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# FUNDAMENTALS OF POLITICAL ECONOMY

## POPULAR COURSE

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This book may be used as an aid to study by anyone taking a course in political economy.

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Some people consider that the course of history depends only on the will of outstanding personalities—statesmen, generals and so on. In actual fact, however, these personalities do accelerate or retard the onset of events, but they are unable to alter the course of history.

What, then, determines the development of society? Marx was the first to provide an answer to this question.

In order to live, people must have food and clothing, housing and other material means of life, and to have these, people must produce them, ~~they must work.~~ Any society will collapse if it ceases to produce material wealth. Therefore, says Marx, the production of material wealth is the basis of the life and development of any society.

What is meant by the production of material wealth? The process of producing material wealth includes human labour, the means of labour, and the objects of labour.

*Labour* is a purposive activity of the human being directed towards the production of material wealth. In the process of labour, man acts upon nature in order to adapt everything in nature to his needs. Labour is the exclusive attribute of man, an eternal natural necessity, a primary condition for human life. As Engels put it, labour created man himself.

The process of production is inconceivable without the *means of labour*. This is the term used to denote all the things with the aid of which people act upon the objects of labour and transform them. The means of labour include machinery and equipment, tools and appliances, buildings used for production purposes, transport facilities, canals, power transmission lines, etc. The land is also a universal means of labour. The *instruments of production* play a decisive role among the means of labour. Man's power to influence nature depends upon the instruments he uses. Marx points out that economic epochs are distinguished one from another not by *what* is produced but by the *instruments* that are used to produce material wealth.

With their instruments of production people act upon the *objects of labour*, i.e., everything upon which man's labour is used. And since this labour is used upon nature which is all round him, nature itself (the land and the bowels of the earth) is a universal object of labour. All the primary objects of labour are available in nature. Man has to adapt them to his requirements.

The means of labour and the objects of labour together form the *means of production*. But obviously the means of production themselves cannot produce material wealth. The finest technical equipment is lifeless without people to use it. The decisive factor in all production, therefore, is man himself his labour power.

**Productive forces and the relations of production**

Regardless of its level of development, production always has two aspects: the productive forces and the relation of production.

*The productive forces* include the means of production created by society, first and foremost the instruments of labour, and also the people who produce material wealth. It is people, because of the knowledge they have acquired, their experience and labour skills, who set in motion the instruments of production, who improve them, invent machines, and add to their knowledge. In this way, development of the productive forces is ensured, and an ever-increasing volume of material wealth obtained.

But people produce material wealth not by working separately, but by working together in groups, socially. Take, for example, a modern shoe factory. How many people do we find working there, making only one commodity — footwear? Hundreds, even thousands or still more people work for the factory to provide it with machines, leather, thread, needles, etc. Consequently, in the process of producing material wealth people are linked together, depend upon one another and enter into definite relations with one another.

The relations which arise among people during process of the production, distribution and exchange of material wealth Marx called *production*, or *economic*, *relations*. Production relations may take the form of either co-operation and mutual assistance among people freed from exploitation, or exploitation of man by man. This depends on who owns the means of production — the land and its mineral wealth, the forests, the factories and workshops, the instruments of labour, and so on. When the means of production are privately owned, belonging not to the whole of society but to separate individuals, social groups or classes, the relations established are the exploitation of man by man, domination and subordination. It is because the workers under capitalism are deprived of the means of production that they are obliged to work for the capitalists. Under socialism the means of production are socially owned. Consequently, there is no exploitation of man by man, and the relations among people are those of comradely co-operation and socialist assistance

The relation of people to the means of production determines the place people occupy in society, and the methods by which the products of labour are distributed. For instance, under capitalism the bourgeoisie, which possesses the means of production, has at its disposal the whole output of the workers, while the majority of the latter live in poverty. Under socialism, where the means of production belong to the people (are the property of society), consumer goods are distributed according to the labour which people have contributed, and a steady rise in the material and cultural standard of living is ensured for all the working people. This is what is meant by the production (or economic) relations among people.

Five basic types of production relations are known to human history: those of primitive society, slavery, feudalism, capitalism, and socialism, which is the first phase of communism. The underlying feature of each of these is a definite form of ownership of the means and instruments of production. Thus, the basis of the production relations under slavery, feudalism and capitalism is private ownership of the means of production. This ownership has caused and continues to cause a division of society into hostile classes—the exploiters and the exploited. Therefore violent class struggle is the basic feature of slavery, feudalism and capitalism. It is only under socialism, where common, socialist ownership of the means of production forms the basis of the production relations and where there is no class struggle, that society consists of friendly classes—the workers and peasants, and the intelligentsia as a social stratum.

The productive forces and production relations together form the *mode of production*.

The productive forces are the most mobile element in the mode of production; they are continually changing, since people are constantly improving the instruments of labour and accumulating production experience. As for the relations of production, these change according to the level of development of the productive forces and in their turn influence this development.

When the relations of production correspond to the level of development of the productive forces, the latter develop uninterruptedly. The socialist countries provide an example of the relations of production corresponding to the level of the productive forces. There, production develops rapidly, without crises and unemployment, because it is based on social ownership of the means of production.

When the relations of production do not correspond to the level of development of the productive forces, they act as a brake on production. The capitalist countries provide an example of production relations not corresponding to the level of development of the productive forces. In capitalist countries production develops comparatively slowly, and during economic crises is even driven backwards, with many millions of working people becoming redundant and swelling the ranks of the unemployed. This happens because, in bourgeois society, private capitalist ownership of the means of production predominates, and this hinders the further growth of the productive forces.

A definite level of the productive forces requires the corresponding relations of production. This is the *economic law*, discovered by Marx, that the *production relations correspond to the character of the productive forces*. This law reveals the economic basis of social revolution. When the relations of production lag behind the development of the productive forces, become outdated and hamper their development, they are inevitably replaced by new ones. In a society divided into hostile classes the old relations of production are superseded by new ones through social revolution.

It is only in a socialist society, where there are no antagonistic classes, that relations of production develop not through social revolution, but through their planned alteration to accord with the development of the productive forces.

The mode of production as a whole should be distinguished from the basis of society. The *basis* is the sum-total of the production relations prevailing in a given society, which relations correspond to the existing level of the productive forces. The basis of society is either antagonistic or non-antagonistic. The slave, feudal and capitalist societies are fundamentally antagonistic by nature for they are based on private ownership of the means of production, relations of domination and subordination, exploitation of man by man. Socialist society is non-antagonistic for it is based on the social ownership of the means of production in the absence of exploitation.

The basis engenders a corresponding superstructure and determines its development. The term *superstructure* means the political, philosophical, juridical, artistic, religious and other views of society and the institutions which correspond to them. In a class society the superstructure bears a class character. In conformity with its own ideas the ruling class creates institutions to defend its class interests.

Both the basis and its superstructure exist only for a definite period of time. When the basis changes its superstructure also changes. Thus, the change in the feudal basis, and its replacement by the capitalist, led to the feudal superstructure becoming superseded by the capitalist. The rise of the socialist basis brought about the socialist superstructure and the destruction of the capitalist one. Although the superstructure as a whole is engendered by the basis, separate elements of a new superstructure can arise within the old society, since it is in the old society that the ideas and views of the advanced class make their appearance. For instance, under capitalism there arises proletarian ideology, which corresponds to the new revolutionary class—the proletariat.

The mode of production of material wealth, being a unity of the productive forces and the relations of production, together with the corresponding superstructure forms the *socio-economic formation*.

Five socio-economic formations are known to history: *primitive-communal*, *slave*, *feudal*, *capitalist* and *communist*, socialism being the first phase of communism. Each of these formations has its own appropriate economy, views, ideas, institutions. The development of the socio-economic formations ascends from the lower to the higher one. Thus, feudalism gave way to capitalism and the latter to socialism, the lower phase of communism. The rise, development and downfall of socio-economic formations are subject to the laws of social development.

**Economic laws social development**

Marxism-Leninism teaches that nature and society should not be regarded as an accidental agglomeration of isolated, disconnected phenomena. The reverse is true. All natural and social phenomena are interconnected and determine one another. This deeply rooted connection finds expression in laws of natural and social development. The task of a science is to discover these laws.

*Economic laws* form the basis of the development of society. These laws determine the great variety of socio-economic relations among people, i. e., relations in the sphere of production, distribution, exchange and consumption. The discovery of the economic laws of social development is of cardinal importance for political economy as a science.

The laws of nature and society have one common feature —they are characteristically *objective*, that is, they originate and operate irrespective of whether or not we are aware of them or wish them to operate. This means that people can neither change, transform, nor abrogate these laws. Nor can they create new laws. People can only discover these laws. But although these laws are objective, this does not mean that people are powerless in the face of them. They can get to know them, and apply them in the interests of society. Thus, the proletariat of the socialist countries, having become aware of the law that the relations of production correspond to the character of the productive forces, in alliance with the peasantry and led by the Communist and Workers' Parties, overthrew the power of the exploiters and set about building a new society.

Economic laws have features which are not specific to the laws of nature. The *first feature* is that they are of *comparatively short duration* and *operate during a definite historical period*. Definite economic conditions, that is to say, the production relations on which society rests, form the basis of the operation of economic laws. In the transition from one formation to another, the old relations of production are abolished and new ones take their place. This is what causes the disappearance of one set of economic laws and the appearance of other laws.

For instance, in the socialist countries, as a result of the abolition of capitalist private ownership of the means of production, new economic laws have come into being and the old laws have ceased to operate.

Many economic laws operate in each socio-economic formation. Laws which are typical of only one formation are known as *specific* laws. Among these we may distinguish the *basic economic law* that determines the *aim* which society seeks to attain and the *ways and means* of achieving it.

Besides these specific economic laws, there are others which apply to all socio-economic formations. Among these is the *law that production relations correspond to the character of the productive forces.* It expresses the necessary connections and interdependence between the two aspects of social production—the productive forces and production relations.

The *second feature* of economic laws concerns the character of their application by society. It implies that, unlike the laws of natural science where a new law is discovered and applied more or less smoothly, *economic laws are discovered and applied in the teeth of the strongest resistance on the part of the obsolescent forces.* The application of economic laws in class societies has a class character.

These are specific features of economic laws which make them different from the laws of nature.

In all modes of production economic laws may operate spontaneously or be applied consciously, as a "recognised necessity".

In the antagonistic socio-economic formations where private ownership of the means of production is the rule, economic laws operate blindly, regardless of whether they are recognised or not. For instance, under capitalism the process of production is of a social character, all its branches are connected and interdependent. But this social character of production is based on private property, which means that every capitalist in his enterprise pursues his own selfish aim of enrichment and seeks to extract the greatest profit. The necessary connections and proportions between various branches of production are established in a spontaneous manner—through endless and continual deviations. One day many goods are produced, and the next, only a few, etc. And so, for every capitalist, economic laws operate as a force standing above him which cannot be controlled. True, some capitalists may reach an understanding of the economic laws of capitalism, but they are unable to alter the spontaneous character of their operation.

Under socialism, economic laws are understood and consciously applied for the benefit of society, thanks to the existence there of social ownership of the means of production.

**The subject-matter of political economy**

The foundation of the life and development of society is the production of material wealth, the mode of production. But political economy studies production only from the standpoint of the relations between people during the process of production. It investigates the basis of society. Political economy, wrote Lenin, is not at all concerned with production, but "with the social relations between people in production, the social system of production".[1] At the same time political economy cannot fail to take into account the connection between the productive forces and production relations. Nor can it completely ignore the superstructure, since this rises out of the basis and strongly influences it.

The subject-matter of political economy is therefore *the production (economic) relations of people.* This includes the forms of ownership of the means of production, the place different social groups occupy in production and the relations between them, the forms of distribution of material wealth.

In other words, *political economy is the science of the development of the socio-productive, i.e., economic, relations among people. It explains the laws which regulate the production and distribution of material wealth in human society at the different stages of its development.* Political economy is the study of the *basis of social development.*

[1] V. I. Lenin, *Collected Works*, Vol. 3, Moscow, pp. 62-63.

From this definition of political economy it is clear that it is a *historical* science. It shows how society develops from the lowest to the highest stages, and how the entire course of historical development necessarily paves the way for the victory of the communist mode of production.

Political economy is a *class, partisan* science; it deals with questions of relations among people and classes, and it is concerned with their vital interests.

Is the downfall of capitalism and the triumph of communism inevitable? Bourgeois political economy naturally gives a negative reply to this question, since it represents the interests of the capitalist class.

Bourgeois economists could more or less objectively analyse the world as long as the bourgeoisie was a rising class and the development of capitalism was in the interests of social progress. This determined the fact that bourgeois political economy at one time produced great economists like Adam Smith and David Ricardo, who made a scientific analysis of the relations of production in bourgeois society. But that time is long since past. From the moment the working class became an independent force opposed to the bourgeoisie, and the development of the class struggle reached a stage where it started to foreshadow the downfall of capitalism, bourgeois political economy lost its scientific character. Since then its task has been to defend the outdated capitalist system by all available means, to combat the ideology of the working class.

The leaders of the working class—Marx, Engels and Lenin—developed political economy on a truly scientific basis.

Marx's life work, *Capital*, contains everything contributed to political economy by Marxism before Lenin. This work is based on a penetrating analysis of the capitalist system and proves scientifically the inevitability of the downfall of capitalism and the triumph of communism.

In new historical conditions Lenin continued the work of Marx and Engels and raised political economy to a higher level. The great service Lenin rendered was that he gave a scientific analysis of the highest and last stage of capitalism—imperialism. His analysis of imperialism and, primarily, his discovery of the law of the uneven economic and political development of capitalism during the imperialist epoch formed the basis for the new theory of proletarian revolution.

Lenin showed that revolution will first triumph in one country, or in a few. The whole strategy and tactics of the Communist Party during the period of preparation for, and the carrying through of, the Great October Socialist Revolution, and during the subsequent period of struggle for the victory of socialism in the U.S.S.R. were based on this great discovery. The political economy of socialism is linked with the name of Lenin.

Marxist-Leninist economic theory is constructively developed in the decisions of the Communist Party of the Soviet Union and the Communist and Workers' Parties of other countries, and in the works of Lenin's disciples. A model of the creative development of Marxism-Leninism in general, and of Marxist-Leninist political economy in particular, is to be found in the treatment of the Twenty-Second Congress of the C.P.S.U. of such cardinal questions as the two phases of communist society and the laws governing the growth of socialism into communism; the creation of the material and technical basis of communism; the paths of development and the coming together of the two forms of socialist property; the elimination of class distinctions and the establishment of social equality; the formation of communist social relations; the conditions for implementing the fundamental principle of communism: "From each according to his ability, to each according to his needs"; the completion of the cultural revolution and the moulding of the new man. The problems of the political organisation of society during the transition to communism are here also comprehensively elucidated.

What, then, is the significance of political economy?

It arms the working class and all working people with knowledge of the laws of society's economic development, and enables them to grapple successfully with the tasks facing them. For the working people of the capitalist countries it indicates the causes of their enslavement, poverty and privations. It shows that the oppression and impoverishment of the working class and all working people are not accidental, are not due to the arbitrary rule of individual capitalists, but to the capitalist system as a whole.

For the peoples of the economically underdeveloped countries Marxist-Leninist political economy points to the real causes of their backwardness and poverty. It shows that the oppression and plunder of the peoples in the colonies and dependent countries have been brought about by imperialism and its colonial system. For centuries a handful of imperialist countries, through violence and deception, have kept the vast majority of the peoples in the colonies in subjection and reduced them to the status of slaves. Only a determined struggle against imperialism and all its manifestations will put these peoples on to the path of national independence and progress.

Political economy shows the direction to be taken in building socialism and communism in countries which have liberated themselves from the yoke of capital, reveals the advantages of the socialist over the capitalist economic system and proves the inevitability of the victory of communism. Knowledge of the laws of socialist economy opens up broad possibilities for the popular masses to participate consciously in the building of communism.

*Chapter I*

# PRE-CAPITALIST MODES OF PRODUCTION

In this chapter we shall deal briefly with the origin, development and collapse of the primitive-communal, slave-owning and feudal modes of production.

## 1. Primitive-Communal Mode of Production

Life on earth began approximately 900 million years ago, while the first men emerged less than a million years ago.

The first socio-economic formation was the *primitive-communal system*, which covered a period of many hundred thousand years. It marked the rise of human society. At first men were in a semi-savage state, powerless against the forces of nature. They gathered nuts, wild fruits and berries, roots of plants, etc., living primarily on a vegetable diet.

Man's first instruments were roughly chipped stones and sticks. Later, by slowly accumulating experience, people learnt to make the simplest tools for striking, cutting and digging.

The discovery of fire was of great importance for primitive people in the struggle with nature. *Fire* enabled them to bring variety into their diet. The invention of the *bow* and *arrow* was a new landmark on the road to improving the instruments of labour, to developing the productive forces of primitive society. And so people were able to do more hunting after wild beasts, the flesh of which formed a valuable addition to their former food. The development of hunting led to primitive cattle-breeding. Hunters began to domesticate animals.

The rise of *agriculture* was a further great stride in the development of the productive forces. For a long time it remained extremely primitive. The use of cattle for draught purposes made agricultural labour more productive, and tillage acquired a firm basis. Primitive people began to adopt a settled mode of life.

In primitive society the relations of production were determined by the state of the productive forces. The basis of production relations was communal ownership of the primitive instruments of labour and of the means of production. Collective ownership corresponded to the level of development of the productive forces. The instruments of labour were so crude that primitive man was unable single-handed to struggle against the forces of nature and wild beasts. The people had to live together in communes and jointly conduct their economy (hunting, fishing and preparing food).

Side by side with the communal ownership of the means of production there was personal property. This took the form of the instruments of labour possessed by the individual members of the commune, who used them for defence against wild beasts.

In primitive society labour productivity was very low and yielded no surplus beyond the bare necessities of life. Labour was based on simple co-operation, many people doing identical work. There was no exploitation of man by man and the distribution of the meagre supply of food among the members of the commune was on the basis of equality.

While man was still emerging from the animal world, people lived in herds. Subsequently, with the rise of joint economy the clan organisation of society gradually came into existence, where only kinsmen could unite for common labour. At first the clan was a group consisting of not more than a few dozen kinsmen, but with the passage of time it reached several hundred. As the instruments of labour developed, a *natural division of labour* arose within the clan: between men and women, between adults, children and old people. The men began to occupy themselves mainly with hunting, while the women collected vegetable foods, and this led to a certain increase in labour productivity.

With the advance of cattle-breeding and agriculture there arose a *social division of labour*, where one section of society began to concentrate on agriculture and the other on livestock raising. The separation of animal husbandry from agriculture was the *first major social division of labour* in history.

This led to higher productivity. The primitive communes then found that they had too much of some products and not enough of others. The pastoral tribes and those engaged in tilling the soil began to exchange products. As time went on people learned to smelt metals—copper and tin (iron extraction was mastered later), and to make bronze instruments of labour, weapons and utensils; the invention of the hand-loom meant the production of textiles and clothing. Consequently, some members of the commune began to concentrate entirely on their own particular craft, and the articles they made were increasingly exchanged for others.

With the growth of the productive forces, man's labour productivity and his power over nature increased considerably, and he was able to satisfy his requirements more fully. But the new productive forces of society could no longer develop smoothly within the narrow framework of the existing relations of production. The restricted nature of communal ownership and equal distribution of the products of labour began to retard the development of the productive forces. Joint labour became no longer essential and the need arose for individual labour, since the latter was already more productive. Whereas joint labour required collective ownership of the means of production, individual labour demanded private ownership. Private ownership of the means of production emerged, and with it inequality of property among the people—both between the clans and also within the clan. There were now rich people and poor people.

With the further expansion of the productive forces, man began to produce more than was required for his own subsistence. In these conditions it became possible for some people to make others work in their households, since their labour also yielded surplus product. This product could be accumulated and exchanged for articles not produced in the particular household. Such workmen were obtained through warfare: captured prisoners became slaves. At first slavery was on patriarchal (domestic) lines, but later it became the basis of a new social system. Slave labour led to further inequality; households that used slaves grew rich quickly. In connection with the growing inequality in property, the rich began to enslave not only prisoners, but also any of their own fellow-tribesmen who had become impoverished or fallen into debt. There followed the first division of society into classes, the division into slave-owners and slaves. This was the beginning of the *exploitation* of man by man. From this period onwards, up to the building of socialism, the whole history of mankind has been one of class struggle, the struggle between the exploiters and the exploited.

Growing inequality among people led to the establishment of the state as the organ for the suppression of the exploited class by that of the exploiters. Thus *slavery* grew up on the ruins of the primitive-communal mode of production.

## 2. The Slave Mode of Production

Slavery is the first, crudest and open form of exploitation in history. It has existed among almost all peoples.

The transition from primitive society to slavery was made possible by the further growth of the productive forces, the development of a social division of labour and exchange.

With the mastery of the secret of iron smelting, iron instruments of labour began to predominate during the epoch of slavery. Iron tools broadened the framework of human labour. For instance, it became possible, using the iron axe, to clear the land of trees and undergrowth ready for ploughing; the wooden plough with an iron share could cultivate comparatively large plots of land. Agriculture began to supply people not only with bread and vegetables, but with wine and vegetable oils. The making of metal tools led to the appearance of a special group of workmen—handicraftsmen, whose occupation became increasingly independent. Handicrafts became separated from agriculture. This was the *second major social division of labour*.

With the division of production into two basic branches, exchange of the products of labour developed. As exchange became a regular phenomenon, money made its appearance. Money became the universal commodity by which the value of all other commodities was measured and which served as an intermediary during commodity exchange. The growing division of labour and exchange gave rise to people who made a business of buying and selling commodities—the merchants. The emergence of the merchants was the *third major social division of labour.* Taking advantage of the remoteness of the small producers from the markets, the merchants purchased their commodities at low prices and sold them to the consumers at higher prices.

The development of handicrafts and exchange led to the formation of towns. At first the town was hardly distinguishable from the village, but gradually the handicrafts and trade became concentrated in towns. This was the beginning of the *separation of town from country.*

The expansion of the productive forces and further social division of labour and exchange intensified property inequality. Draught cattle, instruments of production and money accumulated in the hands of the rich. The poor, however, became more impoverished and were more frequently compelled to turn to the rich for loans. Thus usury arose with its relations of debtor and creditor. "The class struggles of the ancient world took the form chiefly of a contest between debtors and creditors, which in Rome ended in the ruin of the plebeian debtors. They were replaced by slaves."[1] A large-scale slave-owning economy made its appearance. The rich slave-owners acquired hundreds and even thousands of slaves. They seized huge plots of land, forming vast estates with tremendous numbers of slaves working on them. In ancient Rome they were called *latifundia.*

*The relations of production* in slave society were based on the fact that the slave-owners possessed both the means of production (land, instruments of labour, etc.) and the people engaged in production, the slaves. The slave was regarded as a chattel, he was completely and solely at the disposal of his owner. The slave was known as the "speaking tool". In the eyes of the slave-owners, the slave differed from the axe or ox only in the faculty of speech. In other respects he

[1] K. Marx, *Capital,* Vol. I, Moscow, p. 135.

was as much the property of his master as the domestic animals, house, land and instruments of labour.

The exploitation of slaves assumed extremely cruel forms. They were treated much worse than the cattle. They were driven to work with whips and were harshly punished or even killed for the slightest negligence. The owner was not held responsible for the killing of a slave. He appropriated the entire product of his labour. The slave was given just sufficient means of subsistence to save him from death by starvation and keep him working for the slave-owner.

On the basis of slave labour the ancient world achieved considerable improvement in economy and culture. Many branches of knowledge—mathematics, astronomy, mechanics, architecture—became considerably developed. The slave-owning mode of production, however, was a brake on the road of human progress, in spite of all it had accomplished as compared with the primitive-communal system.

The slave-owning mode of production contained deep and insuperable contradictions which led to its destruction. Above all the slave-owning form of exploitation constantly destroyed society's basic productive force, namely, the slaves. The slaves frequently revolted against the harsh forms of exploitation. An uninterrupted influx of slaves was a condition of existence for slave-owning economy. Slaves were obtained through successful warfare against other states. The peasants and craftsmen were the backbone of the war machine, it was they who served as soldiers and yet bore the main burden of taxes essential for conducting wars. But as a result of the competition of large-scale production based on cheap slave labour, the peasants and craftsmen became ruined. This sapped the economic, political and military strength of the slave-owning states. Victories gave way to defeats. The source of the uninterrupted supply of cheap slaves dried up. All this brought about a general decline in production.

"Universal impoverishment; decline of commerce, handicrafts, the arts, and of the population; decay of the towns; retrogression of agriculture to a lower state—this was the final result of Roman world supremacy." [1]

[1] F. Engels, "The Origin of the Family, Private Property and the State". Marx and Engels, *Selected Works*, Vol. II, Moscow, p. 299.

When it first began, the slave mode of production contributed to the growth of the productive forces. But its further development, as we have seen, caused the destruction of the productive forces. The relations of production based on slave labour acted as a brake on the development of society's productive forces. The labour of slaves, who were in no way interested in the results of production, had out- [illegible] The historical necessity arose for the replacement of slave-owning production relations by others, which would change the position of society's main productive force—the slaves.

With the decline of the big latifundia based on slave labour, small households became more profitable. Thus, the numbers of freed slaves increased, and at the same time large estates became split up into small plots cultivated by coloni. A colonus was no longer a slave; he was a tiller of the soil who, having been granted the use of a plot of land for life, was obliged to pay a sum of money or produce for it. He was not a free tenant; he was bound to his plot and could not leave it, but he could be sold together with his plot. The coloni were the predecessors of the medieval serfs.

