establishments in the non-productive sphere, serving the public, and in science and administration institutions. These quotas must be scientifically substantiated and progressive, taking advanced experience into account, and stimulating economy of both materialised and living labour.

The national economic plan brings together quite a few indicators, the determination and co-ordination of which involves a vast amount of statistical and planning computations. As the economy grows and its internal connections become more complex, the volume of these operations increases. Mathematical modelling and the application of high-speed computers are playing an increasing role in reducing their laboriousness and improving the schemes and methods of planning work. The application of these methods and facilities, however, is not sufficient in itself, but can only be effective when it is based on Marxist-Leninist economic theory.

The Marxist-Leninist theory of reproduction and planning practice are attacked today by both Right-wing and "Left" revisionists. The latter in fact deny the objective character of the economic laws of socialism, think it possible to maintain super-high tempos of reproduction, perform "great leaps" regardless of the objective conditions, ignore the requirements of modern scientific and technological progress and the law of priority growth of production of means of production, and so on. History, however, has quite convincingly demonstrated the adventurism of such economic policies.

The revisionists of the Right preach ideas of "market socialism", consider decentralising of the accumulation process the most effective way of shaping the proportions of reproduction, and renounce planned centralised control of these proportions, relying on the mechanism of market competition. Such views and their application in economic practice lead to a reduction of the accumulation fund and a slowing down of the rates of reproduction, aggravation of the employment problem and loss of the advantages of socialist reproduction.

## The System of Economic Balances

Planning of proportions calls for ever deeper knowledge of the workings of the laws of socialist reproduction, and their correct application in planning and management practice.

The quantitative interrelations of the process of socialist reproduction find expression in both natural (physical) and value forms. Accordingly, its separate elements and aspects are co-ordinated in *material* and *value* balances, or balances combining both these forms of quantitative measurement of economic relations. At present closer attention is given to making balanced plans by perfecting the system of balances in physical and value terms, balances in physical terms of productive capacity and manpower resources. It is also envisaged to build up the necessary state reserves.

In the course of economic planning material, physical balances of the production and distribution of the instruments and objects of labour are drawn up. The compilation of this type of balance calls for the drawing up of balances of the productive capacity that would be needed to carry out the programme for the production of instruments and objects of labour.

Planning of the national economic proportions necessitates the compilation of a value balance-sheet of fixed assets and a table of manpower resources.

In practice inter-industrial and inter-regional input and output tables are compiled for materials and labour.

The proportions of socialist reproduction are planned by a number of consolidated or summary tables, namely, of the aggregate social product, the national income and the national economy.

The *table for aggregate social product* is drawn up along the lines of Marx's reproduction schemes as further developed in Lenin's works. It presents in tabulated form the whole process of the production, distribution and redistribution of the items of the social product, formation of the reimbursement, accumulation and consumption funds, change in the proportions of the development of Departments I and II of social production, industry and agriculture, and the pro-

ductive and non-productive spheres. It defines the volume and structure of the social product in natural, physical terms and by value, the contributions of the different industries and forms of the economy to the aggregate social product.

The *national income table* reflects the production, distribution and redistribution of the national income, defines the amount of the primary incomes of workers in the productive sphere (wages and salaries, revenue from the common farming of collective farms, etc.) and of enterprises, and indicates the main lines for using the national income, i.e. the formation of the productive and non-productive accumulation funds and the consumption fund, and the establishment of various reserves.

The proportions and relations of socialist reproduction are expressed in their most general form in the *consolidated national economic balance-sheet*, which integrates into one organic whole the production, consumption and accumulation balances, and the tables of the aggregate social product and national income, fixed assets and manpower, and the cash income and expenditure of the public. The consolidated balance-sheet expresses the growth of the potential and the main trends of the process of socialist reproduction.

The implementation of measures for the further improvement of planning and management helps to maintain high, stable rates of socialist reproduction and to lay the material and technical basis of communism.

## THE ECONOMIC LAWS OF THE GROWING OVER OF SOCIALISM INTO COMMUNISM

### I. LAYING OF THE MATERIAL AND TECHNICAL BASE OF COMMUNISM—THE CENTRAL ECONOMIC TASK IN THE PERIOD OF TRANSITION FROM SOCIALISM TO COMMUNISM

#### **Socialism and Communism. Common Features and Basic Distinctions**

The communist social and economic formation passes through two consecutive phases in the course of its development: (1) *socialism* and (2) *communism*, the higher stage. The transition of society from the first, socialist phase of development, to the second, communist one, takes a more or less protracted historical period, during which socialism grows over into communism.

Under socialism, at a certain stage of its economic maturing, at the stage of developed socialism, society embarks on full-scale construction of communism. At this time, the economic laws and advantages of socialism come into full play; and complete and comprehensive realisation of the possibilities and requirements of socialism ensures the natural transition of society to communism.

In the course of the social and economic transformation of society, the productive forces are developed further and the relations of production corresponding to them perfected, and the unity of the two strengthened at a much higher level of development, the communist mode of production and the corresponding communist relations in the fields of the production, distribution, exchange and consumption of material wealth are finally established.

The economies of the two phases of the communist mode of production have both common features and distinctive features.

The common economic foundation of both socialism and communism is *public ownership of the means of production*.

*The relations of production are therefore relations of comradesly co-operation and mutual assistance.* The means of production, being commonly owned, function as means of saving labour time and lightening labour, and are consciously used by society in a planned way in order to raise the productive power of labour and augment social wealth for the benefit of the people.

Under both socialism and communism *labour is freed from exploitation* and has a *directly social character*, which expresses the unity of labour for oneself and for society. Both socialism and communism have a *single goal of production*, namely, the fullest satisfaction of the steadily growing material and cultural needs of both society as a whole and of each of its members, and harmonious development of the individual.

Under both socialism and communism the *goal of social production is attained through its continuous growth and improvement*, on the basis of the proportions established consciously and in a planned way between the separate parts of the social economy.

The communist social and economic formation, like any other, has its inherent system of specific economic laws.

The economic laws of communism are manifested through the practical activity of the working people and through the unity of their will as determined by the predominating relations of production.

The essence of all the aspects of the relations of production of the communist mode of production finds expression in its *main economic law*, which determines the objective necessity for all members of society to be involved in collective, more and more productive, socially useful, creative labour ensuring increase of social wealth so as to improve the well-being and promote the all-round development of all members of society.

Other economic laws expressing the objective necessity of developing various aspects of the relations of production in communist society operate in organic unity with the main economic law.

Under both socialism and communism there operates a *law of balanced, proportionate development of the economy*, in accordance with which the productive forces and relations of

production are developed in a systematic way. The law of steady growth of the productivity of labour operates in interaction with the whole system of economic laws of socialism and, above all, with the main economic law and the law of balanced, proportionate development.

Under both socialism and communism, *the laws of extended reproduction* also operate, *determining the need for priority development of production of means of production, and high growth rates of all social production and the national wealth.*

Economic and social relations not only have features in common under both socialism and communism but also essential distinctions, which characterise socialism as the first and communism as the second, higher phase in the development of the communist social and economic formation.

A distinguishing feature of communism is, above all, its higher level of development of the productive forces, ensuring an abundance of material wealth.

Whereas public ownership of the means of production exists in two forms in socialist stage, i.e. as national, state property and co-operative-collective farm property, the single, universal economic basis of communism can only be *national public ownership of the means of production*, brought about during the transition from socialism to communism by growth of the productive forces and perfecting of the relations of production. It will arise as state national property increases and is consolidated, and co-operative-collective farm property merges with national property.

Whereas the class differences between workers and peasants under socialism are determined by certain features of their relations as regards joint appropriation of the means of production, under communism all individuals will carry on their activity on the basis of uniform public communist property and the essential differences between classes, between town and country, and between mental and physical work will be overcome. Truly harmonious relations will be established between the individual and society.

Under both socialism and communism labour is and will be the social duty of all able-bodied members of society. Participation in labour is an objectively necessary prerequisite for participation in distribution of the social product. Both socialism and communism presuppose the universality of labour;

but under communism its character will change and it will take on a creative content and become the *prime vital need of man*.

Under communism there will be the highest degree of planning in the development of the economy, and the most efficient utilisation of society's material and spiritual resources.

Under socialism the social product is distributed in accordance with the quantity and quality of the labour expended in social production. Under communism the high level of production will make it possible to go over to distribution of the social product according to needs, which presupposes that the individual under communism will give his or her labour to society in accordance with his or her ability, and the principle "from each according to his ability, to each according to his needs" will be translated into life.

"Communism," the Programme of the CPSU says, "is a classless social system with one form of public ownership of the means of production and full social equality of all members of society; under it, the all-round development of people will be accompanied by the growth of the productive forces through continuous progress in science and technology; all the springs of co-operative wealth will flow more abundantly and the great principle 'from each according to his ability, to each according to his needs' will be implemented. Communism is a highly organised society of free, socially conscious working people in which public self-government will be established, a society in which labour for the good of society will become the prime vital requirement of everyone, a necessity recognised by one and all, and the ability of each person will be employed to the greatest benefit of the people."\*

The transition from socialism to communism is a *natural process*. Communism grows out of socialism. Until there is full and final victory of socialism, and until the socialist phase of development is completed in a given country there can be no transition to communism.

The transition from socialism to communism is not the result of a sudden leap but takes place *gradually*. That is not

---

\* *The Road to Communism*, Moscow, 1962, p. 509.

to say, however, that it is a slow process. On the contrary, the scientific and technological revolution is bringing about rapid development of the productive forces, and of the whole economy and culture; and constant perfecting of socialist relations of production helps this progressive development of society along.

The present stage of the development of Soviet society was defined by the 24th Congress of the CPSU as *developed socialist society*. The conceptions of developed socialist society were further elaborated by the 25th CPSU Congress.

The economy of this stage is characterised by a powerful material and technical foundation, created on the basis of the all-round development of the national economy, the introduction of the latest achievements of science and engineering; high, stable rates of growth of production and labour productivity; mature social relations shaped on the basis of the complete domination of socialist property, the eradication of all exploiting elements; full implementation of the socialist principle of distribution according to the quantity and quality of work; and the achievement of social, political and ideological unity of society. Mature socialism implies harmonious development of all spheres of social life.

In the stage of developed socialism it has become possible to re-equip industry in line with the requirements of the scientific and technological revolution, to enhance the leading role of public property, and to perfect state planning and the methods of directing the economy.

In the conditions of developed socialism, the Communist Party and Soviet people are faced with a new historical task, that of preparing the material and social conditions for the transition of society to communism. A scientific substantiation of the objectively conditioned ways for the gradual and planned growing over of socialism into communism is given in the Programme of the CPSU, which indicates, in particular, that *the material and technical base of communism is laid in the course of the transition from socialism to communism, socialist relations of production grow into communist relations and the man of communist society is moulded.*

## The Main Ways of Building the Material and Technical Base of Communism

It is objectively necessary to create the material conditions for the transition from socialism to communism. This is done by transforming the material and technical base of socialism into that of communism. This problem is being faced for the first time in history by the working people of the Soviet Union.

The material and technical base of communism is laid in the course of combining the advantages of socialism with the achievements of the scientific and technological revolution, which is the fundamental, key economic task of the transition from socialism to communism, and is determined by the decisive role of material production in the development of society. Only qualitative changes in material production can lead to a new, higher level of satisfying needs and overcoming social distinctions.

The productive forces of society consist of physical, or material, elements, on the one hand, and people with their experience, know-how and working habits, on the other. *The aggregate of the material elements of the productive forces is the material and technical base of society, which exists in a definite social and economic form.*

The working people, who possess accumulated production experience and working habits, using the material elements of the productive forces created by their labour and by the labour of past generations, build the new material and technical base of society. In the process of labour, production workers perfect themselves and their social relations, above all the relations of production. The creators of the material and technical base of society are human beings, the workers in production.

The material and technical base of communism is different from the material and technical bases of all the pre-communist modes of production.

Marxism-Leninism has developed a truly scientific periodisation of the history of social development. The epochs of human history are differentiated by the instruments of labour with which people are equipped and which they use to create

material wealth. "It is not the articles made," Karl Marx wrote, "but how they are made, and by what instruments, that enables us to distinguish different economic epochs. Instruments of labour not only supply a standard of the degree of development to which human labour has attained, but they are also indicators of the social conditions under which that labour is carried on."\*

Using this unique scientific methodology of periodising the epochs of social development, one can conclude that the main, distinctive feature of the material and technical base of communism, the one that will determine all its other aspects, is the historically determined instruments of labour that the workers of communist society will use in the process of producing material wealth.

Among the instruments of labour that will characterise the material and technical base of communism will be automated systems of self-controlled machines embracing social production. This is the basic feature, because it is inherent in the nature of the productive forces of the communist mode of production, is dictated by the requirements of the developing scientific and technological revolution, and conforms to the character of communist relations of production.

This fundamental feature, in turn, will determine all the other features of the material and technical base of communism.

On the basis of the present state of science we can assume that the type of energy best corresponding to the automatic system of machines is *electricity*. The sources for obtaining power under communism will be much more powerful and varied, and the generation of electricity by using controlled thermonuclear and atomic energy and other sources will make the power resources applied in the production of material wealth practically unlimited.

The objects of labour characteristic of the material and technical base of communism will include, in addition to natural materials, *synthetic and other man-made materials with predetermined properties adapted to a given production process*. Society, however, will not cease to use the gifts of nature (coal, oil, gas, ores, etc.), if only because they are necessary

---

\* Karl Marx, *Capital*, Vol. I, pp. 175-76.

as primary materials for making synthetic and other man-made materials.

A characteristic feature of the material and technical base of communism will be organic unity of science and production, *in which science functions as a direct productive force.*

Production processes will be radically altered in character. These changes are already occurring today when new machines are introduced, which often obviate the need for direct human involvement in the production process.

Under the impact of the scientific and technological revolution, radical changes are taking place in machine industry and a transition is in progress from machines directly tended by man to systems of machines controlled by automatic devices and computers. This does not, however, lessen the role of man in the development of production. No machine will ever rob man of his creative and social functions.

With the application of automated systems of machines, man will control production processes by means of electronic, pneumatic, hydraulic, cybernetic and other devices that will run the process to a pre-set programme or an optimum programme selected by the machine itself from many pre-set programmes. The material and technical base of communism will be characterised by higher organisation of social labour, the most perfect specialisation, co-operation and concentration of industry, and an optimum structure of social production.

*The material and technical base of communism will be large-scale, specialised, fully electrified and automated machine industry, belonging to society and run according to plan by scientific application of the laws and forces of nature in order to fully satisfy the steadily growing needs of society and the all-round development of its members.*

The objectively necessary links in its structure will be: a highly developed means-of-production industry ensuring growth and perfecting of all branches of material production; large-scale, highly mechanised farming supplying industry with raw materials and the population with food; a building industry providing the material conditions needed for developing production (buildings, structures, communications) and satisfying people's needs (housing, etc.); means of transport and lines of communication for conveying material wealth and people between the sectors and areas of production and

consumption; facilities to meet the population's needs for communal and household services; a cybernetic machine system, etc.

The building of the material and technical base of communism is the complicated and grandiose task that history has posed for the first time before the Soviet people. In the future this task will also face the working people of the other countries of the world socialist system. The question naturally arises: what are the objectively necessary ways of coping with it?

The material and technical base of communism is being laid in conformity with the objective laws of the transition from socialism to communism, the requirements of the scientific and technological revolution, and the tasks of economic competition of the two world systems.

The road towards constructing the material and technical base of communism has been set out in the Programme of the CPSU. The building of the base of communism, the Programme says, will necessitate electrification of the country and perfecting on this basis of technology, processes and organisation of production in all branches of the national economy; comprehensive mechanisation of production processes and their fuller automation; broad application of chemistry in the economy; all-round development of new, economically effective branches of production, new sources of energy and materials; comprehensive, rational utilisation of the natural, material and manpower resources; organic combining of science and production, and rapid rates of scientific and technological progress; raising of the cultural and technical standards of workers; and raising of the productivity of labour to a level far above that in the advanced capitalist countries.

The material and technical base of communism is being systematically built by the Soviet people under the guidance of the Communist Party.

In successfully completing the eighth and ninth five-year plans (1966-75) the Soviet Union made further strides in this direction and towards solving the social tasks of the gradual growing over of socialism into communism.

The guidelines for the economic development of the USSR in 1976-80, endorsed by the 25th Congress of the CPSU, have ushered in a new stage in Soviet society's advance in build-

ing the material and technical basis of communism, strengthening the country's economic and defence potential, and in improving the living standards of the population.

The 25th Congress of the CPSU outlined the economic strategy of the CPSU and the Soviet people for the tenth five-year plan period. The supreme goal of this strategy is steady advancement of the material and cultural standards of the Soviet people.

This great goal is to be achieved by dynamic and balanced development of social production, by raising its efficiency, accelerating scientific and technological progress, advancing labour productivity and improving performance in all the sectors of the national economy.

The targets for economic advance set in the tenth five-year plan are to be attained at slower rates of growth of investment than in the five years before; by raising the efficiency of operation of existing equipment and productive capacities; by securing an optimum balance and proportionality in economic development and better conditions for improving the standards of performance. The tenth five-year plan has come to be known as a "five-year plan of efficiency and quality". This is one of its major characteristics.

Fulfilment of these tasks will stimulate the integration of science and production, the conversion of science into a direct productive force of society, the necessity of which Karl Marx forecast a century ago. Lenin repeatedly stressed the growing revolutionising role of science and pointed out the need to bring it ever closer to production and subordinate it to the practical tasks of economic development.

The advantages of socialism make it possible to raise the effectiveness of research substantially. The Communist Party is systematically concentrating scientific personnel and resources on the basic problems of science and engineering, the solution of which may be expected to have the maximum economic effect. At the same time the pilot-plant facilities of research and design organisations and enterprises are being extended.

A task of historic importance is being worked on, namely, to combine the achievements of the scientific and technological revolution organically with the advantages of the socialist economic system, and to develop the forms of integration of

science and production proper to socialism on a broader scale. The guidelines for the development of fundamental and applied research are being worked out, and the lead time in the economic application of research results is being shortened.

Socialist relations of production provide the objective social basis for making people interested in the most effective use of the achievements of science, means and conditions of production, and working time. Constant, steady growth in the advancement of efficiency of industry and improvement of product quality are a distinctive feature of socialism, a sign of its progressive character and of its advantages. Realisation of these advantages depends directly on the organising and directing activity of the Communist Party and the creative production activity of the working people.

Improving the efficiency of use of the productive capacities of existing enterprises is of great importance in the struggle to lay the material and technical base of communism. Improving the use of fixed production assets is inseparably connected with the intensifying of production processes and perfecting of the techniques and organisation of production; and effective use of newly commissioned capacities is most important for this purpose.