Thus, within the old slave system, the new, *feudal mode of production* began to take shape.

As slave-owning economy developed, the class struggle of the enslaved masses against their oppressors became intensified. This struggle flared up as revolts of the slaves against the slave-owners. The ranks of the slaves were joined by free peasants and craftsmen who also were exploited by large landowners and the slave-owning state. Of the numerous uprisings of the slaves, that led by Spartacus (74-71 B. C.) was particularly significant. The blows from inside became more and more involved with the blows from outside, and this finally brought about the collapse of the slave system.

### 3. The Feudal Mode of Production

The feudal system has existed, with particular features of one kind or another, in almost all countries. The epoch of feudalism covers a long period. In China the feudal system existed for more than two thousand years. In the West European countries feudalism spread over a number of centuries, from the fall of the Roman Empire (5th century) to the bourgeois revolutions in England (17th century) and in France (18th century). In Russia it lasted from the 9th century to the abolition of serfdom in 1861.

The *production relations* of feudal society were based on the private landed property of the feudal lords [illegible] incomplete property rights over the serf. He was not a slave; he had his own holding. Besides the property of the feudal lords there was also the property of the peasants and craftsmen, namely, the instruments of production they owned and their private holdings. Small peasant economy and production by small independent craftsmen were based on personal labour. All production was primarily *in kind*, i.e., the products were mainly for consumption by the households, and not for exchange.

Large-scale feudal landed property was the basis for the exploitation of the peasants by the landlords. The feudal lord's own demesne occupied part of the land. He allotted the other part on extortionate conditions for use by the peasants. The peasant holding was the means by which the landlord secured his labour force. With hereditary possession of his holding, the peasant was obliged to work for the landlord, either to till his soil, using his own implements and stock (labour-rent, or corvée), or else to give the feudal lord part of his product in kind (quit rent paid in produce) or to pay both kinds of ground-rent. This system of economy not only led to the unconcealed form of exploitation, but also inevitably made the peasant personally dependent on the landlord. The feudal lord could not kill a peasant, but he could sell him.

The serf's working time was divided into necessary and surplus time. During the necessary time, the peasant created the product necessary for his own existence and that of his family. During the surplus time he created the surplus product which was appropriated by the feudal lord in the form of ground-rent (labour-rent, rent in kind and money-rent). The exploitation of the peasants by the feudal lords in the form of ground-rent has been the main feature of feudalism among all peoples.

Besides the rural population there existed the town population, which consisted mainly of craftsmen and traders, who were subject to the authority of the feudal lord on whose land the town was built. Townsmen fought for their freedom and often won their independence.

The growth of towns and the development of trade greatly influenced the feudal countryside. The economy of the feu[illegible]was drawn increasingly into market circulation. In order to buy luxuries the lords needed money. In this connection they began to transfer the peasants from labour-rent and rent in kind to money-rent. Feudal exploitation was further intensified with the transfer to money-rent, and the struggle between the feudal lords and the peasants became still more acute.

### 4. The Disintegration and Collapse of Feudalism. The Birth of Capitalist Relations Within the Feudal System

Under feudalism the productive forces reached a higher level than those under the slave system. Production technique in agriculture was improved; the iron plough and other iron instruments of labour were used more extensively. New branches of field cultivation arose; viticulture, wine-making and market gardening developed considerably. There were improvements in livestock husbandry and its ancillary branches—butter and cheese production. Meadows and pastures were extended and improved.

Gradually the instruments of labour of the craftsmen and the methods of processing raw materials were improved. Crafts became specialised. In the course of time there appeared new crafts—those of the armourer, nail-maker, knife-maker, locksmith, shoemaker, saddle-maker and others. There were improvements in the smelting and processing of iron. The first blast-furnaces appeared in the 15th century. The great geographical discoveries date back to this period.

But the feudal system, in which new productive forces had already developed, acted as a brake on their further development; the productive forces clashed with the narrow framework of feudal production relations. The peasantry, under the yoke of feudal exploitation, was in no position to increase the output of agricultural produce, since the productivity of serf labour was exceedingly low. In town the increasing labour productivity of the craftsmen encountered obstacles set up by guild statutes and rules. All this required the abolition of the old rela[illegible] of production and indicated the need to establis[illegible]ew relations free from the fetters of feudalism. Ca[illegible]tions of production began to appear within the feudal system.

Further, simple commodity production, i.e., the production of articles for exchange, which was based on private ownership of the means of production and personal labour, gradually expanded. Commodity producers found themselves engaged in a fierce competitive struggle, which led to the division into rich and poor in both town and country. With the expansion of the market, the more or less big commodity producer would ever more frequently hire poverty-stricken peasants or craftsmen to work for him.

Capitalism developed also in another way. Merchant capital, as represented by the merchants, began directly to control production by the peasants and craftsmen. Merchant capital had first appeared as an intermediary in the exchange of the commodities of the small producers. Later merchants began the systematic buying up of commodities from the small producers, supplying them with raw materials and advancing money to them. In this way the small producers became economically dependent on the merchant. The next step taken by merchant capital was to bring together the scattered craftsmen under one roof, in a workshop, where they proceeded to work as wage-workers. Thus merchant capital became transformed into industrial capital and the merchant into the industrial capitalist.

Capitalism was also growing up in the countryside. With the development of commodity production the power of money increased. The peasants began to pay the feudal lords in money instead of in kind. The development of money relations gave an impetus to the differentiation of the peasantry into the rural bourgeoisie and the impoverished peasants.

Thus, capitalist production came into existence within the feudal system both in town and country. The abolition of feudalism became a historic necessity.

The entire history of feudalism was one of bitter class struggle between the peasants and the feudal lords; the [illegible] became especially acute towards the end of this [illegible] when feudal exploitation became extremely intense. [illegible] revolts shook the foundations of the feudal system and led to its final collapse. The bourgeoisie headed the anti-feudal struggle and used the revolts of the serfs against the feudal lords in order to seize power and become the ruling class.

# THE CAPITALIST MODE OF PRODUCTION

## A. PRE-MONOPOLY CAPITALISM

*Chapter II*

## COMMODITY PRODUCTION. THE COMMODITY AND MONEY

Marx began his analysis of capitalism with the *commodity*. Under capitalism everything, from a pin to a giant factory, and even man's labour power, is bought and sold, taking the form of a commodity. The relations between people in society appear in the guise of relations between commodities. The commodity, as Marx said, is the economic cell-form of bourgeois society. Just as a drop of water reflects the world around it, so the commodity reflects all the fundamental contradictions of capitalism.

Marx's investigation into the commodity and commodity production enabled him to explain the essence of the capitalist relations of production.

### 1. General Description of Commodity Production

**Concept of commodity production**

Commodity production means the production of goods not for personal use, but for sale, for exchange on the market. "By commodity production," says Lenin, "is meant an organisation of social economy in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) in the market."[1]

Commodity production originated during the period of the disintegration of the primitive-communal system; it

[1] V. I. Lenin, *Collected Works*, Vol. 1, Moscow, p. 93.

existed under the slave and feudal modes of production, though natural economy was dominant in both cases. Under this economy society consisted of a mass of uniform economic units, each of which performed all forms of work, beginning with the obtaining of various raw materials and ending with the processing of them for its own consumption. This type of economy, in which the surplus product was [illegible]anged, prevailed until the rise of capitalism.

The development of capitalism dealt a crushing blow to natural economy. Under capitalism everything, including man's labour power, took the form of a commodity. With the transformation of labour power into a commodity, commodity production became dominant and universal.

Once commodity production under capitalism had become the prevailing form of production, the relations between people in the process of production, i.e., their production relations, took the form of commodity relations. To illustrate this, let us take the fundamental production relation in capitalist society—the exploitation of the proletariat by the bourgeoisie. In order to exploit the worker, the capitalist has to hire him, while the worker has to *sell* his labour power, which is now a commodity. The capitalist pays the worker a wage, with which the latter buys his means of subsistence—commodities. Thus, the production relations between the worker and the capitalist are expressed not directly, but through commodities, and assume the character of commodity relations.

The capitalists sell products to one another and buy from one another raw materials, equipment and other commodities. The relations between the capitalists also assume the character of commodity relations.

Consequently, *in capitalist society commodity production takes on a dominant, universal character, whereas relations between people appear as relations between things, commodities.*

**Conditions for the rise of commodity production**

Commodity production can arise only where there are definite conditions.

The most important condition required for the rise and existence of commodity production is *social division of labour*. This means that the making of different products is divided among separate people or groups of people. One group of people, for instance, weaves cloth, another makes footwear, a third — household articles, a fourth — tools, and so on. Clearly, in order to satisfy their personal requirements these people must *exchange* the results of their labour. In this way all the producers taken together form a large production unit whose members are dependent on one ano[illegible]

But social division of labour is only one of the co[illegible]ons required for the existence of commodity product[illegible] essential condition is the presence in society of *different owners* of the means of production. Take the following case. A man has made an article and wants to sell it to someone else. Can he do this? Yes, he can, but only if he is the owner of the means of production used to make the article and hence the owner of the article itself. For instance, despite the fact that there was a division of labour in the primitive communes, there was no commodity production and no commodity exchange. The members of the commune exchanged the results of their labour, but they did not sell them to one another; they could not do so, since the commune as a whole owned the means of production and the products of labour. It was a different matter when the product of one commune was exchanged for the product of another commune. In this case a change of ownership took place and the product of labour was a commodity.

Thus the basis of commodity production is social division of labour and the presence in society of several different owners of the means of production. Only when both these conditions are present do commodity production and an exchange of products emerge in the shape of purchase and sale.

**Simple and capitalist commodity production**

Capitalist commodity production arises where there are definite social conditions and on the basis of *simple commodity production*.

The most typical representatives of simple commodity production are the small peasants and handicraftsmen. They base their production on *personal* labour, i.e., they work themselves, and do not exploit the labour of others. Each simple commodity producer is the *owner of his means of production*, and he produces not for his own consumption, but for the market, for sale.

Simple commodity production is of a dua nature. On the one hand, as it is based on private ownership, the small peasant or handicraftsman is a man of property, and this brings him closer to the capitalist. On the other hand, as simple commodity production is based on personal labour, the commodity producer is a working man, and this brings him closer to the proletarian, who, unlike him, possesses no means of production. It is here that the working class and the peasantry have a common interest, and consequently are capable of forming an alliance.

Under certain social conditions, simple commodity production can be the point of departure and the basis for the rise of capitalist production. Two such conditions occur. First, the existence of *private ownership of the means of production*. We know that this condition emerged in the period of the collapse of primitive society. Second, the *transformation of labour power into a commodity*. This occurred during the epoch of the disintegration of feudal society.

Simple commodity production is unstable, for among the peasants and handicraftsmen a process of stratification is continually taking place: some (the minority) grow richer, while others (the majority) grow poorer. In the abovementioned conditions these processes lead to the formation of a bourgeoisie and a proletariat in both town and country.

Capitalist commodity production, like simple commodity production, is based on social division of labour and private ownership of the means of production, but it is also founded on the *exploitation* of hired labour by the owner of the means of production, not on his own personal labour. With capitalist commodity production the capitalist does not work himself, having at his disposal both the means of production and money. With his money he buys labour power to set his means of production in motion. The transformation of labour power into a commodity means that, under capitalism, commodity production develops further and becomes universal. Commodity exchange, wrote Lenin, appears as "the simplest, most ordinary, fundamental, most common and everyday *relation* of bourgeois (commodity) society, a relation that is encountered thousands of millions of times."[1] We must therefore explain what the commodity—this cell-form of capitalist economy—really is.

### 2. The Commodity and Labour Which Creates Commodities

**Use-value and value of the commodity**

The commodity is a thing which first of all satisfies some human requirement and, secondly, is produced not for personal consumption, but for sale, for exchange.

The man who produces an article for his own consumption is producing only a *product*, not a commodity. For the product to become a *commodity* it must satisfy some *social* requirement, i.e., must satisfy the demand for it on the part of other members of society.

A consideration of the commodity reveals in it two closely linked aspects, two properties—use-value and value.

The property of the commodity to satisfy some human requirement is called its *use-value*. The need which the commodity satisfies may take many different forms. A commodity may be a prime necessity such as bread, clothing, footwear. It may be a luxury article—expensive wines, jewels, etc. It may also be a means of production, such as machinery, coal, iron and so on.

Each article may have more than one use-value. Coal, for instance, may be used as fuel or even as raw material for the manufacture of chemical products.

In commodity production, a constant exchange takes place among the different use-values, and in a definite quantitative proportion. For example, one axe is exchanged for 20 kilogrammes of grain. The proportion in which one use-value is exchanged for another is the *exchange-value* of the commodity. In considering exchange-value two questions immediately arise: 1) on what grounds are commodities of a totally different quality *equated* to each other? and 2) why are different commodities equated to each other in a *definite proportion*, in a definite quantity? If different

[1] V. I. Lenin, "On Dialectics", *Marx-Engels Marxism*, Moscow, p. 334.

commodities, which do not resemble each other at all, are treated as equivalent to each other during exchange, this means they possess something in common. As far back as the fourth century B. C. the famous Greek philosopher Aristotle noted that exchange could not take place without equality, as equality could not exist among things which are incommensurable.

All commodities in general have the following properties in varying degrees: utility, capability of being an object of supply and demand, rarity, and labour.

Which property, then, determines the value of commodities?

At first glance it may appear that *utility* is responsible for the value of a commodity. The more useful the article, the more value it must have. Actually, however, we find at every step that utility does not determine value. The most useful things often cost nothing (for instance, air) or cost very little (for instance, water), whereas things which are of little personal use are often much more costly (for instance, diamonds). True, if the value of products depended on the degree of their utility, then bread and water would be worth just as much as diamonds, and vice versa. Therefore, utility, or use-value, is only a condition and not a cause of value. Although value cannot exist without use-value, the latter is quite feasible without value (for instance, air has a great use-value, but no value at all).

Can *supply* and *demand* determine value? At first glance it appears that they can. It is common knowledge that the greater the demand for commodities, the higher the prices fixed for them, and, on the other hand, the greater the supply of any commodity, the more these commodities are brought to the market, the lower their price.

But if we penetrate more deeply into the essence of the question, it becomes clear that the value of commodities does not depend on supply and demand. For instance, take sugar and salt. These commodities are governed by the law of supply and demand. If the demand for them is equal to the supply, 1 kilogramme of sugar will still be incomparably higher in value than 1 kilogramme of salt, which shows that supply and demand have nothing to do with value. True, the amount of supply and demand makes some difference to the prices of commodities, but it determines not the amount of value, but the degree to which the market prices fluctuate round the value of the commodity in question. When the demand for some commodity increases, while the supply of it decreases, market prices soar above its va[illegible] and, on the other hand, when the demand for it de[illegible]rst while the supply of it rises, market prices dr[illegible] value. Only when the demand equals the supply, do market prices coincide with its value. But this situation hardly ever arises under capitalist commodity production. This means that supply and demand do not determine the value of a commodity.

Can the *rarity* of a commodity determine its value? That it can seems to be borne out by thousands of practical examples. Let us take gold, diamonds and bread. Gold and diamonds are rarities and they are very costly. There is much more bread and it is much cheaper, although people want it very much more. This does not mean, however, that rarity is the reason for greater value. For example, when in a year of drought there has been no rain for a long time, people long for it, the "demand" for it is tremendous, yet for all its rarity and utility, for all it is needed so much, it has no value that can be expressed in money.

Consequently, neither utility, nor the capability of being an object of supply and demand, nor rarity is the cause of value. However, commodities of different kinds have one more characteristic in common, which is independent of their utility, their capability of being an object of supply and demand, and their rarity. This characteristic is that they are all products of labour.

*Labour* alone is the basis, or, as Marx put it, the substance, of value. The more the labour required for the production of this or that commodity, the greater is the value it possesses, the more costly it is. Gold is much dearer than coal, for the prospecting of gold and the removal from it of extraneous admixtures require the expenditure of much more labour than for mining the same amount of coal.

All commodities are the result of human labour. They become comparable to one another because every commodity contains a definite amount of labour. The fact that commodities are the product of labour gives them value.

*Value* is the social labour of the commodity producers embodied in the commodity. The term "embodied" underlines the fact that labour is *included* in the commodity, has taken t[illegible] shape of the article or commodity. The proportions i[illegible]hich commodities are exchanged serve as the *form* of [illegible]on of value; they show that the same amount of [illegible]een expended upon the commodities exchanged, [illegible]at they are identical in value.

The valu[illegible] of a commodity is a *social* category; it is not seen but it is felt wherever one commodity is exchanged for another, and one commodity is equated to another. Therefore Lenin said that "value is a relation between two persons ... a relation disguised as a relation between things." [1]

Use-value has always existed and will always exist. But the commodity as the depository of value emerged at a definite stage of social development, when commodity production and exchange came into existence. With the disappearance of commodity production commodity value will also disappear. This means that value is both a social and a *historical* category, that is, it exists at a definite stage of social development.

We have thus made clear that the commodity has two properties, it is a combination of use-value and value.

What, then, is the explanation for this *dual* nature of the commodity?

**Concrete and abstract labour**

The twofold nature of the commodity is determined by the twofold nature of the labour which creates the commodity. The labour of the producer which is embodied in the commodity appears, on the one hand, as concrete labour, and on the other, as abstract labour.

*Concrete labour* is labour expended in a definite, expedient, useful form. A man cannot work "in general". When he is doing work, it is the work of a shoemaker, or a farmer, or a miner, and so on.

Different types of labour differ in quality, craft methods, tools, materials used, and lastly, the results, i.e., the final products, use-values. *It is concrete labour that creates the use-value of a commodity.*

[1] V. I. Lenin, *Marx-Engels-Marxism*, p. 33.

If, however, we look more closely at the different types of labour, we find one common feature—the expenditure of human labour in general, i.e., the expenditure of muscles, brain, nerves, etc. Labour viewed independently of its concrete form, labour as the expenditure of human labour power, is abstract labour. *It is abstract labour that* [illegible] *value of a commodity.*

Concrete labour, as that which creates use-value, has always existed and will continue to do so. It exists under commodity production and when the latter is absent. Abstract labour is typical only of commodity production. The reduction of different types of concrete labour to the identical abstract labour, labour in general, is explained by the existence of commodity production, the fact that the product is made for sale. Indeed, if the producer has made, for instance, a pair of boots, and taken them to the market, how is he to exchange them for, say, bread? As use-values these two products are not comparable. So they can only be compared according to the labour spent on them. If the shoemaker exchanges one pair of boots for 100 kilogrammes of grain, this means that an identical amount of abstract labour has been expended on the boots and the grain. If the boots had been made not for exchange, but for use in the shoemaker's household, it would have been unnecessary to determine the amount of abstract labour embodied in them. With the disappearance of commodity production the category of abstract labour will also disappear.

In commodity production there is an irreconcilable contradiction between concrete and abstract labour, appearing outwardly as a contradiction between private and social labour.

**Private and social labour**

In commodity production each producer makes a particular kind of commodity. In society labour is divided, and the deeper this division, the more branches of production there are, the more extensive are the links binding the commodity producers, the more are they dependent, in general, on one another. The making of almost everything involves scores or even hundreds of people of different trades. This means that the labour of each commodity producer is a small particle of the *labour of society*, and so *takes on a social character.*

But in a society where there is private ownership of the means of production, the commodity producers are engaged in production independently of one another; they are disunited. And so their labour, which is essentially social labour, takes the form of *private labour*. The social character of labour is here concealed; it is only apparent during exchange on the market. It is precisely during the exchange of commodities, during the purchase and sale of them, that it becomes apparent that the private labour of the commodity producer is a small particle of social labour, since it is wanted by society.

In view of the fact that the labour of the commodity producer, while being directly private, is at the same time social in character, there arises the *major contradiction of simple commodity economy, that between private and social labour*. This contradiction is revealed during exchange. When commodity producers go to the market, it transpires that some of them sell their commodities and others fail to do so. They may fail to sell them because there is no demand for them, or because they are too expensive. But if the commodity producer cannot sell his commodity on the market, this means that his private labour has not found social recognition; the producer suffers a loss, and, if this experience is repeated often, he becomes ruined. It follows that the contradiction between private and social labour leads to the ruin of some commodity producers and the enrichment of others.

**Magnitude of the value of a commodity**

Since the value of a commodity is created by labour, *the magnitude of its value is measured by the amount of labour embodied in the commodity*. Labour in its turn is measured by the time during which it is spent, i.e., by labour-time. But there are many commodity producers, and they spend different amounts of labour on producing identical commodities. The magnitude of the value of a commodity cannot therefore be measured by the actual amount of labour spent on it by each individual producer. If the magnitude of the value of a commodity were determined by the actual expenditure of labour by each producer, there would be no single magnitude of value for identical commodities. In exchange, however, identical commodities are of equal value. *The magnitude of the value* of a commodity *is determined* not by the individual labour-time spent by each producer, but by the labour-time which is *socially necessary* for the production of the given commodity.

*Socially necessary* labour-time means the time needed for the making of one single commodity under aver[illegible] conditions of production in the given branch of p[illegible] (average technical equipment, average skill of th[illegible] and intensity of labour). As a rule, the socially necessary labour-time is determined by those conditions of production in which the largest amount of commodities of the given kind is created.

Socially necessary labour-time is constantly changing; consequently the magnitude of value also changes. Changes in the socially necessary labour-time occur in consequence of changes in the productivity of labour. *Labour productivity is expressed by the amount of products created in a given unit of labour-time.* An increase in productivity is understood to mean any change, in general, in the labour process which reduces the expenditure of labour per single article. The higher the productivity in any society, i.e., the greater the quantity of finished products that can be made in a given unit of time, the lower the value of the commodity. And, conversely, the lower the productivity of social labour, the more the socially necessary labour-time required to produce the given commodity, the higher its value. It is therefore said that labour productivity and the value of each single commodity are inversely dependent on one another.

Labour productivity should not be confused with intensity of labour. *Labour intensity is expressed in the expenditure of labour per unit of time.* The higher the expenditure of labour during the same space of time, the larger is the number of products created, but the value of one single article may not change, since a larger amount of labour is then distributed over the larger number of products.

The magnitude of the value of a commodity is affected by the degree of *complexity* of labour, whether it is skilled or unskilled. The labour of a worker who has had no special training is *simple*, unskilled labour. Labour which requires special training is *complex* or skilled labour. Complex labour creates a greater value per unit of time than simple labour does. For this reason Marx says that complex labour is simple labour raised one degree, or multiplied.

In commodity production based on private property, the reduction of different types of labour, labour involving varying degrees of skill, and labour of varying productivity, [illegible]ngle measure—abstract labour, which forms the [illegible] commodity—takes place *spontaneously* on the [illegible], when the commodity is being sold. Value expresses the relations of production between the commodity producers, the mutual exchange of their activity. But superficially, these relations appear to be relations between things.

## 3 Development of Exchange and the Forms of Value

**Exchange-value, the form in which value manifests itself**

The value of commodities is created by the labour spent on producing them. Their value, however, reveals itself only when one commodity is compared to another in the process of exchange, i.e., through *exchange-value*. Thus, the value of one axe cannot be expressed directly in terms of labour-time, it is expressed in terms of another commodity. For instance, one axe=20 kilogrammes of grain. The grain serves here as a means of expressing the value of the axe. This equation implies that an equal amount of labour was spent in the production of both the grain and the axe. The commodity which expresses its value in another commodity (in our example, the axe) has a *relative* form of value. The commodity, the use-value of which serves as the means of expressing the value of another commodity (in our example, the grain), has an *equivalent* form of value.

Exchange-value has traversed a long road of historical development—from the elementary or accidental form of value to the money form of value.

**Elementary form of value**

In natural economy people produced their products not for exchange but for personal consumption. Only *accidentally* accumulated surplus products were exchanged. The quantity of the exchanged products was limited. Any single commodity was directly exchanged for another, expressing its value in one commodity alone. For instance, one axe = 20 kilogrammes of grain, or 20 metres of cloth = one coat. Inasmuch as the exchange was of a fortuitous character, the magnitude of the value of the commodities was not equally measured. In this case we have the *elementary, single,* or *accidental form of value.*

**Total or expanded form of value**

In primitive society, with [illegible] first of the first major social [illegible] labour—the separation of the pastoral tribes from those engaged in tilling the soil—exchange included livestock, grain, etc., and gradually became regular. But in the course of exchange, it became more and more clear that many people wanted one special commodity. In the natural course of events, this proved to be livestock, which was equated to, and exchanged for, many commodities of a different nature. For instance,

$$1\text{ sheep}\left\{\begin{array}{l} =40\text{ kilogrammes of grain,}\\ \qquad\qquad\text{or}\\ =20\text{ metres of cloth,}\\ \qquad\qquad\text{or}\\ =2\text{ axes,}\\ \qquad\qquad\text{or}\\ =3\text{ grammes of gold, etc.}\end{array}\right.$$

This form, in which the value of a commodity can be expressed in a series of different commodities, is called the *total* or *expanded form of value.*

**Universal form of value**

With the development of commodity production and exchange, one commodity became singled out, the one in the greatest demand. All commodities began expressing their values in one and the same commodity. A commodity which serves to express the value of many different commodities plays the role of *universal equivalent,* i.e., it becomes equal in value to all other commodities. With the appearance of the universal equivalent, the transition takes place from the expanded form of value to the *universal form of value.* This can be expressed as follows:

$$\left.\begin{array}{ll} 40\text{ kilogrammes of grain} & =\\ \qquad\text{or} & \\ 20\text{ metres of cloth} & =\\ \qquad\text{or} & \\ 2\text{ axes} & =\\ \qquad\text{or} & \\ 3\text{ grammes of gold, etc.} & =\end{array}\right\}1\text{ sheep}$$

This transition led to the *circulation of commodities*. Now every act of exchange is divided into two stages: purchase and sale. At this stage, however, the role of universal equivalent had still not become attached to any single commodity. In some places livestock played the role of universal equivalent; in others, salt, in yet others, furs, and so on. [illegible]her growth of commodity production and exchange [illegible] the transition to one single equivalent, since with different commodities playing the role of universal equivalent, the development of exchange was hampered, and this came into contradiction with the needs of the growing market. This contradiction was resolved by giving the precious metals, silver and gold, the role of universal equivalent.

**Money form of value**

When the role of universal equivalent had become attached to one commodity, for instance gold, the *money form of value* appeared. It can be expressed like this:

$$\left.\begin{array}{lr} \text{40 kilogrammes of grain} & = \\ \quad\quad\text{or} & \\ \text{20 metres of cloth} & = \\ \quad\quad\text{or} & \\ \text{2 axes} & = \\ \quad\quad\text{or} & \\ \text{1 sheep, etc.} & = \end{array}\right\} \begin{array}{l}\text{3 grammes}\\ \text{of gold}\end{array}$$

The transition to the money form of value took place following the second major social division of labour—the separation of handicrafts from agriculture. Because of their specific features (homogeneity, divisibility, durability, compact size, etc.) gold and silver became firmly established as money. *Money is a commodity which fulfils the social function of expressing the value of all the other commodities.* With the appearance of money all commodities began to measure their value in money.

## 4. Money

**Nature of money and its functions**

Money originated spontaneously during the historical development of commodity production and exchange. It is precisely the development of the forms of value, beginning with the simplest, that led to the appearance of the money form of value and money itself.

Gold and silver, minted metal coins, or paper money as a substitute for them, are used as money. But this money did not come into existence all at once, it was a product of long development. At first from among the commodities the one which was the most frequent object of exchange became singled out. As a result of the long development of commodity economy the role of money became firmly assoc[illegible] first gold. In the 19th century, gold functioned as [illegible] absolute majority of countries.

In a developed commodity economy, money fulfils the following functions: as the measure of the values of commodities, a circulation medium, a means of accumulation or hoarding, a means of payment, and universal money. Let us consider each of these functions.

The basic function of money is as the *measure of value*. The essence of this function is that the value of all commodities is measured by means of money. In order to perform its function as the measure of value, money must itself have a value. Just as the weight of a body can be measured by using an iron weight only because the latter has a weight of its own, so the value of a commodity can only be measured with the help of another commodity that has a value. The value of a commodity is measured through the medium of gold. In fixing a definite price for a commodity, its owner mentally (or, as Marx puts it, ideally) expresses the commodity's value in gold. It is possible to equate a commodity to a certain quantity of gold because in reality a definite relationship always exists between the value of the gold and the value of the given commodity. The basis of this relationship is the socially necessary labour spent on making the gold and the other commodity.

The value of a commodity expressed in money is called its price. *Price* is the monetary expression of the value of a commodity.

Commodities express their value in definite amounts of gold or silver. These amounts of the money commodity must themselves be measured. A definite amount, in weight, of the metal used for money is one unit of measurement of money. In the U.S.A., for example, the money unit is called the dollar, in Britain—the pound sterling, and in France—the franc. For convenience, these monetary units are divided into aliquot parts: the dollar into 100 cents, the franc into 100 centimes, the pound sterling into 20 shillings, and the shilling into 12 pence.

The unit of money and its parts serve as the *standard of price.*

The second function of money is that of *circulation medium.* [illegible]e appearance of money, simple exchange of commod[illegible]lace, i.e., one commodity was exchanged di[illegible]ectly for another commodity. With the appearance of money the exchange of one commodity for another was accomplished with the aid of money. First the commodity is exchanged for money, then the money is used to buy a different commodity. Exchange of commodities accomplished with the aid of money is called *commodity circulation* (commodity—money—commodity). It should be noted, however, that when a commodity passes into the hands of the buyer, it leaves the sphere of circulation; but money remains *constantly* in the sphere of circulation, i. e., it passes from the hands of the buyer into those of the seller and vice versa. In this way money acts as a *medium* in the circulation of commodities and fulfils the function of circulation medium. To carry out this function the money must be actually present.

Originally, when commodities were exchanged, money took the form of bars of gold or silver. But this created a number of difficulties. Each time bars had to be weighed, broken up into small pieces, and tested for purity. So gradually bars of gold or silver gave place to coins, the minting of which was undertaken by the state. The *coin* is a piece of metal of definite shape and contains a definite weight of metal.

During the process of circulation, coins become worn and lose part of their value. But in practice worn coins are as good currency as new coins. Consequently, the function of circulation medium can be performed by metal money of incomplete value or even by paper money.

With the development of commodity economy, money began to fulfil the function of *means of accumulation* or *hoarding*. Money is the universal embodiment of wealth. For money any commodity can be acquired. Commodity producers accumulate money in order to buy the commodity they need. This function can only be discharged by money of full value—gold and silver coins, or articles of gold or silver.

Money fulfils the function of a *means of payment*. Commodities are not always sold for ready money. They are sometimes bought and sold on credit, on deferred payment terms. When a purchase is made on credit the commodity [illegible] by the seller to the buyer without immedia[illegible]rst taking place. The money is paid over, by agreement, at some future date. When the day for payment comes, money passes from the hands of the buyer to those of the seller. In this case money serves as a means of payment.

The functions of money as a circulation medium and as a means of payment make possible the elucidation of the law which determines the total amount of money needed for the circulation of commodities.

The amount of money needed for circulation depends, firstly, on the total of the prices of the commodities in circulation, and, secondly, on the velocity with which the money is circulated. The more rapidly money circulates, the less the amount required to be in circulation, and vice versa. If, for example, in the course of a year the total price of the commodities sold is 100,000 million dollars, and each dollar moves fifty times on the average, then for the circulation of the whole mass of commodities 2,000 million dollars are required. This is seen from the following:

$$\text{Amount of money} = \frac{\text{total price of commodities}}{\text{velocity of money turnover}} =$$
$$= \frac{\$100{,}000\ \text{million}}{50} = \$2{,}000\ \text{million}.$$

Thanks to the credit which producers extend to each other, the need for money is reduced by the total of the prices of the commodities which are sold on credit and by the total of the payments which mutually cancel out. *The law of the circulation of money* is this: the amount of money needed for the circulation of commodities must equal the total price of all commodities, divided by the average turnover of money. Furthermore, from the total of the prices of all commodities must be deducted the total of the prices of all commodities sold on credit and the sum of mutuallycancelling payments, and to it must be added the total of those payments which are due to be settled.

This law applies to all social formations where there exist commodity production and circulation.

Money also fulfils the function of *universal money*. On the [illegible]ket money strips off its local garbs, as Marx puts [illegible]ars not as coin, but in its original shape—gold or silver bullion. In the trade turnover between countries on the world market, gold is the universal means of purchase and payment, and the universal embodiment of social wealth.

All these are the functions of money, and they are organically interrelated, expressing in different forms the essence of money as the universal equivalent.

In social formations based on the exploitation of man by man (slavery, feudalism and capitalism) money bears a class character, serving as a means of exploitation.

**Gold and paper money. Inflation**

*Paper money* consists of money tokens issued by the state to take the place of and represent gold in its functions as circulation medium and a means of payment. In practice, paper money has no value of its own and therefore cannot perform the function of the measure of the value of commodities.

Paper money was first issued in ancient China. In America it appeared as legal tender at the end of the 17th century and in France at the beginning of the 18th century. In Russia, paper money was first issued in 1769.

However many paper tokens are issued, they still only represent the value of the quantity of gold required to cover the commodity turnover. If paper money is issued in accordance with the amount of gold required to cover the turnover, the purchasing power of the paper money coincides with the purchasing power of gold money. But usually the bourgeois state issues additional paper money, because as a rule its revenue is smaller than its expenditure. This is particularly typical during wars, crises and other emergencies. The result is that the value of paper money falls.

Take the following example. Let us say that to cover the circulation of commodities 5,000 million gold coins, each worth one dollar, are required. The state has put into circulation 5,000 million paper dollars. This means that each paper dollar represents one gold coin. Now let us suppose that the circulation of commodities remains the same, but that the state has issued another 5,000 million paper dollars. Now each gold coin is represented by two paper dollars, but for these two dollars one can buy only the same [illegible] of commodities as could previously be bought [illegible] first dollar. The value of the paper money has thus depreciated its *purchasing power* has fallen.

This process is called *inflation*. It causes a rise in the prices of commodities. But if the wages and incomes of the working people in capitalist countries rise at all, they do not do so as rapidly as prices. For this reason it is the working people who suffer most from inflation.

There comes a stage when inflation leads to profound dislocation of the country's economy. Various methods exist for restoring normal money circulation. One method of monetary reforms is the exchange for a smaller quantity of new money. Another method is *devaluation*, which is an official reduction in the exchange value of a currency by lowering its gold content.

The nature and the methods of putting through monetary reforms are determined by the bourgeois state in favour of the ruling class. One consequence of the monetary reforms carried out by the bourgeoisie is the lowering of the living standards of the masses.

**Credit money**

In addition to paper money there is *credit money* in capitalist countries. It originated from money's function as a means of payment. The simplest form of credit money is the *bill of exchange*. It is the established form of document in which the debtor *undertakes to pay a definite sum of money within a specified period of time*. The bill of exchange performs the function of money, since it is transferred from one person to another during the purchase and sale of commodities.

Originally the private commercial bill of exchange was current as credit money; this was a bill drawn by the purchaser of the commodity concerned. But the private bill of exchange circulated within a narrow circle of people, for it was accepted only by those who knew the person who had drawn it. Subsequently it became more and more the practice for the banks to accept and discount private bills. But the banks replaced them by their own bills which came to be known as bank-notes. *A bank-note is a draft on a banker for which the bearer can at any time receive cash from the bank con-* [illegible] [illegible]es can at any time be exchanged for gold or other metallic money. In these circumstances, bank-notes circulate on an equal footing with gold coins and cannot depreciate. As capitalism developed, there was a relative reduction in the amount of gold in circulation. Gold began increasingly to be accumulated in the form of reserve funds in the central banks of issue. The gold in circulation began to be replaced by bank-notes and later also by paper money. Although at first bank-notes were, as a general rule, exchangeable for gold, later inconvertible bank-notes were issued. This, to a considerable extent, brought the bank-notes into line with paper money.

### 5. The Law of Value—an Economic Law of Commodity Production

**Competition and the anarchy of production**

Where private ownership prevails, the production of commodities is carried out spontaneously. No institution exists or can exist for the purpose of indicating to the producers what commodity should be produced, and in what quantity. Private entrepreneurs and farmers do not co-ordinate their production with other businessmen or with the consumers. Anarchy, i.e., absence of planning, disorder in production, is what prevails.

Anarchy of production is intensified by competition, by the bitter struggle among private commodity producers for more advantageous conditions of production and sale, for the highest possible profits. *Competition and anarchy of production* are a law of commodity production based on private ownership. Each commodity producer, peasant, handicraftsman or capitalist (of course, the capitalist does not himself produce commodities, but on the market he acts as a commodity producer), tries to make as much profit as possible out of the sale of his commodity. But while the producer is engaged in making his commodity, he cannot foresee exactly what demand there will be for it. He merely knows that the commodity was recently in great demand, and he tries to produce as much as he can. But other commodity producers act in the same way. Consequently, each works at his own risk, trusting to luck. It often happens that much more of a commodity is produced than society demands.

What, then, regulates production in a society where private ownership prevails? It is regulated by the law of value.

**The law of value**

*The law of value is an economic law of commodity production, by which the exchange of commodities is effected in accordance with the amount of socially necessary labour expended on their production.* In other words, the law of value means that one commodity is exchanged for another according to their value, i.e., the commodities which are exchanged contain an identical amount of socially necessary labour, are equivalents. Consequently, the price paid for a commodity (let us recall that price is the monetary expression of value) should correspond to its value. But, in actual fact, the prices of commodities are either higher or lower than the value of the commodities, because of the influence of supply and demand. It is a well-known fact that the less there is of a commodity on the market, and the more the demand is in excess of the supply, the higher will be the price, and vice versa. Can it be said, on these grounds, that the law of value does not operate? No. The operation of every law can only be understood after examining a vast number of facts. If the different prices paid over a long period for any commodity are analysed, we find that the deviations above and below its value cancel out, so that *on the average* prices coincide with value.

Despite the disorder, the anarchy of production prevailing in commodity society based on private ownership of the means of production, a state of equilibrium, or proper proportion, is reached from time to time among the different branches of economy. Commodity economy owes this to the law of value, which is the *regulator of production*, and operates through market competition. Engels pointed out that "competition, by bringing into operation the law of value of commodity production in a society of producers who exchange their commodities, thereby brings about the only organisation and arrangement of social production which is possible in the circumstances. Only through the undervaluation or overvaluation of products is it forcibly brought home to the individual commodity producers what things and what quantities of them society requires or does not require".[1]

The operation of the law of value in commodity production based on private ownership of the means of production makes itself apparent as follows:

1) *The law of value spontaneously regulates the distribution of the means of production and labour among the different branches of production.*

Social division of labour requires that there should be a definite proportional relation among the different branches of production. Without such a relation, production cannot take place. Price fluctuations and the consequent greater or lesser profitability of production cause the means of production and labour to flow at times into and at other times out of the particular branch of production.

2) *The law of value impels private commodity producers to develop the productive forces.* We know that the magnitude of the value of a commodity is determined by the socially necessary labour put into it. The producers who apply a higher technology and whose production is better organised, etc., turn out their commodities at less than the socially necessary cost. But the commodities are sold at prices consistent with the socially necessary amount of labour. The result is that these producers receive a surplus of money and grow rich. This spurs on the rest of the producers to introduce technical improvements in their enterprises, too. In this way technology advances and the productive forces of society are developed.

3) *In definite circumstances, the operation of the law of value leads to the rise and development of capitalist relations.* The spontaneous fluctuations of prices round the actual value intensify economic inequality and the struggle among the

[1] F. Engels, "Preface to the First German Edition". See K. Marx, *The Poverty of Philosophy*, Moscow, p. 21.

commodity producers. The competitive struggle leads to some being ruined, while others become rich. The operation of the law of value leads to the stratification of the commodity producers into bourgeoisie and proletariat, to the concentration of an ever-increasing part of social production in the hands of some capitalists, and to the ruin of others.

### The fetishism of commodities

We have already established that the labour of each commodity producer, while being social in nature, appears in form as private labour. The social nature of labour, the social connections between commodity producers, their mutual dependence on one another are revealed and made manifest only on the market where commodities are exchanged. It seems that here not people but commodities enter into relations with one another. In these conditions commodities become vehicles of the social relations of people. The thing made by a commodity producer ceases to obey its owner once it has reached the market and entered into relations with other commodities; it begins to live an independent life, and a very capricious life at that. Today one may receive 20 dollars for a pair of shoes, tomorrow only 15 dollars. The day after tomorrow it turns out that nothing at all can be got in exchange for the shoes. Later still it transpires that people are running off their legs in search of footwear and are prepared to pay a lot of money for shoes.

This independent, completely fortuitous life of the commodity on the market impels people to regard the commodity as having special properties which are not inherent in it. Where actually there exist social relations of production, people see only relations between things. The relations between people become concealed behind the relations between things.

This transmutation of the production relations natural to a commodity economy based on private ownership of the means of production was called by Marx the fetishism of commodities.[1]

[1] The word "fetishism" implies the religious deification of objects—fetishes—which people themselves have made. According to superstitious people a fetish has supernatural, magic powers.

With the development of commodity production, the fetishism of commodities increases and becomes more widespread. When money appeared, it assumed its most complete form—that of the *fetishism of money*. All things can be bought with gold. And this *appears* in the eyes of people as a natural property of money, of gold, whereas in reality it is a result of definite social relations, those of commodity production.

Marx was the first to reveal the secret of the fetishism of commodities. Only when private ownership of the means of production is abolished does the fetishism of commodities disappear.

*Chapter III*

# CAPITAL AND SURPLUS VALUE: WAGES UNDER CAPITALISM

At a definite stage of social development, commodity production gives rise to capitalism. What is meant by capitalism? Lenin gave a very simple, clear-cut definition. "*Capitalism*," he wrote, "is the name given to that social system under which the land, factories, implements, etc., belong to a small number of landed proprietors and capitalists, while the mass of the people possesses no property, or very little property, and is compelled to hire itself out as workers."[1]

Under capitalism the working people have personal freedom but are deprived of the means of production and hence of the means of subsistence. For this reason they are compelled to work for the capitalists, or else die of starvation.

How, indeed, did the conditions arise in which the means of production became concentrated in the hands of a small group of people?

## 1. Primitive Accumulation of Capital

**Conditions for the rise of capitalism**

Bourgeois ideologists deliberately distort the history of the rise of the capitalist class and the working class. They do their utmost to justify the unfair distribution of material wealth, concoct legends about the reasons why society is split into rich and poor. From time immemorial, they assert, the world has been populated by people with different traits of character: some industrious and thrifty, others lazy. The former gradually

[1] V. I. Lenin, *Collected Works*, Vol. 4, Moscow, p. 311.

accumulated all kinds of riches, while the latter remained what they had always been—beggars. This explanation of the origin of capitalism has nothing to do with the facts.

Two basic conditions are needed for the rise of capitalism: *firstly, the existence of people who have personal freedom but who have neither the means of production nor the means of subsistence and who must, therefore, sell their labour power; and, secondly, the concentration of the means of production and large amounts of money in the hands of certain individuals.*

These two conditions came into existence within the feudal system, during the process of stratification that was taking place among the small commodity producers. The establishment of the capitalist mode of production was accelerated by means of the crudest methods of coercion against the masses by the landowners, the rising bourgeoisie and the organs of state power.

**The isolation of the producer from means of production. Accumulation of wealth in the hands of the few**

The process known as *primitive accumulation* involved the creation of the conditions required for the rise of capitalism. "Primitive accumulation," wrote Marx, "is nothing else than the historical process of divorcing the producer from the means of production."[1]

This process constitutes the prehistory of capital. The primitive accumulation of capital took shape in its most typical form in England, where the landlords forcibly seized the common lands of the peasants and even evicted them from their homes. The landlords turned the land appropriated from the peasants into pastures for sheep or leased it to farmers. At that time wool was in great demand for the growing textile industry.

The rising bourgeoisie even went so far as to appropriate state land and plunder church property. Large numbers of people deprived of a livelihood became tramps, beggars and highwaymen. The state authorities issued cruel laws against the expropriated. This was true of England where at the close of the 15th century and during the 16th century what were known as the bloody laws were passed against

[1] K. Marx, *Capital*, Vol. I, p. 714.

peasants who sought to defend their property. These ruined, plundered people were driven into capitalist enterprises by torture, flogging and branding with hot irons.

Two results were achieved by this forcible expulsion of the peasants from the land: firstly, the land became the private property of a comparatively small group of persons; secondly, an abundant influx of wage-workers into industry was guaranteed. Thus the first essential condition was created for the rise of capitalism—the presence of a mass of propertyless people, enjoying personal liberty, but deprived of the means of production.

Marx indicates the following basic methods of accumulating the great wealth required to organise big capitalist enterprises: 1) the colonial system—the plundering and enslavement of the backward peoples of America, Asia and Africa; 2) the system of taxation—creation of monopolies and other methods of appropriating part of the taxes levied on the population; 3) the system of protection—state support for the development of capitalist industry; and 4) brutal methods of exploitation.

In tsarist Russia the process of primitive accumulation started long before the abolition of serfdom; it followed the same lines as in other countries.

Primitive accumulation reached its peak in Russia with the reform of 1861. The scale on which the peasants were robbed may be judged from the single fact that fifty years after the reform 30 thousand landlords owned 189 million acres, i. e., almost as much as belonged to ten and a half million peasant households. The peasantry had to go to the towns to earn a livelihood. Characterising the reform of 1861, Lenin wrote that it represents "the first act of mass violence against the peasantry in the interests of nascent capitalism in agriculture".[1]

Thus, primitive accumulation resulted in the creation of a huge army of labour, deprived of the means of production, and in the accumulation of immense wealth in the hands of the few.

[1] V. I. Lenin, *The Agrarian Programme of the Social-Democrats in the First Russian Revolution 1905-07*, Moscow, p. 182.

## 2. Conversion of Money into Capital

**The general formula of capital** Money does not in itself constitute capital. It is known to have existed long before capitalism arose. Money is converted into capital only at a certain stage of the development of commodity production. Before capitalism there was commodity circulation which can be expressed in the formula: *C—M—C* (commodity—money—commodity), i.e., the selling of one commodity in order to buy another. *The movement of capital* is expressed by another formula: *M—C—M* (money—commodity—money), i.e., buying in order to sell.

The formula *C—M—C* is typical of simple commodity production. In this case one commodity is exchanged for another through the agency of money. Money acts only as a medium of exchange, it is not capital. The purpose of commodity exchange is clear. A bootmaker, for instance, sells the boots he has made in order to buy bread. It means that one use-value is exchanged for another.

The formula *M—C—M*, which has a totally different character, Marx called the general formula of capital. Here money is the starting-point and is used as a means of making a purchase with a view to making a sale, i.e., it functions as capital. With his money, the capitalist buys definite commodities in order to convert them into money again. The starting and finishing points coincide: at the beginning of the process the capitalist had money and at the end of it he has money.

But the movement of capital would be pointless if, at the end of the process, the capitalist had the same amount of money as at the beginning. The whole meaning of the existence of capital is that there should be more money after this movement than there was at the beginning. The ultimate aim of the capitalist's entire activity is *the extraction of profit*. Therefore, the movement of money under capitalist conditions was expressed by Marx in the following formula: *M—C—M'*, with *M'* standing for the money originally advanced plus a certain increment. This increment, or surplus over the original sum, Marx called *surplus value*. He used the letter "*s*" to stand for surplus value.

Capitalists use money not as a medium in commodity circulation, but as a means of making profits and of self-enrichment. This movement of money under capitalism is an endless process during which money acquires the property of being able to increase. Self-increasing value, or *value which brings in surplus value, is called capital.*

How, then, does this increase of capital take place? Maybe it takes place in the sphere of circulation, in the transaction of buying and selling? It would be wrong to think so, because this transaction (in the sphere of circulation) is merely an exchange of equivalents, of values equal in magnitude. If, however, all sellers succeed in selling their commodities 10 per cent, shall we say, above their value, then when they become buyers, they have to pay back this same 10 per cent to the sellers. Thus, what the commodity owners gain as sellers they lose as buyers. Yet, in actual fact, increments to capital are secured by the whole class of capitalists.

The question arises as to how the capitalist, who buys and sells commodities at their values, can nevertheless extract surplus value.

The general formula of capital contains two elements—money and the commodity. Consequently, the growth of value can take place only due to changes occurring either in money or in the commodities. It is common knowledge, however, that money in itself cannot change its value and provide an increment. This means that the source of the increase in value must be sought in the commodities.

For money to be converted into capital, the capitalist must find on the market a commodity which, when used, creates a value greater than that which it actually possesses. This commodity is labour power.

**Labour power as a commodity. Its value and use-value**

*Labour power* is the aggregate of the physical and mental capabilities possessed by man, which he makes use of whenever he produces material wealth. In every society, labour power is an essential element of production. Only under capitalism, however, does it become a commodity.

Like every other commodity, labour power must have, and actually does have, a value and a use-value. The value of labour power is determined, as in the case of every other commodity, by the labour-time socially necessary for its reproduction. Labour power is man's ability to work. It exists only as long as its owner remains alive. And to maintain himself, a worker requires a definite quantity of the means of subsistence. Consequently, the value of labour power is determined by the value of the means of subsistence requisite for the maintenance of the worker himself.

The quantity and quality of the necessary means of subsistence for the worker depend in each country on certain factors: the level of economic development, the circumstances in which the working class took shape, the length of time this class has been fighting for its own interests and how far its struggle has been successful.

The value of labour power also includes the value of those social and cultural requirements of the working class that have developed in a given country over a definite period of history. Marx pointed out that "in contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour power a historical and moral element".[1]

Labour power is replenished by the worker's family. For this reason the value of labour power should also include the value of the means of subsistence required by the members of the worker's family.

Finally, a man is not born a skilled worker. In order to have skilled labour power, there has to be expenditure on training. This expenditure is also included in the value of labour power. In other words, *the value of labour power* is determined by the value of the vital necessities needed in the given country to restore the physical strength of the worker, to satisfy his own social and cultural requirements and those of his family and to cover the expenses of acquiring qualifications. *The value of labour power expressed in terms of money is the price of labour power.* Under capitalism, *wages* are the price of labour power.

Being a commodity, labour power also has a use-value, which consists in the wage-worker's capacity during the

[1] K. Marx, *Capital*, Vol. I, p. 171.

labour process to create value greater than the value of his labour power. It is this property of labour power to be the source of *surplus value* that interests the capitalist.