Under the tenth five-year plan the use of means of production is being made more effective by creating a more progressive structure of industry and agriculture, and by systematically changing the proportions of socialist reproduction. Capital investment is mainly directed to extending and modernising existing enterprises and concentrated on projects determining the development of key branches of the economy. Progressive structural changes in capital investments and in the proportions of reproduction ensure growth of the productivity of social labour and increased output of end products.

Reducing the consumption of materials per unit of product by economising expenditure of raw materials, power and semi-finished goods also plays an important role in raising the efficiency of social production.

Radical improvement of the quality of production is becoming of growing importance. All branches of the economy are called on to produce in accordance with technically progres-

sive standards to ensure the high quality of the product. The productivity, service life and reliability of machines, instruments and other equipment are being improved. The capacity of prime movers is being increased, and their weight per unit capacity reduced. The quality of raw materials and supplies delivered by the extractive industries to manufacturing industries is being raised. The range of consumer goods is being widened and their quality improved.

Raising the efficiency of production is inseparably linked with technological progress, which is determined by the volume and rates of introduction of new technology and processes into social production. It is therefore of great importance to equip enterprises with more powerful machines and equipment, application of which reduces unit investment and costs of production.

Important ways of increasing the effectiveness of social production are reducing the amount of uncompleted production and building and uninstalled equipment, shortening construction times, and reducing the cost of capital construction and transportation. In agriculture the efficiency of production is raised by technical re-equipment, the building of irrigation installations, electrification and maximum application of chemical fertilisers.

The Soviet people dispose of all possibilities for considerably increasing output, improving product quality and accelerating the development rates of the economy by lowering the expenditure of living and materialised labour per unit of product, by sharply cutting losses of every kind and by raising the effectiveness of foreign trade.

Building the material and technical base of communism calls for improvement of the system of state planning and direction of the economy on the principle of democratic centralism. The Communist Party of the Soviet Union has condemned subjectivism in solving economic problems as a disregard of scientific data and generalised practical experience alien to Leninism. The 24th and 25th congresses gave new development to the Leninist principles of scientific direction of the building of socialism and laid the guidelines for further improvement of management and planning and mobilising all the advantages of the planned economy in the service of building communism.

Party decisions stress the growing role of the organised bodies of workers in enterprises in laying the material and technical base of communism. Raising of their creative activity in fulfilling plans, growth of cultural and technical standards and of the skill of workers, and consistent implementation of the principles of the economic reform are a main reserve for accelerating the pace of building communism. In order to mobilise these reserves, the CPSU concerns itself with raising the standard of managerial and organising work and improving planning and economic management of enterprises. The Leninist principles of self-sufficiency are being consistently implemented, the rights and managerial autonomy of enterprises extended, and they are given greater leeway in their efforts to fulfil their commitments. Socialist competition—the socialist method of building the material and technical base of communism—is growing and widening.

### **International Aspects of Building the Material and Technical Base of Communism**

Laying of the material and technical base of communism in the Soviet Union is primarily the *national* task of the Soviet people, and its solution will ensure victory of the new, communist social system in the Soviet Union. But, at the same time, it is an *international* task, because its fulfilment will consolidate and develop the advance of socialism throughout the world.

By carrying out their main economic job, that of building the material and technical base of communism, the Soviet people are strengthening the economic, political and defence capacity not only of the Soviet Union but of the whole world socialist system, which is natural, because the material and technical base of communism is being built in the Soviet Union in conditions of the growing and developing co-operation and mutual assistance of the countries of the world socialist system. Relations of socialist co-operation help the Soviet people in their task, while they, in turn, are helping to build the material and technical base of socialism in the other socialist countries. Socialist relations of production en-

sure strong and unshakeable ties of co-operation and mutual assistance between the peoples of the world socialist system in the building of socialism and communism.

This unity of the socialist countries is the main barrier in the way of the reactionary plans of imperialism, and the bastion for the progress of modern society.

By their success in building socialism and communism, the countries of the world socialist system are strengthening the international communist and working-class movement, and rendering it ever fuller and more effective support and assistance.

The progress made by the Soviet people in this respect is interpreted by communist and workers' parties as a major contribution to consolidation of the world socialist system, development of the international communist and working-class movement and the national liberation struggle and a great victory in the competition between socialism and capitalism.

The international content, the internationalism of the main economic task, consequently, is that by building the material and technical base of communism the Soviet people, jointly with the other peoples of the socialist community, are laying the foundations for uniting and strengthening all the motive forces of the developing world socialist revolution.

## **2. THE GRADUAL TRANSFORMATION OF SOCIALIST RELATIONS OF PRODUCTION INTO COMMUNIST RELATIONS**

In the course of the transition from socialism to communism the socialist relations of production are gradually transformed on the basis of development of the productive forces into communist relations.

### **The Perfecting of Socialist Property Relations**

The basis of socialist relations of production in the first phase of communism is common socialist ownership of the means of production in its two forms: national state property

and co-operative-collective farm property. The growing over of socialist society into communist is characterised by the gradual convergence of these two forms and, in the long run, by their merging into a single national communist property. The process involves the development and perfecting of both state and co-operative-collective farm forms of ownership.

In the course of building communism *national property becomes increasingly mature*, and there is an expansion of its scale and a growth of its role in the economy. Its maturing is associated, above all, with *increased socialisation of socialist production*, with further growth of its social character (which is seen in development of the social division of labour, growth of the specialisation, co-operation and combination of production, and raising of the level of concentration of industry through the building of new enterprises and enlargement of existing ones), with the development of a conscious and voluntary attitude to labour, and cultivation of communist labour discipline.

A fundamentally new stage in socialisation of socialist production is the development of production, science-cum-production, as well as republican and national industrial amalgamations, which exemplify the modern forms of production concentration and the most effective application of the latest scientific and technological achievements.

During the laying of the material and technical base of communism in the USSR, very large, fully automated enterprises are being built, a united power system created, and the links between the various economic regions widened and strengthened.

Along with the gradual perfecting of national property there will be a *raising of co-operative property to its level and a growing over of the two into communist property*.

Co-operative-collective farm property tends to draw closer to national state property on the basis of uninterrupted development of the country's productive forces, of strengthening the collective farm economy and improving the entire system of social relations within collective farms.

The modern collective farm differs cardinally from that of the initial stage of socialism in size and sectoral structure, in the general educational and cultural standards and technical

competence of collective farmers, in labour productivity and production efficiency.

On the collective farms, just as on state farms, all-round intensification and planned industrialisation of crop farming and stock raising are under way, the scale of comprehensive mechanisation, electrification and application of chemical fertilisers is being widened, and elements of automation are increasingly notable. The rates of land reclamation are being accelerated. The collective and state farms are supplied with ever increasing quantities of new, more productive machinery, which meets the requirements of modern specialised and highly efficient large-scale production.

As a result, the material and technical basis of the collective farms tends to converge rapidly as regards its structure, level and physical composition with that of state enterprises, the state farms first and foremost. As a result, the essential distinctions between the collective and state farms are being erased in the most important field—the technological equipment of farm labour and the assets-to-worker ratio.

A major trend in raising the degree of socialisation of production on the collective farms is the deepening of their specialisation and intensified concentration of collective farm production. Under the impact of accelerating scientific and technological progress diversified collective farms are being converted to strictly specialised agricultural enterprises, and the division of labour between production departments within collective farms is being developed. The degree of concentration of collective farm production is growing, mostly by way of intensifying and accelerating the rates of agricultural output. All this contributes to the dynamic development of the common economy of the collective farms and to the growth of its economic efficiency.

The rising level of socialisation of co-operative-collective farm property finds expression in a steadily increasing extension of collective farm production to all fields of crop and stock farming, in a progressive reduction of the share of the collective farmers' subsidiary holdings in the gross and especially in the marketable produce of agriculture. As is known, until recently the subsidiary holdings of collective farmers had accounted for an appreciable share of the state purchases of a number of agricultural products. Today the

Soviet people's demand for foodstuffs and industry's for raw materials is met for the most part by the collective and state farms.

Under the present conditions, the subsidiary holdings still serve as an additional source of gross and marketable farm produce and of the peasant family's extra income. At a definite stage in the development of the public sector it will become possible to meet fully the requirements of the collective farmers and all working people out of the resources of the collective and state farms, so that the subsidiary holdings will gradually cease to exist as economically unprofitable.

Qualitatively new forms of socialisation of collective farm production and convergence of co-operative-collective farm property with national state property have come into being, and inter-enterprise co-operation and agrarian-industrial integration have developed on a broad scale. It was stated at the 25th Congress of the CPSU that deeper specialisation and concentration of production on the basis of inter-enterprise co-operation and agrarian-industrial integration held out great opportunities for a rapid growth in volumes of production, a steep rise in labour productivity and reduction of prime costs. In inter-farm enterprises and associations production extends beyond the limits of individual collective farms and develops on a basis of several co-operatives, which provides much greater possibilities for accelerating scientific and technological progress and intensifying agricultural production.

Inter-farm enterprises and associations do not represent a third form of socialist ownership of the means of production. Rather, they are a more mature variety of co-operative-collective farm property, and mark a qualitatively new stage in the development of the co-operative economic sector and a higher level of socialisation of collective farm production.

The trend towards coalescence of the two forms of socialist property is accelerated by the widening of the collective farms' productive ties with state farms and other state enterprises. Joint collective and state farms and state and co-operative enterprises and associations are being set up, which signify the birth and development of a new type of agricultural enterprise, the economic basis of which is state and co-opera-

tive-collective farm property in means of production. At these enterprises and associations a uniform process of extended reproduction develops under a common economic management, and the forms and methods of economic management on the collective and state farms appreciably tend towards a common pattern. The essential distinctions between co-operative-collective farm property, on the one hand, and national state property, on the other, are therefore gradually erased, and the process of their interaction intensifies.

The relations of socialist property in agriculture develop by way of agrarian-industrial integration of production. The merging of agriculture with industry and other sectors of the economy, which is pursued according to plan, accelerates the development of productive forces on the collective and state farms, contributes to the gradual transformation of agricultural production after the pattern of large-scale machine industry and to the advancement on this objective basis of the entire system of social relations in the agricultural areas.

The emergence and development of inter-sectoral enterprises and associations is a qualitatively new stage in concentration and production co-operation in socialist agriculture: first, not small peasant households but large socialist agricultural enterprises—collective and state farms—are involved in production co-operation today; second, co-operation is implemented on the basis of the country's increased economic potential and far advanced material and technical basis of agriculture; third, both collective and state farms join in production co-operation, and joint collective and state farm and state and co-operative enterprises and associations are set up as a major means of advancing co-operative-collective farm property to the level of national state property.

The economic advance of the collective and state farms, the levelling up of their material and technical base and degrees of socialisation of production, as well as the improvement of the cultural standards and technical competence of the farmers are the solid foundation of the process in which the collective and state farm systems of scientific organisation of work and production, planning and management, co-operation and collective enterprise of the farmers, remuneration and material incentives, and other forms and methods of economic management tend to merge.

All this means that the collective and state farms gradually acquire the characteristic socio-economic features of a future uniform type of national state agricultural enterprise.

The process of convergence of co-operative-collective farm property and national state property, which is being carried out, with the latter playing the leading role will ultimately result in their fusion. The communist property of the whole people will emerge, which will embrace all means of production available to society and determine the general form of communist production. Unlike the less mature socialist ownership, communist ownership will express a higher degree of development of the social character of production.

The development, convergence and fusing of the two forms of socialist property will be the basis for the perfecting of relations of comradely co-operation and mutual assistance between classes, social groups, the organised workers of enterprises, etc.

### **The Perfection of Socialist Relations of Production and the Transformation of Socialist Labour into Communist**

The gradual growing over of socialist relations of production into communist ones implies the development and perfecting of the relations of comradely co-operation and mutual assistance that have been built up between members of socialist society in the course of production and labour activity.

The intricate and many-sided process of building communism is accompanied with a growing over of socialist labour into communist and the creation of the economic conditions for converting labour into a prime necessity of people's life. Communist labour is labour given freely for the benefit of all society, voluntary labour, work done without expecting a reward. But for that it is necessary to relieve man of arduous and onerous types of work, to end the essential differences between mental and physical work, and between town and country, to shorten the working day and lengthen leisure time, to develop socialist competition and to conduct communist education of the people.

The conversion of labour into a prime necessity of life is inseparably linked with changing the character of the division of labour in society.

Under capitalism, a mutilating division of labour and narrow specialisation resulting from it are reproduced and perpetuated. The worker functions as an appendage to the machine.

The communist economy, based on automation, electrification, application of chemistry and other achievements of science and engineering, excludes narrow specialisation of workers, abolishes unskilled labour and calls for highly qualified labour. A worker's job is close in character to that of engineers and technicians. Under socialism there are still no objective conditions giving all members of society the opportunity to choose freely from a relatively wide range of jobs. The level of production and vocational training tie a person to a relatively permanent job. As the material and technical base of communism is built, however, there will be greater relative freedom to change jobs, and for each member of society to choose socially useful activity in accordance with his or her general and specialised education, experience and skills, inclinations and aspirations.

The radical change in the division of labour leads to elimination of considerable distinctions between mental and physical work. Under socialism, these take the form in productive activity of occupational and production differences (some people are engaged in physical work and others in mental, the physical work itself may be manual or mechanised, and the mental work also varies), and of differences in cultural and technical competence (standard of education, etc.).

These differences are being overcome through scientific and technological progress, which is altering the character of labour and bringing about a uniting of physical and mental work in people's productive activity. The building of communism is characterised by the elimination of social distinctions between workers by hand and by brain. Under communism everyone in production will have physical and mental labour organically united in his activity. The intelligentsia will cease to exist as a specific social stratum, and the labour of all workers will become intellectual in character.

A major condition for bringing this change about and overcoming the difference between physical and mental work is reducing working time and increasing leisure, which will permit more time to be devoted to scientific, artistic and cultural pursuits, participation in the direction and management of society, and so on. The increase in leisure time will encourage all-round physical and mental development of the individual and satisfaction of the cultural needs of workers in production.

The decisive way of reducing working time is raising the productivity of labour, which not only increases leisure but also provides an abundance of the necessaries of life; it is also a major condition for the growing over of socialist labour into communist work.

A basic factor in this transformation, finally, is the cultivation of a communist attitude to work. Moulding of the new man is a major job of communist construction. In the Soviet Union the movement of shock workers, and teams and enterprises of communist labour is of great importance in fostering a communist attitude to work and converting socialist labour into communist. The improving of relations of co-operation and mutual assistance between workers is expressed in the development of socialist competition. The drive for a communist attitude to work is the most progressive form of socialist competition and is characterised by a further upsurge of the creative initiative of the workers, by the mass development of invention, the improving of standards of work, rapid mastering of new technology, and a rise in workers' cultural and technical standards.

Under socialism the exchange of production activity and the establishment of relations of comradely co-operation and mutual assistance between the members of society takes place with the continued existence of two sectors in the economy, of two classes (workers and peasants), and with continuing social, economic and cultural differences, and different habits and customs, between town and country. The building of communist society and the growing over of socialist labour into communist will gradually overcome these differences.

The main conditions for overcoming the essential differences between town and country are as follows: organisation, in addition to powerful industry, of highly efficient agricul-

ture; planned intensification and industrialisation of all branches of crop and stock farming; development and fusion of the two forms of socialist property (national state and co-operative or collective farm); conversion of agricultural work into a variety of industrial work; advancement of the cultural standards and technical competence of the farmers; levelling up of the incomes of the rural and urban population by accelerating the rates of increase in the labour productivity and incomes of the farmers; and levelling up of the cultural and everyday conditions of life in town and country.

The building of communism is characterised by the disappearance of classes and social groups. During the transition to communism workers, collective farmers and intellectuals will be converted into the working people of communist society. A necessary precondition for the wiping out of the differences between town and country is the economic and cultural growth of the whole country.

As the material and technical base of communism is laid, the relations of production develop and socialist labour grows over into communist labour, socialist co-operation of labour is turned into communist co-operation of labour. The bounds of social co-operation of labour will be extended as the movement towards communism develops, and under communism they will embrace the whole social production of the country.

### **Development of Relations of Distribution. Transition to the Communist Principle of Distribution**

The creation of an abundance of material wealth and the conversion of labour into a prime necessity of life will make it possible to make the transition to the communist principle of distribution. This will not occur at once, but gradually as the appropriate material conditions are created. The relations of distribution are developed both in the public and in the co-operative-collective farm sectors and affect both payment for work and the social consumption funds.

In the state enterprises of the USSR the level of earnings of low- and high-paid categories of workers is being evened up, and the wages of low-paid workers gradually increased.

The scale of minimum pay is being raised, and substantial increases in pay in all areas of the country and branches of the Soviet economy were made during the ninth five-year plan. During this period the pay rates of over 75 million persons were raised. Between 1971 and 1975 the minimum pay rates for workers in the productive sectors of the economy were heightened.

The most important way of levelling up earnings is to raise the cultural and technical standards of workers and eliminate unskilled work, a process that is taking on wider scope as the scientific and technological revolution develops.

Movement towards communism is accompanied by a perfecting of the various systems of piece rates and time rates in state enterprises, improvement of rate setting, the assessment of output in quantity and quality, and the employment of workers in accordance with their skills and qualifications.

During the transition to communism earnings in agriculture are being brought closer to those in industry. An indispensable condition for that is faster growth of the productivity of labour in agriculture than in industry, lowering of the cost of farm produce, raising of wages in agricultural enterprises and increasing of their profitability.

In the co-operative-collective farm sector, the improvement of the relations of distribution affects the distribution of the gross and net revenues of collective farms, payments by work and the social forms of meeting the personal needs of collective farmers. As progress is made towards communism the relations of distribution on collective farms will rise to a higher level and come closer to those in the national sector.

One of the most important differences between the pay of workers and collective farmers is that the pay of factory and office workers is guaranteed by the revenues of society as a whole, while that of collective farmers mainly by the revenues of their respective collective farms. This difference is being gradually eliminated as collective farming and the national economy as a whole develop.

An important step in this direction was the institution on the collective farms of guaranteed monthly cash pay to the farmers equivalent to the wage rates of corresponding categories of state farm workers. This is bringing the system of

rate setting, job organisation and remuneration on collective farms much closer to the pay system on state farms.

The changeover to guaranteed monthly cash advances to the collective farmers makes it possible to ensure that a certain quantity of consumer goods purchased either on their own collective farm or through other trade channels is made available to them as part of their personal income.

The improvement of the pay system on collective farms is also expressed in its now being increasingly linked with the final production results, i.e. not only with the work done but also with the quantity and quality of output. Improvements are also being made in other directions.

As collective farm production develops the necessary conditions for levelling up the rates of pay of collective farmers in different natural economic zones are being created.