### 3. The Production of Surplus Value. Capitalist Exploitation

**Specific features of the labour process under capitalism**

Labour power is used during the labour process, which is always accomplished in a definite social form. This social form is what is known as the relations of production, and these are based on the form of ownership of the means of production. The particular features of the labour process depend in every society on who owns the means of production. In capitalist conditions the means of production belong to the capitalist, while the worker is deprived of them. For this reason, the following specific features of the labour process are typical of capitalism:

*Firstly*, the worker works under the control of the capitalist to whom his labour belongs. The capitalist decides what is to be produced, on what scale and by what method.

*Secondly*, not only does the worker's labour belong to the capitalist but also the product of his labour.

These specific features of the labour process under capitalism convert the worker's labour into a heavy, compulsory burden.

**The process of growth of value. Capitalist exploitation**

Capitalist production is a combination of the process of creating use-value and the process of the growth of value.

In a commodity economy use-value cannot be produced without producing value. When the worker makes a commodity he expends his labour. The nature of the labour is two-fold. On the one hand, it is concrete labour and it creates *use-value*. On the other hand, it is abstract labour and it creates the *value* of the commodity. For the capitalist, the production of use-values is only a means of achieving his aim. *This aim and the chief motive of capitalist production is the production of surplus value.*

Let us consider how surplus value is produced.

When he starts up his business, the capitalist buys on the market everything he needs for production: machinery, machine tools, raw materials, fuel and labour power. Then production starts: the machinery and tools operate, the workers work, the fuel is consumed, the raw materials are transformed into the finished product. When the commodity is ready, the capitalist sells it on the market and with the money received he buys more raw materials, machines, labour power, etc.; in other words, the cycle is repeated. This cycle can be depicted like this:

$$M-C\left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P \ldots C'-M'$$

Money—Commodity (Labour power and Means of production)—Production—Commodity—Money.

What is the value of the finished commodity?

Let us suppose that the capitalist owns a clothing factory. In order to produce suits he buys sewing machines, woollen cloth, trimmings (lining, buttons, thread, etc.) and labour power. Suppose that to make 500 suits he buys 1,500 yards of woollen cloth at \$30 a yard, that is, goods to the value of \$45,000. On the trimmings he spends \$30 per suit, that is, a total of \$15,000. The production of 500 suits entails depreciation of the sewing machines and other expenses (lighting, heating, etc.) to the amount of \$5,000. Expenditure on hiring labour (500 workers, each receiving \$5 per day) amounts to \$2,500.

Thus the capitalist has acquired all the elements essential for production. His total expenditure on 500 suits is as follows:

| | |
|---|---|
| Value of woollen cloth . . . . . . . . . . . | \$ 45,000 |
| Value of trimmings . . . . . . . . . . . . | \$ 15,000 |
| Value of depreciation, etc. . . . . . . . . . | \$ 5,000 |
| Value of labour power . . . . . . . . . . . | \$ 2,500 |
| *Total* . . . | \$ 67,500 |

The value of one suit (67,500:500) is \$135. The capitalist discovers on the market that similar suits are sold at \$135 per suit. So he, too, has to sell his suits at this price. It follows that the capitalist has advanced \$67,500 for production and that after the sale of the commodities produced

($135×500) he has received the same $67,500. No surplus value has been created, money has not been transformed into capital.

How then is surplus value created?

The point to note is that the worker reproduces the value of his labour power not in the course of a whole working day but during part of the working day, say in five hours. But the capitalist compels him to work for more than five hours a day. The capitalist has paid the daily value of the labour power and is the owner of the use-value of that commodity during the whole of the working day. For this reason he compels the worker to work for eight or ten or even more hours. This lengthening of the labour process results in the worker creating more value than that of the commodity known as labour power.

Let us suppose that the capitalist makes the worker work not for five but for ten hours. Over ten hours the workers (in our example, there are 500) will use up twice as much of the means of production and will produce twice as much output, that is, they will make 1,000 suits.

Let us now consider the capitalist's expenditure:

| | |
|---|---|
| Value of woollen cloth . . . . . . . . . . . | $ 90,000 |
| Value of trimmings . . . . . . . . . . . . | $ 30,000 |
| Value of depreciation . . . . . . . . . . | $ 10,000 |
| Value of labour power . . . . . . . . . . . | $ 2,500 |
| *Total* . . . | $132,500 |

In a ten-hour working day the workers have produced 1,000 suits. Their sale on the market (at $135 each) brought in $135,000 to the capitalist. From an advance of $132,500, he has received $135,000. The originally advanced amount has grown by $2,500. This sum of $2,500 is surplus value. Money has been transformed into capital.

The acquisition of surplus value is determined by the fact that the workers put in more hours of work than was required for the reproduction of the value of their labour power. Consequently, surplus value *is the result of the exploitation of the working class by the capitalists.*

Exploitation of man by man is not engendered by capitalism, it existed long before it. In slave and feudal societies, the labour of slaves and serfs was obviously forced labour, and their exploitation was not concealed or camouflaged.

Things are different under capitalism. The worker here is no longer personally dependent; he does not belong to a particular capitalist. The latter cannot therefore force him to work. But the worker has neither means of production nor means of subsistence and is compelled to sell his labour power. Hunger forces the worker to work for the capitalist. That is why the system of wage labour is a system of wage slavery.

Under capitalism the forced character of labour is camouflaged.

After revealing the secret of capitalist exploitation, Marx discovered the basic economic law of the capitalist mode of production. He wrote: "Production of surplus value is the absolute law of this mode of production."[1]

The law of surplus value enables us to understand and explain all the processes and phenomena taking place in capitalist society. It expresses the exploiting nature of this mode of production. This law determines the intensification of competition and the anarchy of capitalist production, the growing impoverishment of the working people, increasing unemployment, the deepening and sharpening of all the contradictions of capitalism.

**Necessary and surplus labour-time**

In the capitalist enterprise the working day falls into two parts: necessary labour-time and surplus labour-time. Correspondingly, the worker's labour is divided into necessary and surplus labour.

*Necessary labour-time* and *necessary labour* are the parts of the labour-time and of the labour expended by the worker which are required for the reproduction of the value of his labour power, i.e., of the value of the means of subsistence he requires. The capitalist pays for the necessary labour-time in the form of wages.

*Surplus labour-time* and *surplus labour* are the parts of the labour-time and of the labour which are expended on the production of surplus product. Under capitalism, surplus product assumes the form of the surplus value appropriated

[1] K. Marx, *Capital*, Vol. I, p. 678.

by the capitalist. The ratio of surplus labour or surplus labour-time to necessary labour or necessary labour-time expresses the *degree of exploitation* of the worker. Consequently, surplus labour-time and surplus labour express a definite social relation which is characteristic of the exploitation of the working class by the owners of the means of production—the capitalists.

Capitalist ownership of the means of production and the exploitation of wage labour divide bourgeois society into two antagonistic classes.

**Class structure of bourgeois society**

Marx and Engels proved that society became divided into classes only with the appearance of private ownership of the means of production, i.e., of the land, the bowels of the earth, the instruments of labour, in a word, of everything people need for the production of material wealth. One section of society, comprising a minority, possesses the means of production. Because of this, it is able to exploit the other section of society which is deprived of the means of production.

Classes in an exploiting society, said Lenin, are groups of people one of which can appropriate the labour of another owing to their different relations to the means of production.

The first class division of society was the division into slave-owners and slaves. With the transition from slavery to feudalism this was replaced by the division of society into the class of feudal lords and the class of serfs.

Characteristic of bourgeois society is the existence of two basic antagonistic classes—the *bourgeoisie* and the *proletariat.* The bourgeoisie is the class which owns the means of production and uses them to exploit the wage-workers with a view to extracting surplus value. The proletariat is the class of wage-workers, deprived of the means of production and therefore subjected to capitalist exploitation. Besides the bourgeoisie and the proletariat there also exist under capitalism the classes of landlords and peasants, as survivals of the previous, feudal system.

The bourgeoisie and the proletariat are antagonistic classes, i.e., classes whose interests are opposed and irreconcilably hostile. As capitalism expands, the proletariat grows in strength, becoming increasingly conscious of its own class interests, and develops and organises for the struggle against the bourgeoisie. The chief feature which characterises bourgeois society is the class struggle of the proletariat against the bourgeoisie. The proletariat is the most revolutionary class in this society, the gravedigger of capitalism.

The bourgeois state safeguards the socio-economic and political inequality that exists under capitalism. It protects capitalist private ownership of the means of production, is instrumental in the exploitation of the working people, and suppresses their struggle against the capitalist system.

Bourgeois sociologists and lawyers present the bourgeois state as existing above classes, above society. Actually, however, the bourgeois state is the political organisation of the class which dominates the economy; it is a dictatorship of the bourgeoisie.

### 4. Capital and Its Components

**Capital as a social relation of production**

Bourgeois economists declare that every instrument of labour, beginning with the stones and sticks of primitive man, is capital. In actual fact, the means of production are not in themselves capital; they are indispensable for the existence of any society, and in this sense are of no account to classes. The means of production become capital only when they are the private property of capitalists and are used for the exploitation of the working class. *Capital* is not a definite sum of money and is not the means of production, but a historically determined socio-productive relation, in which the means and instruments of production, as well as the basic means of subsistence, are the property of the capitalist class, whereas the working class, as the chief productive force of society, is deprived of the means of production and the means of subsistence; so the working class has to sell its labour power to the capitalists and bear the brunt of exploitation. In other words, *capital is value which, through the exploitation of wage labour, produces surplus value.*

Of great importance for the elucidation of the essence of capital and the mechanism of capitalist exploitation is the division of capital into constant and variable capital. It is this division that enables us to answer the question: Where does surplus value come from?

**Constant and variable capital**

When he starts up production, the capitalist spends part of his capital on erecting a factory building, on purchasing equipment and machinery, fuel, raw materials and auxiliary supplies. This part of capital, which is embodied in the means of production, does not change its magnitude during the labour process. It is only transferred to the newly-produced commodity to the extent that the means of production become used up or worn out. For instance, the value of the raw materials, auxiliary supplies and fuel is completely transferred to the new product during each operation of production. If we take a machine, it may serve in the production process for, say, ten years and in this case it annually transfers ten per cent of its value to the new product. The part of capital which is spent on the means of production (machines, machine tools, raw materials, etc.) and which does not change in magnitude is called *constant capital*. Marx used the letter "*c*" to denote constant capital.

The capitalist spends another part of his capital on the purchase of labour power. At the end of the production process he receives a new value which has been produced by the workers in his enterprise. The new value is greater than the value of the labour power, for which the capitalist paid in the form of wages. The part of capital spent on the purchase of labour power, which grows in the production process as a result of the creation by the workers of surplus value, is called *variable capital*. Marx used the letter "*v*" to denote variable capital.

It was Marx who first divided capital into its constant and variable parts and thus disclosed the secret of capital, showing that only variable capital produces surplus value.

Bourgeois economists do not recognise the division of capital into its constant and variable components. As advocates of capitalism they seek to whitewash its exploiting character. What they recognise is the division of capital which is actually used by the capitalist in his commercial accounts—the division of capital into *fixed* and *circulating* capital. This division of capital, while helping to explain the mechanism of production, glosses over capitalist exploitation.

**Fixed and circulating capital**

The way in which productive capital transfers its value to the finished product—immediately or by stages—underlies the division of capital into fixed and circulating capital.

By *fixed capital* is meant that part of the capital which transfers its value to the finished product by stages, as it wears out (premises, machinery, machine tools). By *circulating capital* is meant that part of the capital which is spent on the purchase of labour power, raw materials, auxiliary supplies, fuel, etc., and which during a single period of production is completely returned to the capitalist in the form of money when the commodity is sold.

The division into fixed and circulating capital completely conceals the radical difference between the means of production and labour power. Here labour power comes under the same heading as the raw and auxiliary materials, fuel, etc., and together with these is contrasted to the other means of production. This division conceals the special role played by labour power in creating surplus value, and therefore camouflages capitalist exploitation.

These two ways of dividing capital may be shown as follows:

| Division according to role played in the process of exploitation | | Division according to manner of circulation |
|---|---|---|
| Constant capital | Factory premises, equipment, machinery | Fixed capital |
| | Raw and auxiliary materials, fuel | Circulating capital |
| Variable capital | Workers' wages | |

**Mass and rate of surplus value**

Surplus value has a definite magnitude, either absolute or relative. The absolute magnitude of surplus value is called the *mass of surplus value*. It depends on the degree of exploitation and the number of exploited workers. The relative magnitude of surplus value is expressed in the *rate of surplus value* or the *degree of exploitation*.

By explaining the division of capital into constant and variable capital, Marx not only revealed the nature of capitalist exploitation, but also showed the method of measuring the degree of exploitation.

Constant capital ($c$) does not create surplus value, therefore when determining the rate of surplus value it should be excluded. Variable capital ($v$) creates surplus value. For this reason, to determine the relative magnitude of surplus value, the latter should be taken in relation only to variable capital, and then we get the rate of surplus value. It is the exact expression of the degree of exploitation of labour power. If we take $s'$ as the rate of surplus value, with $s$ standing for surplus value, we get the equation: $s' = \frac{s}{v} \times 100\%$. Let us look at an example to illustrate this. Suppose a capitalist advances the following sum (in dollars) for the production of commodities: $100{,}000c + 20{,}000v = 120{,}000$. He sells the commodities produced by his workers for \$140,000. This means that he receives \$20,000 as surplus value.

What will be the rate of surplus value?

$$s' = \frac{s}{v} \times 100\% = \frac{20{,}000}{20{,}000} \times 100\% = 100\%.$$

The example shows that here the labour of the worker is divided equally into necessary and surplus labour, i.e., half the working day he works for himself and the other half he works for the capitalist for no wages. The greater the proportion of surplus labour to necessary labour, the higher the rate of exploitation.

As capitalism develops the rate of surplus value grows. In the U.S.A. the rate of surplus value in the mining and processing industries, calculated from official statistics, was 145 per cent in 1889, 165 per cent in 1919, 210 per cent in 1929, 220 per cent in 1939, about 260 per cent in 1947, and 306.3 per cent (in the processing industries alone) in 1955.

How is the increase in the degree of exploitation of labour achieved under capitalism?

## 5. Two Ways of Increasing the Degree of Exploitation of the Working Class

**Absolute surplus value**

It follows from what has gone before that under capitalism the working day is divided into two parts: 1) the necessary labour-time required to produce an amount of commodities which is equal in value to the labour power used, and 2) the surplus labour-time, during which the worker is working for the capitalist and creating surplus value.

Let us take for example a working day of 10 hours, of which 5 are necessary labour-time and 5—surplus labour-time. Let us express this in a diagram:

| 5 hours | 5 hours |
|---|---|
| necessary labour-time | surplus labour-time |

In this case the rate of surplus value will amount to:

$$s' = \frac{s}{v} = \frac{5 \text{ hours surplus time}}{5 \text{ hours necessary time}} \times 100\% = 100\%.$$

If the necessary labour-time remains constant, then, by lengthening the working day, the surplus labour-time will grow longer. And this will mean an increase in the rate of surplus value, in the degree of exploitation of the worker. Suppose the working day is lengthened from 10 to 12 hours, the surplus labour-time will then be 7, and not 5 hours. This being the case, the rate of surplus value will be $\frac{7}{5} \times 100\% = 140$ per cent.

The surplus value produced by lengthening the working day Marx called *absolute surplus value*. But since there is no end to the capitalist's thirst for surplus value, he will seek to increase the length of the working day to the extreme limit.

To what limits can the capitalists lengthen the working day? If they could, they would compel the workers to work 24 hours a day. But this is not possible, for a man has to spend a certain part of each day and night resting, sleeping and eating. These needs determine the purely physical limits of the working day. Apart from the physical limits, there are also moral limits, for as a member of society, the worker needs time to satisfy his cultural and social requirements (reading books and newspapers, going to the cinema, to meetings, etc.). But since both the physical and the moral limits to the working day are elastic, the working day under capitalism can last 8, 10, 12 hours, or even more.

In the early stages of capitalism, the state promulgated special laws to lengthen the working day in the interests of the bourgeoisie. Later, with the spread of machine production and the growth of unemployment, the need for legislation to lengthen the working day disappeared. The capitalist was now able to use economic pressure to compel the workers to work the maximum possible number of hours.

The working class then began a stubborn struggle to shorten the working day. The struggle developed earliest in England. It became particularly stubborn after the Congress of the First International and the Labour Congress in Baltimore in 1866 put out the slogan demanding an eight-hour working day. The working class struggle resulted in most capitalist countries adopting legislation to restrict the working day. How then does the capitalist decide the problem of getting a large amount of surplus value, if the working day cannot be lengthened indefinitely?

**Relative surplus value**

The second method of increasing surplus value is to shorten the necessary labour-time, keeping the length of the working day unchanged, so that the amount of surplus labour-time is thus increased. How is this done? Let us recall that the value of labour power is determined by the amount of labour which must be spent on the production of the worker's means of subsistence. If there is an increase in labour productivity in industries producing consumer goods, the value of these articles decreases. This will mean a reduction in the value of labour power and, consequently, a reduction in the necessary labour-time. And this will account for the increase in the surplus labour-time.

Suppose we divide a 10-hour working day into 5 hours necessary labour-time and 5 hours surplus labour-time. Suppose, further, that as a result of increased labour productivity the necessary labour-time is reduced from 5 to 3 hours. *Then the surplus labour-time* will undoubtedly increase from

5 to 7 hours. The degree of exploitation (or the rate of surplus value) will be higher, although the working day has not changed. In this case the working day may be depicted like this:

| | |
|---|---|
| 5 hours | 5 hours |
| necessary labour-time | surplus labour-time |

The rate of surplus value, expressed as a percentage, will be $s' = \frac{5}{5} \times 100\% = 100$ per cent.

| | |
|---|---|
| 3 hours | 7 hours |
| necessary labour-time | surplus labour-time |

The rate of surplus value will be $s' = \frac{7}{3} \times 100\% = 233$ per cent.

In our example, the rate of surplus value has risen from 100 per cent to 233 per cent not as a result of an absolute increase in the length of the working day, but as a result of the changed proportion between necessary and surplus labour-time.

Surplus value which arises from a reduction in the necessary labour-time and a corresponding increase in the surplus labour-time, consequent upon the increased labour productivity, is called *relative surplus value*.

Under certain conditions capitalists also obtain extra surplus value.

**Extra surplus value**

*Extra* (or *additional*) *surplus value* is a variety of relative surplus value. Every capitalist seeks to extract as much profit as he can. For this purpose he introduces new machinery and technology and thus secures a higher productivity of labour, the net result being that the individual value of goods produced in his enterprise is lower than the average value of the commodities produced in the relevant branch of industry. As the market price of a commodity is determined by the average conditions prevailing in production, the capitalist obtains a higher rate of surplus value compared with the usual rate.

Extra surplus value is the difference between the social value of the commodity and its lower, individual value. It has two specific features: firstly, it is obtained by those individual employers who were the first to install new, more productive plant. Secondly, extra surplus value is obtained only temporarily by the capitalist in question, for sooner or later the new machinery will be introduced in the enterprises of other capitalists, and whoever was first to make use of the new equipment will lose his advantage and cease to obtain extra surplus value. Disappearing from one enterprise, however, this kind of surplus value appears in another, where new and still more advanced machinery has been introduced.

Extra surplus value plays an important role in the development of capitalism. The drive to obtain it results in a spontaneous development of technology. Since each capitalist aims at his own enrichment, he tries to keep his new machinery and production technology a secret, thereby retarding their introduction in other enterprises. This enhances competition among the capitalists and aggravates the contradictions among them. The ultimate result is that some employers are ruined, while others grow rich.

In other words, though instrumental in the development of the productive forces, the pursuit of extra surplus value retards their progress.

**Three stages of capitalist development in industry**

Relative surplus value has its source in the growth of labour productivity. Therefore, an analysis of this value reveals three historical stages in the rise of productivity under capitalism: simple co-operation, manufacture, and machine production. The first and most elementary form of labour productivity was *capitalist simple co-operation*. Its essence lay in the capitalist simultaneously employing in his workshop a fairly large number of workers, all of whom performed the same kind of work.

When many workers jointly perform one and the same kind of work it is completed more rapidly. Each worker tries to keep up with the others, the net result being that the productivity of labour increases. The total productivity of five simultaneously employed workers is much higher than their total productivity if they work apart from each other. This new productivity costs the capitalist nothing, since he pays just the same as he did before for the labour power of each worker separately; but once production is greater he extracts more profit. In addition, where labour is performed by many workers together, the capitalist economises on premises, lighting, heating, etc. It is also discovered in this way that some people are better at one operation, and others excel at different ones. And so the capitalist finds it more advantageous to put the worker on the job he does best. In this way division of labour is gradually established in the workshop. Capitalist enterprises based on division of labour and handicraft technique are called *manufactories.*

Division of labour within the manufactory led to a great increase in the productivity of labour. The production of needles furnishes a clear example. In the eighteenth century a manufactory, employing ten workers, turned out 48,000 needles a day, i.e., 4,800 per worker. Yet without division of labour one worker could have produced only twenty needles a day. Productivity multiplied 240 times.

Labour conditions in the manufactory were very hard. Continual repetition of one and the same simple set of movements crippled the worker physically and morally. His working day reached 18 hours or more, and the wages were extremely low.

Manufacture prepared the necessary conditions for the transition to large-scale machine production, viz.: 1) the simplification of working operations made it possible to replace the workers' hands by machines; 2) the fulfilment of separate operations led to a specialisation of the working tools, with the result that an advance from hand-operated tools to machines became possible; 3) manufacture prepared numbers of skilled workers for the machine industry. In this sense, manufacture played a historic role.

Manufacture was the transitional form leading to the factory. First there appeared what is known as the working machine. It performed the same operations as those previously carried out by the worker. But it was beyond one worker's muscular strength to set such a machine in motion. A motor mechanism—the steam engine—was then invented. It served to set a multitude of working machines in motion. Eventually all this resulted in the rise of the *capitalist factory,* the unit which used a connected series of machines for the production of commodities.

The use of machines and their improvement revealed ever new possibilities for raising the productivity of labour and for making commodities cheaper. In consequence of the increasing use of machines, vast masses of small commodity producers became ruined and the workshops using hand labour had to close down.

The capitalist factory marked a new stage in the enslavement of labour by capital. Here the worker plays the role of an appendage to the machine. Capitalist use of machines leads to a longer working day, the employment of women and children in production, the formation of an army of unemployed and worsened conditions for the proletariat.

The capitalist does not always make use of machinery. The limits to its use are set by the fact that the capitalist introduces a machine only where its price is less than the wages of the workers displaced by it. The capitalist uses it only if it is to his advantage. Machine production therefore does not eliminate labour performed by hand. Manual labour is widely used to this day even in the most industrially developed capitalist countries, like the U.S.A. and Britain.

The transition from manufacture to the factory signified the final establishment of the capitalist mode of production.

**The fundamental contradiction of capitalism**

Large-scale machine production provided the basis for a spontaneous process of socialisation of labour and production. The small workshops using hand-operated machinery were superseded by big factories, employing many thousands of workers in different trades. Division of labour extended further. All enterprises, all industries became interconnected and interdependent. Engineering plants, for instance, could not function without the products of the iron and steel works, which, in turn, could not function without coal; the coal mines depended on the engineering and other plants. In this way production took on a social character.

Meanwhile all the enterprises, the land and its riches remained private property. The products of social labour were appropriated by the capitalists. This brought about the development of *a contradiction between the social character of production and the private, capitalist form of appropria-*

*tion of the results of production.* This is *the fundamental contradiction of capitalism.*

The fundamental contradiction of capitalism expresses the contradiction between the constantly developing productive forces and the capitalist production relations. As the socialisation of production grows, capitalism becomes a brake on the further expansion of the productive forces of society. To remove this brake, capitalist property has to be abolished. By developing the productive forces capitalism engenders its own gravedigger, the proletariat, the force destined to do away with private ownership and in its place establish social ownership.

### 6. Wages Under Capitalism

**Essential nature of wages**

We have already ascertained that under capitalism labour power, like every other commodity, has value. The value of labour power, expressed in money, is the *price of labour power.*

To conceal the fact of capitalist exploitation, bourgeois economists claim that wages are the price of labour. The worker, they say, works in a capitalist factory, produces various commodities and in return for his labour receives the price of that labour, i.e., his wages.

This appearance of wages as payment for the work performed derives from the fact that the worker receives his wages when he has worked for a definite period of time. In addition, wages are fixed either in accordance with the amount of time worked (hours, days, weeks) or in accordance with the quantity of articles produced. Actually, wages, as Marx puts it, are the transmuted, i.e., concealed, camouflaged form of the value, or price, of labour power.

Labour itself is not a commodity and for that reason has neither value nor price. In order to sell labour, it must exist prior to the sale. One cannot sell anything that does not exist. When a shoemaker brings his boots to the market, they actually exist and can be sold. But when the capitalist has hired the worker, no labour exists as yet. There is only the worker's *ability* to work, his labour power. It is this that the worker sells to the capitalist. When the latter buys and pays money for it, what he is most interested in is the worker's ability to work, to create surplus value, and not the worker as such.

In so far as wages under capitalism take the outward form of payment for labour, the impression is inevitably created that the whole labour is fully paid for. Let us suppose that for a worker to produce the means of subsistence for himself and his family, six hours of socially necessary working time are required. If one hour of this time is expressed in one dollar, the value of the labour power is equivalent to six dollars. The capitalist pays for the full value of the labour power—six dollars, but forces the worker to work for 12 hours. Thus the rate is actually only 50 cents an hour. Wages conceal the fact that the capitalist pays for one half of the working day, but not for the other. Thus, wages conceal all trace of the division of the working day into necessary and surplus labour-time, into paid and unpaid labour. Wages make it appear that the whole of the labour expended by the wage-worker has been fully paid for and so they obscure exploitation. This is what distinguishes capitalism from all the exploiting societies which existed before it.

**Forms of wages**

Under capitalism wages take various forms. *Time-wages* are the form under which payment for labour power is made on the basis of the length of time worked—by the day, week or month.

For a correct idea of time-wages under capitalism, they need to be considered in relation to the length of the working day. For example, the capitalist pays a worker ten dollars a day, and the worker works ten hours. The average price of one working hour is, therefore, one dollar. Suppose the capitalist increases the length of the working day from ten to 12 hours. In this case the price of the working hour will be reduced from one dollar to 83 cents. It is clear from this that for the capitalist time-wages are a means of intensifying exploitation. Besides time-wages, there is another form of wages—*piece-wages*.

The form of wages under which the size of the worker's earnings depends on the quantity of articles or parts which he produces in a given unit of time (an hour or a day) is known as *piece-wages* (payment by results).

Marx called piece-wages a modified form of time-wages. The fact is that in fixing the rate of pay for each part, the capitalist takes into account, firstly, the time-wages of the worker per day and, secondly, the number of parts the strongest and most dexterous worker produces in the course of a day.

If the daily time-rate amounts to ten dollars, and the number of parts produced by the worker is 20, then the piece-rate for one part will be half a dollar. The capitalist thus makes sure that piece-wages shall not exceed time-wages. If that is the case, why do capitalists introduce piece-wages? They do this because there are certain features attached to piece-wages which sometimes make them more advantageous to the capitalists than other forms of wages. For example, with piece-wages the quality of the work is checked by the finished product. The capitalist will pay for products of high or medium quality, but not for those of poor quality. This form of wages puts an added strain on the labour of the worker, and each worker tries to increase his output in order to get more money. But as soon as all the workers have increased their output, the capitalist lowers the rate per part, and this increases his profit. That is why Marx said that the more the worker works, the less wages he receives.

The capitalists make use of the different forms of wages to suit the concrete circumstances.

Historically, time-wages appeared before piece-wages. The former were widespread in the early stages of capitalist development, when employers were in a position to increase surplus value by lengthening the working day. This form of payment afforded them several advantages. Later, when the length of the working day became restricted by law, the employers made wide use of piece-rates. The present period witnesses the growing use of different forms of the *time-rate-bonus system*. Thus, towards the end of 1957, 70 per cent of the industrial workers in the U.S.A. received modified time-wages.

What is the explanation for the transition from piece-wages to time-wages? The fact is that many branches of modern capitalist industry adopted the "flow" method, with a conveyor belt moving at a fixed rate. This means that the speed of production does not depend on the worker, it is determined by the continually greater speeding-up of the conveyor belt or by the specific nature of production technology. The tremendous intensification of labour is not accompanied by any increase in wages for the workers.

Time and piece forms of payment are often used simultaneously in one and the same enterprise. Under capitalism, both of these forms of wages are only different ways of intensifying the exploitation of the working class.

In their pursuit of increased surplus value, the capitalists also adopt various *sweating systems* of organising production and paying wages. The essence of these systems is to squeeze as much labour as possible out of the worker in a given space of time. There are dozens of varieties of sweating systems of wage payment.

One of the first systems of this kind is *Taylorism*, named after its inventor, the American engineer F. Taylor. The essence of Taylorism is as follows. The strongest and most dexterous workers picked out by the capitalist in the enterprise are obliged to work at their maximum intensity. The execution of each separate operation is timed in seconds and fractions of a second. The data obtained are then passed on to a special technical board, which, after studying them, fixes a production regime and time-rates for all the workers in the enterprise. Two rates of pay are laid down—the higher rate for those who fulfil the job and a very low rate for those who do not. This wages system leads to a sharp rise in labour productivity, while the wages bill scarcely increases at all, so that the rate of exploitation of labour rises enormously.

Another form of the sweating system is *Fordism*. It has the same aim, that of extracting the largest possible amount of labour out of the worker. This is achieved by speeding up the conveyor belt. Whereas previously, for example, it moved at a speed of three metres a minute, it is now accelerated to four or five metres. In this situation the worker is compelled willy-nilly to work more intensively and spend more energy, but his wages remain at the old level and do not compensate for the energy spent. The result is that many workers are completely worn out by the age of 40 or 45 and are dismissed by the employer.

In addition, the simplicity of the operations performed on conveyor belts enables the capitalists to employ unskilled workers, fix lower rates of payment for them, and thus get bigger profits.

The "*profit-sharing*" scheme can also be classed among the sweating systems of wages. Here the capitalist informs the workers he hires that he will pay them less than other employers do, but that at the end of each year, when the balance of the work is drawn up, those who have worked well will receive a share of the profits.

The use of this scheme steps up the intensity of labour, retards the development of the workers' class consciousness, dulls their vigilance, disunites them and hampers their struggle against the capitalists. The "profit-sharing" scheme creates the illusion that the workers have an interest in raising the profits of the capitalist enterprise.

**Nominal and real wages**

In the early stages of capitalist development wages were rarely paid to the workers in money. The capitalist placed the workers in a position where they were forced to take food and consumer goods on credit from the factory shop. At the end of the month or of the season, the capitalist made out the account of how much the worker had earned and how many goods he had received. When the calculation was made the worker found that he was due to get no money at all or very little.

At the present time, payment in kind is particularly widespread in the economically underdeveloped countries.

In the developed capitalist countries, however, money wages are now the prevailing form of payment.

Wages expressed in terms of money are called *nominal wages.* But nominal wages cannot show the actual level of payment received by the worker. The concept known as real wages is used to determine this level. *Real wages* are wages expressed in terms of the worker's means of subsistence. In a word, real wages show what and how many of the means of subsistence a worker can buy for himself and his family with the money he earns.

In determining real wages account must be taken of the size of the nominal wages, the prices of consumer goods and services, the burden of taxes, rents and overheads. As capitalism develops, real wages tend to *fall.*

The decline in real wages under capitalism is due to a number of causes. The first of these is *rising prices*. The worker's nominal wages may slightly increase, but if the prices of goods go up to a greater extent, then he cannot buy as many goods as before, i.e., his real wages have fallen. In France, for instance, during the period between 1938 and 1954, the prices of all kinds of goods increased more than 32 times, while money wages increased only 21 times. The result was that in 1954 the French workers could not buy as much as they did in 1938. The position is the same in other capitalist countries.

Another cause of the decline in the real wages of the workers is the *growth of taxes and overheads* (rent, heating, lighting and other charges). These increased payments cause a considerable reduction in the worker's real wages. In the U.S.A., for instance, taxes from the population in 1959 were almost 12 times as high as in 1939, and in 1958 rents accounted for 25-30 per cent of earnings.

These are some of the causes of the decline in the real wages of the working class under capitalism.

In capitalist countries there is *no equal pay for equal work as between men and women*. Women doing the same work as men are paid considerably less wages.

*Racial discrimination* is a source of huge profits for the capitalists. In the U.S.A., for instance, the Negro workers are placed in worse working conditions than the white workers. They are employed mainly on the most difficult, harmful and dangerous work. Payment for Negro labour is much less than for white labour.

The level of wages is not the same in the different capitalist countries. There are many reasons for this. It would, of course, be wrong to suppose that in some countries the capitalists are more favourably inclined towards the workers than in other countries. Everywhere they strive to lower wages. But in comparing the wages in the different countries account must be taken of the historical conditions in which the working class was formed, the level of its traditional requirements, the expenses incurred in acquiring a skilled trade, the productivity of labour, the class struggle and other conditions characteristic of the country concerned. In the U.S.A., for instance, capitalism developed at a time when labour was in short supply, and this fact led to wages being higher. The working class in Britain was the first in Europe to organise to resist the capitalists. For this reason workers' wages in Britain are now higher than, say, in Ireland.

**The working-class struggle for higher wages**

In order to extract more profits, the capitalists strive to keep the workers' earnings down. In its fight against the working class the bourgeoisie enlists the help of the state, the law, the church, the press, radio, television, etc. The capitalists also unite in employers' associations in order to present a united front against the workers.

On the other hand, the workers also unite in their trade unions to resist the attacks of capital and improve their economic position.

An indication of the organisational strength of the working class today is the fact that in 1960 the total trade-union membership throughout the world was in the region of 180 million, of which over 100 million workers were affiliated to the World Federation of Trade Unions.

The level of wages is established in consequence of a bitter class struggle between the proletariat and the bourgeoisie. Where the workers reveal stubbornness and determination in strikes, the capitalists are often forced to meet their demands and increase their wages. The struggle of the working class to improve their living conditions has recently been on a very broad scale in the most important capitalist countries—the U.S.A., Britain, France, Italy, West Germany and Japan. In 1949, the number of workers involved in economic and political strikes was 41 million, in 1960—54 million, and in 1961—over 70 million. History will always remember the mass action taken by the French, Italian, Belgian, American and British workers. The struggle of the working class in the capitalist countries for their economic and social rights is becoming more and more acute.

The economic struggle of the proletariat is of great importance. Yet while recognising this fact, Marxism-Leninism teaches us that alone it cannot free the workers from exploitation. The abolition of the capitalist mode of production through revolutionary, political struggle can alone put an end to the conditions that give rise to the economic and political oppression of the working class.

*Chapter IV*

# ACCUMULATION OF CAPITAL AND DETERIORATION IN THE POSITION OF THE PROLETARIAT

We discovered earlier that surplus value is produced by capital. But capital in its turn comes from surplus value. How does this take place? To answer this question we must learn something about the mechanism of capitalist reproduction.

## 1. Accumulation of Capital and the Army of Unemployed

**Reproduction and accumulation of capital**

When we speak of production, we mean the process of creating material wealth. Under capitalism, this means that the capitalist buys the means of production and labour power on the market, and then material wealth is created by the people. The production process is then completed. But does this mean that there is no further need to produce material wealth? No, it does not. Society cannot stop producing material wealth, since to do so would endanger its existence. So production must go on continually, i.e., the same stages must be repeated over and over again. This constantly renewed and repeated process of the production of material wealth is called *reproduction*.

Reproduction takes place in every society, but the motive forces behind reproduction vary from one society to another. Under capitalism the motive force is the capitalists' pursuit of surplus value. Material wealth is not produced and reproduced to satisfy the needs of the working people, but so that the capitalist can make profits.

The surplus value appropriated by the capitalist is created during a process of capitalist reproduction. But we should be interested not only in the appropriation of surplus value, but in how it is used, i.e., on what it is spent. If the capitalist spends the entire surplus value on his own personal requirements, then we have what is called *simple reproduction*. Suppose the capitalist has advanced a capital of $200,000, the constant capital being 160,000 of this, and the variable capital 40,000. With a 100 per cent rate of surplus value, the commodities produced will have a value of $240,000, assuming that all the constant capital enters into the value of the product (160,000*c* plus 40,000*v* plus 40,000*s* equals 240,000). These $240,000 consist of the $200,000 originally advanced plus $40,000 surplus value created by the labour of the workers during the production process.

Since with simple reproduction all the surplus value is spent on the personal requirements of the capitalist and his family, the reproduction process will be renewed on the same scale the following year. It will be the same during the third year, the fourth, and so on. Although with simple reproduction the production of material wealth is repeated without any variation in the volume, an analysis of it helps to reveal the source of the enrichment of the capitalists.

During the production process the capital originally advanced is reproduced, and surplus value is created which the capitalist spends on his personal requirements.

If the capitalist did not appropriate the surplus value, then in time he would use up for his personal requirements all the capital he originally advanced. In our example the capitalist spends $40,000 every year, and since the capital originally advanced amounted to $200,000, then in five years none of it would be left. Yet this does not happen, because actually the sum of money the capitalist spends on his private needs is the surplus value created by the unpaid labour of the workers.

Whatever the primary source of the capital advanced, it follows that already in the course of simple reproduction this capital in time becomes value created by the labour of the workers and appropriated for no return by the capitalist.

One very important point arises from this. It is that when, in the course of the socialist revolution, the working class expropriates the capitalists, takes away their factories, it is only taking back what the labour of generations of the working class has created. The abolition of private capitalist ownership is a lawful act, an act of historic justice.

We have been assuming that the capitalist spends all his surplus value on personal requirements. But can this situation last for ever? In the early stage of capitalist development this was frequently the case: the capitalist was then exploiting only a small number of workers and sometimes worked himself. The situation changed when capitalist enterprises expanded; then the capitalist began to exploit hundreds or thousands of workers. Let us suppose the capitalist has hired 1,000 workers and pays them wages to the value of $2 million annually. These workers create for him (with the rate of surplus value at 100 per cent) surplus value amounting to $2 million annually. Now, the employer no longer spends the whole, but only part of the surplus value on his personal requirements. The other part is used to expand production, acquire more machinery and raw materials and hire more labour. In this case we have *extended* reproduction, or *accumulation of capital*.

Let us examine the process of the transformation of surplus value into capital. Suppose the capitalist has a capital of $10 million. Of this sum he advances 8 million as constant capital and 2 million as variable capital. The rate of surplus value will be 100 per cent. After the process of production is completed, assuming all the constant capital is incorporated in the value of the product, commodities to the value of $12 million will have been produced (8 million *c* plus 2 million *v* plus 2 million *s*).

Suppose the surplus value of 2 million is assigned by the capitalist as follows: for expansion of production—$1 million; for personal consumption—1 million. At the same time, the part of the surplus value used to expand production is divided between constant and variable capital in the same proportion as was the capital originally advanced, i.e., 4 : 1 (800,000*c* plus 200,000*v*).

The consequence is that in the second year the enterprise will have functioning capital to the amount of $11 million (8,800,000*c* plus 2,200,000*v*). If the rate of surplus value is 100 per cent, then the second year commodities will have been produced to the value of $13.2 million (8,800,000*c* plus 2,200,000*v* plus 2,200,000*s*).

In the second year there was an expansion in the volume of production and an increase in the mass of surplus value, since part of the surplus value obtained in the first year was transformed into capital. Surplus value, then, is the source of the accumulation of capital. By means of capitalisation, i.e., the addition of surplus value to the capital, the capitalist increasingly adds to the amount of his capital.

The insatiable thirst for surplus value for the sake of self-enrichment leads to the capitalist continually extending the scale of his production. On the other hand, competition compels every capitalist, under threat of becoming ruined, to improve technique and expand production. To call a halt to the advance of technique and the expansion of production means being left behind, and those who are left behind become the prey of their competitors.

If the capitalists are continually expanding production, does this mean that they reduce that portion of surplus value which is spent on personal consumption? No, it does not. As the wealth of the capitalist class increases, there is also an increase in the amount of surplus value the capitalists use to satisfy their personal requirements. In the U.S.A. today, for instance, millionaires spend about 25 per cent of their incomes on personal requirements. Some millionaire families have several mansions, expensive yachts, their own aeroplanes, and dozens of luxurious cars. The extravagance of American millionaires today is seen in the fact that at a grand reception held every season by one of the 60 richest families in the U.S.A., as much money is spent as would keep an ordinary American family of five wanting for nothing for the whole of their lives. All this points to the fact that the parasitism and extravagance of the capitalist class grows side by side with the accumulation of capital.

Representatives of what is known as vulgar bourgeois political economy explain capitalist accumulation as being due to thrift on the part of the capitalists, who, concerned for the good of society, supposedly restrict their own requirements.

The most blatant advocate of this view was the 19th century English economist Senior. "I substitute for the word capital," he solemnly announced, "considered as an instrument of production, the word abstinence."[1]

On the subject of this "abstinence" Marx humorously pointed out that the capitalist restricts his requirements when he "lends" the instruments of labour to the workers instead of consuming steam-engines, railways, fertilisers and so on himself. Exposing these apologetics for what they are, Marx remarked ironically that simple human kindness would seem to demand that the capitalist be freed from these "agonising sacrifices" by depriving him of his right to own the means of production.

At the end of the 19th century Senior's theory was revived in modified form by the English economist Alfred Marshall and the American economist Thomas Carver, who merely replaced the word "abstinence" by the words "prospectiveness" and "waiting".

All these theories aim at justifying capitalism and capitalist exploitation. Indeed, the accumulation of capital and the extent of its accumulation depend not on the "abstinence" of the capitalist, as the bourgeois ideologists would have it, but on the *exploitation of the working class.* Take, for example, capital amounting to 8,000*c* plus 2,000*v*. A rate of surplus value of 100 per cent would give 2,000*s*, and a 200 per cent rate of surplus value—4,000*s*. Consequently, the higher the rate of exploitation, the more surplus value created and the greater the extent of accumulation. The degree of exploitation of labour power is increased by lengthening the working day, raising the intensity of labour, lowering wages below the value of labour power, etc.

*Increasing productivity of labour* is an important factor which speeds up the accumulation of capital. It leads to cheaper commodities, making it possible for the capitalist a) to cut the value of the commodity labour power, which means that with the same amount of variable capital a greater mass of live labour can be set in motion, so that more output and, consequently, more surplus value can be produced; b) to increase his private consumption without decreasing that part of the surplus value required for extended production; and c) rapidly to expand production through

[1] K. Marx, *Capital*, Vol. I, p. 596.

the use of cheaper machines, without increasing the surplus value to be used as capital.

The amount of the accumulation of capital, finally, is affected by the *size of the capital advanced*. The greater the amount of the capital, the proportion of its division into $c$ and $v$ remaining the same, the greater also is the size of the variable capital. Therefore, the size of the accumulation of capital, other conditions being the same, is directly proportional to the size of the originally advanced capital.

These are the basic factors which determine the size of the accumulation of capital.

How does the accumulation of capital affect the position of the working class? To answer this question we must first know something about Marx's theory of the organic composition of capital.

**Organic composition of capital**

In his theory of surplus value Marx revealed the division of capital into constant and variable, thus disclosing the true source of surplus value. Subsequently, Marx added to this proposition the theory of the organic composition of capital.

The composition of capital can be regarded from two aspects: from the natural substantive (material) and according to value.

*The composition of capital according to value* is determined by the proportion in which capital is divided into constant and variable.

According to its material form, the capital functioning in the production process is divided into means of production and labour power. The make-up of capital determined by the relation between the mass of the means of production used and the amount of labour required to operate them is called the *technical composition of capital*. This relation depends on the technical equipment of the enterprise in question.

The composition according to value and the technical composition of capital are closely connected. Generally speaking, a change in the technical composition of capital leads to a change according to value. Therefore, the relation between constant and variable capital, i.e., the composition of capital according to value, in so far as it is determined by the technical composition of capital and reflects its changes, Marx called the *organic composition of capital*.

Thus, the organic composition of capital is the relation of $c$ to $v$. For example, if the capital is 800$c$ plus 200$v$, then the organic composition will be 4 : 1. The composition of capital according to value should not be confused with the organic composition. The former can constantly change with fluctuations in the market prices of the means of production and labour power. The organic composition of capital only changes when it is influenced by changes in the technical make-up. With the development of capitalism and the growing accumulation of capital there is a continual rise in the organic composition of capital. In the processing industries in the United States, for example, the organic composition of capital was 4.5 : 1 in 1889, 6 : 1 in 1939, and 8 : 1 in 1955.

This growth in the organic composition reflects the fact that as production develops there is an increase in the mass of raw materials, machines, tools and other equipment compared with the amount of labour power used in production. For example, whereas the organic composition of capital was originally 1 : 1, it later becomes 2 : 1, then 3 : 1, 4 : 1, 5 : 1 and so on. And this means that the proportion of variable capital within the whole capital fell from 1/2 to 1/3, 1/4, 1/5, 1/6, etc. But since the demand for labour is determined not by the whole of capital, but only by its variable part, the relative curtailment of variable capital means that the rate at which workers are drawn into production becomes slower and slower, and lags behind the rate of the accumulation of capital.

The result is that an ever-increasing section of workers can find no employment for their labour. Part of the working class becomes redundant in relation to the requirements of capitalist accumulation. A so-called "surplus population" or *relative surplus population* is formed—unemployment.

The existence of constant relative surplus population is an expression of the *capitalist law of population*, discovered by Marx. The essence of this law is that the greater the surplus value created, the greater is the accumulation of capital and the higher is its organic composition. But the greater the accumulation of capital and the higher its organic composition, the less is the amount of labour power drawn into the production process.

**The industrial reserve army and its forms**

Workers thrown out of the production process form the army of workless in the capitalist countries.

The main cause for the formation of an industrial reserve army is the rise in the organic composition of capital. But apart from that, there are other factors which intensify the growth of unemployment. Among these are: a) *longer hours* and *heightened intensity of labour*. The capitalists take advantage of the existence of the army of unemployed and compel those who are employed to do the work of two or three workers, and this tends to increase the industrial reserve army; b) *the widespread introduction of female and child labour*. Technical innovations and the simplifying of labour operations make it possible to draw lower-paid women and juveniles into production, and this throws out adult male workers formerly in employment; c) *the ruin of the small producers*. As capital accumulates, this process is accentuated, peasants and craftsmen being forced to abandon production and so swell the ranks of the unemployed.

A reserve army of labour in industry is essential to capitalism as a means of systematic pressure on the employed workers; it enables the capitalist to lower wages under threat of dismissal, and to increase the intensity of labour, i.e., to intensify the exploitation of the working class. That is why the capitalists are interested in maintaining a certain degree of unemployment.

Relative surplus population, or unemployment, takes a variety of forms in the capitalist countries. There are three main forms—floating, latent and stagnant. Let us consider each of these.

The *floating* surplus population applies to the mass of workers who are at one time drawn into and at other times thrown out of production, so that in general there is always a certain number of unemployed. These workers are drawn into production by expansion of production, the starting-up of new enterprises, and are thrown out when production is curtailed, new machines are introduced, enterprises closed down, etc. This form of unemployment is most widespread in towns and industrial centres.

*Latent* surplus population or *agrarian surplus population* applies to the constant surplus of working hands to be found in agriculture. This surplus appears because the small peasants, with their miserably small plots of land, live from hand to mouth and are always ready to sell their labour power if they can find a buyer.

At the same time, a process of differentiation within the peasantry takes place, a splitting into rich and poor. An agricultural proletariat forms in vast numbers, people working as farm hands for the rural bourgeoisie. But the capitalist farms which concentrate more and more land in their hands make increasing use of machinery, so that there follows an absolute reduction in the number of people working in agriculture. To avoid starvation, the agricultural labourers go to the towns and industrial centres, adding to the army of unemployed there.

The *stagnant* form of relative surplus population applies to the existence of a mass of workers who have no regular work of any kind (people engaged in home industries, casual labourers, etc.). The living standards of these workers are considerably lower than the average standard for the working class as a whole.

Besides these basic forms, there is a yet lower stratum included in the term relative surplus population. These are the tramps, criminals, beggars, and so on.

As capitalism develops, relative surplus population increases. Unemployment under capitalism is a fact which cannot be denied. Bourgeois economists are therefore faced with the task of explaining the origin and existence of unemployment.

**The misanthropic "theory" of Malthus**

The majority of bourgeois economists try to explain that unemployment and poverty are due to eternal laws of nature. Among these economists, the man who in 1798 came forward with the most reactionary theory of all was Malthus, an English clergyman.

The main thesis Malthus advanced was that since the very beginning of human society the population has been increasing by geometrical progression (1, 2, 4, 8, etc.), while the means of subsistence, because of the limited natural resources, have been increasing by arithmetical progression (1, 2, 3, 4, etc.). This ratio, in Malthus' opinion, showed that vast masses of the people in the world are "superfluous": they can find neither work nor food. This conclusion was drawn from false statistical calculations.

In spite of the absurdity of Malthus' "theory", the bourgeoisie welcomed it with open arms, since it provided a justification for all the evils of capitalism. Unemployment could be ascribed to the too rapid absolute growth in numbers of the working class, poverty—to the absolute surplus of mouths to feed and inadequate means of subsistence. According to Malthus, the proletariat could free itself from unemployment, poverty and starvation not by doing away with the capitalist order, but by refraining from marriage and by artificially curtailing childbirth. In addition, Malthus regarded disasters such as wars and epidemics as blessings to humanity: they, after all, get rid of the "surplus" population, bringing the numbers of the human race into line with the available means of subsistence.

Progressive people in all countries immediately took up the cudgels against the "Malthus' doctrine". Among the active opponents of this misanthropic school of thought we should mention the Russian revolutionary democrats Chernyshevsky (1828-1889) and Pisarev (1840-1868).

Malthus' false assertions are fully exposed by Marx in his theory of the accumulation of capital. Malthusianism, however, is still advocated in the capitalist world, and is particularly widespread in the U.S.A. In *Road to Survival*, a book published in the U.S.A. by William Vogt, it is asserted that the earth cannot support more than 500-900 million human beings, and that all the rest are redundant and must be got rid of. In another book, *Human Fertility: The Modern Dilemma*, written by Robert Cook, the growth of population is represented as a terrible threat to the continued existence of humanity.

The actual cause of unemployment, poverty and starvation under capitalism has been scientifically revealed by the founders of Marxism-Leninism. It is the capitalist mode of production, with the thirst for capitalist accumulation, which gives rise to unemployment and the starvation of the working masses. To get rid of these evils, capitalism must be destroyed through revolution. The development of the socialist countries is visible proof of this.