The optimum factors in providing increasingly equivalent economic conditions for raising the incomes of collective farms situated in different areas of the country are the following: comprehensive intensification and industrialisation of agricultural production on the basis of accelerated scientific and technological progress; improvement of the distribution pattern of agriculture; optimal specialisation and concentration of production on the collective and state farms; broad development of inter-enterprise co-operation and agrarian-industrial integration; elaboration of the zonal principle of forming procurement prices and improvement of their correlation with regard to different types of produce, application of differential rates of income tax, etc. The adoption of these measures is making it possible to implement the principle of equal pay for equal work more consistently throughout the collective farm sector and to improve relations of distribution.

The convergence of pay scales on collective and state farms serves the same purpose. The difference in the forms of property does not alter the principle of equal pay for equal work. Both the factory and office workers in the state sector and the collective farmers in the co-operative sector should receive equal pay for the same quantity and quality of work. The basis for levelling up pay on collective and state farms is raising labour productivity on collective farms to the level on state farms.

As has already been noted, socialism is characterised by distribution according to work and through social consumption funds.

As the communist mode of production becomes more mature, distribution from social consumption funds becomes more and more developed. The improvement of this aspect affects both the social consumption funds formed on a nation-wide scale and the social funds of individual enterprises.

As socialist society develops social consumption funds become increasingly important, and their size has a large bearing on the satisfaction of the personal needs of factory and office workers and collective farmers, and on the growth of their material well-being and cultural standards.

The development of socialist society is characterised by convergence of the standard of living of the urban and rural population with a simultaneous general improvement in their well-being. This is encouraged by the sum total of factors governing the standard of living: the levelling up of the real incomes of the urban and rural population; the length of the working day; housing and living conditions; the standards of cultural amenities; the volume and structure of consumption; the degree of development of the health service, education and social security; and improvement of the working conditions of country workers and elimination of seasonality.

The transition to communism means replacing the economic law of distribution according to work by that of *distribution according to needs*.

The economic foundation of the transition to communist distribution according to needs is being laid during the building of the material and technical base of communism, which will guarantee achievement of an abundance of material wealth and communist well-being of the people.

The attainment of a high level of development of the productive forces and of labour productivity is not the sole condition for transition to the communist principle of distribution; it also requires comprehensive assessment of the needs of the workers, the establishment of communist relations of production, elimination of the differences between town and country and between mental and physical work, and conversion of labour into a prime necessity of life. Communist dis-

tribution implies a thrifty attitude to public wealth and the satisfaction of man's reasonable requirements.

Direct distribution, without sale and purchase, and the enjoyment of all material and cultural wealth free of charge will be characteristic of communist distribution according to needs. In those conditions commodity production will cease to exist.

With the withering away of commodity-money relations, society will go over from indirect appraisal of expenditure of labour in value terms to direct appraisal in terms of labour time, for which it will be necessary to have an ideally functioning, ramified and developed accounting apparatus for labour and output, and the distribution of output. These elements of direct evaluation mature during the transition to communism. Under communism society will achieve the highest degree of planned organisation of the whole social economy. At the same time the economic functions of the socialist state will grow into the economic functions of communist self-government.

The problems of further improvement of direction of the economy were widely discussed at the 25th Congress of the CPSU. They are the most crucial issues of Soviet economic strategy at the present stage. The Congress gave a profound substantiation to such important aspects of management as further improvement of planning, more competent use of economic incentives and levers, improvement of the structure and methods of management and broader involvement of the working people in the management of production. Their object is further development and perfecting of the economic mechanism, gradual creation of the conditions for establishing communist self-management of production.

\* \* \*

The success of the transition to communism will largely depend on how effectively the operation of economic laws is employed by society in the socialist stage of development.

As socialist relations of production grow over into communist ones, the operation of certain of these laws becomes more pronounced, while conditions arise limiting or even neutralising the effect of others. Thus the action of the basic

economic law of socialism increases; and in compliance with its requirements society has the possibility of developing social production at high tempos.

As the productive forces are developed and socialist production grows and its social character becomes more marked, the role of the law of planned, proportionate development of the economy also increases. Socialist society today is perfecting planning of the proportions and pace of development of the economy, and of its management methods, taking into account the operation of the law of value, of the law of distribution according to work and of other economic laws of socialism.

The role of the law of distribution according to work is still increasing, and will continue to do so in the future; but as abundance is created, and labour becomes a prime necessity of life and social consumption funds become much bigger, the way to transition to the communist principle will be prepared. Under full communism the law of distribution according to work will cease to operate and pass from the scene.

Understanding of the operation of these economic laws, strict observance of their requirements in practical activity and perfecting of the methods of using them will enable society to ensure development of production in order to satisfy the growing needs of the workers, improve the relations of production, combine the interests of all society with those of the bodies of workers of enterprises and organisations and of each worker, and to accelerate the pace of building communism.

## Chapter XVI

# THE ECONOMIC LAWS OF THE DEVELOPMENT OF THE WORLD SOCIALIST SYSTEM

Socialism originally triumphed in one country, the USSR; but within less than 30 years following the Great October Socialist Revolution, however, the new social system had begun to take on an international character. A world socialist system emerged and took shape. In spite of its youth it is playing an immense role in the life of mankind today and is the leading revolutionary force of our era.

"The formation and strengthening of the world socialist system has been a powerful accelerator of historical progress which was started by the Great October Revolution. . . , many of the imperialist aggressors' plans were frustrated thanks to the existence of the world socialist system and its firm action,"\* says the report of the Central Committee to the 24th Congress of the CPSU.

The development of the world socialist system is an intricate process of the advance of the peoples along an unexplored road, a process associated with overcoming the heavy heritage left by centuries of the domination of exploiting classes: of national isolation, strife and distrust. The differences in the level of economic and social development, the class structure, and the historical and cultural traditions inherited from the past give rise to objective difficulties in solving such urgent problems as the development of all-round co-operation and organisation of international socialist division of labour.

Lenin stressed that the road to socialism "will never be straight, it will be incredibly involved. . .".\*\* But it is not only

---

\* 24th Congress of the CPSU, p. 9.

\*\* V. I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B)", *Collected Works*, Vol. 27, p. 130.

a matter of the objective complexity of the process of building socialism itself. Many of the difficulties being met by the socialist countries in their development are connected with the constant efforts of imperialism to exert economic, political and ideological pressure on the socialist world.

The communist and workers' parties are having to tackle the tasks of building a new society for the first time; and the socialist countries are being constantly faced with new problems engendered by many-sided social life. Creative development of the Marxist-Leninist theory of revolution, resolution on that basis of the economic and political tasks arising, and continuous exchange of experience in building socialism and communism are therefore of tremendous importance in shaping the world socialist system.

The world socialist system possesses steadily growing vitality. It is continually developing, becoming stronger and exerting a decisive influence on the destiny of human society.

## **1. THE INEVITABILITY OF THE EMERGENCE OF A WORLD SOCIALIST ECONOMIC SYSTEM**

### **The Victory of Socialism in One Country**

Marx and Engels, in exposing the antagonistic contradictions of the capitalist mode of production, proved that their deepening led capitalism inevitably to its doom and its replacement by a more progressive social system. In developing their teaching in a creative way, Lenin established that the conditions did not exist in the imperialist era for simultaneous victory of the socialist revolution in all or in a majority of countries, but that victory of the revolution was initially possible in a few countries or even in one.

At the beginning of this century, Russia proved to be the weak link in the chain of world capitalism. It was the nodal point of all the contradictions of imperialism. World War I accelerated maturation of the socialist revolution.

The Great October Socialist Revolution in Russia was the inevitable result of the development of the contradictions of world imperialism and put an end to its undivided domination.

A new historical era set in in the epoch of the collapse of capitalism. The capitalist system ceased to be the sole and all-embracing one. Alongside it had emerged a new, socialist system which was to replace it; capitalism had entered the stage of decline. At first, however, the socialist system was not a world one; for more than a quarter of a century it developed only in the USSR, except for the Mongolian People's Republic, founded in 1921, which had taken a non-capitalist path of development. Apart from that country there was no state for a long time that could be a loyal and dependable friend of the Soviet Union.

Peaceful socialist construction in the Soviet Union was interrupted by the treacherous attack of nazi Germany, drawing on the military potential of almost all occupied Europe. But the attempt of international reaction to destroy the socialist system by force of arms ended in a fiasco; and on the contrary, this turn of events led to even greater sharpening of the contradictions of imperialism and to wide development of the revolutionary forces.

## Formation of the World Socialist Economic System

Just as World War I accelerated the socialist revolution in Russia, so World War II brought new breaks in the chain of world imperialism nearer. Socialist revolutions triumphed in several countries in Europe and Asia, and the Republic of Cuba became the first country in Latin America to take the socialist road. Socialism had gone beyond the limits of one country and become a world system.

A sharp ideological struggle developed around the emergence of the world socialist system.

Bourgeois propagandists asserted that it was the result of "export of revolution". They accuse the Soviet Union of having engineered socialist *coups d'état* in them by means of its army.

The emergence of the world socialist system was not accidental. Nor could it have occurred under the influence of outside forces. Lenin had pointed out that "it would be impossible to put an end to the rule of capitalism if the whole

course of economic development in the capitalist countries did not lead up to it. . . . No power could destroy capitalism if it were not sapped and undermined by history".\*

*The world socialist system arose as a result of the operation of the objective laws of historical development.*

Victory of the revolution in several countries in Europe and Asia, and in Cuba, and their transition to the socialist path of development were brought about by internal laws, by the long struggle of the popular masses against oppression by national and foreign capital, for national and social liberation.

In their revolutionary struggle the working people took advantage, of course, of the favourable situation created by the victory of the Soviet Union over the German and Japanese imperialists. The presence of the Soviet Armed Forces in the territory of a number of countries prevented foreign intervention and made it impossible for the internal and international reactionary forces to unite against the revolution; but the Soviet Army did not interfere in the internal affairs of these countries.

Thus, the new world system was the logical outcome of the development of society over a certain historical period. *The advance of socialism beyond one country and its conversion into a world system are the main features of the present epoch.*

What is the world socialist system? *It is a social, economic and political community of free, sovereign nations advancing along the path of socialism and communism, united by a community of interests and goals and by unbreakable ties of international socialist solidarity.*

The world socialist economic system represents a new type of international economic relations, signifying the abolition of exploitation of labour in all its forms and manifestations both nationally and internationally.

The community of socialist nations rests on the creation in each country of a uniform economic foundation, common ownership of the means of production; on a uniform state system, government by the people headed by the working class; on a uniform ideology, Marxism-Leninism.

---

\* V. I. Lenin, "War and Revolution", *Collected Works*, Vol. 24, p. 417.

*The world socialist economic system implies the development of the national economies on the basis of socialist common ownership of the means of production. It represents an aggregate of independent economies linked by the international socialist division of labour and the world socialist market.*

The uniform economic foundation and common objectives of social production in the socialist countries generate a need for co-operation in the field of planning, which creates favourable conditions for levelling up their economic development. Within the world socialist system the conditions are being created for organic combination of national and international principles, for stimulating economic integration and for accelerating the pace of economic development.

The countries of the world socialist system occupy about 26 per cent of the earth's land area, have roughly one-third of the world's population and over 40 per cent of the world's industrial production. Their power is growing year by year.

The leading role in the growth of the economy, and of science and engineering in the world socialist system is played by the Soviet Union, where the working people led by the Communist Party have built up a powerful socialist economy. "The first country to advance to communism," says the Programme of the CPSU, "facilitates and accelerates the advance of the entire world socialist system to communism."\*

## 2. THE PATTERNS OF DEVELOPMENT OF THE WORLD SOCIALIST SYSTEM

World socialism has important advantages over world capitalism, and the world socialist economic system is developing much faster than the world capitalist system.

The world socialist economic system is *free of the antagonistic contradictions* that are organically inherent in the world capitalist economy and weaken it.

The development of the world capitalist economy has two contradictory tendencies. On the one hand, it is accompanied

---

\* *The Road to Communism*, Moscow, 1962, p. 579.

by an ending of national isolation, creation of a world market and the drawing in of ever more countries into world turnover, which is a progressive trend bringing nations closer together economically. On the other hand, the interdependence and economic uniting of different countries is not voluntary co-operation but the subordination of one country to another, the oppression and exploitation of the less developed countries by the more developed ones, and the uniting of national finance capitals for the purpose of exploiting nations. Colonial plunder and the capitalist methods of deforming the economies of the subordinated countries, and the struggle of the imperialist powers for world supremacy have a negative effect on the development of the productive forces and tend to inhibit the growth of production.

The world socialist system is free of the contradiction inherent in capitalism between the process of economic integration and the imperialist method of effecting it. As the countries of the socialist community develop, economic relations are strengthened between them on the principles of voluntary participation and sovereignty. Economic life becomes internationalised. The productive forces of each of them receive full scope for their development in the interests of them all.

In the world capitalist system the law of uneven economic and political development operates. The gulf between the economically advanced and backward countries steadily widens. The tendency to levelling up the economic development of a few highly developed countries, by upsetting the existing balance, leads to conflicts and collisions between them. The wars that broke out on this basis threw the economies of some of the belligerent countries back many years and took a toll of millions of lives.

Relations are developing quite differently in the world socialist system. The very nature of socialism engenders both the need and the possibility to level up the economic development of the socialist countries. States that were economically backward in the past, by making use of the accumulated experience and disinterested assistance of other socialist countries, rapidly advance their economies and cultures to the level of the advanced members of the socialist community. It is stated in the report of the CPSU Central

Committee to the 25th Congress that there is "a gradual levelling up of their development. This process of a gradual drawing together of socialist countries is now operating quite definitely as an objective law."\*

Within the socialist system, the differences in economic and cultural levels inherited from capitalism are gradually being overcome. The maximum mobilisation of internal resources, the international socialist division of labour, the support of the other states and use of their experience, all enable the economically less developed countries to speed up the pace of their development and raise their economies to the level of more developed socialist countries. Thus, the per capita industrial production of Bulgaria and Rumania is gradually reaching the level of the German Democratic Republic. Mongolia's economy is being intensively brought up to that of other socialist countries. But it will take a comparatively long time to overcome the historically conditioned inequality of their economic development. "Of course, much depends on the policy of the ruling parties and their ability to safeguard unity, to combat isolation and national exclusiveness, to honour the common international tasks, and to act jointly in performing them," Leonid Brezhnev said at the 25th CPSU Congress.\*\*

Thus, *there is a tendency in the world socialist economic system to level up the economic and cultural development of the countries and the standards of living of their peoples. The differences between these standards depend on the scale of the national wealth already accumulated and the per capita national income.* This alignment of levels, however, does not mean any retardation of the progress of the countries that have moved ahead economically, for that would be to slow down the general advance of world socialism as a whole.

The bringing of the economies of the socialist countries to the same level implies preservation of a number of specific features in their development due to their natural conditions and national peculiarities in the structure of the people's

---

\* L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. XXVth Congress of the CPSU*, Moscow, 1976, p. 9.

\*\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 9.

needs and way of life. "The development and levelling up of the economy of the socialist countries," the Programme of the CPSU says, "must be achieved primarily by every country using its internal resources to the full, by improving the forms and methods of economic leadership, steadily applying the Leninist principles and methods of socialist economic management, and making effective use of the advantages of the world socialist system."\*

*The levelling up of the economic development of the socialist countries is one of the main advantages of world socialism over world capitalism*, which makes it possible to accelerate economic growth and develop the productive forces of all the socialist countries in the most harmonious way.

The world capitalist system took shape spontaneously, at a vast cost caused by fierce competition between countries, anarchy of production and predatory wars.

*The world socialist system is being formed in the course of the conscious, planned activity of the working people.* Rivalry and anarchy of production, predatory wars and the other patterns generated by capitalism are alien to the nature of socialist relations of production.

Planned direction of economic development, and deliverance of the economies of the socialist countries from sharp antagonisms enable the socialist system to bring immense reserves for economic growth into play; but that requires the development of internationalist solidarity, a proper policy based on a Marxist-Leninist analysis of the processes of the evolution and advance of the world socialist system and a competent and purposive application of economic laws.

The laws governing the development of the world economy and national economies cannot be equated. Economic relations between socialist countries are developed as relations between the sovereign owners of the means of production and not as relations based on joint international property. From that it follows that specific relations characteristic of the world socialist system as a whole develop. Within the united economy of each socialist country there are no substantial obstacles to direct redistribution of capital investment in favour of less developed areas, regardless of their

---

\* *The Road to Communism*, p. 581.

location within the country. But within the framework of the world socialist economy this matter is dealt with differently, through foreign trade, credit, and so on. Development of the economy of each socialist country is directed by a single plan; the economic relations between socialist countries are regulated by treaties and contracts.

The objective process of the economic co-operation of socialist countries leads *in the long run to the ways economic laws are manifested, and the character of their operation within the national economies and on a world scale, drawing closer to one another.* The conditions for this, however, are still in the formative stage.

The Marxist-Leninist parties base their activity in organising the building of socialism and communism on a number of general objective laws of socialism operating in each socialist country. These general principles determine the character and the main patterns of the development of the economic relations between socialist countries.

The characteristic features of these relations are full equality, respect for territorial integrity, national independence and sovereignty, non-interference in each other's internal affairs, fraternal mutual assistance, mutually beneficial co-operation, and proletarian internationalism. No one in the world community of socialist countries enjoys or can enjoy any special rights and privileges as is characteristic of relations between capitalist countries. In the course of broad economic co-operation in all the fields of economic, social, political and cultural life the economic base of the world socialist system is being steadily consolidated. At the same time planned development of the world socialist economy is being systematically improved, a new type of international division of labour is taking shape, and the economic levels of the socialist countries are being brought closer to one another.

The general laws of the building of socialism have a decisive influence on the character of the economic relations between socialist and capitalist countries. Socialist countries' economic links with countries of the capitalist system are based on the principles of peaceful coexistence, equality, mutual advantage, and respect for sovereignty.

## Features of the Development of Socialism in Individual Countries

The laws of economic development common to the countries of the world socialist community take specific forms in each country. The founders of Marxism-Leninism stressed that it was necessary, in resolving the tasks of the socialist revolution, to make allowance for the institutions, customs and traditions of the various countries.\* "All nations," Lenin pointed out, "will arrive at socialism . . . but . . . 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 transformation. . . . "\*\*

Marxists-Leninists believe that success in the building of socialism largely depends on a proper combination of the general and the nationally specific in social development. Without basing oneself on the general patterns and without taking the concrete historical features of each country into consideration, it is impossible to build socialism. And without making allowances for these factors it is impossible also to develop the relations between socialist states correctly.

These principles have been fully confirmed by the historical experience of all the countries following the road of socialism.

The proletarian internationalism of socialist countries is conditioned by the general nature of socialist relations of production, but also necessitates careful allowing for the features of each country, which is the approach that strengthens solidarity of the working class of a given country with the working class of the other countries. Any attempts at isolated economic development can therefore damage each country individually and the whole world socialist system.

A line of isolated building of the new mode of production contradicts the objective laws of the development of socialist society and is economically harmful, because it leads to dissipation of social labour, lowering of the growth rate

---

\* See, Karl Marx and Frederick Engels, "The Hague Congress", *Selected Works* in three volumes, Vol. 2, p. 293.

\*\* V. I. Lenin, "A Caricature of Marxism", *Collected Works*, Vol. 23, pp. 69-70.

of industry, and to preservation and consolidation of the former dependence of the country on the capitalist world. Such a course is reactionary and dangerous politically because it does not unite the people against the front of imperialist countries but splits them, and feeds bourgeois-nationalist tendencies, and in the end can lead to loss of socialist gains. "There must be a close military and economic alliance," Lenin said, "...for otherwise the capitalists ... will crush and strangle us separately."\*

Manifestations of nationalism and national exclusiveness do not, of course, disappear automatically once the socialist system has been established. The fact is that the different countries do not begin at the same level of economic, political and cultural development; and even now the socialist countries are at various stages in the struggle for socialism and communism.

Apart from these differences in economic level, each country has its own concrete experience in the field of international relations; and its attitudes to the solution of any one international problem are not at all identical, and that can give rise to its own special, temporary tasks and interests determined by the specific features of the concrete historical stage reached by the country. Such factors may cause different interpretation of specific questions of socialist construction and differences in approach to various current issues. There are, however, objective conditions ensuring unity of approach to the key questions of the development of world socialism.

National exclusiveness may take the form of nationalist prejudices, which may make themselves felt in the individual historical features of a given country and its difficulties and specific situation being exaggerated and assessed as the general pattern. Such exclusiveness mainly develops when a consistent struggle is not waged against nationalism, when the leadership of the country disagree with the decisions jointly arrived at by all the parties and oppose their own point of view to them.

Lenin foresaw the possibility of this happening and wrote:

---

\* V. I. Lenin, "Letter to the Workers and Peasants of the Ukraine Apropos of the Victories over Denikin", *Collected Works*, Vol. 30, p. 296.

"One who has adopted the standpoint of nationalism naturally arrives at the desire to erect a Chinese Wall around his nationality, his national working-class movement; he is unembarrassed even by the fact . . . that by his tactics of division and dismemberment *he is reducing to nil* the great call for the rallying and unity of the proletarians of all nations, all races and all languages."\* "Our experience," he stressed later, "has left us with the firm conviction that only exclusive attention to the interests of various nations can remove grounds for conflicts, can remove mutual mistrust."\*\*

No socialist country can afford to ignore the experience of other countries in building socialism. "Our stand is," the report of the Central Committee to the 24th Congress of the CPSU said, ". . . that each other's concrete experience should be more fundamentally studied at every level of state, social, economic and cultural life."\*\*\* It would be wrong, however, to force one's experience on others as a line to be followed by all. The choice of the particular forms, means and methods of building socialism is the sovereign right of every people; but the correctness of a given point of view on concrete issues is verified by deeds, by the results achieved in raising the country's economy.

The disagreements that arise on certain problems of socialist construction and international relations between the separate countries of the world socialist system are not antagonistic, but are temporary and transient, and do not stem from the nature of socialist relations of production. They are largely due to the newness of the transition to socialism in countries that differ in their social, economic and cultural levels. The development of socialism will increasingly remove the transient phenomena and unite the nations of world socialism. The fraternal unity of the socialist countries is the most reliable barrier blocking the forces that are trying to attack and weaken the socialist community, and to undermine and bring to nought the socialist gains of the working people.

---

\* V. I. Lenin, "The Latest Word in Bundist Nationalism", *Collected Works*, Vol. 6, pp. 518-19.

\*\* V. I. Lenin, "Interview Given to an *Observer* Correspondent", *Collected Works*, Vol. 33, p. 386.

\*\*\* 24th Congress of the CPSU, p. 19.

At the present stage, socialist property in the world socialist system has a national, state form which rules out a common economic plan for all its members and transfusion of the material and financial resources from one country to another without mutual consent.

The strengthening and extension of economic ties between socialist countries will encourage development of the objective tendency noted by Lenin to establish a world communist economy in the future, regulated by a common plan. The transition to that will come about through the gradual economic levelling up and growing economic convergence. It is already in progress and will become steadily deeper. The establishment of a common economy based on common ownership and unrestricted by state frontiers, however, is a matter of the very distant future. Any attempt to speed up the process today, to accelerate it artificially, would do considerable harm to the common cause. At present, consequently, it is particularly important to bring into action the vast potentialities of each country for economic growth on the basis of efficient utilisation of its internal resources and the advantages of co-operation with other socialist countries.

### **3. THE ADVANTAGES OF THE INTERNATIONAL SOCIALIST DIVISION OF LABOUR. SOCIALIST ECONOMIC INTEGRATION**

Development of the productive forces and the internationalisation of economic life are finding expression in the extension and deepening of the international division of labour and in various forms of economic relations between countries. This means that the social division of labour is being extended beyond national states and is taking the form of specialisation of human labour activity on an international scale.

Capitalism brings about international division of labour by means of coercion and increasing inequality, through the enslavement of some countries by others. As a result, the imperialist powers' domination and the economic subjugation of the countries dependent on them are perpetuated.

World capitalism has engendered a deep gulf between the

separate highly developed, industrialised countries, on the one hand, and the backward, agrarian countries, on the other.

The bulk of the industrial output of the capitalist world is produced by a handful of developed capitalist states, the United States, Japan, the Federal Republic of Germany, Great Britain, France and Italy, which together account for around 77 per cent of the industrial production of all capitalist countries, while the economically backward countries, which have two-thirds of the population of the capitalist world, account for around 10 per cent of the total industrial output.

Many of the developing states are doomed to the role of suppliers of raw materials, their economies are developing one-sidedly, with the predominance of one or two crops or the development of one branch of the extractive industries. This can be seen in the structure of the exports of countries that have been turned into agrarian and raw material appendages of the developed capitalist states. Thus, Venezuela produces only oil for export, the Dominican Republic, sugar, and so on.

These countries are forced to export their products at low prices and to import industrial goods from developed countries at high prices. As a result, unequal exchange has become common. And in order to keep dependent countries under their sway the developed capitalist countries deliberately prevent them from building up their own heavy industry.

The emergence of the world socialist system has engendered a new, *socialist division of labour*.

In estimating it, we must remember that division of labour in the capitalist system has existed for around 200 years, while it is only in its formative period in the socialist system.

What are the main features of the international division of labour under socialism?

Prior to the world socialist system there had been no example of a highly developed, industrialised state helping other countries to industrialise. The world socialist system has turned what was impossible under capitalism into a law of its own development.

As a result of economic co-operation on the basis of the ever deepening international division of labour, the socialist

economies are being developed in an all-round way, new industries are being built up, and the division of countries into industrial and agrarian is losing its old meaning. Countries that were economically backward in the past are being converted into industrial-agrarian states. They have already built up developed engineering, power, mining, oil-refining, textile, light, food and other industries, which results in a general levelling up of the economic development of the world socialist system. Each socialist country, moreover, can specialise in those industries for which it has the most favourable natural and economic conditions. This obviates any need for individual states to build up all the branches of industry, as the Soviet Union had to do; they can channel investment into those sectors of their economies, for the development of which they have the most favourable conditions and the development of which can raise the people's standard of living more rapidly.

That, of course, does not rule out a different solution. For example, the big socialist countries with large populations, rich natural resources and extensive needs have to build up an integral industrial system so that their productive forces can be used most fully and comprehensively.

Maximum use of one country's internal forces and resources to lay the material and technical base of socialism is the correct principle, but in dealing with the concrete problems of economic policy it must not be applied mechanically or divorced from economic co-operation. A one-sided stress on orientation on internal forces, just like undue emphasis on an exclusively joint solution of all problems, is impossible. Reliance only on the assistance of other countries to solve internal problems is not correct either. The essence of a correct approach is constant co-ordination of one's own efforts with the common efforts and thereby of one's own interests with the common interests. The development and consolidation of each socialist country is an important condition for the advance of the whole world system of socialism.

The principles of international socialist division of labour require each country to be developed as an industrial power producing both consumer goods and means of production. All countries, in building the material and technical base of

socialism and communism, have to use their natural resources and productive capacities as rationally as possible. International division of labour provides in each country conditions for developing mass and large-scale serial production.

Each socialist country seeks to create an optimum economic complex, providing, in particular, for the development of domestic fuel, power and raw material industries to meet internal needs and extend deliveries to fraternal countries; the founding and development of the branches of the engineering, chemical, iron and steel, and non-ferrous metal industries of key importance to it on the basis of broad international specialisation and co-operation in these branches of production; the creation of a building materials industry, the light and food industries based on home supplies of raw materials and meeting the basic internal needs; the expansion and improvement of modern transport and communication facilities; all-round development of agriculture for maximum satisfaction of the people's needs for food and industry's for raw materials; accelerated industrial development of the less developed areas of the country; and full employment of the able-bodied population:

The process of development of the world socialist economy is affected by two internally connected tendencies. These are, on the one hand, a trend towards consolidation of the national economies and establishment of highly developed economic complexes and, on the other hand, a trend towards development of international economic links within the world socialist system.

The principles of decisive importance in the system of international socialist division of labour are those of full equality, mutual respect, independence and sovereignty, fraternal mutual assistance and benefit in the interests of general advance and development of each country's productive forces. These principles exclude a lop-sided, raw material trend of economic development.

The *effectiveness of the international division of labour* is determined by the ratio between the national costs (prime cost) of specialised output and export prices. Mutually profitable exchange of specialised products is ensured when the exporting country realises its commodities on the interna-

tional market at prices higher than its national costs of production, and the importing country makes a saving through refraining to produce these commodities itself at an outlay higher than their import prices.

As the economies of the socialist countries develop, the division of labour between them will play a steadily growing role in supplying their national economies with the types of equipment and raw materials they need, and in improving the provision of varied consumer goods for their people. The division of labour speeds up technological progress, raises the efficiency of social production, helps all the fraternal socialist countries to accelerate their advance towards their common goal, communism.

### **The Necessity of International Socialist Economic Integration**

The considerable advances made by the member countries of the Council for Mutual Economic Assistance, formed by Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, the Mongolian People's Republic, Poland, Rumania and the USSR in 1949\*, in developing the productive forces and organising forms of economic co-operation have dictated a need to pass to a new, higher stage of mutual co-operation and more far-reaching co-ordination of economic activity, i.e. to international socialist economic integration. The deepening and perfecting of co-operation, and the development of integration underlie a process of the international division of labour consciously and systematically controlled by the communist and workers' parties and governments of the member states of CMEA, a process of bringing their economies closer together and shaping their modern structure; of gradually drawing closer in their levels of economic development and evening them out; of establishing profound, stable ties in the main fields of their economies, science and engineering; of broadening and consolidating their

---

\* The Republic of Cuba became a member of CMEA in 1972; and Yugoslavia has been taking part in the work of some of its bodies since the end of 1964.

international market on this basis; and perfecting commodity-money relations.

*Economic integration is an objective, historical process in the development of world socialism.*

The decisive factor making socialist economic integration imperative is the need for further development of the productive forces. Integration is also associated with the need to strengthen the political, ideological and defence unity of the socialist countries.

At the 23rd (Special) Session of CMEA (in 1969) the leaders of the communist and workers' parties and heads of government of its member states defined the main tasks and principal directions for further extension and improvement of their co-operation and for developing their economic integration.

In accordance with these decisions the 25th Session of CMEA in 1971 adopted a Comprehensive Programme for extending and improving co-operation and developing socialist economic integration drawn up jointly by the member states. This Comprehensive Programme is to be implemented over a period of 15 to 20 years.

The subsequent sessions of CMEA recorded progress in extending and improving co-operation and developing integration as a result of all these measures. Implementation of the Comprehensive Programme has now become the main objective in the economic, scientific and technical co-operation of the CMEA member countries. This "has already significantly deepened our economic interaction, and made our economies mutually complementary to a greater extent to the considerable advantage of all concerned".\*

Integration is being directed to a considerable extension and deepening of inter-state links in all spheres of the economic activity of CMEA states, especially in material production. There has been an extension of joint planning work, the building of specific industrial projects by the joint efforts of the countries interested in them, an extension of production specialisation and co-operation, the founding of international economic, research and commercial organisations, and the implementing of other joint measures directed pri-

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 12.

marily to resolving the fuel and raw materials problem, introducing progressive processes in the most important branches of the economy, the creation of new types of equipment and of complex systems of machines, and the development of all forms of transport links, etc. The Guidelines for the Development of the National Economy of the USSR for 1976-1980 have set the following task: "To expand and deepen economic, scientific and technological co-operation with the socialist countries in every possible way, on the basis of mutual advantage and comradely mutual assistance. To ensure the fulfilment of measures, envisaged in the Comprehensive Programme of Socialist Economic Integration and in the co-ordinated plan of multilateral integration measures of CMEA member countries for 1976-1980."<sup>\*</sup>

#### 4. FORMS OF SOCIALIST ECONOMIC CO-OPERATION

Most of the socialist countries work out their plans of economic development making allowance for the objective tendency towards further co-operation with other fraternal countries. Their plans envisage the extension in every way of effective and rational forms of economic relations and fuller use of the advantages of the socialist international division of labour in order to strengthen the world system of socialism.

The most important forms of their economic co-operation are joint planning and, above all, *co-ordination of national economic plans, specialisation and co-operation of production, scientific and technical co-operation and co-ordination of research, foreign trade and credit.*

#### Co-ordination of National Economic Plans

At the present stage the world socialist economy is taking shape as a complex of national economies. It is regulated, on the one hand, by the economic plans of each country and, on the other hand, by inter-state co-ordination of these plans on the scale of the whole socialist community.

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 256.

*Co-ordination of the national economic plans is a voluntary, joint activity of the socialist states directed to maximum use of the political and economic advantages of socialism through planned extension of the international socialist division of labour.*

Co-ordination of their five-year plans is seen as one of the main methods of the systematic development of co-operation and one of the chief means of establishing stable, mutually beneficial economic, scientific and technical ties between them. It enables each socialist country to rely on the achievements and aid of all the others, so creating the conditions for meeting the requirements of the law of balanced, proportionate development within the world socialist system.

The practical work of co-ordinating national plans is done through CMEA.

The Council for Mutual Economic Assistance is an open organisation, that can be joined by other countries sharing its aims and principles. It is not a directive supra-national organisation. All its decisions and recommendations are adopted only with the consent of the member countries and do not apply to countries that have declared the disinterestedness in a given issue.

While carrying out measures to co-ordinate the economic plans of the member countries, CMEA does not act as their joint planning body. National economic plans are co-ordinated only on points of mutual interest rather than on all their provisions. All the member countries have full freedom and independence in planning their economic development. CMEA's work is based on recognition of the independence of its members and respect for their national interests, which expresses one of its principal differences from imperialist economic organisations like the Common Market.

The Council for Mutual Economic Assistance has set up standing commissions for industries in order to co-ordinate production plans. They are concerned with coal, oil and gas industries, power engineering, iron and steel, non-ferrous metals, chemicals, agriculture and forestry, with the problems of transport and foreign trade, with the peaceful use of atomic energy and co-ordination of research and development, and with statistics and various economic problems. A CMEA Institute for Standardisation and the International

Institute of Economic Problems of the World Socialist System have been founded.

The activity of CMEA is directed by an Executive Committee consisting of vice-premiers of the member states. The Committee is concerned with improving economic co-operation and directs the work of the standing commissions and the Secretariat. A committee for co-operation in the field of planning has been set up under the Executive Committee.

At the start of the Council's work, five-year plans, that had already been adopted, were co-ordinated. Later, the member countries went over to co-ordinating their preliminary plans, i. e. variants of economic development. This enabled them to become better acquainted with the needs and possibilities of the other countries and on that basis to co-ordinate their national plans more fully.

In the light of these considerations, CMEA co-ordinated the economic plans for 1965-70 and 1971-75, which culminated in the conclusion of long-term trade and other economic agreements, stipulating commitments for reciprocal deliveries for five years ahead.

Forecasting in the key fields of the economy, science and engineering is becoming more and more important. Plans for 1976-80 were co-ordinated even before final approval of the national five-year plans, which enabled each member of the community to take its obligations to the other socialist countries into account in good time in the plans adopted later. An important factor, too, is co-ordination of the first drafts for the long-term perspective to 1990. "The present priority is to work out and fulfil special long-term programmes. Their purpose is to meet by common effort the rapidly growing needs in energy, fuel, and basic primary materials, and to satisfy more fully the demand in food products and manufactured consumer goods, to raise the level of engineering, and expedite development of transport. Those are our immediate common objectives,"\* L. I. Brezhnev said at the 25th CPSU Congress.

The CMEA member states are paying much attention to the joint planning of individual industries and types of production. This is the latest new form of economic co-operation in the planning field. In the initial stage, joint planning will

\* *Documents and Resolutions. XXVth Congress of the CPSU*, pp. 12-13.

be limited to a few industries, but as experience is acquired it will be gradually widened. CMEA member states signed the first agreement on joint planning early in 1972 concerning the production of certain programme-controlled metal-cutting machine tools. An agreement has also been concluded on the joint development of the material and technical facilities for container transportation systems. Work is under way to develop a general scheme of the power grid of the interested European CMEA member states taking account of its links with the power grid of Yugoslavia.

### **Specialisation and Co-operation of Industrial Production**

One aim of the co-ordination of economic plans is to encourage the extension of the *specialisation and co-operation of production between socialist countries in order to raise the productivity of social labour*. Modern industry is mass production or large-scale social production. Specialised enterprises make it possible to use the most modern equipment, to increase the volume of output and level of productivity steeply, to reduce costs and to improve quality. Specialisation, in turn, presupposes broad development of production co-operation. Small-batch production, when not associated with the scale, complexity and techniques of manufacturing the implements of labour, as a rule, hinders growth of production, does not permit application of modern equipment and raises prices.

In socialist countries specialisation and co-operation create more favourable conditions for raising productivity of labour, saving on raw materials, cutting costs of production and improving product quality. Much work has already been done in this direction within the world socialist system. Specialisation is used in the most intensive way in the mechanical engineering and chemical industries. CMEA members have agreed on specialisation among themselves in the production of many types of machinery and equipment, numerous standards of bearings and a number of chemical products.

International co-operation in the production of parts, units, assemblies and sets of equipment has become very impor-

tant; it is often more effective than national specialisation in the manufacture of final products as it has the advantage that each participant benefits from the concentration of production, while no one is deprived of the possibility of having a given branch of industry or type of production.

The co-ordination of economic plans, and specialisation and co-operation of production have already begun to yield fruit; duplication, for example, has been considerably reduced in making machine tools and equipment of identical models and the serial production of machines has increased.