## 2. The General Law of Capitalist Accumulation

**Essence of the general law of capitalist accumulation**

The deterioration of the position of the working class and the growth of unemployment are not due to the operation of natural laws, but are explained by the laws of capitalist production. "The greater the social wealth, the functioning capital, the extent and energy of its growth and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army.... But the greater this reserve army in proportion to the active labour army, the greater is the mass of a consolidated surplus population, whose misery is in direct proportion to the labour put in. The more extensive, finally, the lazarus-layers[1] of the working class, and the industrial reserve army, the more official pauperism there will be. *This is the absolute universal law of capitalist accumulation*,"[2] wrote Marx.

The general law of capitalist accumulation implies that the accumulation of capital determines the growth of wealth at one pole, i.e., in the hands of the capitalist class, and at the other, the growth of unemployment and insecurity among the working class. The general law of capitalist accumulation is the concrete expression of the operation of the basic economic law of capitalism—the law of surplus value. It is the pursuit of surplus value which leads to accumulation of riches, luxury, parasitism and extravagance on the part of the bourgeoisie. The greater the accumulation of wealth by the bourgeoisie, the larger becomes the army of unemployed, the higher the degree of exploitation of the employed workers

[1] The lowest strata of society: poverty-stricken unemployed, beggars, homeless people living by casual labour or feeding on scraps from other people's tables.—*Ed.*

[2] K. Marx, *Capital*, Vol. I, p. 644.

and the worse their material position. Therefore the accumulation of capital and the deterioration of the position of the proletariat are two inseparable aspects of capitalist society.

**Relative and absolute deterioration of the position of the proletariat**

A process of *relative impoverishment* of the proletariat takes place with the development of capitalism. This means that as social wealth increases, the share of the workers in the value that is always being newly created in society (i.e., in the national income) becomes less, while the share of the capitalists increases.

The advanced capitalist countries, the U.S.A., Britain, France, and so on, reveal a striking example of the progressive relative impoverishment of the working class. In 1890 the share of the American working people in the national income was 56 per cent, in 1923—54 per cent, and today about 40 per cent. In Britain the share of the working people in the national income dropped from 45 per cent in 1924 to 40 per cent in 1954. In France, wages dropped from 40 per cent of the national income in pre-war times to 29 per cent in 1951. Over the last five years France's industrial production has risen by 50 per cent while workers' real wages have increased by a mere 14 per cent. These figures indicate more eloquently than words that a process of relative impoverishment of the proletariat is taking place.

But while the share of the working class in the national income is declining, that of the capitalists is steadily increasing. In the United States, for example, the share of the capitalists was 46 per cent in 1923; today it is about 60 per cent. In Britain the share of the capitalists has increased from 55 per cent in 1924 to 60 per cent in 1954.

The relative impoverishment of the working class is reflected in the change in the ratio of wages to profits, which is to the detriment of the working class and to the advantage of the capitalists.

The general law of capitalist accumulation gives rise also to the tendency towards an absolute deterioration of the material position of the working class and absolute impoverishment.

The worker's lot under capitalism is to live with no confidence in what the future will bring. The accumulation of capital continually reproduces the worker as a wage-worker, throws him on the labour market, makes him an object of exploitation. On the one hand, it condemns a large section of the working class to excessively hard work and monstrous exploitation; on the other, it creates a large army of unemployed.

*Absolute impoverishment* means the deterioration of the living and working conditions of the workers: real wages fall, the cost of living rises, the army of unemployed grows larger in town and countryside, intensity of labour increases, housing conditions worsen, etc. Let us examine a few of these factors.

In the capitalist countries the *cost of living* is rising. For example, if the cost of living index in the U.S.A. for the years 1947-49 is taken as 100, then in 1950 it stood at 103, in 1955 at 115, and in 1960 at 126.4. It follows that the cost of living in the U.S.A. rose 26.4 per cent between 1947 and 1961.

According to the data of the Heller Committee, in the U.S.A. the annual budget of a family of four (on a subsistence minimum) was put at 5,335 dollars in 1954. But 32 per cent of all American families in 1954 had an annual income of under 3,000 dollars, and 31 per cent had an income between 3,000 and 5,000 dollars So in 1954, 63 per cent of the families in the U.S.A. had an income below the subsistence minimum. In September 1958, the "Heller budget" had risen to 6,087 dollars a year, while 45 per cent of the total number of American families had an income of less than 4,000 dollars, i. e., a little over half the subsistence minimum.

If the 1938 cost of living index in Britain is taken as 100, then in 1950 the index stood at 185, and in 1955 at 246. So the cost of living in Britain in 1955 was two and a half times as much as in 1938. The cost of living has continued to rise since 1955. If the 1956 cost of living index is taken as 100, then in 1958 it was 109, and in 1960—110.7. The increased cost of living means a reduction in the purchasing power of the working people.

The most important factor determining the tendency towards the absolute impoverishment of the working class under capitalism is the *growth of unemployment*. Over the last four decades mass unemployment has become permanent and chronic in the capitalist countries. Apart from the totally unemployed, there are millions of partially unemployed working a short week or a short day. In the U.S.A., after the Second World War the annual number of totally unemployed was 2 or 3 million, but in 1962 the figure was 4 million. In addition that year there were 14 million workers in the U.S.A. not fully employed (out of work for 15 weeks).

Unemployment means not only privation and suffering for those out of work; it worsens the position of the whole working class, because the capitalists use it to bring down wages for those in work.

An indication of the lowering of the living standards of the working class is the *continual heightening of the intensity of labour* in capitalist enterprises. Excessive intensification of labour, coupled with lack of proper safety provisions, leads to mass incidence of industrial accidents. In the U.S.A., for example, one worker is killed or crippled at work every three minutes, and one worker receives some kind of injury every 11 seconds According to the data of the U.S. Bureau of Labour Statistics, between 1950 and 1960 about 22 million American workers became the victims of accidents, i. e., an average of 2 million annually.

When examining the question of the tendency towards absolute impoverishment, account should be taken of the position of the working people in the colonies and dependent countries, where imperialism has left a heritage of poverty and high mortality, and also of the ruin and impoverishment among the basic mass of the peasantry and handicraft workers in all the capitalist countries.

These, in brief, are a few of the factors which make for the absolute impoverishment of the working people in the capitalist countries.

Absolute impoverishment should not be understood to mean a steady, universal lowering of the workers' standard of living year by year and day by day. The living standard of the working people may rise in one country or several countries concurrently with a general lowering of living standard in world capitalist economy as a whole. When estimating the position of the workers in the capitalist countries, it should be remembered that the level of material well-being of the working class at any one moment is determined by the relation of class forces between the bourgeoisie and the proletariat. Throughout the history of capitalism the workers have been fighting a stubborn battle to improve their living conditions. This struggle is a factor working against the decline in the living standards of the working class.

The strike movement in the capitalist world spreads year by year. It has become particularly broad in scope in the U.S.A. A comparison of the ten pre-war years (1931-40) and the ten post-war years (1946-55) shows that the number of strikes in the U.S.A. increased from 22,021 to 43,159, and the number of workers involved in them from 9.5 million to 26.5 million, while the total working days lost increased from 145 million to 434 million. In 1960 there were about 3,250 strikes in the U.S.A., involving 1.5 million workers. The strikes are becoming more and more protracted and stubborn.

Throughout the capitalist world the number of workers and other employees involved in the strike movement increased from 54 million to 70 million between 1960 and 1962. There is a steady rise in the political activity of the working class: whereas in 1958 approximately 43 per cent of the total strikers throughout the capitalist world were involved in political strikes, nearly three-quarters joined in political strikes in 1960.

Bourgeois and Right-wing socialist economists do their best to put a good face on capitalism and have advanced many theories in an attempt to refute the Marxist-Leninist doctrine of the relative and absolute deterioration in the position of the working class under capitalism.

The most lying theory propagated in recent years is that of "people's capitalism". This is now the official theory of imperialism to deceive the working masses. In the U.S.A., for example, a special government information agency is charged with the propaganda of this theory and one of its officials is known to have intimated that it is very important that the term "people's capitalism" exists to show the difference between American capitalism today and the capitalism that existed in Europe 100 years ago when Marx wrote of it.

The advocates of this theory declare that workers' wages under capitalism increase so rapidly that the class differences between workers and capitalists are steadily becoming obliterated. With their wages, workers buy cars, houses, shares; they put money in savings banks and, at many enterprises, workers get a share of the profits. "People's capitalism", declare these defenders of capitalism, brings about a "revolution in incomes", which causes a narrowing of the breach between the modes of life of rich and poor, while material wealth is distributed equally among the members of society. Consequently class antagonism is giving way to equality, while the Marxist-Leninist theory of class struggle is apparently unnecessary, since every worker, provided he is industrious and thrifty, can become a capitalist.

But there are irrefutable facts to testify to the falsity of the "people's capitalism" theory, and the best proof of it is the growth of the strike struggle of the working people. The advocates of "class peace", "class harmony", are trying to prove the unprovable in order to distract the working people from the struggle for their basic class interests, to split the organised working-class movement, to disarm the workers and fill people's minds with illusions about the possibility of doing away with the evils of the capitalist system without a revolutionary struggle.

**Historical tendency of capitalist accumulation**

After his thorough analysis of the accumulation of capital, Marx showed the historical tendency of capitalist accumulation.

The starting-point of the rise of capitalist property is the private property of small commodity producers. Small-scale commodity in the period of feudalism began to disintegrate and engender capitalist elements. But this process of disintegration was too slow; it was accelerated by the forcible expropriation of small commodity producers during the period of the primitive accumulation of capital. The result of this expropriation was that capitalist property became the prevailing form.

The bourgeois relations of production, which were thus established and were based on large-scale private ownership of the means of production, promoted rapid development of the productive forces: there was technical advance, the labour of hundreds and thousands of workers was brought together and production assumed a social character.

This social character of production was accentuated still further by the operation of the economic laws inherent in capitalism. The fundamental economic law of capitalism—the law of surplus value—gives rise to increased exploitation of the working class, followed by intensified accumulation of capital. In the process of capitalist accumulation the organic composition of capital grows, and the outcome is large-scale production.

This process of socialisation of production goes hand in hand with the constant reduction in the number of capitalist magnates; but they control vast quantities of social wealth, and appropriate the fruits of the collective labour of millions of working people.

As capitalism develops the social character of the production process comes increasingly into conflict with the capitalist private form of ownership. Private ownership becomes an obstacle to the further development of the productive forces.

The socialisation of labour by capital prepares the objective preconditions for the ending of capitalism. But the operation of the inner laws of capitalism creates, in addition, the subjective preconditions for the downfall of capitalism. With the growth of capital and the increase in the scale of production, the working class continually grows in number and, through the mechanism of capitalist production, unites, organises and prepares itself for the time when it will manage production in the new, socialist society. During the process of capitalist accumulation, unemployment grows, the position of the working class deteriorates and its struggle increases. The working class is more and more coming to understand that the only way to get rid of poverty, starvation and exploitation and to win their rights is the path which leads to the abolition of capitalism by revolution.

Thus, capitalism itself prepares the objective and subjective preconditions for its own abolition. This is the *essential point about the historical tendency of capitalist accumulation—the preparation of all the conditions necessary* *for the expropriation of capitalist private property, for the downfall of capitalism and the victory of socialism.*

The inevitable downfall of capitalism is confirmed by the whole course of historical development. Thus, in 1917, the Russian working class, in close alliance with the poor peasantry, carried through the October Revolution under the guidance of the Communist Party led by Lenin.

In the course of the transformations brought about by the Revolution, the working class of the U.S.S.R. expropriated the bourgeoisie, abolished private ownership of the means of production, and in its place established public ownership of the means of production. With its establishment, there were introduced new relations of production between the members of society, relations of co-operation and mutual assistance between men and women freed from exploitation.

After the Second World War the peoples of many other countries took the path of radical socio-economic transformations, and are now successfully building socialism.

*Chapter V*

# THE CONVERSION OF SURPLUS VALUE INTO PROFIT AND ITS DISTRIBUTION AMONG VARIOUS GROUPS OF EXPLOITERS

## 1. Special Forms of Capital

The preceding chapters dealt with the relations between the proletariat and the industrial bourgeoisie. We set aside the fact that other groups of exploiters exist—the commercial bourgeoisie, the bankers, the agricultural capitalists and the big landowners. They all join in the exploitation of the working class and divide among themselves the surplus value produced by the workers. The reasons for the division of the bourgeoisie into special groups should be sought in the actual conditions of capitalist production.

**Circular movement of capital**

Capital is in a state of constant movement. To stop or to slow down the movement of capital means to lose completely, or to diminish, the surplus value accruing to the capitalist.

In the course of its movement capital passes through a number of stages and takes on different forms. In its *first stage* capital functions in the *sphere of circulation* in the form of *money*. With this money the capitalist buys means of production and labour power in preparation for the process of capitalist production. The movement of capital at this stage may be shown by the following formula:

$$M-C < {Lp \atop Mp}$$

($M$=money; $C$=commodities; $Lp$=labour power; $Mp$=means of production.) Thus in its first stage capital passes from the *monetary form* into the form of *productive capital.*

In its *second stage* capital functions in the *sphere of production* ($P$). Here hired labour is brought into combination with the means of production. At this stage the labour of the workers creates new commodities, having new value, including surplus value. The movement of capital at this stage is

$$C<^{Lp}_{Mp} \ . \ . \ . \ P \ . \ . \ . \ C'$$

Thus at this second stage capital changes from its productive form into the form of *commodity capital.*

In its *third stage* capital again functions in the *sphere of circulation*. Here the commodities which have been produced are realised. Commodity capital turns into *money capital.* The movement of capital at this stage may be shown as follows:

$$C'—M'$$

Capital, thus, began its movement in the form of money and returns again to the monetary form, but the capitalist has received more money than he put into circulation.

Schematically the whole movement of capital may be shown as follows:

$$M—C<^{Lp}_{Mp} \ . \ . \ . \ P \ . \ . \ . \ C'—M'$$

This movement of capital, i.e., its successive metamorphoses from one form into another and its passage through three stages, is called the *circuit* of capital.

The circuit of capital falls into two stages of circulation and one stage of production. It follows that capitalist reproduction is a unity formed of the circulation process and the production process. But although these two form a unity, production is decisive, for it is here that surplus value is produced.

**Formation of various forms of capital and groups of capitalists**

Three forms of capital correspond to the three stages in the circuit of industrial capital: money capital, productive capital, and commodity capital. As capitalism develops, each form of capital becomes more clearly separated from the others. Commercial and loan capital become independent of the capital functioning in production and begin to function only in the spheres of commerce and credit respectively. These isolated forms of capital coincide with the various groups within the bourgeoisie—*industrialists*, *merchants*, and *bankers*.

The function of the industrial capitalists consists in the direct appropriation of the surplus labour of the working class, in the production of surplus value. The function of the merchants consists in transforming commodity capital into money capital. The function of the loan capitalists is to concentrate and allocate capital available in the monetary form. Each group of capitalists receives its share of the surplus value created by the working class.[1]

Besides these groups of capitalists, there is yet another within the exploiting class—the *landowners*. These occupy a special place in capitalist society, since they own one of the most important means of production—land. They also get their share of the sum-total of surplus value.

The separation of individual parts of society's capital into independently functioning capital—industrial, commercial, and loan capital—and the existence of big landowners cause fierce competition among the different exploiters for the appropriation of surplus value. The surplus value appropriated by each capitalist takes the form of *profit*. Industrial capitalists get *industrial profit*, merchants—*commercial profit*, and bankers—*interest on loans*. The big landowners get *ground-rent*.

## 2. Average Profit and the Price of Production

**Cost-price and profit. Rate of profit** The value of the commodity produced in a capitalist enterprise breaks down into three parts: 1) $c$—the value of constant capital (part of the value of the machinery and premises, the value of the raw materials, fuel, etc.); 2) $v$—the value of variable capital; and 3) $s$—surplus value.

Of these three parts the capitalist has paid only for the first two, and they form his cost-price. Capitalist cost-price, therefore, consists of the sums expended as constant and variable capital ($c+v$).

[1] Besides the groups mentioned above, there are also capitalists in agriculture. There is no need, however, to put these into a group, for in principle they differ in no way from the industrial capitalists.

When the capitalist sells a commodity which has been produced in his factory, surplus value appears as the surplus over and above the capitalist cost-price. In determining the profitability of his enterprise, the capitalist sets this surplus against the capital spent, or advanced, i.e., against his cost-price. Surplus value, placed in relation to total capital, assumes the form of profit. *Profit* is surplus value taken in relation to the total capital invested in production, and appears as something produced by that capital. In actual fact profit is surplus value, and is produced by the variable part of capital alone. This is why Marx calls profit the *transmuted form* of surplus value.

The level of profitability of a capitalist enterprise is measured by the rate of profit. *Rate of profit* is the ratio, expressed as a percentage, of the surplus value to the total capital advanced. For instance, if the capital advanced ($c+v$) equals 200,000 dollars ($160{,}000c+40{,}000v$), and the surplus value ($s$) over the year amounts to 40,000 dollars, the rate of profit will be:

$$p'=\frac{s}{c+v}\times 100\%=\frac{40{,}000}{200{,}000}\times 100\%=20\%.$$

A distinction must be made between the rate of profit and the rate of surplus value. In any one enterprise the rate of profit is always less than the rate of surplus value. In the given case the rate of surplus value will be:

$$s'=\frac{s}{v}\times 100\%=\frac{40{,}000}{40{,}000}\times 100\%=100\%.$$

The rate of profit is the motive force behind capitalist production. The role of the rate of profit under capitalism was summed up by T. J. Dunning, an English trade-union leader and publicist, as follows: "A certain 10 per cent will ensure its employment anywhere; 20 per cent certain will produce eagerness; 50 per cent, positive audacity; 100 per cent will make it ready to trample on all human laws; 300 per cent, and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged."[1]

[1] K. Marx, *Capital*, Vol. I, p. 760.

This description is fully borne out by the practice of capitalists today. The wealth and power of the American multimillionaires—Morgan, Rockefeller, Dupont, etc.—were created and maintained by trampling on all human rights and laws.

**Formation of the average rate of profit and the price of production**

Capitalist economy consists of a multitude of different enterprises producing all kinds of commodities. Enterprises making similar products do not all work under the same conditions. They vary in size, level of technical equipment, and organisation of production. Consequently, the individual value of commodities produced by different enterprises is not the same But *competition within one branch of industry* leads to the prices of commodities being determined not by the particular expenditure of labour on their production and not by their particular values, but by the *market* (*social*) value of these commodities.

Since the price of commodities is determined by their market value, the enterprises which have a high level of technology and labour productivity are found to be in a favourable position. They receive *additional profit*, or *superprofit*. But under free competition this situation cannot last long. High profits lure everyone. The capitalist owners of enterprises where the level of technique is not so high will try to raise it; they will introduce technical improvements, raise productivity, and intensify the labour of the workers. Then the value of the commodities produced in these enterprises will fall to that of the commodities at the leading enterprises, and it is this value that now becomes the market, social value. In consequence, the enterprises which formerly received superprofits no longer get them. But new technical improvements again create the conditions for these and other enterprises to acquire superprofits.

As well as competition within one branch, capitalist society also knows *competition between branches*, i.e., between capitalists who have invested their capital in the different branches of industry. This type of competition leads to the rate of profit in the different branches of industry becoming equalised, or, which is the same thing, capitals of equal size get an *equal amount* of profit.

Let us see how the equalisation of the rate of profit among capitalists comes about. Suppose there are three branches of industry in society—leatherworking, textiles and engineering. They have each invested the same amount of capital, but with variations in the organic composition of capital. The amount of capital advanced in each of these branches equals 100 units (say, million dollars). The capital of the leatherworking industry consists of 70 units of constant capital and 30 units of variable capital, that of the textile industry—80 units of constant and 20 units of variable capital, and that of the engineering industry—90 units of constant and 10 units of variable capital. Let the rate of surplus value in all three branches be the same—100 per cent. Then, in the leatherworking industry 30 units of surplus value will be produced, in the textile—20, and in engineering—10. The value of the commodities in the first industry will be equal to 130, in the second to 120, and in the third to 110, and in all three together—360 units.

If the commodities are sold at their value, then in the leatherworking industry the rate of profit will be 30 per cent, in textiles—20 per cent, and in engineering—10 per cent. This distribution of profit will be advantageous to the capitalists who have their money in the leatherworking industry, but not to those in engineering. The pursuit of profits will lead the latter to transfer their capital from engineering to leatherworking. As a result of the flow of additional capital into leatherworking, this industry will begin to produce more goods than are required by the demand. The prices of leather articles will fall, producing a corresponding fall, say 20 per cent, in the rate of profit.

At the same time, engineering production will decrease, but the demand for its commodities will remain as before. The changed relation of supply to demand will enable the capitalists concerned with engineering to raise the prices of their products. The rate of profit will rise, for example, from 10 per cent to 20 per cent, to correspond with this.

Thus the flow of capital from one branch of industry to another leads to a levelling of the different rates of profit, giving an *average* rate of profit. The *average profit is an equal profit on capitals of the same magnitude invested in different branches of industry*. With the formation of the average rate of profit, commodities are sold not at value $(c+v+s)$, but at the price comprising the cost-price and the average profit $(c+v+p)$. The price which equals the cost-price of the commodity plus the average profit is called the *price of production*.

The equalisation of different rates of profit into an average rate and the formation of the price of production may be illustrated by the following table:

| Industry | Organic composition of capital | Rate of surplus value, % | Surplus value | Rate of profit, % | Value of commodity | Average rate of profit, % | Price of production | Deviation of price of production from value |
|---|---|---|---|---|---|---|---|---|
| Leather-working | $70c+30v$ | 100 | 30 | 30 | 130 | 20 | 120 | —10 |
| Textile | $80c+20v$ | 100 | 20 | 20 | 120 | 20 | 120 | 0 |
| Engineering | $90c+10v$ | 100 | 10 | 10 | 110 | 20 | 120 | +10 |
| *Total* | $240c+60v$ | 100 | 60 | 20 | 360 | 20 | 360 | — |

As the table shows the different rates of profit have been levelled out to an average rate. The prices of production have deviated from the value of the commodity. In one industry they have risen above the value, in another they have fallen below it.

In industries with a low organic composition of capital (in our example these are represented by the leatherworking industry), the price of production is found to be less than the value, and the profit less than the surplus value produced. In industries with a medium organic composition of capital, the prices of production coincide with the value, and the profit with the surplus value. In industries with a high organic composition of capital (engineering, in our example) the prices of production are higher than the value, and the profit greater than the surplus value produced. This amount of the price of production in excess of the value is created by the workers in the industries with a low organic composition of capital, but it is appropriated by the capitalists of the industries with a high organic composition of capital.

The workers, therefore, are exploited not only by the capitalists who employ them, but by the capitalist class as a whole. The entire capitalist class has an interest in raising the rate of exploitation of the workers, as this leads to an increase in the average rate of profit. That is why the capitalists present a united front in the class struggle against the workers. The working class, exploited by the capitalist class as a whole, should also show class solidarity and organise a united front. The struggle for the sectional interests of workers, the struggle against individual capitalists, cannot lead to any radical change in the position of the working class. The working class will succeed in throwing off the yoke of capital only when it abolishes the system of capitalist exploitation. In this conclusion lies the immense political significance for the class struggle of the proletariat of Marx's theory of average profit.

As we have seen, commodities under capitalism are sold not at their value, but according to their prices of production. But this does not mean that the law of value has ceased to operate. The price of production is a modified form of value. Some capitalists sell their commodities at prices higher than their value, others at prices below their value, but all the capitalists as a whole receive the full value of their commodities, and the profits of the whole capitalist class coincide with the total mass of the surplus value produced in society. On the scale of the whole of society, the sum of the prices of production is equal to the sum of the values of the commodities, and the mass of profit is equal to the mass of surplus value. In this way the law of value operates through the agency of prices of production.

**Tendency of the rate of profit to fall**

As capitalism develops, the organic composition of capital rises. This means that there is an increase in the mass of raw materials, machines and equipment in the enterprises. At the same time, only not so rapidly, the number of workers increases. Therefore variable capital grows more slowly than constant capital. But the higher the organic composition of capital, the lower the rate of profit.

This, however, does not mean that the total mass of profit also falls. Let us take an example. The capital of society amounting to \$100 thousand million, made up of $70c+30v$, doubles itself in 20 years, reaching \$200 thousand million. Its organic composition has risen, and become $160c+40v$. With the rate of surplus value at 100%, the mass of profit in the first instance would equal \$30 thousand million, in the second case—\$40 thousand million. At the same time, the rate of profit has decreased from 30 to 20 per cent. A fall in the rate of profit is inevitable, just as an increase in the organic composition is inevitable. Yet there are a number of factors which operate against this.

The principal factor counteracting the fall of the rate of profit is the *rise in the degree of exploitation of the workers.* Let us return to our example. Let us suppose that the degree of exploitation in the second instance has increased, that it is now 200 per cent. Now the profit will be \$80 thousand million, while the rate of profit will be $\frac{80}{160+40}\times 100\% = 40\%$. Thus intensified exploitation of the working class leads to an increased rate of profit.