Great importance is attached to the development of inter-state specialisation of production in the chemical industry. Here, co-operation has encouraged the development of production of mineral fertilisers, soda ash, sulphuric acid and cellulose in Bulgaria; of mineral fertilisers and polyamide resins in Hungary; of individual types of synthetic fibres and plastics in the German Democratic Republic; of synthetic rubber, caprolactam, synthetic phenol, acetic acid, etc., in Poland; of mineral fertilisers, synthetic rubber, synthetic phenol and acetone, and reed cellulose in Rumania; of synthetic rubber and fibres, etc., in Czechoslovakia.

Specialisation is also being developed in the radio engineering and electronics industries.

Nevertheless, there are untapped possibilities of specialisation and co-operation in the socialist countries; they still embrace only a small part of their total volume of production. The transition to planned international socialist division of labour is a complicated process. The advantages of inter-state specialisation and co-operation do not by themselves guarantee their automatic development. This process is gradually effected as the production and economic conditions mature within the separate countries and within the world socialist system as a whole.

## Specialisation in Agriculture

*Inter-state specialisation of agriculture* is very important for the socialist countries' development.

The international division of labour in agriculture differs from that in industry. Factors of substantial importance in

the specialisation of agriculture are the climate, soil fertility, the facilities for transporting produce, and traditions in the production and consumption of separate farm products.

At present, the planned specialisation has been oriented on the production of individual types of produce, for example, certain varieties of wine, grapes, tobacco, apples, etc., and of early vegetables; on certain breeds of stock, and on the cultivation of industrial crops. In addition, measures have been co-ordinated to raise the efficiency of farming, including, in particular, increasing the production of fertilisers and pesticides, the manufacture of and specialisation in farm machinery, exchange of agrotechnical experience, and so on. As the agriculture of the socialist countries develops, inter-state specialisation will become increasingly diversified.

Agricultural specialisation in the socialist countries does not mean mono-cultural development. Each socialist country is interested in the comprehensive development of agriculture and of its main branches, grain growing and stock breeding; but that does not contradict specialisation on the separate lines of production for which a given country has favourable natural conditions.

### **The Necessity of Economic Relations Based on Financial Independence. Price Problems**

The implementation of specialisation and co-operation of production among the socialist countries is integrally linked with the provision of guaranteed markets for the produce of a given country, and assurance of obtaining the output being produced in another country on the basis of co-operation.

The provision of guaranteed sales and purchases of products involves the development of a whole system of financial autonomy and profit-and-loss accounting, down to the establishment of material incentives for the fulfilment of contractual obligations and corresponding sanctions for failure to make agreed deliveries or refusal to accept output produced under contract. At the same time, the interrelations of the socialist countries call for application of the principle of mutual benefit. The Soviet Union has set itself the task of con-

sistently extending the principle of financial autonomy and profit-and-loss management to the field of external economic relations, of raising the material interest of all the links in foreign trade and industry in meeting their international commitments and increasing their responsibility in these matters.

The volume of production of a number of commodities in socialist countries exceeds the home demand. This surplus, however, is the property of sovereign socialist states, which dispose of it at their discretion. They independently decide which types of product are to be exported to other countries and in what volumes, and what to import and from where. Each country seeks to realise its commodities on the most favourable terms, which means that the viewpoints of socialist states on the development of individual branches of industry and on the structure of foreign trade may occasionally differ. The only possible way out of this situation is through the working out of rational solutions in a spirit of fraternal co-operation, solidarity, mutual understanding and mutual assistance, which implies combining national interests and the common interests stemming from the principles of proletarian internationalism.

The principles of reimbursement of the socially necessary expenditure of labour and of equal advantage are universally accepted in the economic relations among socialist countries.

In systematically organising specialisation and co-operation in production, the socialist countries have to deal with the problem of payment for the reciprocal deliveries made on the basis of international socialist division of labour.

At present, the instrument for measuring the socially necessary expenditure of labour on the mutual exports and imports of socialist countries is the average world prices. During the conclusion of trade agreements, world prices are corrected and freed from market fluctuations. Since the productivity of labour and hence the national value of the commodities produced in the different countries are far from identical, there is an inevitable deviation of national values from average world prices.

During the last decade extraction of minerals with a low content of useful elements, the increasing depths of acces-

sible deposits and the growing distances to processing facilities have caused a world-wide rise in the national and international costs of many types of raw materials and fuel. Prices of these goods have soared on the world capitalist market. Another factor in this rise of world prices has been the struggle of the peoples of the developing countries for their economic independence and against the plundering of their natural wealth by the imperialist powers. The epoch of cheap "colonial goods" has come to an end.

The tendency towards a rise in the prices of minerals is also in evidence in the socialist countries, primarily because of the more difficult natural conditions of their extraction.

The high development rates of production demand increasing supplies of raw materials. However, the accessible mineral reserves in the European part of the USSR, in the Urals, Kazakhstan and Central Asia have already been prospected and are being developed. The development of the newly discovered deposits in the East and North of the country has involved large additional investments, both in the productive sphere and the infrastructure. The costs of transportation of raw materials and fuel have increased.

Another cause of the rising cost of mining industry products is the substantial increase in expenses for the prospecting, surveying and protection of mineral and other raw material resources. Formerly these expenses were excluded from the prime cost of production of raw materials and fuel, which resulted in unwarrantedly low wholesale prices, their divorcement from the socially necessary labour inputs and errors in estimating the effectiveness of extraction and exportation of individual types of raw materials. On January 1, 1975, new rates of compensation for the costs of geological prospecting were introduced in the USSR; they offset about half the total expenses for surveying and prospecting operations throughout the country.

Trade exchanges between CMEA member-states are based on prices of the main world commodity markets made immune to the effect of market fluctuations and the influence of monopolies. This ensures the stability of contract prices. The method of forming them in the situation of growing instability of world prices, however, caused certain discrepancies. Prices deviated by far from world prices, reflecting

their low level imposed on the developing countries by the monopolies. The exporting countries were therefore little interested in increasing supplies of mineral raw materials and fuel to the CMEA market.

By a decision of the CMEA Executive Committee the methods of forming contract prices have partly been changed since 1975. Amendments taking account of the average annual prices of the main world commodity markets over the previous five years will be made in these prices annually. Corrections have been made in the balance of prices in favour of raw materials. This will secure fuller reimbursement of the growing national expenses for prospecting, production and transportation of raw materials, and the exporting countries will have greater interest in increasing the output of minerals and supplies of mineral raw materials to the CMEA market, while the importing countries will feel greater concern for their economical use and developing their own mineral resources. The new contract prices, however, are still far below the world prices.

Improvement of the methods of forming contract prices ensures the mutual profitability of trade between CMEA member countries. The monopoly of foreign trade has been able to protect the economies of the socialist countries against the inflation rampant in the capitalist world.

But the defects of world prices are not and cannot be eliminated completely from these new prices, since the socialist countries still have very little influence on the level of the international value of commodities, which is basically formed through the effect of the conditions of production in the capitalist system.

World market prices can obviously be only a relative criterion of the equivalence of commodity exchange between socialist countries. In these countries therefore, in addition to work on improving the principles of pricing on the basis of world prices to be used in inter-state trade, efforts are being made to work out their own price base. It has proved to be a difficult job. In each socialist country, the principles of determining costs, and hence the formation of wholesale and retail prices, are very different. There are differences in rates of depreciation and in the procedure for inclusion of freight charges in prices, and in the methods of fixing inter-

nal prices for imported goods, all of which have a substantial effect on the price level in the different countries and seriously complicate the determining of their own price base for the world socialist market.

The transition to such a price base will only be acceptable to all the socialist countries if it does not infringe their economic interests and none of them obtains unilateral economic advantages at the expense of another.

The real way to providing its own price base for the world socialist market is preliminary improvement of national wholesale prices with the aim of bringing them as close as possible to the socially necessary expenditure of labour. In that, levelling up the productivity of labour in the socialist countries is of no little importance, as it will lead in the end to a levelling up of the national values of commodities.

The establishment of their own price base also necessitates making the methodology of calculating wholesale prices in the socialist countries more similar, and unifying it and working out methods of converting national prices into a single currency to be adopted in order to develop the world socialist market.

## **Joint Building of Enterprises and New Forms of Production Specialisation**

The world socialist economy is developing on an extended basis, which implies the building of national enterprises on a wide scale in each country. Problems of an international character arise in the course of this. The world socialist system has immense natural resources; the CMEA countries alone have 80 per cent of the world's reserves of manganese ore and apatite, 67 per cent of its nickel, tungsten and asbestos, about half the proven reserves of iron, zinc and copper ores, 40 per cent of the natural gas, around 33 per cent of the coal and oil reserves. The socialist countries also have vast reserves of chemical raw materials, etc. But these energy sources and raw materials resources are not evenly distributed over their territory. The extraction of fuel and raw mate-

rials, moreover, involves large capital investment, which is not recouped for a long time and which is often beyond the powers of one country. It is therefore sometimes economically profitable to build joint enterprises in the power and extractive industries, with the countries interested sharing in them. The enterprises are owned by the state on whose territory they are located. The outlays of other countries on building them are repaid by deliveries of the products from them.

The international Druzhiba (Friendship) oil pipeline (around 5,000 kilometres long), built jointly by Czechoslovakia, the German Democratic Republic, Hungary, Poland and the Soviet Union, has reduced the cost of transporting oil from the Soviet Union to the other countries by 80 to 85 per cent. A second line is being built that will more than double its capacity.

The united Mir (Peace) power grid links the grids of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Rumania and the Soviet Union (Western Ukraine). The economy resulting from it is much larger than the investment in it. In Rumania four countries (Czechoslovakia, the German Democratic Republic, Poland and Rumania) have jointly built pulp mills on the Danube. Czechoslovakia and the German Democratic Republic are sharing in the development of big copper deposits and the production of copper in Poland. Czechoslovakia is participating in the building of ore-dressing plants in the Soviet Union. Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and the USSR have jointly built the Kingisepp phosphorite mine, an agglomeration plant, etc., in the Soviet Union. It is planned to build a very big iron and steel plant in the Soviet Union by the joint efforts of interested CMEA members, which will produce various rolled products from ores of the Kursk Magnetic Anomaly. Agreements have been signed between Bulgaria, the German Democratic Republic, Hungary, Poland, Rumania and the USSR on joint construction of the Ust Ilim pulp-and-paper mill with a capacity of 500,000 tons of pulp a year. The CMEA member countries are building by joint efforts a gas pipeline from Orenburg to the western border of the USSR. The interested CMEA member countries are building capacities for the manufacture of nickel- and cobalt-containing products in the Republic of

Cuba. The total estimated cost of the joint projects to be built between 1976 and 1980 is 9,000 million transferable roubles. All the CMEA member countries have signed an agreement on the establishment and financing free of charge of an international geological expedition in Mongolia. The chief purpose of the expedition is to carry out in a number of areas in Mongolia comprehensive geological surveying and prospecting for all types of minerals and to explore preliminarily deposits of special interest. All this will greatly speed up the rates of development of Mongolia's productive forces.

The extension of specialisation and co-operation of production and the joint building of big enterprises have created the pre-conditions for the development of new forms of economic, scientific and technical co-operation between socialist countries. Intermetall, for example an organisation for co-operation in the iron and steel industry was founded by Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and the Soviet Union to co-ordinate development of their steel industries. Representatives of Yugoslav steelworks and of the Rumanian Metalloimport organisation take part in its work.

Agromash, a joint Bulgarian-Hungarian-Soviet company, was founded to co-ordinate the technical development and production of farm machinery for mechanising market gardening and viticulture. In 1973 the German Democratic Republic became a full member as well. The Bulgarian-Hungarian Intransmash company was formed for co-operation in developing modern handling equipment. The Hungarian-Polish Chaldex company deals with operations involved in utilising mine refuse in Poland. A joint organisation for producing bearings has been set up by Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and the Soviet Union. Interested CMEA members have formed Interatominstrument, a financially autonomous international research and production association. Several countries are co-operating in the fruitful work of Intersputnik, and in other international economic, scientific and technical organisations.

In the middle of 1964, a Common Pool of Goods Wagons of CMEA member countries was formed to help elimi-

nate empty runs and traffic jams at border stations, and to speed up manoeuvrability at peak periods and, in the final analysis, to make economies on freight.

The international socialist division of labour is thus continually developing, assuming new forms, contributing to the greater efficiency of social production in each country and in the socialist system as a whole, and accelerating the building of the material and technical base of socialism and communism.

## **Scientific and Technical Co-operation.**

### **Co-ordination of Research**

In their drive for profit capitalist monopolies keep the latest improvements in processes and technology a strict secret and often buy up patents on new inventions not so much to apply them in production but rather to make their competitors unable to use them.

*Scientific and technical co-operation between the socialist countries is developed in the interests of promoting progress in all fields of production to a maximum.*

Mutual scientific and technical assistance helps reduce expenditure on scientific research and speeds up the development of science and engineering in all socialist countries. Mutual exchange of scientific, technical and production achievements avoids waste of money and effort on scientific and technical problems already solved in one of the socialist countries, makes the scientific and technical achievements of each socialist country available to the others.

The Soviet Union studied capitalists' experience of running the economy and building big enterprises on the basis of advanced technology. That enabled it to build up a powerful socialist industry more rapidly, to put agriculture on a modern machine basis, to achieve independence of capitalist countries, and to strengthen its defence capacity; but vast sums had to be paid to foreign capitalists for the know-how.

A quite different situation has developed within the world socialist economic system. The Soviet Union is render-

ing socialist countries the cheapest possible, qualified, selfless scientific and technical aid. It, in turn, is utilising the scientific and technical experience of the other socialist countries in its economy.

The co-operation of socialist countries is not limited to exchange of already accumulated scientific and technical information. It involves co-ordination of research as a whole and in individual fields, as exemplified by the Joint Institute for Nuclear Research at Dubna, founded in 1956, where scientists of the socialist countries are coping with fundamental problems of modern physics.

In recent years around thirty co-ordinating centres have been set up, guiding the work of the forces of the national scientific institutions of the CMEA states. International research teams are working successfully at the International Laboratory of Strong Magnetic Fields and Low Temperatures in Wroclaw, the Institute of Control Problems in Moscow, the International Scientific and Technical Information Centre in Moscow, the Stefan Banach International Mathematical Centre in Warsaw, and a number of others. A striking example of multilateral co-operation is the joint development of a family of seven compatible electronic computers developed by engineers of Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Poland and the Soviet Union.

Scientific and applied research are co-ordinated on the basis of various proposals for their development made by the socialist countries in the light of their national economic plans. The commitments undertaken during this co-ordination are included in the national plan of each country and are fulfilled, as a rule, by the efforts and means of the countries concerned. For example, the plan for the co-ordination of scientific and technical research of the CMEA member countries provides for joint work on more than 270 problems and separate themes covering practically all key areas of research in science and engineering.

Technological advances involve heavy expenditure; some compensation for the transfer of licenses to other socialist countries would therefore give countries that have made progress in developing a given field of science or engineering an added material incentive. But going over to payment in

scientific and technical co-operation should not be allowed to become an obstacle to the technological progress of the socialist countries and levelling up of their economic development.

## Foreign Trade

*Foreign trade* plays a major role in economic co-operation between socialist countries and is its most developed form. All other forms of their economic co-operation are largely realised through it.

Foreign trade is being developed between socialist countries on mutually advantageous terms corresponding with the interests of each country's economic development.

In the early post-war years the European socialist countries received raw materials and fuel, which speeded up rehabilitation of their industries, via foreign trade from the Soviet Union. Soviet aid largely offset the effects of the crop failures that occurred in South-Eastern Europe for several years in succession.

As time passed the pattern of the socialist countries' foreign trade altered substantially in the course of their rapid industrialisation. Industrial equipment and raw materials now top the list of Soviet imports and exports. Exports of plant from Czechoslovakia, Hungary, Poland and Rumania increased considerably. The proportion of machinery and equipment in the mutual trade of the CMEA countries, and especially in the exports of those whose economies had lagged behind in the past, is a clear manifestation of the tendency to levelling up of their economic development.

An example of fraternal mutual aid extended through foreign trade is the delivery of complete plant for equipping enterprises being built and the rendering of technical assistance in their construction. The USSR has played a considerable role in this. In 1965-70 alone more than 300 industrial and agricultural projects were built or modernised in the socialist countries with Soviet co-operation. A number of enterprises in the Soviet Union, in turn, have been built with the co-operation of fraternal countries. Chemical works, cement mills and food factories are operating in various parts of the Soviet Union, equipped with latest plant made in Czecho-

slovakia, the German Democratic Republic, Hungary and Poland.

The development of the socialist countries' economic relations has systematically led to the formation of a *world socialist market*, and their trade has taken on a planned character. There is no place on the world socialist market for anarchy and rivalry, spontaneous variation of prices, and non-equivalent exchange. The world socialist market is not subject to ups and downs of market conditions and does not know sales difficulties. Its volume is growing gradually as a consequence of continuous growth of production and the rising material and cultural standard of living of the working people of all the socialist countries.

Underlying the economic co-operation of the socialist countries operating on the world socialist market is not drive for monopoly profit but rather mutual assistance in accelerating the pace of economic development in the interests of the people.

The trade relations between socialist countries are based on long-term agreements on mutual deliveries of goods.

The USSR buys ships and marine gear, railway rolling stock, plant for the chemical, light and food industries, handling equipment and other types of machinery from CMEA countries. Deliveries from fraternal countries have always made an appreciable contribution to the supply of mass consumer goods. On the other hand, the plans of the other socialist countries are built on steadily increasing imports of Soviet raw materials and fuel and complete sets of equipment.

The socialist countries' trade with one another does not prevent their trading with capitalist countries. They stand for broad development of large-scale, long-term economic relations with capitalist countries on the basis of equality and mutual profit; and they are working actively for the removal of obstacles preventing the normal development of international trade. One of the tasks of the ninth five-year plan posed by the 24th Congress of the CPSU was the extension of economically justified trade and scientific relations with the industrially developed capitalist countries that were prepared to develop co-operation with the USSR in these fields. Despite the discriminatory trade policies of reactionary imperialist

forces, the volume of trade between countries of the two world systems has grown steadily since 1970, which is strengthening the position of socialist countries in trade relations with the countries of the capitalist world.

## **International Credits**

Mutual credit is most important in the economic co-operation and mutual aid of socialist countries. The terms for granting credits in the world socialist system are very different from those in capitalist countries. Whereas credits under capitalism often have a one-sided character and are granted on terms that infringe the economic and political interests of the countries receiving loans, credit is extended by socialist countries on very favourable terms at low rates of interest. And there is a practice of absolving the borrower from paying interest in the first years while the credits are being used, or of extending interest-free loans.