There are other factors which counteract the fall in the rate of profit: *lowering of wages below the value of labour power, economising on constant capital at the expense of the workers' health and lives, etc.*

But all these factors do not eliminate, but only mitigate the fall in the rate of profit, giving it the character of a *tendency.*

The tendency of the rate of profit to fall extremely aggravates the contradictions of capitalism. The contradiction between the proletariat and the bourgeoisie becomes more acute because the bourgeoisie, trying to slow down the fall in the rate of profit, intensifies the exploitation of the working class. Contradictions within the capitalist camp also become more acute. The capitalists rush their capital into industries which have a high rate of profit. This leads to fierce competition among the capitalists, and, in the last resort, brings ruin to some and enrichment to others. The contradictions between the capitalist powers are also accentuated. In the pursuit of a higher rate of profit, capital from the industrially developed countries is exported to the economically underdeveloped countries, where labour power is cheaper and the organic composition of capital lower.

In aggravating the contradictions of capitalism, the law of the tendency of the rate of profit to fall clearly indicates the historically limited and transient nature of the capitalist mode of production.

## 3. Commercial Profit

**Industrial and commercial capital**

Surplus value is created in the process of production by the labour of the working class. It is appropriated in the first place by the industrial capitalist who owns the enterprise. It is from him that all the other groups of the exploiting class, including the commercial capitalists, receive surplus value. Why does the industrial capitalist surrender part of his surplus value to the merchant? In capitalist society commodities are produced for sale. So it is not sufficient for the commodity to be produced, it must also be sold. As a general rule, the industrial capitalist sells his commodity to the merchant, who then sees that the commodity is moved on to the consumer.

The function of the commercial capitalist is to transform commodity capital into money capital. If there were no commercial capitalist, the industrialist would require to have extra capital to equip commercial premises, hire salesmen, etc. But the industrialist leaves all this to the merchant. On the scale of society, commercial capital represents additional capital separated from industrial capital, and confronts it in the form of the capital of the commercial capitalists, who receive part of the profits. The profit that goes to them is known as commercial profit.

**Source of commercial profit**

*Commercial profit* is that part of the surplus value which the manufacturer surrenders to the merchant in return for the sale of his commodities. Industrial capitalists sell their commodities to merchants at prices lower than the price of production. The merchants then sell them at the price of production. By appropriating the difference they, like the industrialists, receive average profit on their capital. If the profit of the merchant is below the average profit, commerce becomes an unprofitable business, and the merchant will transfer his capital to industry. Both industrialists and merchants receive average profit. But this does not mean that they get equal *amounts* of profit. Naturally the industrialist, who spends considerably more capital on production than the merchant does on the sale of commodities, receives a larger amount of profit. But for equal shares of expended capital, they get equal profits.

When it takes the form of commercial profit, surplus value becomes even more camouflaged. The merchant's capital does not take part in production, and the impression is created that the profit arises out of commerce itself.

**Costs of circulation** The process of realising commodities requires a definite expenditure. This is referred to as the *costs of circulation.*

There are two kinds of capitalist circulation costs. *Net costs of circulation* are directly connected with the process of buying and selling commodities. They include outlay connected with transforming commodities into money and money into commodities. Also included is a large part of the expenditure on paying for the labour of commercial employees, on the maintenance of commercial offices, on advertising, expenditure made necessary by competition and speculation. The net costs of circulation add no value to the commodity, and they are covered by the capitalists out of the surplus value which they get from the industrial capitalists. *Net costs* account for by far the greater part of the circulation costs incurred in capitalist commerce.

Among the *costs arising from the extension of the production process to the sphere of circulation* is the expenditure incurred on operations which are essential to society and independent of the specific aspects of capitalist economy, viz., the *storage, finishing, transporting and packaging of commodities.* A product is only ready to be used when it is delivered to the consumer. Labour spent on finishing, transporting and packaging commodities adds a new value to the already existing value of the commodities, and for this reason circulation costs are in no way different from production costs.

Under capitalism the costs of circulation increase continually, first and foremost the net costs of circulation, particularly those connected with advertising. In 1961, U.S. expenditure on advertising amounted to $12,000 million, more than double the 1950 level. The increase in the costs of circulation is an indication of the growth of parasitism in bourgeois society. Circulation costs in the capitalist countries amount to about one-third of the total retail trade turnover, and are a heavy burden on the working people.

**Forms of capitalist trade. Foreign trade**

In capitalist economy today there are two main forms of internal trade—wholesale and retail. *Wholesale* trade is trade between capitalists (industrialists and merchants). *Retail* trade is the sale of commodities directly to the public.

Of great importance in wholesale trade is the *commodity exchange*. This is a special type of market, where trade is done on the basis of samples, where the supply and demand of commodities on the scale of a whole country and frequently on the scale of the entire capitalist world are concentrated.

*Foreign trade* consists of *exports* and *imports*. The relation (in prices) between them forms the *balance of trade*. The balance of trade may be active or passive. If the exports from a country exceed the imports, the balance of trade is *active*; if imports exceed exports, it is *passive*.

By selling commodities on foreign markets capitalists are able to expand production and thereby to increase their profits Trade with the economically underdeveloped countries is particularly advantageous for the capitalists of the industrially developed countries. This is because manufactured articles are sold to those countries at relatively high prices, while raw materials are bought from them at lower prices. Foreign trade is a means by which the advanced bourgeois countries hold underdeveloped countries in economic dependence.

## 4. Loan Capital. Joint-Stock Companies

**Loan capital and interest**

During the turnover of capital, it is not only commercial capital that becomes separated off, but also money capital, when it takes the form of loan capital. Where does spare money capital come from? If an industrialist sells his finished commodities monthly, shall we say, but buys raw materials only once every half-year, then for five months at a stretch he will have spare money on hand. If a capitalist is accumulating money in order to replace worn-out parts of his fixed capital he will again, temporarily, have spare sums of money. These sums will be spent on the purchase of new machinery only after the lapse of several years.

At other times the capitalist will be in need of money; for instance, when he has not succeeded in selling his finished goods, but requires to buy raw materials immediately.

Consequently, at one and the same time one capitalist will have a temporary surplus of money capital, while another has need of it. The capitalist who has money available loans it out for temporary use by other capitalists. *Loan capital is money capital loaned for a definite period of time in return for a definite consideration*, known as interest.

*Interest* is that part of the profit which the industrialist or merchant yields to the lending capitalist in return for being granted a loan. The industrialist or merchant invests the money borrowed either in production or in trade. The distinguishing feature of loan capital, therefore, is that it is used not by the capitalist to whom it belongs. The industrialist, by using the capital loaned him, hires workers, and extracts surplus value. He pays over part of this surplus to the lending capitalist in the form of interest. So interest on loans is a form of surplus value.

Take this example: an industrial capitalist has received a loan of $100,000. With the average rate of profit at 20 per cent, the total profit obtained on this capital will be $20,000. Out of this profit, the industrialist pays interest to the lending capitalist. If the level of the interest on the loan, or interest rate[1], is 3, then on a capital of $100,000, $3,000 will be paid over out of a profit of $20,000. The rest of the profit, $17,000, is appropriated by the industrialist. This part of the profit is known as *profit of enterprise.*

The proportion in which the average profit breaks down into interest and profit of enterprise depends on the balance

[1] *The rate of interest* is the ratio of the amount of the interest to the capital loaned.

of supply and demand in regard to loan capital. The higher the demand for money capital, the higher the rate of interest; conversely, the lower the demand for money capital, the lower the interest rate. Since interest is only part of the average profit, the interest rate cannot be higher than the average rate of profit.

As capitalism develops, *the interest rate shows a tendency to fall*. There are two reasons for this: 1) the average rate of profit tends to fall, and 2) the total mass of loan capital grows faster than the demand for it.

**Capitalist credit. Banks and banker's profit**

The movement of loan capital takes place in the form of credit. Capitalist credit has two forms: commercial and banker's credit.

*Commercial credit* is credit given when industrialists and merchants sell one another commodities on credit, the seller receiving a bill of exchange obliging the buyer to pay a certain sum of money by a certain date.

*Banker's credit* is credit made available by bankers to functioning capitalists in either industry or commerce. Banker's credit is provided out of the temporarily spare money capital deposited in banks.

A *bank* under capitalism is a capitalist concern, the function of which is to act as intermediary between borrowers and lenders. The function of the banks is to collect spare, inactive capital and incomes and make them available to functioning capitalists, and also to the bourgeois state. In addition, bankers directly invest capital in industrial and commercial enterprises, thus becoming functioning capitalists at the same time.

The operations of a bank, as of other capitalist enterprises, serve the object of making profits. The source of the profit made by the bank is the surplus value created in production. *Banker's profit* is the difference between the interest received on loans granted by the bank and the interest which it pays out on deposits. *Deposits* are the temporarily spare resources of money which are put into banks by capitalists, traders, landowners and other sections of the population. The bank pays a smaller interest on deposits than it takes on loans, and appropriates the difference. Out of this the banker covers the expenses involved in banking operations, and the remainder is his profit. Capitalist competition of itself reduces this profit to the level of the average rate of profit on the bank's own capital. A large part of the bank's capital is *borrowed* capital, obtained through deposits.

Besides acting as intermediary in credit operations, the banks settle the accounts between capitalists and perform all kinds of financial commissions for them. Consequently, for many capitalists the bank acts as their cashier.

Under capitalism banks function as a specific apparatus for spontaneously allocating monetary resources among the different branches of the economy. But they are allocated in the interests not of society, but of the capitalists. Capitalist credit, by closely linking the various branches of the economy, promotes the further advance of socialisation of labour. But this socialisation of labour takes place on the basis of private ownership of the means of production. By virtue of this, the development of credit still more aggravates the contradictions of the capitalist mode of production and increases the anarchy of capitalist production.

**Joint-stock companies**

At the dawn of capitalism, factories were started up by individual owners. Later, however, huge enterprises such as the railways, docks and so on could not be financed by individual capital. Joint-stock companies began to be formed in industry, railway construction, and in banking. They became widespread in the second half of the 19th century. A *joint-stock company* is a form of enterprise the capital of which consists of contributions from the members of the company, who own a certain number of shares corresponding to the amount of capital they have invested.

A *share* is a security which certifies that the holder has put a definite sum of money into the enterprise. The share gives its holder the right to receive part of the income of the enterprise. The amount received by the shareholder is called a *dividend*. Shares are bought and sold at stock exchanges at definite prices, known as *quotations*. A *stock exchange* is a market for securities, primarily shares. It is here that shares are bought and sold and their quotations registered.

*The quotation* or *price of shares* depends on two factors: 1) the level of the interest which the banks pay on deposits, and 2) the annual income brought in by each share (dividend). If a share of $100 brings in an annual income of $10, then it will sell for the sum which, if deposited in a bank, would also bring in $10 a year in the form of interest. Let us suppose that the bank is paying 5 per cent annual interest on deposits; in this case the share will sell for $200, since by putting this sum in the bank the shareholder will get an income in interest of $10 a year.

For the control and organisation of a joint-stock enterprise a general meeting of shareholders votes to elect a board of management, and appoints officials. The number of votes at the general meeting is determined by the number of shares. And since, as a rule, the overwhelming majority of shares are in the hands of a small number of big capitalists, it is they who, in effect, control the joint-stock company. It has been shown in practice that it is enough to hold less than half the shares in order to have complete control of a joint-stock enterprise. When one person holds enough shares to enable him to do as he pleases in a joint-stock enterprise he is said to have the *controlling interest*. This can also apply to groups of persons.

Capital existing in the form of securities (shares, bonds), and providing an income for its owner, is called *fictitious* capital, because securities in themselves have no value. They merely indirectly reflect the movement of real capital.

The spread of joint-stock companies increasingly transforms the capitalists into receivers of interest and dividends, while the management of industrial production is carried on by employed staff—managers, directors. Thus, the parasitic character of capitalist ownership becomes more and more marked.

Shares are held by people from all sections of the population. This is to the advantage of the capitalists: the more buyers of shares, the greater the capital in the hands of the upper stratum of the shareholders controlling the joint-stock companies. The fact that shares are acquired by groups of working people has given the bourgeois ideologists grounds for their theory of the "democratisation of capital". This false theory asserts that as a result of the development of the joint-stock form of enterprise, the nature of capitalism is changing and any working person who buys a share becomes a copartner of the company and can take part in its management. In actual fact, joint-stock enterprises are completely controlled by the big capitalists who also derive all the benefit from the share capital of a company. The working people who hold only an insignificant part of the shares do not and cannot play any part in the management of a joint-stock company.

Above we considered how surplus value is transformed into profit, and how industrialists, merchants and bankers acquire it. But under capitalism there is yet another exploiting class—the big landowners. They also receive their share of the surplus value. This takes the form of capitalist ground-rent.

## 5. Ground-Rent and Agrarian Relations Under Capitalism

**Capitalist ground-rent**

Where does ground-rent come from, who creates it, and how does it get to the landowner? In its answer to these questions, Marxism-Leninism takes as its starting-point the existence of *capitalist* agriculture, carried on by the exploitation of hired labour. It is also assumed that the landed proprietor and the capitalist are two different persons.

The owner of land does not engage in agriculture himself. He leases the land to a capitalist who has decided to invest his capital in agricultural production. The capitalist hires agricultural labourers, who, during the production process, create surplus value. This surplus value goes primarily to the capitalist tenant-farmer, who divides it into two parts: one part is his profit equal to the average profit on the invested capital; the other part is the surplus over and above the average profit, and is appropriated by the landed proprietor. It is this second part of the surplus value which forms ground-rent. Why and on what grounds does the landed proprietor take for himself part of the surplus value created by the workers hired by the capitalist tenant-farmer? Solely on the basis of the fact that he is the *owner* of the land, and that without his permission no one has the right to farm the land. That is why it is said that ground-rent is the economic form in which private ownership of the land is realised. If the capitalist is himself the owner of the land, he appropriates all the surplus value created by the agricultural labourers.

Capitalist ground-rent differs from feudal ground-rent. Under feudalism rent in all its forms (labour-rent, rent in kind, money-rent) expressed the feudal production relations between two main classes—the landlords and the serf peasants. Under capitalism, ground-rent expresses the relations linking three classes—the landowners, the capitalist tenant-farmers, and the hired agricultural workers. Under feudalism, ground-rent accounted for the whole of the surplus product created by the peasants. Under capitalism, surplus value is distributed between two exploiting classes—capitalist tenant-farmers and landowners.

A distinction should be made between the two types of rent: *differential* rent and *absolute* rent. The existence of these two types of rent is connected, as Lenin shows, with the dual nature of monopoly: monopoly of the land as an object of economic activity, which gives rise to differential rent, and monopoly of private ownership of the land, which gives rise to absolute rent.

**Differential rent**

In industry the value of a commodity and the price of production are determined by the average conditions of production. In agriculture, the price of production of agricultural products is not determined by the average conditions of production, but by the conditions of production on the *poorest* lands. Since the area of land is limited and cannot be enlarged indefinitely, those tenants who hold the best land or that of medium quality are in a more favourable position than the tenant-farmers on poor lands. This monopoly tenants have of different plots of land as objects of economic activity gives rise to differences in incomes. *Differential rent is the excess profit, over and above the average profit, obtained by those farms which operate under more favourable conditions of production.* But it is not the land itself that is the source of rent. Labour applied to good land is more productive, and yields additional profit.

There are three factors which make it possible to obtain differential rent. These are: 1) *the difference in the fertility of the soil on different plots of land*; 2) *the difference in the* *location of plots of land in relation to the market*; 3) *the difference in productivity derived from the additional capital invested in the land.*

Differential rent connected with variations in fertility and location of land is referred to by Marx as *differential rent I*. Let us examine this.

Take, for example, three plots of land, equal in size but varying in fertility. On each one, the tenant spends $100 on hiring workers, buying seed and machinery, etc. But as the plots of land vary in fertility, the grain yield will not be the same: 10 bushels from farm I, 15 bushels from farm II, and 20 bushels from farm III.

Let us suppose that the average rate of profit is 20 per cent. In this case, the price of production of all the grain (costs of production plus average profit) on each farm will be $120. But what will be the individual price of production of 1 bushel of grain? On farm I, the production of a bushel of grain will cost 12 dollars (120 : 10), on farm II it will cost 8 dollars (120 : 15), and on farm III—6 dollars (120 : 20).

But on the market the price of grain will be fixed at the price level on the poorest land, i.e., 12 dollars per bushel. If the price were fixed at the level of 8 dollars (the medium plot), the capitalist tenant-farmer on the poorest land would only get 80 dollars (10×8 dollars), i.e., he would get no return on his expenditure, and absolutely no profit at all. This would mean that the tenant-farmers on the poorest land would abandon agriculture. They cannot transfer to the medium or best farm lands, since these are occupied by other capitalist tenant-farmers. To discontinue production on the poorest lands would affect the total grain yield, which would fall. The prices of grain would begin to rise, and when they reached the level of 12 dollars per bushel, it would again be worth while farming on the poorest land.

So the tenant of farm I will sell his harvest for 120 dollars, the tenant of farm II—for 180 dollars, and the tenant of farm III—for 240 dollars. The excess over the price of production—60 dollars for farm II, and 120 dollars for farm III—comprises the differential rent.

For greater clarity let us present this example in the following table:

| Farms | Expenditure of capital, $ | Average profit, $ | Harvest, bushels | Individual price of production, $ | | Social price of production, $ | | Differential rent I, $ |
|---|---|---|---|---|---|---|---|---|
| | | | | total production | 1 bushel | 1 bushel | total production | |
| I | 100 | 20 | 10 | 120 | 12 | 12 | 120 | — |
| II | 100 | 20 | 15 | 120 | 8 | 12 | 180 | 60 |
| III | 100 | 20 | 20 | 120 | 6 | 12 | 240 | 120 |

It follows that differential rent is the excess over and above the average profit. It is created by the labour of the agricultural workers. The workers' labour varies in productivity when it is applied to land of varying fertility, and for this reason it produces varying amounts of surplus value.

The origin of differential rent I is also connected with the location of the farms. The distance from towns, large rivers, the sea coast and the railways has its effect here. Farms which are nearer to marketing centres save the considerable labour and resources spent on transporting produce which the more outlying farms have to spend. They sell their products at the same prices as those obtained by the more distant farms, and so get additional profit.

Differential rent also arises when additional capital is invested in the land (use of artificial fertilisers, land amelioration, improved machinery, etc.). The additional profit resulting from intensive cultivation is known as *differential rent II*.

Differential rents I and II are shared between the tenant-farmer and the landowner, and the share each appropriates depends on the concrete circumstances: the demand for land as an object of economic activity and the supply of land available. The greater the demand for land, the higher the rent, and vice versa. These conditions are reflected in the land lease agreement. When a lease is being drawn up, the landowner fixes a rent which as a general rule includes the differential rent obtained in the past from the plot of land.

Consequently, differential rent is appropriated by the landowner. But if, at some future date, the capitalist tenant-farmer obtains a differential rent which is higher than the part covered by the rent, it goes to the tenant farmer, at any rate until a new lease agreement is concluded.

Besides differential rents I and II, the landowner also takes absolute rent.

**Absolute rent. Price of land**

Under capitalism land is privately owned by individual proprietors. So before capital can be put into agriculture, the consent of the landowner has first to be obtained. The monopoly of private ownership of the land excludes the free flow of capital from industry to agriculture. Because of this, the organic composition of capital is *lower* in agriculture than in industry. This means that for the same capital invested more surplus value is produced in agriculture than in industry. If there were a free flow of capital from industry into agriculture, the extra surplus value created in agriculture because of the lower organic composition of capital would be shared between industry and agriculture. But private ownership of the land prevents it being redistributed among the capitalists. The landowners take this extra surplus value from the capitalists who invest in agriculture.

The capitalists cannot organise agricultural production without paying the landowner for the use of his land. The tribute the landowner receives on the basis of his right to private ownership of the land is what is called *absolute rent.*

Let us examine the following example of how absolute rent is formed. If the organic composition of capital in industry is 4 : 1 and the total capital is $80c+20v$, then, with a rate of surplus value of 100 per cent, \$20 of surplus value will be made. The value of the total production is \$120. The organic composition of capital is lower in agriculture than in industry, being perhaps $60c+40v$, i.e., 1.5 : 1. With a rate of surplus value of 100 per cent, \$40 of surplus value will be created and the value of the total agricultural production will be \$140. The capitalist tenant-farmer, like the industrialist, receives an average profit of \$20. Therefore the price of production of the agricultural product (production costs plus average profit) will be $120 (100+20), whereas the value of the product, which is what it sells at, is $140. The difference between the value and the price of production of the agricultural product (in our example 140—120=20) forms the absolute rent which is appropriated by the landowner. *Absolute rent*, then, is the excess of the value of the agricultural product over the social price of production.

It follows that the monopoly of private ownership of the land is the cause responsible for the existence of the absolute rent paid on each plot of land, irrespective of its fertility or situation.

The land is a gift of nature and has no value, but under capitalism land is bought and sold, i.e., becomes a commodity. What, then, determines the price of land when it is sold?

The price of a plot of land depends on two factors: 1) the annual income (rent) it brings in, and 2) the rate of interest on loans. If the landowner annually receives a rent of $10,000 from his land, then he will sell the land for a sum of money which, if deposited in a bank, would bring in the same income, i.e., $10,000 a year. Let us suppose that the bank is paying 4 per cent on deposits. The landowner will sell his land for $250,000 because this is the amount of money which, deposited in a bank at 4 per cent interest, would give him an income of $10,000. Consequently, *the price of land is capitalised rent*, i.e., rent transformed into capital providing an income in the form of interest. As capitalism develops, the *price of land increases* in connection with the increase in rents and the lowering of the interest rate on loans.

**Specific features of capitalist development in agriculture**

In agriculture capitalism develops according to the same economic laws as in industry.

At the same time capitalism develops in agriculture in various ways, depending on the concrete historical circumstances. Two paths of development have been most typical.

*The first* was the retention of the feudal landed estate and its transformation, through gradual changes, into the capitalist farming. For instance, capitalism developed along these lines in Germany, tsarist Russia and Italy.

*The second* was the abolition of the feudal landed estate through bourgeois revolution, the confiscation of land and its sale to the peasants. It was on these lines that capitalism developed in agriculture in France. In other countries, for instance, the U.S.A., farms grew up in which capitalist production developed rapidly.

But no matter how capitalism may have developed in agriculture, there was always a process of concentrating landed property in the hands of the big bourgeoisie. Small peasant ownership and feudal landlord ownership give way to bourgeois private ownership. In the U.S.A. in 1954, for example, 73.4 per cent of the farms held 19.6 per cent of the total area of land, while 26.6 per cent of the farms held 80.4 per cent of the land, of which the largest agricultural concerns (2.7 per cent of the total farms) owned 45.9 per cent of the land.

As capitalism develops in agriculture, production becomes more concentrated. This leads to the small peasant farms becoming crowded out by large-scale production, because the latter has several decisive advantages over the former. Large-scale production means that agricultural machinery can be used to the fullest extent. On large farms, labour productivity is higher. An important advantage of large-scale production is specialisation in one or other particular branch—land cultivation or livestock raising—with its consequent high commercial marketability. Small production becomes ruined in the face of the competition from large-scale production. Thus, between 1948 and 1958, more than a million small farmers in the U.S.A. became ruined.

It is an incontestable fact that in industry large-scale always prevails over small production. Even the defenders of capitalism have to admit this. But they depict agriculture as a vague state of rural bliss and advance the lying doctrine of the "stability of small peasant farming". In actual fact, the small farm is by no means stable, but only keeps going because, in the face of incredible privations, the peasant and his family are strenuously overworked.

Capitalism deepens and aggravates the antithesis between town and country. The economic basis of this antithesis is the exploitation of the peasantry by the urban bourgeoisie, the impoverishment of the majority of the peasantry in the course of the development of industry, commerce and the systems of credit and taxation. Economically, politically and culturally, the countryside lags behind the town.

Their hard living conditions bring the peasantry to the realisation of the need to abolish the capitalist system. Because of this, the basic interests of the majority of the peasantry coincide with those of the proletariat. It is here we find the *economic basis of the alliance between the proletariat and the working peasantry* in their common struggle against capitalism.

**Nationalisation of the land and ground-rent**

Private ownership of the land is the major reason for the fact that agriculture lags behind industry.

As already stated, private ownership of the land hampers the free flow of capital from industry to agriculture. It means that the capitalist tenant-farmer is unwilling to invest additional capital in agriculture (fertilisers, irrigation projects, etc.), since all the advantages from investment, once the leasehold expires, will go to the landowner. Private ownership of the land is the origin of absolute rent, which is parasitically appropriated by the landed proprietors. This indicates that private ownership of the land is an obstacle to the development of the productive forces of capitalism. Therefore, the abolition of private ownership of the land becomes a necessity. One way of bringing this about would be *nationalisation of the land*, i. e., the conversion of the land into state property.

In the early days of capitalism some representatives of the bourgeoisie were in favour of nationalising the land. They suggested abolishing private land ownership (in those times the land was mainly owned by feudal lords) and putting the land under the control of the bourgeois state. What would have been the consequences of such a measure under capitalist conditions? Once the state had control of the land, absolute rent would have ceased to exist, since it derives from private ownership of the land.

In spite of the fact that nationalisation of the land by the bourgeois state would accelerate the development of capitalism and its productive forces, the bourgeoisie is unwilling to carry it through. *Firstly*, the abolition of private ownership of the land would shake the foundations of private property in general, including capitalist. *Secondly*, as capitalism developed, the bourgeoisie itself began to acquire land, so that the interests of the bourgeoisie and the landowners became increasingly interwoven.

Private ownership of the land in the era of developed capitalism can only be ended by the class which fights for the abolition of private property in general. That class is the revolutionary proletariat. But proletarian nationalisation of the land does not open the way to the development of capitalism; on the contrary, it is the beginning of the abolition of capitalism.