The International Bank for Economic Co-operation began to function in 1964, enabling CMEA members to carry out multilateral clearings among themselves, which provided broad possibilities as regards mutual payments for purposive extension of socialist international division of labour and specialisation of production. In 1971 the International Investment Bank began its operations. Its main objective is to provide loans primarily to finance measures connected with socialist international division of labour, specialisation and co-operation of industry, extension of the raw material and fuel base in the common interest, and the building of projects in other industries that are of mutual interest for developing the economies of members of the Bank, and also to finance the building of projects to develop the national economies of member countries and other purposes established by the Bank's Board in accordance with its tasks. The monetary unit on the world socialist market now is the transferable rouble, an international currency of a new type, which is the collective currency of the member countries of CMEA. The transferable rouble has real commodity backing based on the planned development of trade between the CMEA states. Its job is to serve the mutual economic relations of those countries

effectively. In its first two years of operations the International Investment Bank granted loans of around 280 million transferable roubles for 26 projects in CMEA member countries. These projects included modernising and enlarging the production capacities of the Tatra Works in Czechoslovakia, modernising the Icarus Works in Hungary, and building a number of new factories in Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and Rumania.

##### **5. THE FEATURES OF SOCIALIST COUNTRIES' ECONOMIC RELATIONS WITH DEVELOPING COUNTRIES**

The socialist countries' relations with developing countries have a special character. The socialist states encourage the fastest possible growth of the productive forces in the latter, granting them credits, supplying equipment, rendering scientific and technical aid, training local cadres of specialists, and so on.

Many large economic projects have been or are being built in developing countries with the financial aid and technical assistance of the CMEA countries.

The possibility of importing machinery, equipment and other items they lack from socialist countries and of getting scientific and technical help from them has opened realistic prospects before the peoples of Asia, Africa and Latin America of ending their dependence on imperialist states.

The Guidelines for the Development of the National Economy of the USSR for 1976-1980 have outlined the task of widening and strengthening the USSR's economic, scientific and technical ties with the developing countries on a long-term, stable and mutually beneficial basis, facilitating the development of their national economies and economic independence, and the growth of their scientific and technological potential.

Today the imperialist powers have largely lost the monopoly they used to have in the developing countries. The fact that the socialist countries extend easy credits to developing states without political strings attached, and scientific, technical and other aid offered compels the capitalist states

sometimes to make concessions to them, to reduce the interest on credits, prolong the periods of repayment and grant other privileges. Today monopoly capitalism can no longer dictate its political, military and economic terms in exchange for credits and other types of aid as freely as it did in the past.



The world socialist economic system is only beginning its forward movement. Our discussion of the economic laws governing its development suggests several conclusions. (1) Objective economic laws common to all socialist countries have begun to operate within the world socialist system, reflecting (a) the need to develop economic co-operation, international division of labour and a world socialist market; (b) the need to level up the economic standards of the fraternal countries and to strengthen their economic unity; and, finally, (c) the trend towards establishing a united world communist economy in the future. (2) The world socialist system and its internal economic relations and laws of development differ radically from relations and laws driving the world capitalist economic system. These radical differences also determine world socialism's decisive advantages over world capitalism as regards rates of economic growth. (3) World socialism has to deal with formidable and complicated tasks and overcome the contradictions associated, primarily, with the different levels of the economies of the different countries. (4) As it develops and gets stronger, the world socialist system's economic competition with world capitalism also develops and becomes increasingly sharp. The victory in it will assuredly go to the world socialist system, which is based on the objective economic laws of socialism that govern the internal development of socialist countries and their mutual relations.

## COMPETITION BETWEEN THE TWO WORLD ECONOMIC SYSTEMS. THE INEVITABILITY OF COMMUNISM'S VICTORY ON A WORLD SCALE

### 1. THE ECONOMIC BASIS FOR CO-EXISTENCE

The basic feature of the present epoch is the transition from capitalism to socialism, which is taking place in conditions of sharp struggle between the two social systems.

The simultaneous existence of the socialist and the capitalist system makes their *peaceful co-existence* inevitable for objective reasons.

The growth of the economic and military might of the socialist community, the deepening of the general crisis of capitalism, the successes of the international working-class and communist movements and the national liberation struggle of the oppressed peoples are irreversibly altering the balance of forces on the world arena in favour of socialism. In this the contribution of the world socialist system to the common cause of the anti-imperialist forces is determined, above all, by its growing economic power, which consolidates the position of socialism in peaceful economic competition with capitalism.

The line of peaceful co-existence does not mean renunciation of class struggle, or the revolutionary perspective, or the struggle of the oppressed against their oppressors, or the national liberation struggle, or recognition of just wars of liberation. "Peaceful co-existence," the Programme of the CPSU says, "serves as a basis for the peaceful competition between socialism and capitalism on an international scale and constitutes a specific form of class struggle between them."\*

---

\* *The Road to Communism*, p. 506.

Peaceful co-existence does not resolve the issue of the internal class struggle and the national liberation movement in the capitalist countries and in the colonies, of the irreconcilability of the interests of oppressors and oppressed. When a determined rebuff of the aggressive forces of imperialism is necessary there is no peaceful co-existence.

*Peaceful co-existence creates favourable conditions for the class struggle of the working people for social liberation.* It does not rule out but, on the contrary, implies revolutionary changes in society; it does not retard the world revolutionary process but accelerates it; does not preserve the capitalist order but stimulates the decay and disintegration of imperialism. Peaceful co-existence does not mean renunciation of the class struggle on the world scene but choosing of battle-grounds for this struggle that best correspond to the interests of all mankind. The most important sphere of battle is the economy, the production of material values. *Peaceful co-existence means economic competition between socialism and capitalism.*

How is peaceful economic competition of the two world systems developing?

## 2. ECONOMIC COMPETITION OF THE TWO WORLD SYSTEMS

The economic competition of socialism and capitalism is a struggle for higher per capita industrial and agricultural output, and to provide the highest standard of living for the people. In it socialism has a clear superiority over capitalism.

In order to achieve decisive victory in competition with capitalism it is necessary to accomplish a key economic task, that of *catching up with and outstripping the advanced capitalist countries in the level of development of the productive forces and labour productivity, and in production and consumption per head of population.*

This is not simply the economic task of the Soviet Union, but is also that of the whole world system of socialism; and its fulfilment by all the other socialist countries will largely depend on its accomplishment by the Soviet Union, since it

is economically the most powerful country in the world socialist system, producing over 50 per cent of its industrial output.

The developed countries of the bourgeois world are primarily the United States, Japan, Great Britain, France, the Federal Republic of Germany and Italy, but there are other countries in the capitalist system that have attained high levels of per capita production of individual industrial goods. Norway and Canada, for instance, generate more electricity per capita than the United States. Luxembourg and Belgium have exceeded the United States in per capita output of steel; Finland of paper; Venezuela, Iraq and Kuwait of oil; Denmark of milk, and Australia, New Zealand and Argentina of meat.

Thus, the highest indices of per capita production of the most important types of product are not, as a rule, those of the United States, Japan, Great Britain, France, the Federal Republic of Germany or Italy, although it is they that the socialist countries are striving to overtake and leave behind. The fact is that the USA and other developed countries have a diversified industry, which the smaller industrialised capitalist countries do not have.

The United States, Japan, France, Great Britain, the Federal Republic of Germany and Italy account for around 77 per cent of the capitalist world's industrial output. At the same time, they have a high level of per capita production. This combination of a ramified economy, large-scale production and high per capita output makes them the leaders of the world capitalist system with the United States in first place.

## **Indices of the Economic Competition of the Two Systems**

The indices of the economic competition of the two systems are those lines of production in which the socialist countries must catch up with, and move ahead of, the advanced capitalist countries, and in particular, the United States. It would be wrong, of course, to make a mechanical comparison between the production of the Soviet Union and

the United States, or the production levels of the socialist and capitalist countries. The structures of production differ substantially. Many goods produced in the Soviet Union are not produced in the United States, and vice versa. For example, the Soviet Union leads the world in the production of asbestos and manganese, while the United States does not produce them at all. The climate of the Soviet Union is more rigorous than that of the United States, hence it quite naturally needs a higher production of warm clothing, footwear and fuel. In the United States, advertising and the luxury of the bourgeois strata of the population stimulate high production of types of goods that are not needed in socialist countries, and so on and so forth.

The structure of production consequently depends on natural resources and geographical location, social factors, the traditions and customs of a given country, and the standard of living. The standard of living, Marx wrote, "is not mere physical life, but it is the satisfaction of certain wants springing from the social conditions in which people are placed and reared up".\*

*The socialist countries are competing with capitalist countries primarily in the output of those products without increased production of which it is impossible to develop the economy progressively and raise the people's living standards still higher, mainly electricity, steel, pig iron, industrial equipment, various engineering products, oil, gas, mineral fertilisers, cement, grain, meat, milk, fruit, vegetables, textiles, footwear, housing and the fixed assets of cultural and social amenities. The competition embraces whole branches of industry, science and engineering, which exemplify the highest standards of scientific and technological progress, namely, atomic power engineering, electronics, space research, etc.*

*The rates of growth of industrial and agricultural production in combination with population growth are decisive for victory in the economic competition of socialism and capitalism.*

---

\* Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 2, pp. 71-72.

## The Course of Competition Between the Two Systems

The Soviet Union has made great progress in economic competition with the United States. The rapid development of its socialist economy is bringing its level of development closer to that of the United States. In 1913, Russia's industrial output was 12.5 per cent that of the United States, in 1950 the Soviet Union's output had reached 30 per cent and in 1975 exceeded 80 per cent of the American. Between 1909 and 1913 Russia's average annual agricultural production was 65 per cent that of the USA; in 1971-75 Soviet farm production was roughly 85 per cent of the American.

The gap between their levels of economic development is being steadily narrowed; but once the Soviet Union has overtaken the United States in total production it will still be time before it overtakes the latter in per capita terms. The steady narrowing of the difference is the result of the faster growth rates of the Soviet economy. In the period between 1951 and 1975 the average annual increment of Soviet industrial production was 9.6 per cent; that for the United States was 3.8 per cent.

Soviet agriculture is also developing at a faster pace. The average annual growth rate in the Soviet Union between 1951 and 1975 was 3.4 per cent, and that in the United States 1.7 per cent.

For a long time, the United States, inspite of its relatively low rates of growth, had exceeded the Soviet Union in the annual increment of industrial output in absolute terms; and notwithstanding the Soviet Union's higher growth rates the gap had widened for a certain time, as the initial level of the Soviet economy had been low.

In recent years, however, the Soviet Union, continuing, as before, to exceed the United States in rates of growth, has begun to outstrip it also in the absolute increase of production of many major items. It is now a question of rapid reduction of the gap between their levels of production, as the Soviet Union advances to first place in output of a whole series of products. At present, the Soviet Union produces more coal, coke, iron ore, manganese ore, pig iron, hydraulic

turbines, diesel and electric locomotives, tractors, combine harvesters, mineral fertilisers, sawn timber, cement, window glass, cotton and woollen fabrics, leather footwear, animal fats, sugar, catch of fish, and milk. And according to world statistics, no country in the world has built more housing than the Soviet Union in recent years.

The Soviet Union has also reached the US level in a number of other economic indicators, including absolute volume of capital investment and the freight turnover.

The productivity of labour is also of great importance for victory in economic competition. Here, too, the gap between the Soviet Union and the United States is being steadily narrowed. In Russia the productivity of industrial labour in 1913 was only 11 per cent that of the USA; in 1975 Soviet labour productivity had reached 54 per cent in industry but the gap in agriculture is still much wider.

The progress of the socialist economy is the more striking that it has come about in less favourable natural conditions than the US economy enjoys. Most of the Soviet Union's reserves of raw materials, fuel and water power resources are in remote areas, difficult of access, the development of which involves vast investment and raises the cost of production. The natural and geographical conditions of farming in the Soviet Union are also less favourable than in the United States and other capitalist countries. The whole of territory of the USA, it will be recalled, is situated south of the 48th parallel, which, in the Soviet Union, passes along the line Krivoi Rog-Makeyevka-Volgograd-Karaganda. Only around a third of all the Soviet Union's arable land is situated at such latitudes; 60 per cent of its arable land is in areas with a mean annual temperature below 5°C, compared with 10.3 per cent in the United States. In the Soviet Union, only 1.1 per cent of the arable land has an annual rainfall of 700 mm or more, compared with 60 per cent in the United States; and about 40 per cent of the arable land of the Soviet Union is in areas with an average annual rainfall less than 400 mm, compared with 11 per cent in the United States.

The Second World War caused enormous destruction in the Soviet Union, which lost around 30 per cent of its national wealth. Its economy had largely to be rebuilt from

scratch. All this understandably places the Soviet Union at a disadvantage.

The results of the economic competition of the USSR and USA, which together produce more than 50 per cent of the world's industrial output, on the whole determine the course of the economic competition of the two world systems.

The proportion of the countries of world socialism in world industrial production is rising steadily. In 1917 it was less than 3 per cent; in 1937, less than 10 per cent; in 1950 it was already about 20 per cent, and in 1975 over 40 per cent (the Soviet Union's share of world industrial production is 20 per cent).

Industrial production is developing on the whole faster in socialist countries than in capitalist ones. In 1974 industrial output in the socialist countries was ten times that in 1950, whereas in the industrialised capitalist countries the corresponding increment was 240 per cent. In 1973 the industrial output of CMEA members was twelve times the level of 1949; in the developed capitalist states the increase was only fourfold. It is stated in the report of the CPSU Central Committee to the 25th Congress: "The socialist community has now become the world's most dynamic economic force. In the past five years the industry of its member countries grew four times as swiftly as that of the developed capitalist states. In 1975 the industrial output of the countries of our community was more than double that of the Common Market countries."\*

The conditions are consequently being provided for narrowing the gap between the socialist and advanced capitalist states considerably, which is evidence that socialism is winning over capitalism. Capitalism has proved to be unable to solve the root problems of the workers' standard of living, but socialism had made science, culture and the arts available to the whole people, is providing free education and industrial training, has provided full employment and maintenance in old age and disability, free medical services, and labour protection. The time is not far distant when the world socialist system will produce more than half the world's

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 12.

industrial output. Then the superiority of socialism in the field of material production will be finally proven.

The scientific and technological revolution has become a main sector of the competition of capitalism and socialism and its centre of gravity. Utilising the advantages of the socialist system, the Soviet Union has made progress in the development of science and engineering that has put it in the scientific and technical vanguard. Examples are the world's first atomic power station, first artificial earth satellite, the world's largest hydraulic turbines, the automated and electronic systems controlling the flights of Soviet spacecraft to Venus and Mars, and to the Moon and back, and its sophisticated heavy machine-tool industry. The USSR now has a very large body of scientists and engineers; but the forces of its competitors in the scientific and technical field must not be underestimated.

The scientific and technological revolution has substantially altered the criteria for estimating the balance of forces taking shape in the course of economic competition. Until recently it was mainly a question of greater quantity and volume, but now, at the present stage, quantity alone is inadequate for assessing the results of the two systems' economic competition.

Today's tasks in economic competition are being increasingly translated by indices characterising the efficiency of social production and the pace of building up scientific and technical potential. The central problem is becoming the improvement of qualitative indices, improving the efficiency of production and the productivity of social labour.

Further growth of industrial output, extension of its sale, especially on the world market, and the requirements of economic competition with capitalism make the Soviet Union improve the quality and broaden the range of its products, and its output of commodities of high consumer and aesthetic value.

The quality and technical and economic characteristics of new lines of production should correspond to the best in world science and technology.

It is not easy, of course, to beat capitalism in peaceful economic competition. Ever new problems and tasks will arise, and so will new difficulties; but the world socialist

system is getting stronger with every year, acquiring experience and gathering strength. It is mankind's future. "We shall succeed in catching up with these countries faster than they ever dreamed possible," Lenin said, "especially if progress is guided by a genuinely revolutionary party; and this speed we shall achieve at all costs."\*

The force of the victorious working class's example and the economic successes of the world socialist system are most important factors contributing to the development of the world revolutionary process; and it is here, in the competition of the two systems, that the destiny of mankind is being decided. The superiority of socialism in competition with capitalism portends the inevitable victory of the communist mode of production all over the world.

---

\* V. I. Lenin, "Speech at the Fourth Session of the All-Russia Central Executive Committee, Ninth Convocation, October 31, 1922", *Collected Works*, Vol. 33, p. 392.

## Chapter XVIII

# A CRITIQUE OF THE ECONOMIC THEORIES OF ANTI-COMMUNISM

## 1. CRITIQUE OF BOURGEOIS VIEWS OF SOCIALIST ECONOMIC DEVELOPMENT

The growth of the forces of world socialism and its advances in economic development are attracting the attention of wider and wider sections of the working people in all countries. At the same time, "the ideological contest between the two systems is becoming ever more acute, and imperialist propaganda ever more subtle".\* That compels bourgeois economists and sociologists to study the nature and development prospects of socialism more closely and to interpret them their way. Many of the ideologists of the bourgeoisie and of reformism feel that the time has come when the fate of capitalism is being decided.

Under the guise of ostensibly unbiased research, the bourgeois theoreticians in their writings distort the essence of the Marxist-Leninist doctrine of socialism and communism and the praxis of the development of the socialist economy, and falsify the facts and figures about socialist countries.

### **Bourgeois Definitions of Socialism**

Some contemporary American economists hold that Marx and Engels did not develop a doctrine of socialism but allegedly limited themselves to its general characteristics, and that the existing communist system is allegedly not what Marx had in mind. They believe that in the view of Marx and Engels socialism is nothing other than "capitalism without capitalists". Others maintain that, in the *Communist Manifesto*, *The Critique of the Gotha Programme* and other

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 89.

works, the founders of Marxism only laid the foundation of the doctrine of socialism, in particular the idea of the nationalising of property in the means of production, but did not finish the job, did not work out the problem of the future society's optimum use of resources, as was allegedly done later by the Austrian marginal utility school.

It is true that Marx and Engels disclosed only the general principles of the organisation of the new society. But to deviate from them is tantamount to renouncing the ideals of communism. Later, the doctrine of socialism and communism was developed by Lenin, including a whole series of problems involved in the rational use of society's natural and labour resources. Socialist economic doctrine is being constantly developed in the decisions and documents of communist and workers' parties, in the very course of implementing the requirements of the economic laws of socialist society in practice. The correctness of Marxist-Leninist economic doctrine has been demonstrated by praxis, about which most bourgeois ideologists prefer to keep silent.

Some of them declare that it is impossible to develop an economic theory of socialism on the grounds that economics deals only with relations of exchange, the market, with the unregulatable activities of individuals, and that the administrative and planning functions performed under socialism in general do not belong to the categories of economic science. In denying the necessity of a special political economy of socialism they also allege that the existing bourgeois economics has already worked out all the principles and definitions that are applicable to both socialist and capitalist economics.

But however subtle bourgeois economists may be in their rejection of a political economy of socialism, they cannot pass over the existence and indisputable successes of socialism in silence.

Bourgeois definitions of socialism usually contain such features of it as state control of the economy; but they usually omit the question of the class nature of the state, the objective basis of the control stemming from a certain form of ownership of the means of production, and the different nature and purpose of control in different states. This approach allows them to apply the concept of socialism to

the economic system of almost every country in the modern world. For example, the American economist Robert Daniels asserts that socialism is a broad economic concept incorporating many various schemes and partial or total social control.

The American economist Paul Samuelson calls Great Britain, Australia and the Scandinavian countries socialist. In his opinion, the United States, Switzerland and a few other countries are islands of capitalism in a collectivised world; and even the United States is allegedly not purely capitalist, it can be called a country with a "mixed economy".

In the books of other economists (like Allan Gruchy) the economy of the Soviet Union and most of the other socialist countries is said to belong to the communist system, and differ from what they call socialism of the Scandinavian and British type; others (e.g. Gregory Crossman) call it a "command economy", still others, the economy of so-called market socialism (P. Wiles).

Their different definitions of the socialist economy do not, however, prevent bourgeois economists from taking a united stand in interpreting common socialist ownership of the means of production, planning, the economic role of the socialist state, the community of the socialist states, etc.

Arguing about the numerous "models" of modern socialism, some bourgeois economists strive to discover certain essential differences between socialism in the Soviet Union and in a number of other socialist countries. Such a counterposing is sheer demagoguery aimed at splitting the world socialist community. At the same time, bourgeois economists endeavour to camouflage the main point, the radical opposition of the two world systems.

## **The Bourgeois Assessment of Socialist Property**

Bourgeois economists primarily attack the basis of the socialist system, i.e. common ownership of the means of production. Some of them write that private ownership is

allegedly the most progressive of the business methods known to history. Others endeavour to equate socialist and capitalist ownership, asserting that the very same kind of public state property exists in capitalist countries as in socialist ones. Others still try to by-pass the question of ownership as the main basis of social production, holding that the relations of ownership cease to play the decisive role in modern industrial society in the development of its economic structure and have been replaced by relations of control and management.

Their interpretation of property as capital, and capital as the aggregate of the means of production, irrespective of who owns them, leads some economists to the absurd conclusion that the socialist state is the "most capitalist one", even the "absolute capitalist" state.

The purpose of their "critique" of socialist ownership is to belittle the advantages of socialism. But not trusting their ability to camouflage capitalist exploitation completely, they would also like to present matters as if there was also exploitation of labour under socialism.

Using the term "etatism" they try to unite not simply dissimilar processes and principles but directly opposite ones. In reality, whereas etatism, on a capitalist basis, means the development of private property into its associated form, enriching the monopolists, ruining the masses of petty commodity producers and intensifying the exploitation of the working people over and over again, socialist nationalisation of the means of production entails abolition of private property in them, the establishment of common ownership and the abolition of exploitation of man by man. Under socialism public state property is developed in the interests of all the people and is the basis for steady improvement of their well-being, its growth and perfecting being determined by national economic plans.

Bourgeois economists have not abandoned attempts to counterpose the two forms of common socialist property and to depict the socialist property as a "mixed" one. The co-operative form of property, they declare, has been known for a long time and is acceptable to capitalist society. As for co-operative-collective farm property, they maintain that, since it engenders "private property" in socialist countries

in the form of collective farmers' subsidiary small holdings, it can hardly be described as socialist.

Without going into the nature of co-operative-collective farm property, these economists depict it in a quite distorted way. In fact it has nothing in common with capitalist property, for two reasons. (1) Co-operative property only becomes socialist in certain conditions, only when national property plays the leading role. Lenin put this with the utmost clarity in his article "On Co-operation". (2) The collective farmer's subsidiary small holding is not private property but a personal, subsidiary allotment based on common collective farming, and cannot grow into a capitalist farm.

By distorting the nature of socialist property bourgeois economists deny it as a determining factor in the content of socialism's economic categories and laws.

### **Bourgeois Interpretation of the Basic Economic Law of Socialism and the Law of Socialist Distribution**

Many bourgeois economists consider the basic economic law of socialism a triviality, contributing nothing to economic theory. The purpose of production in any society, they argue, like the aim of the individual's activity, is always consumption and the maximum satisfaction of the needs of society as a whole; moreover, they argue further, it is allegedly more feasible under capitalism than under socialism.

The capitalist economy, which is exclusively subordinated to the motive of private profit, they depict as a consumer economy, the sole purpose of which is to please the consumer, while the socialist economy, in their opinion, sacrifices the interests of the consumer to production. Actually, however, it is only under socialism that the immediate goal of production is the fullest possible satisfaction of human needs.

Bourgeois economists treat the distribution of material wealth in society in isolation from that of the means of production and from the forms of ownership. In their view distribution takes place under capitalism in accordance with the quantity and quality of work, underlying which, they

believe, is the "theory of the three factors of production" (i.e. land, capital and labour, ownership of which and their application in production entitle each to a share of the product). At the same time, they misrepresent the socialist principle of distribution.

Bourgeois economists criticise the socialist principle, asserting that the formula "from each according to his ability, to each according to his work" allegedly contradicts the Marxist position on the abolition of division of labour under communism. The differences between human abilities, they declare, generate inequality of distribution, and this position is an eternal and unshakable principle of any society.

Marxists, however, have never written about the disappearance of division of labour between the various spheres of the economy, but have spoken of the need to abolish the division of labour that mutilates man. As for communist equality of distribution, it consists in full satisfaction of the needs of all people, while under socialism needs are only satisfied within the limits of the income received.

Bourgeois economists also devote much attention to socialist social consumption funds, trying to identify the expenditure of capitalist states on social measures with them, not mentioning, in so doing, that expenditure on "social needs" in bourgeois countries is only made to the extent dictated by the requirements of capitalist exploitation and at the expense of the working people.

## **Bourgeois Inventions About Labour Under Socialism**

Bourgeois economists and sociologists have long been "crusading" against the "forced labour" that, they allege, is practised in socialist society, saying that the only free labour is that sold by its owners, the workers, to capitalist entrepreneurs, and ignoring the fact that labour only becomes really free after the exploitation of man by man has been abolished, when workers have become convinced that their labour no longer enriches exploiters.

Whereas in socialist countries the working people have reunited with the means of production that they put into operation by their labour, the concentration of capital and production in bourgeois countries is accompanied not only with the "liberation" of workers from work (unemployment) but also with continued ruining of "independent" small commodity producers, who are reduced to the position of proletarians and are often unable, in view of the chronic unemployment, to sell their labour power even to the exploiters. The aim of bourgeois ideologists in arguing that forced labour is used in socialist countries is to divert workers' attention from the truly forced labour under capitalism.

Some critics of socialist realities consider the principle "he who does not work, neither shall he eat" as an expression of coercion to work. But Lenin stressed that order and justice will only exist in human society when all its members able to work will do so and no one will live at the expense of others. At the same time, the right to work is only guaranteed under socialism. In socialist society work is the sacred duty and civic responsibility of every able-bodied person. Work under socialism is an activity that creates common wealth for all and consequently for each one individually.

### **Bourgeois Interpretation of Socialist Planned Development**

Compelled, as they are, to admit the progress of the planned socialist economy, bourgeois economists still evade the question of the objective basis of planning. In the opinion of the prominent Western economist, Jan Tinbergen, for example, the possibility of planning depends on the technical competence of the administration, the level of education and the availability of statistics.

Attempts are also made to equate socialist planning with capitalist regulation and even to depict the latter as a higher degree of planning. For example, the well-known American economist, John Kenneth Galbraith, has said that every country needs planning at a definite stage of development

but in the capitalist countries there is public initiative in planning without public property, and that these are no longer inseparably connected. Peter Wiles said in his *Political Economy of Communism* that Communists interpret economic planning as accounting and control but that their accounting is the same as that under capitalism.

Of course, even under capitalism the productive forces, being social in character, need regulating, and that is to some extent possible in the conditions of the bourgeois economy, but planning of the whole country is only possible on the basis of common socialist ownership of the means of production.

Socialist planning is all-embracing in character and is a totality of the general state plan, the plans of industries and the plans of individual enterprises. Capitalist regulation cannot embrace all the links of the economy. It contains two elements: (a) programming within a firm or individual monopoly and (b) regulation of individual aspects of the economy; and since the first pursues exclusively private interests, the most acute contradictions inevitably arise. The very big monopolies make use of the advantages of programming and regulation, subordinating the machinery of state to themselves.

While the direct aim of socialist planning is to satisfy social needs, capitalist programming is primarily aimed at securing advantages to the monopolies. It is governed by market forces that separate production from consumption. In conditions of capitalist programming all the various "planning" projects usually are passive recommendations and are not binding on enterprises.

Bourgeois economists reject the objective economic law of socialism, the law of the balanced, proportionate development of the economy, writing that the main defect of Soviet planning is that its economic decisions are in fact political decisions in which economic rationality is subordinated to politics.

Under socialism, in reality, economic plans, like economic policy in general, are worked out from an analysis of the real possibilities and the level of economic development attained. It is necessary to maintain definite proportions in the economy in any mode of production, but these propor-

tions are only deliberately and systematically established and maintained under socialism, on the basis of common socialist ownership of the means of production. Centralised planning of all social production cannot be carried out in any other form than that of the economic function of the socialist state. And the success in planning depends on how far it meets the requirements of objective economic laws.

### **Bourgeois Views of Commodity-Money Relations Under Socialism**

As regards commodity-money relations in socialist society bourgeois economists are divided into two groups: some declare them to be impossible under socialism, considering that where they exist socialism does not exist; conversely, others maintain that commodity-money categories are inherent in any society.

The positions of both groups coincide in that they ignore the social and economic features of commodity-money relations under socialism.

Under socialism these relations are fundamentally different from those under capitalism. Many of the objects of purchase and sale under capitalism cease to be commodities in socialist society (e.g. enterprises and labour power). The commodities produced in socialist society are not products of capital and do not contain surplus value.

Bourgeois ideologists cherish the hope that the economic reforms now being implemented in the socialist countries will lead to the unleashing of market forces and to private enterprise, will lead to bourgeois degeneration of the socialist system. They cannot understand that the law of value does not operate spontaneously in the socialist economic system based on common ownership of the means of production, and cannot be the regulator of social production.

In striving to discredit value as the basis of prices they declare that Marxists, while paying lip service to the theory of value, fix prices in a purely administrative way, ignoring its requirements. In actual fact, however, the basis of the prices of commodities produced in the socialist economy is

value. In planning prices, the directive bodies orient themselves on the socially necessary expenditure of labour, taking into account the operation of all factors affecting the level of prices.

Bourgeois economists even attempt to depict profit-and-loss accounting in socialist society as the abandonment of Marxist-Leninist principles of economic organisation and a change-over to capitalist principles, alleging without any grounds whatsoever that capitalist accountancy and socialist profit-and-loss accounting are based on the same principles. In the opinion of some of them, socialist profit-and-loss accounting only serves to indicate the strong effect of centralised planning and control. Others, however, see no difference in general between capitalist accountancy and socialist profit-and-loss accounting, since the socialist system in their view is only a variety of capitalism. Consequently, they, too, ignore the cardinal difference between the economic foundations of socialism and capitalism, i.e. socialist common ownership and capitalist private ownership of the means of production. It is common ownership that subordinates profit-and-loss accounting to the interests of the people, raising the well-being of all society and improving the all-round development of each working man and woman.

### **The Bourgeois Theories of the "Inefficiency of Socialism"**

A central problem facing modern bourgeois political economy is that of the relative effectiveness of the two economic systems, capitalism and socialism. This was clearly expressed by Ludwig Von Mises, who stated that it was a question of which of the two systems—capitalism or socialism—ensured the higher productivity of human efforts to improve the standard of living of the people.

It is still not clear to bourgeois ideologists that socialism is increasingly becoming the decisive force determining the development of mankind. Some of them have to admit the efficiency of the socialist economy. The American economist Joseph Berliner, for example, writes that it could be debated a generation ago whether the socialist system would work,

but history had removed the question from the agenda. Our generation poses it differently: can the socialist economy work efficiently? This question, too, had been answered in the affirmative. He himself considers it proved that the socialist economy is quite efficient.

Others write in the same vein, but some persist contending that the Soviet Union and other socialist countries will be unable to maintain high growth rates in the future. Their "theoretical" substantiation of a decline in growth rates in socialist production is the "law of diminishing returns" of capital, which they attempt to apply also to the new, socialist production. The "law of diminishing returns", however, is not absolute, as Lenin pointed out, even for capitalism, because there is also a tendency to rapid development of technology. Still less does it apply to the socialist economy.

The growth rates of socialist production, of course, tend to alter but they have always been and will be higher than the average rates of development of capitalist production, which stems from the very purpose of socialist production, freed from contradictions characteristic of capitalism.

Bourgeois economists also try to give their explanation of the high growth rates of production under socialism. For example, the American economist Alvin Hansen believed that the Soviet rates of growth were due to the fact that the Soviets had taken off from a lower base and had imported new technology from the West. Many others ascribe the achievements and advances of socialism to general factors of production like natural resources, large population, mineral wealth, etc.

Of course, the natural wealth of the Soviet Union, the existence of large labour reserves and the high economic activity of the population are favourable factors for the development of socialism; but quite a few countries have very rich natural resources, which are not used adequately, however, because private ownership of the means of production and capitalist exploitation prevent it.

Today bourgeois economists are vigorously circulating a tale about the "Soviet industrial cycle". Without going into the essence of phenomena they label as economic crises the partial disproportions that can arise in a socialist economy

for a variety of reasons but are surmountable in a planned economy. These disproportions have nothing in common with economic crises, in which the basic contradiction of capitalism becomes manifest.

Much attention is also devoted to socialist agriculture. Bourgeois economists discuss at length the stagnation, crisis and even collapse of collectivised farming. There have been shortcomings in the development of Soviet agriculture, but they do not provide any grounds for such conclusions; and the rate of growth of the gross output of agriculture is higher in the Soviet Union than in the United States.

A powerful factor in the steady growth of the socialist economy is that it is systematically developed for the sole purpose of creating wealth for directly meeting the needs of all society. This follows from the nature of socialist relations of production, which correspond to the modern productive forces.

L. I. Brezhnev said at the 25th CPSU Congress: "We have created a new society, a society the like of which mankind has never known before. It is a society with a crisis-free steadily growing economy, mature socialist relations and genuine freedom. It is a society governed by the scientific materialist world outlook. It is a society of firm confidence in the future, of radiant communist prospects. Before it lie boundless horizons of further all-round progress."\*

In contradistinction to capitalism, technological progress under socialism is not limited by social antagonisms, is not used for purposes of private gain and does not give rise to unemployment. This is realised, and described as a positive phenomenon, by certain bourgeois "experts" on the Soviet economy. US economist Irwin Deutscher writes that Soviet workers, unlike their opposite numbers in the West, have no fear of radical technical improvements resulting in savings of labour, because they do not entail unemployment; the trade unions therefore energetically aid the works management to raise the pace of economic development.

---

\* *Documents and Resolutions, XXVth Congress of the CPSU*, p. 105.

## **Bourgeois Fictions on the Prospects of the Two World Systems**

Bourgeois economists strain to distort the character and very nature of the relations between the countries of the world socialist system, depicting the international socialist division of labour as irrational and a violation of the sovereignty of the individual countries, presenting their development difficulties as "fatal" and "unsolvable". In doing so they ignore the radical difference between the socialist and capitalist international division of labour. They also propagate the fiction that the Soviet Union is allegedly exploiting the other socialist countries by means of discriminatory prices, and forcible suppression of the traditional industries of many of them.

CMEA member states are alleged to pursue different objectives and to strive exclusively for economic advantage; the national objectives of the socialist countries allegedly contradict the levelling up of economic development. At the same time, the policy of building up a ramified economy in each country is presented as allegedly opposed to the international division of labour. All these allegations are inventions that are disproved by the theory and practice of building socialism.

The aim of economic co-operation between socialist countries is improvement of the well-being of the people, raising of the efficiency and pace of production, and elimination of the differences in level of economic development of individual countries. The bourgeois fabrications ignore the incontrovertible fact that industrial production is growing more rapidly in the countries of the world socialist system than in capitalist countries.

Now that the progress of socialism is becoming increasingly obvious, some American economists have had to admit that the balance of forces between the two world systems is changing. For example, Robert Campbell wrote that the balance of forces and the influence of the two types of the economy had altered dramatically over the past thirty years. Another American economist, S. H. Slichter, has said that the great problem posed to America by the Russian econom-

ic challenge is whether the American economy will have the power and success to prevent Russian economic advance from inspiring the greater part of the world to adopt features of communist organisation.

Confronted by the steadily mounting achievements of socialism, bourgeois economists find themselves compelled to defend capitalism's right to existence from "new" positions. Some of them maintain, in defiance of facts, that capitalism has entered a "new era", characterised by full employment, accelerated technological progress and strengthening of the economic role of the state. In their view, capitalism is automatically growing into something more desirable than full communism, without interference of any kind from "socialism" or "proletarian revolution", the society of the future being depicted as an "individualist affluent society" to which capitalism is already on the way. These arguments show that bourgeois ideologists are going out of their way to find an alternative to socialism and communism. The antagonistic contradictions of capitalism due to technological progress, the unemployment caused by automation of capitalist production, and economic crises, which capitalism tries to overcome by militarisation of the economy and war, however, deflate all these fantasies of a bourgeois "affluent society".

A striking illustration of the untenability of these fictions is the current mounting offensive of capital against the living standards achieved by the working people through long years of hard and stubborn struggle. The workers are strengthening their unity in the face of rising unemployment, the increasing intensity of labour, inflation and high prices, wage freezes, layoffs, etc., developing local and general economic and political strike struggles and mass action against the dominance of monopoly capital on an unprecedented scale. When the crunch comes the "affluent society" proves to be a society in which the law of relative and absolute deterioration of the position of the working people, which only loses its force through socialist revolution, still operates.

The bourgeoisie's apologists more and more have to reckon with the aspiration of the popular masses of capitalist countries to socialism. Many of them, ignoring the radical differences between capitalism and socialism, try to

create the impression that the difference is allegedly really only slight. For example, Carl Landauer writes that all economic systems are made from the same bricks. Robert Daniels, for his part, says that they have much in common. Abram Bergson believes that the two systems are not so very different and that the difference between them will be even less in the future. A. Berle writes that the differences in class structure of the USSR and the USA are not as great as is often thought.

Underlying theories of the "similarity" of the two systems is the substitution of their technical and economic characteristics for social and economic ones.

One of these theories is the theory of convergence, the essence of which is that as capitalism and socialism develop they acquire similar features, while their differences gradually disappear, and that capitalism and socialism have to resolve the same problems, adapt themselves to the conditions of the scientific and technological revolution and apply identical methods to solve economic problems.

A characteristic feature of the theory is the alleged interpenetration of the two systems, capitalism adopting what is best in socialism and correcting its defects in the process, while socialism is also transformed, gradually assuming the best features of capitalism and remedying its drawbacks.

The class meaning of the theory is to embellish capitalism, to declare it a new social system having nothing in common with the old one, to demonstrate the conversion of capitalism and socialism into some kind of hybrid society, and in effect to substitute capitalism for socialism. Thus, the economic reforms being carried out in the socialist countries are interpreted as a reversion to the market economy stimulated by the profit motive and as a renunciation of centralised planning.

On the other hand, bourgeois ideologists chatter about the reformation of capitalism, about adoption of the planning principle, about the "equalising of incomes", about the "revolution in ownership", and what not.

The root flaw of the theory is that it ignores the fundamental opposition of socialism and capitalism, an opposition that the development of science and engineering is

intensifying. Under capitalism scientific and technological progress tends to increase the intensity and productivity of labour, which means, in the final analysis, increasing the exploitation of the working class, growth of unemployment and sharpening of the contradictions of capitalism. Under socialism, however, scientific and technological progress helps to make work lighter and is the basis for improving the living standards of all the people.

The attempts of all sorts to prove that property relations are ceasing to be the decisive factor in social development break down on their first contact with reality. In the developed capitalist countries, in fact, the domination of monopolies and capitalist property is increasing. The degree of socialisation of capitalist production is being raised and the contradiction between its increasingly social character and private capitalist appropriation of its results is becoming more and more acute. Contrary to the assertions of bourgeois ideologists, the proletariat has not been eroded and is not abandoning its historic mission as the grave-digger of capitalism. As the scientific and technological revolution develops the sphere of wage labour is widening and the sharpness of class antagonisms is reaching breaking point.

Socialism and capitalism clearly have nothing in common. Everything points to the unchanging opposition, to the growing contradictions between them, aggravation of the general crisis of capitalism and further development of the world socialist revolution.

## 2. REFORMIST AND REVISIONIST ECONOMIC THEORIES

### Reformist Conceptions of Socialism

In the epoch of fierce struggle between the two ideologies—bourgeois and communist—the leaders of the contemporary Right-wing socialism, with rare exceptions, adopt a hostile attitude to the revolutionary communist movement and the world socialist economic system.

L. I. Brezhnev said at the 25th Congress of the CPSU that an ideological rapprochement between scientific communism and Social-Democratic reformism was out of the question. Among the Social-Democrats many still adhere in their activities to anti-communism and anti-Sovietism. "However, we can be and are united with Social-Democrats, conscious of their responsibility for peace, and all the more with Social-Democratic workers, by common concern for the security of the peoples, a wish to contain the arms race, and to repulse fascism, racialism and colonialism."\*

Sociologists and economists from the Right-wing socialist camp deny the historic causality and objective laws of the development of society and its economic foundation, rejecting revolutionary Marxist-Leninist socialism and opposing to it what they call democratic socialism, which is allegedly acceptable to capitalists as well as to proletarians.

Social-reformist theoreticians deny the general crisis of capitalism and allege that in our day there is an active process under way transforming capitalism into "people's capitalism", a process of its "self-perfection" in the direction of "democratic socialism".

In the past Right-wing Socialists and Labour leaders used to support the demand for nationalisation of industry, but today they believe "democratic control" exercised by the bourgeois state to be quite sufficient for socialism. The Programme of the CPSU says: "The Right-wing Socialists began by advocating social reforms in place of the socialist revolution and went as far as to defend state-monopoly capitalism."\*\*

The anti-communist ideology of the leaders of socialist parties, however, is not by any means shared by all members of these parties or even by all their full-time workers and activists. Ideas of "reformed" capitalism, "democratic socialism", "welfare state" are subjected to scathing criticism by the Left-wing forces.

---

\* *Documents and Resolutions. XXVth Congress of the CPSU*, p. 39.

\*\* *The Road to Communism*, p. 501.

## The Economic Conceptions of Modern Right-Wing and "Left" Revisionism

Within the communist movement itself there are currents of Right-wing and "Left" revisionism. The revisionists pursue a line of reconciliation with capitalism, "reformation" of Marxism, and occasionally of open capitulation to the bourgeois social and political system and ideology. The report of the Central Committee to the 24th Congress of the CPSU said that Right-wing revisionism sought, "on the pretext of 'improving' socialism, to destroy the revolutionary essence of Marxism-Leninism, and paves the way for the penetration of bourgeois ideology. . .".\*

The revisionists do not advance any theories of their own but adopt the conceptions of bourgeois and reformist theoreticians wholly or with slight amendments, and talk at length about the "self-abolition of capitalism", the "dissolving" of the antagonistic classes into a middle class, and the needlessness of revolutionary overthrow of capitalism, in view of the fact that technological progress is automatically converting bourgeois society into a socialist one.

The Right-wing revisionists in the communist movement share the views of Right-wing Socialists (Social-Democrats) on the problems of development of the socialist economy. Most of them define socialist ownership as state capitalist ownership, and deny the law of balanced, proportionate development of the national economy, ascribing a spontaneous character to the socialist economy, with an unlimited field for operation of the law of value. They ignore the law of faster growth of production of means of production, discovered and substantiated by Lenin.

Some Right-wing revisionists believe that Lenin's co-operative plan has a limited character and is applicable only to countries backward in the past, but history has given the lie to this conception, too. For example, in the German Democratic Republic and Czechoslovakia, which are highly industrialised, the uniting of peasant farms into socialist co-operatives has already been completed.

---

\* 24th Congress of the CPSU, p. 17.

These same revisionists tried to "develop" a theory of the uneven development of socialism in different countries on the analogy of the law of the uneven economic and political development of capitalism. This idea, however, flagrantly contradicts both the theory and the practice of building socialism.

The fact is that uneven economic development is characteristic only of an economy based on private property, the aim of which is the extraction of profit through competition.

The unshakable foundation of socialism is common ownership, which ensures planned development of the economy of each country and of the world socialist system as a whole.

Right-wing revisionists deny the higher and leading form of socialist property, i.e. state national property, considering the group form of ownership the more mature one. Their denial of the economic role of the socialist state is closely linked with their denial of the leading role of national property. They either do not understand or deliberately reject the fact that the means of production, having under socialism become common, national property, can only be managed centrally, and only used in the interest of all society through state direction.

They also believe that the socialist state's exercise of its economic and organisational functions engenders a situation of "omnipotence" of the state apparatus, forgetting that the economy is directed on the basis of Lenin's principle of democratic centralism, which combines broad initiative of the working people with leadership from a single centre.

Right-wing revisionists utilise bourgeois theories of the plurality of models of socialism, holding forth "administrative socialism", "self-directing socialism", "market socialism", etc. In fact, however, these are not different models of socialism but specific ways of the building of socialism in a given country dependent on concrete historical circumstances, which does not of itself remove the main features of socialism due to its very nature and common to all socialist countries. These revisionist conceptions of a plurality of models are objectively directed to discrediting the real achievements of socialism in the different countries and to preventing the study and use of the experience of other countries, and in

particular of the Soviet Union. By artificially opposing different models of socialism to one another attention is in fact diverted from the cardinal differences between socialism and capitalism, which leads to underestimation of the advantages of socialism.

Right-wing revisionists exaggerate the role of commodity-money relations and the market under socialism. Some of them talk of an inevitable convergence of socialism and capitalism in the field of combining plan and market. They interpret the market as the objective reality and the plan as an expression of subjective will, so that, in their opinion, the plan must be oriented on the market and subordinated to it.

Commodity-money relations are undoubtedly an economic reality, but they do not by any means boil down to the market. Economic reality comprises the whole process of reproduction, and in it operate the objective economic laws that are learned and applied in the course of planning. The market and demand must, of course, be analysed and taken into account in the course of planning, but the market mechanism is not decisive under socialism. It does not determine the general direction of economic, scientific and technical development, the structure of the productive forces, or the trends of scientific research. The general tendencies in the economic development of socialist society are determined by the requirements of the basic economic law of socialism and the law of balanced, proportionate development of the economy.

"Left" revisionism developed within the communist movement along with Right-wing revisionism. It is an expression of quasi-revolutionary, immature and narrow views of the aims and perspectives of the socialist transformation of society. "Left" revisionists are distinguished by adventurism in politics and in economic affairs. The soil on which they feed is petty-bourgeois ideology.

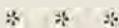
The point of departure of "Left" revisionists on the issues of building socialism is their contention that "politics is the commanding force". Thus, the objective economic laws of socialism are ignored, and politics is divorced from economics. On that basis adventurism and subjectivism thrive in politics and inevitably lead to setbacks and failures in socialist construction.

"Left" revisionists do not understand that material incentives are organically inherent in socialism. The difference between socialism and capitalism is not at all whether there are or are not material incentives, but in whose name and in whose interests these incentives are used.

The views of the "Left" and Right-wing revisionists have certain features in common on the problems of building socialism. Since the building of socialist society in a given country has its own features both Right-wing and "Left" revisionists push these to the foreground, either ignoring the universal laws altogether, or only recognising them formally and relegating them to the background; hence the idea of some kind of nationally limited socialism, and theories of "national socialism".

Both Right-wing and "Left" revisionists divorce the economic laws of socialism from their basis—the relations of production and hence equate the categories of capitalism and socialism because of their outward likeness. And while their misunderstanding of the special character of the operation and conscious application of socialist economic laws has led Right-wing revisionists to identify the objective character of these laws with spontaneity, the "Left" revisionists have elevated subjective will to the status of an objective law.

The common feature uniting Right-wing and "Left" revisionists is their giving in to nationalism and often their direct defection to nationalist positions. Referring to the Right-wing and "Left" revisionists, L. I. Brezhnev noted at the 25th CPSU Congress that there could be no compromise or reconciliation "with views and actions contrary to the communist ideology. This is ruled out. Doubly so, because both Right and ultra-Left revisionism is by no means idle, and struggle for the Marxist-Leninist principles of the communist movement and against attempts to distort or undermine them is still the common task of all."\*



The ideological struggle is sharpening throughout the world, and is also developing in the field of political economic

---

\* *Documents and Resolutions. XXVth Congress of the CPSU, p. 37.*

---

ideas. Only consistent application of the principles of Marxism-Leninism provides a true compass for solving the most complicated problems of economic theory and helps expose theories hostile to socialism. The CPSU proceeds from the premise that Communists should perseveringly master the theory of Marxism-Leninism, know the laws of social development, acquire the ability of confidently getting their bearings in the new phenomena of life, evaluate them correctly and draw correct practical conclusions. The ideological steeling of Communists is an indispensable condition for enhancing the militancy of the Party ranks.

## CONCLUSION

Study of political economy shows that the capitalist system has had its day, that a new economic system based on socialist common ownership of the means of production and its own economic laws has emerged and is developing, that the victory of communism is inevitable. The experience gained in the course of building socialism confirms the validity of Marxist-Leninist economic theory, which is playing an invaluable role in the construction of the new social system.

The main features of socialist society were outlined and brilliantly foreseen in the works of Karl Marx and Frederick Engels. Lenin was the first person after them to develop the scientific principles of the political economy of socialism, working out the methodology of Marxism and applying it brilliantly to analyse the new economic epoch. Lenin made an all-round analysis of the laws of the transition from capitalism to socialism, and the conditions for the emergence and triumph of socialist relations of production. On the basis of the experience of the first few years of building socialism he gave profound definitions of the economic categories and laws of socialist society.

Lenin worked out the forms of social ownership and the ways of building the material and technical base of socialism, and substantiated the necessity for and purpose of planned, balanced development of the socialist economy. He described in detail the goal of socialist production and the character of labour under socialism, and the way it would grow over into communist labour. Lenin attached special importance to raising the productivity of labour, linking it with the establishment of a higher type of social organisation of production. He

showed the importance of the material work incentives and of their combination with moral incentives, and guided socialist society in a determined struggle against wage levelling. He explained the need for commodity-money relations in the building of socialism, and showed their role in economic links between town and country and in ensuring socialist accumulation which enabled him to investigate the principles of socialist management, substantiate the objective reasons for profit-and-loss accounting and outline the concrete forms of socialist reproduction. He also demonstrated that it was necessary to ensure a single process of socialist reproduction by an alliance of town and country.

Lenin's analysis of the problems involved in the alliance of the working class and peasantry under the dictatorship of the proletariat, the correlation between economics and politics in building socialism and the economic role of the socialist state had great importance for the victory of socialism.

In developing further Marxist teaching on the dictatorship of the proletariat, Lenin revealed its major function, that of organising the socialist economy. He showed that the socialist economy does not develop spontaneously, but is directed by the socialist state, and consciously and systematically built by the popular masses. But the socialist state is not guided by arbitrary considerations in building the new economy. Lenin's premise was that the objective economic laws operate under socialism. He discovered the special features of their operation under socialism and stressed the need to apply them consciously in planned building of socialism and communism.

The years of experience of socialist construction in the Soviet Union and a number of other countries have confirmed the correctness of Marxist-Leninist economic doctrine. This experience, of course, has given it many new features, but its fundamentals and principles fully retain their significance. Thus the Meeting of Representatives of the Communist and Workers' Parties of the Socialist Countries in November 1957 formulated the general patterns of socialist construction in its Declaration, based on the principles advanced by Lenin. Lenin's economic theory has international significance.

In its struggle for the socialist and communist transformation of society the Communist Party of the Soviet Union has

upheld Marxist-Leninist theory and is developing it creatively in accordance with the new historical circumstances.

The most important problems dealt with by the Communist Party during the transition from capitalism to socialism were concerned with the ways and means of ensuring the victory of socialism in a single country encircled by capitalist states. For that, the Party adopted the premise that the full victory of socialism was possible and necessary in such circumstances, that the successful building of socialism in the Soviet Union was a most powerful factor revolutionising the popular masses in capitalist countries, and that the Soviet Union was the bastion of the world revolution.

The Communist Party concentrated its attention on peaceful economic development and spelled out Lenin's theses on socialist industrialisation and the socialist transformation of agriculture, and on planned economic development.

Lenin's theory was developed and the struggle for victory of socialism was waged in a situation of bitter class struggle against bourgeois opportunist and revisionist theories. When socialism had been built in the main in the Soviet Union, the road was opened for its advance to communism, but in order to begin to do that it was necessary to consolidate socialist relations and for socialism to mature.

Having defeated nazi Germany and rehabilitated its war-ravaged economy, the Soviet Union made new progress in economic development. Its considerable achievements in developing science and engineering, the continued growth of socialist production and the advances of the world socialist system brought the Soviet Union to a new stage of development. The Communist Party concluded from that that the victory of socialism in the Soviet Union was complete and final.

The main job in theory today is to work out the laws of the building of communist society. In this the Party is guided by Lenin's forecast of the inevitable growing over of socialism into communism. The achievement of a new, higher level in the development of socialism, the building of developed socialist society has made it possible to approach the job of building the material and technical base of communism in a practical way. The Party congresses and plenary meetings of its Central Committee have played a tremendous role in working out the theoretical and practical problems involved.

The decisions of the Communist Party have had great importance for economic science and have created favourable conditions for its further development. Much work has been done to systematise the laws and categories of the political economy of socialism and to analyse its characteristic logic of research. In addition concrete studies have been broadly developed.

The 22nd Congress of the CPSU adopted a new Party Programme that summed up the experience of building socialism, charted the general plan of the work of the CPSU and Soviet people in the historical period ahead. The Party Programme summed up the results of the theoretical work of Marxists-Leninists and posed them with new tasks.

Since the adoption of the Programme, the economic theory of socialism has been developed further and new ways have been charted for improving its practice in Party decisions, in Party statements and in the works of Soviet economists. The Communist Party pays special attention to basing practical work on economic theory.

The tasks posed in the Party Programme have been comprehensively substantiated and spelled out in the context of the present-day internal conditions of the USSR's development and the international situation. Party documents stress that the building of communism has to be carried out on the basis of science.

In this connection, the Communist Party had taken steps to encourage both research and practical workers to pay more attention to perfecting the whole system of economic management.

The Communist Party of the Soviet Union has done great theoretical work. "In many respects," the report of the CPSU Central Committee to the 24th Congress said, "the ways of building the material and technical basis of communism have been specified in recent years. The Party's thinking was directed towards elaborating modern methods of planning and management and the ways of increasing the efficiency of the economy and improving material and moral incentives. The elaboration of the basic questions of the Party's agrarian policy at the present stage was of great theoretical importance."\*

\* *The 24th Congress of the CPSU*, p. 122.

The fundamental problems of development of the world socialist system have been studied jointly with the fraternal parties. And special attention has been paid to development of the principles of socialist economic integration.

The 24th Congress of the CPSU was a significant new stage in the development of Marxist-Leninist economic theory. Its documents contain very important generalisations of the whole experience of the preceding development, define the character of the present stage in the Soviet Union as the stage of developed socialism, and indicate the main theoretical and practical conclusions to be drawn from that.

Development of the economies of the USSR and other socialist countries calls for further creative development of the political economy of socialism, for a more profound study and comprehensive cognition of its laws.

The 25th CPSU Congress developed further the theoretical and practical resolutions of the 24th Congress, specified them in conformity with the further advance of Soviet society to communism. Marxist-Leninist political economy at the present stage is called upon to study the problems of perfecting the relations of production of developed socialism, the laws of their development into communist relations, the mechanism of their operation and application; to reveal the ways of building up the material and technical basis of communism; to investigate more thoroughly the problems of the scientific and technological revolution, of raising the efficiency and intensification of production, of moulding a new type of worker; to work out the theoretical foundations of further improving the management and planning of the national economy, and of forecasting socio-economic processes; to step up research into the questions of developing the socialist economic integration of the USSR with the CMEA member countries.

It is pointed out in the CC report to the 25th CPSU Congress that at the present stage of development of the Soviet Union the need for further creative theoretical research increases steadily, particularly into the problems involved in all-round development of production, revealing of the character and content of labour under mature socialism, improvement of distribution according to work, and combining of moral and

material incentives with recommendations enabling a substantial increase in the efficiency of social production.

What the Soviet Union and other socialist countries have achieved in building socialism and communism has been ensured by unbreakable linking of theory with the needs of revolutionary practice and with consistent struggle against bourgeois ideology and revisionist and dogmatic theories. Marxist-Leninist methodology calls for a creative approach to solving the problems posed by life.

Thus, the political economy of socialism elaborates the laws governing the objective process of all mankind's advance to communism; investigates how to use the advantages of the planned socialist economy; studies the processes involved in development of the world socialist economic system, the patterns of the struggle between the two systems and the change in the alignment of forces on the world arena in favour of socialism, and the laws governing victory of socialism all over the world. By working on the most urgent problems of today Marxist-Leninist economic theory will become a more and more powerful weapon in the struggle for the triumph of communism.



## REQUEST TO READERS

Progress Publishers would be glad to have your opinion of this book, its translation and design and any suggestions you may have for future publications.

Please send all your comments to 21, Zubovsky Boulevard, Moscow, USSR.