Nationalisation of the land in the U.S.S.R. destroyed at one stroke private ownership of the land and absolute rent. This measure was one of the main conditions for the rapid growth of socialist forms of large-scale agriculture.

* * *

We have now examined the particular forms assumed by surplus value in the rotation of capital. We have made it clear that the sole source of the incomes of all groups of the bourgeoisie and of all landowners is the labour of the hired workers who create surplus value. The particular forms assumed by surplus value conceal or gloss over the fundamental class contradiction of capitalist society—that between the bourgeoisie and the proletariat.

In making his analysis of the processes involved in the production of surplus value, the accumulation of capital and the impoverishment of the proletariat, as well as in the distribution of surplus value, Marx was considering the fundamental class contradiction of capitalism, that between the proletariat and the bourgeoisie, from every possible angle. He arrived at the conclusion that the historic task of the working class is to resolve this irreconcilable contradiction, i.e., to end the capitalist mode of production and abolish exploitation for all time.

*Chapter VI*

# REPRODUCTION OF SOCIAL CAPITAL AND ECONOMIC CRISES

Capitalist economy consists of a multitude of separate independent enterprises. Each capitalist produces the commodities which bring him the greatest profit at the given moment. Because of this, production develops chaotically, without any planning. The anarchy of production in capitalist society creates difficulties connected with the sale of commodities and leads to economic crises of over-production.

## 1. Reproduction of Social Capital

**Individual and social capital** Under capitalism social production is not an integrated whole. It is split up among the individual capitalist enterprises. Each of these is privately owned by one or other capitalist and, in relation to the other enterprises, functions as an independent production unit. At the same time reproduction in each separate enterprise depends on the reproduction in others. Thus, reproduction at a motor-car works depends on the production by other capitalists of all kinds of machine tools, instruments, auxiliary materials, fuel, consumer goods for the workers, etc. The operations of separate capitalists, and consequently the movements of separate capitals, come into contact with one another.

The sum-total of the separate (individual) capitals, taken in their interdependence and interconnection, is what is known as *social capital as a whole.* It is in this interweaving of the movements of separate independent capitals, which are yet parts of the total capital of society, that *reproduction* takes place under capitalism. For reproduction to take place, all the capitalists in society, not merely the individual capitalist, must be able to sell on the market the commodities they produce, and to buy there the commodities they themselves require.

To discover how the reproduction of the total social capital takes place, let us look at the composition of the gross social product.

**Gross social product**

The entire mass of material wealth (machinery, machine tools, fuel, bread, clothing, etc.) produced in society over a definite period, e.g., a year, forms the *gross social product.*

Regarded as *value*, the gross social product is divided into: 1) the value which replaces the constant capital spent, i.e., which covers wear and tear of equipment, the value of the raw and auxiliary materials used, etc., 2) the value which replaces variable capital, i.e., the value of labour power, and 3) surplus value. In other words, the value of the gross social product equals $c+v+s$ (constant capital+variable capital+surplus value).

Each separate part of the gross social product plays a different role in the course of reproduction. Constant capital must continue to serve the process of production. Variable capital is transformed into wages, which the workers spend to satisfy their requirements, i.e., on the reproduction of labour power. The surplus value, in simple reproduction, is used up entirely by the capitalists to satisfy their personal requirements. With extended reproduction, one part is used by the capitalists, the remaining part, as a rule the greater part, being spent to purchase additional means of production and to hire additional labour.

When analysing the reproduction and circulation of total social capital, great importance attaches to the material form of the gross social product.

As regards its *material form* the gross social product consists of the means of production and consumer goods. The whole of social production falls correspondingly into two major parts: Department I is the production of the means of production and Department II is the production of consumer goods.

These parts of the gross social product, differing in material form, fulfil different roles in the course of reproduction. The means of production serve further production, consumer goods serve to satisfy personal requirements.

**Essence of the problem of realisation**

Reproduction of social capital presupposes that each individual capital, and in consequence the total social capital, must continually complete its turnover, i.e., pass from the money to the production form, from the production to the commodity form and from the commodity form back to the money form, and so on. This turnover can take place only if all the capitalists and each of them separately can *realise* their finished product. The process of realisation means that each constituent part of the annual social product—both as value and in the material form—is exchanged in its entirety and fulfils its function in the process of production.

The question arises as to what conditions are necessary to ensure that all the annual product is realised? The Marxist-Leninist theory of reproduction reveals these conditions and shows that as capitalist production develops, these conditions are inevitably and continually violated, leading to economic crises of over-production.

**Conditions for realisation in simple capitalist reproduction**

In simple reproduction the process of production is repeated on the same scale as previously, and all the surplus value is spent on the personal requirements of the capitalists.

Let us consider the realisation of the gross social product in the case of simple reproduction. Suppose the value of the constant capital in Department I, expressed, for example, in millions of dollars, is 4,000, the value of the variable capital 1,000, and the surplus value 1,000. In Department II, let the value of the constant capital be 2,000, that of the variable capital 500, and the surplus value 500. The gross social product will then fall into the following parts:

Department I: $4{,}000c + 1{,}000v + 1{,}000s = 6{,}000$
Department II: $2{,}000c + 500v + 500s = 3{,}000$.

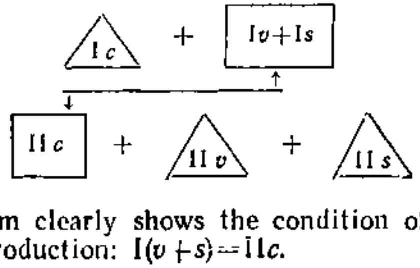
In Department I, the value of the entire product, which equals 6,000, exists at the end of the year in the form of machines, raw materials, etc. But the workers and the capitalists in this Department need not only means of production, but consumer goods as well, if the process of production is to be continued further. The finished goods of Department I must be realised. How is the process of realisation effected?

Part of the output in Department I, equalling 4,000$c$, will be sold to enterprises in the same Department to replace the constant capital that has been used up. The other part of the output of Department I (1,000$v$+1,000$s$) is sold in the form of means of production to enterprises which produce consumer goods. These means of production, equivalent to 2,000, serve to replace the constant capital in Department II.

In Department II the value of the total product, which exists in the form of consumer goods (clothing, footwear, foodstuffs, etc.), amounts to 3,000. Consumer goods, to the amount of 2,000 (produced in Department II), are exchanged for means of production (produced in Department I). The rest of the output of Department II, also consisting of consumer goods and being the reproduced value of variable capital (500$v$) plus the newly produced surplus value (500$s$), is sold to the workers and capitalists of this Department.

In this way, the entire social product is realised. The condition for realisation, with simple capitalist reproduction, is as follows: the variable capital plus the surplus value of Department I must be equal to the constant capital of Department II.

If triangles are drawn round those parts of the product which are realised within their own Department, and rectangles are put round those parts of it which are exchanged in the other Department and a line drawn connecting them, we get the following diagram:




This diagram clearly shows the condition of realisation in simple reproduction: $\mathrm{I}(v+s)=\mathrm{II}c$.

**Conditions for realisation in extended capitalist reproduction**

*Extended reproduction*, or accumulation, is characteristic of capitalism. In order to increase production, the existing enterprise has to be extended or a new one built. In both cases some new means of production must be set in motion. And since the means of production are produced in Department I, that part of the product of Department I which represents newly created value $I(v+s)$ must be greater than the constant capital in Department II(II$c$). Only on this condition will there be the surplus means of production which can be set in motion to extend production in both Departments.

The example below takes this condition into account:

$$\text{Department I:} \quad 4{,}000c + 1{,}000v + 1{,}000s = 6{,}000$$
$$\text{Department II:} \quad 1{,}500c + 750v + 750s = 3{,}000.$$

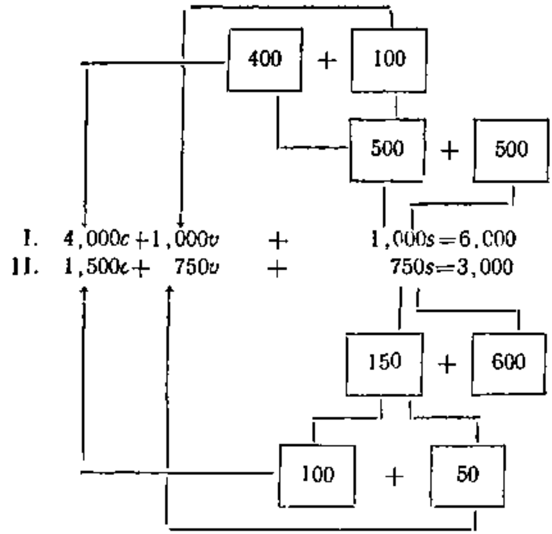
With extended reproduction, the surplus value in each Department falls into two parts: what is personally consumed by the capitalists and what is accumulated. The accumulated part of the surplus value is spent on acquiring *additional* means of production and on hiring *additional* labour power.

Let us suppose that the capitalists of Department I accumulate one-half of their surplus value, i.e., 500. This means that they must add 400 to the constant and 100 to the variable capital, i.e., spend the accumulated part of the surplus value in the same proportion as the capital originally advanced. In consequence, the value in Department I, as it will appear when it goes into production the following year, will be composed as follows: $4{,}400c+1{,}100v$.

Out of the total product of Department I(6,000), 4,400 is realised within the same Department. The remaining 1,600 must be exchanged for products from Department II. But if the capitalists of Department II are to be able to purchase means of production to the sum of 1,600 (instead of the 1,500 spent by them in the preceding year), they must increase their constant capital by 100, out of the surplus value of Department II. These 100 units of surplus value allocated to extend the constant capital of Department II will mean that the variable capital must be increased by 50, since the capital originally advanced in Department II was spent in the proportion of 2 : 1. In consequence, the value in

Department II which will go into the following year's production will be: $1{,}600c + 800v$.

The process of distributing the means of production and consumer goods *within* Departments I and II is shown in the following diagram:




Realisation of the product will take place as follows. The capitalists of Department I buy means of production from one another to the value of 4,400. The remaining part of the means of production (1,600) is exchanged for consumer goods in Department II. As a result of this exchange, the capitalists of Department I receive consumer goods to the value of 1,600, while the capitalists of Department II receive means of production to the value of 1,600. The realisation of the remaining consumer goods in Department II (1,400) takes place within that Department.

The process of exchange *between* the Departments may be shown like this:

$$\text{I. } 4{,}400c + \boxed{1{,}100v + 500s} = 6{,}000$$

$$\text{II. } \boxed{1{,}600c} + 800v + 600s = 3{,}000.$$

The condition for realisation in extended reproduction is equality: the value of the variable capital (1,000) plus that part of the accumulated surplus value which is added to the variable capital (100) plus part of the surplus value which is consumed by the capitalists (500) must be equal to the value of the constant capital (1,500) plus that part of the accumulated surplus value (100) which is added to the constant capital of Department II.

The new cycle of production will begin in the second year on a larger capital basis, and if the rate of surplus value is 100 per cent, the gross social product in the second year will be as follows:

$$\text{Department I: } 4{,}400c + 1{,}100\,v + 1{,}100s = 6{,}600$$
$$\text{Department II: } 1{,}600c + 800\,v + 800s = 3{,}200.$$

This is how the process of extended capitalist reproduction takes place, and these are the conditions for realisation which predetermine the trend of extended reproduction.

In extended reproduction, the development of the productive forces is expressed in the fact that the amount of social labour that goes into the production of the means of production increases more rapidly than that which goes into the production of consumer goods.

*The economic law of extended reproduction is that the production of the means of production grows more rapidly than the production of consumer goods.*

"The whole meaning and significance of this law of the more rapid growth of means of production lies in the one fact that the replacement of hand by machine labour—in general the technical progress that accompanies machine industry—calls for the intense development of the production of coal and iron, those real 'means of production for means of production'."[1]

The theory of realisation makes clear the conditions which are *essential* for the realisation of commodities in both simple and extended capitalist reproduction. But it by no means affirms that under capitalism these conditions are always actually present. On the contrary, they are constantly being violated.

[1] V. I. Lenin, *Collected Works*, Vol. 1, p. 105.

Where competition and anarchy of production are the rule, no one exactly knows the requirements of the market. For this reason definite, essential relations among the branches of industry and within each branch are established through continual, innumerable violations of the proportional relationship.

There is an antagonistic contradiction between production and consumption under capitalism. The aim of capitalist production is to derive the maximum profit; it is achieved through extending production and accumulating capital. At the same time both these processes take place by means of lowering the living standard of the working people, so that their purchasing power and the amount they consume become less. This leads to a contraction of the market, making it difficult for commodities to be realised.

The bourgeoisie tries to resolve this contradiction by capturing foreign markets. The struggle for foreign markets, their seizure, division and redivision create most acute contradictions and are responsible for innumerable conflicts among the capitalist countries.

## 2. The National Income

**What is the national income?**

We have already discovered that the gross social product means the mass of material wealth produced in society, in the course, say, of one year. From the social product constant capital is replaced, since it is value transferred from the means of production to the newly-made products. The remaining part of the social product (variable capital and surplus value) is the new value created during the year. This part of the gross social product is the *national income* of capitalist society.

If, for instance, commodities to the value of $90 thousand million have been produced in a country during the course of a year, of which $60 thousand million will go to replace the means of production used up during the year, then the national income created that year will be $30 thousand million.

In its material form, the national income consists of articles of personal consumption and of that part of the means of production which is used to extend production.

The national income is created by those who work in the sphere of material production. This sphere includes all branches where material wealth is created: industry, agriculture, building, transport, etc. The national income is created by the workers, peasants, handicraftsmen and intellectuals who are directly employed in the sphere of material production.

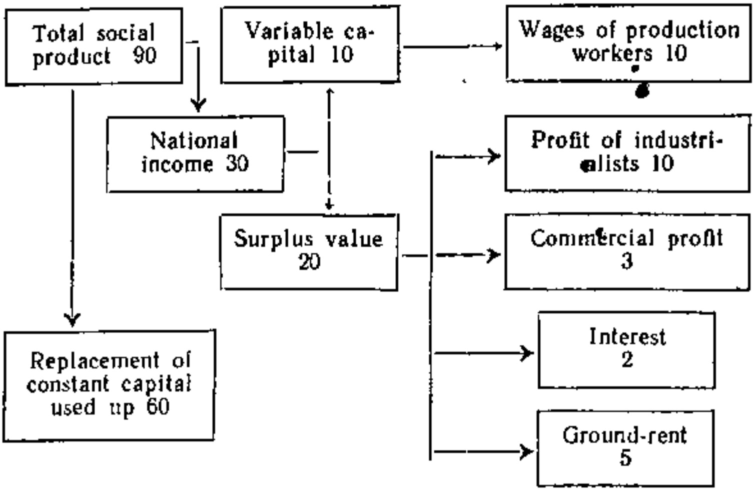
In the non-productive sphere, no national income is created. This includes: the state apparatus, the credit system, commerce with the exception of those trading operations which are an extension of the process of production to the sphere of circulation, the army, medical institutions, entertainments, etc. All the expenditure involved in these branches is covered out of the national income created in the sphere of production.

In so far as the national income is created in the sphere of material production, the condition required for its growth is that there should be an increase in the number of people engaged in production, an increase in the productivity of their labour, and also a reduction in the number of people occupied in the non-productive sphere. With the development of capitalism, the state apparatus becomes inflated, there is an increase in the size of the police force and army, more people are occupied in providing services for the bourgeoisie, and unemployment becomes more widespread. All this restricts the growth of the national income.

**Distribution of the national income**

Under capitalism the national income is distributed on a class basis: in the interest of the exploiters and not of the working people. A distinction should be made between *primary* and *secondary* distribution of the national income.

The national income first of all falls into the hands of the capitalists. Primary distribution of the national income consists in its being distributed between capitalists and workers. The workers receive wages, the capitalists—surplus value, which is distributed among the industrialists, merchants, bankers and big landed proprietors. This distribution is seen in the following diagram (each unit being $1,000 million):




After the national income has been distributed among the basic classes of capitalist society—the proletariat, capitalists and landowners—a secondary distribution or redistribution takes place.

How does the redistribution of the national income come about? We have seen that in the non-productive branches of the economy (medical institutions, public services and amenities, entertainments, etc.) no national income is created. But the capitalists who control these enterprises and institutions pay salaries to their employees (doctors, actors, etc.), cover the cost of maintaining premises and, in addition, make a profit. The capitalists cover all these items of expenditure out of the national income created in the sphere of material production by charging for the services provided, i.e., payment for medical treatment, education, public services and amenities, etc. These payments for services provided compensate for the maintenance costs of the enterprises and produce an average profit for the capitalists in the non-productive sphere.

Part of the income of the working people is redistributed through the state budget and is used in the interests of the ruling class.

The bourgeois state has its army, police, penal institutions and courts, administrative apparatus and so on. All are maintained out of the state budget, *taxes* levied upon the population being its main source of revenue. This means that after the working people have received wages through the primary distribution of the national income, they have to pay taxes to the state out of them. In this way, the part of the national income put at the disposal of the working people is in fact reduced.[1]

The burden of taxation increases as capitalism develops. For example, in Britain taxes in 1913 accounted for 11 per cent of the national income; in 1924—23 per cent; in 1950—38 per cent. In France, the figures are: 1913—13 per cent; 1924—21 per cent, and 1950—28 per cent of the national income.

**How the national income is used**

The national income is spent on consumption and accumulation. As with the distribution of the national income, its use, under capitalism, has a class character. The proportion of the national income allocated to the personal consumption of the workers does not ensure a subsistence minimum for a vast mass of them. Millions of working people live in poor housing conditions, have to deny themselves real necessities, and deprive their children of education, and so on.

A large share of the national income is appropriated by the exploiting classes. The capitalists spend part of it on personal consumption, including luxuries, and for the upkeep of large numbers of servants. The capitalists use the other part for expanding production, or for accumulation. But this part is relatively small when set against the possibilities and requirements of society. The relatively small volume of accumulation is because much of the national income is spent unproductively: on advertising, militarising

[1] The capitalists, too, pay taxes. But part is returned to them in the form of payment, and extremely high payment, for supplies and services to the government. Another part is spent on the upkeep of the state apparatus, army and so on, the chief purpose of which is to defend the interests of these same capitalists.

That is why not only the distribution, but also the redistribution of the national income in bourgeois society is effected in the interests of the exploiting classes.

the economy, the maintenance of an inflated state apparatus, etc.

The class character of the distribution of the national income under capitalism causes the purchasing power of the working people to lag behind the expanding scale of production. At times this lag reaches enormous dimensions, and leads to economic crises of over-production.

## 3. Economic Crises

**The nature of crises and their basic cause**

"Abundance becomes the source of need and privation", as Fourier, the French utopian socialist, described the contradiction revealed in economic crises.

The first striking signs of a crisis of over-production are a curtailment of trade, a surplus of unsaleable commodities on the market, stoppages at factories, and a position where many workers are deprived of the means of subsistence.

Is it true that in capitalist society "too much" food, clothing, fuel, etc., is produced? No, the over-production which leads to crises is not absolute; it is *relative*. There is an excess of commodities only compared to the effective demand but not compared to the actual requirements of society. The requirements of society do not become less when there is a crisis, but there is a sharp fall in the *purchasing power* of the mass of the working people. During a crisis the working people have an acute need for bare necessities; their requirements are satisfied less than at any other time.

The most deep-seated cause of economic crises of over-production under capitalism is the basic contradiction of capitalism—*the contradiction between the social character of production and the capitalist private form of appropriation of the results of production.*

Capitalist production is based on social division of labour. As capitalism develops, a further division of labour takes place, production being carried out by an ever-increasing number of specialised branches. Big enterprises bring together hundreds and thousands of workers, and all these enterprises are interconnected and work for national and world markets. In this way, by concentrating labour on a vast scale, capitalism gives production a *social character* and each commodity represents the result of the social labour of many thousands of workers.

But capital gives production its social character in an extremely antagonistic form. The growing socialisation of production is effected in the interests of the capitalists, whose aim is to increase their profits. The means of production with which millions of people do their work are the private property of the capitalists, and so the products of the labour of the millions become the property of a handful of capitalists.

The fundamental contradiction of capitalism is shown primarily in the contradiction between the organisation of production within the separate enterprises and the anarchy which reigns in production throughout society. Every capitalist tries to obtain the highest profits. In pursuit of a high rate of profit, the capitalists expand production (or reduce it, in order to transfer their capital to other, more profitable industries), without regard to the needs of society as a whole. The proportional relationship among the branches of industry is therefore violated, which makes realisation of the social product difficult or impossible.

The fundamental contradiction of capitalism is further seen in the contradiction between the tendency, inherent in capitalism, towards unlimited expansion of production, and the limits which capitalism itself places on the purchasing power of the main consumers—the working masses.

The tendency towards unlimited growth of production is dictated by the basic economic law of capitalism—the law of surplus value. The pursuit of profit makes each capitalist accumulate capital, expand production, improve technology, introduce new machinery, hire more workers, and produce more commodities. But this urge towards unlimited expansion of production is not reinforced by a corresponding expansion of consumption. In fact the desire for the highest profits causes the capitalists to lower wages and increase the degree of exploitation. But increased exploitation and the impoverishment of the working people mean a relative reduction in effective demand, less opportunity for selling commodities. All this leads to economic crises of overproduction.

The fundamental contradiction of capitalism is also seen in the class antagonism between the proletariat and the bourgeoisie. Capitalism has brought about the final break between the means of production concentrated in the hands of capitalists and the direct producers now bereft of all but their labour power. This gulf is seen most vividly during crises of over-production, when there is an over-abundance of the means of production and commodities on one side, and a surplus of labour power, a mass of unemployed with no means of subsistence, on the other.

**The capitalist cycle and its phases**

Crises of over-production are repeated every 8-12 years. The first industrial crisis struck England in 1825. The 1847-48 crisis, which swept through the U.S.A. and a number of European countries, was the first world economic crisis. The most serious crisis in the 19th century was that in 1873, which heralded the transition from pre-monopoly to monopoly capitalism, i.e., imperialism. The severest crisis of the 20th century was that in 1929-33.

The period from the beginning of one crisis to the beginning of the next is called a *cycle* and consists of four phases: crisis, depression, recovery and boom.

The *crisis*—the basic phase of the cycle—is chiefly characterised by an over-production of commodities, a sharp fall in prices, numerous cases of bankruptcy, a marked curtailment of production, increased unemployment, a drop in wages, deliberate destruction of commodities, machinery and enterprises, and a reduction in home and foreign trade. During this phase the contradiction between the growing production possibilities and the relatively reduced effective demand is expressed in violent and destructive forms. The highly developed level of the productive forces comes into conflict with the narrow framework of capitalist relations of production which have become a brake on the further development of the productive forces.

Bankruptcy, the ruin of many enterprises and the deliberate destruction of part of the productive forces are the only means by which the extent of production during a crisis can be forcibly brought down to the level of the effective demand existing in society. Then begins the transition from crisis to depression.

The *depression* is the second phase of the cycle and is typified by the fact that the deepening of the crisis has been arrested, but industrial production is still in a state of stagnation, prices of commodities are low, trade is slow, the rate of profit small. Unemployment and wages stand at the same level as during the crisis. The accumulated stocks of commodities are partly destroyed, partly sold off at reduced prices. Capitalist production remains in the phase of depression until competition and the struggle for markets and sources of raw materials stimulate the capitalists to re-equip industry and renew its constant capital. The capitalists make use of all manner of technical improvements in order to cheapen production and make it profitable even at the low prices reached as a result of the crisis. A demand for capital goods appears together with the incentive to expand production. Gradually the preconditions are built up for the transition to the next phase of the cycle—recovery.

Typical of *recovery* is that those enterprises which have survived the crisis continue to renew their fixed capital and gradually begin to extend production. The volume of production approaches the level it had reached on the eve of the crisis, and later surpasses that level. Trade improves, prices of commodities increase, profits rise, and there is a gradual drop in unemployment.

When capitalist production goes beyond the maximum volume reached prior to the crisis the transition to the boom phase occurs.

The *boom* is the last phase in the cycle. During this phase the tendency towards unlimited growth of production is fully manifested. Once again, striving to overtake one another, the capitalists expand production, launch into new building schemes, and throw ever-increasing masses of commodities on the market. The vigorous growth of production rushes ahead of that of the effective demand. Over-production increases steadily, in a hidden form to start with, and the surplus of commodities increasingly piles up. At this higher stage of the boom it is suddenly discovered that the market is over-stocked with commodities for which there is no effective demand; prices fall, and the crisis begins. Then the whole cycle is repeated anew.

Thus, capitalist production does not develop smoothly, but through intense fluctuations, rises and falls. The cyclical manner in which capitalist production develops is the result and striking evidence of the sharpening contradiction between the productive forces and relations of production; it shows that capitalism itself puts obstacles in the way of its own development, and is moving irresistibly towards its end.

In capitalist countries, besides industrial crises we find *agrarian crises*, i.e., crises of over-production of agricultural products.

The main burden of agrarian crises falls on the great mass of the peasantry, bringing them to ruin.

**Crises and sharpening of the contradictions of capitalism**

Crises bring out very clearly the inability of capitalism to control the forces it has itself called into being. Each economic crisis leads to a sharp curtailment of production and to a reduction in the volume of home and foreign trade.

In Britain, for instance, the 1929-33 crisis threw coal output back to the level it was 35 years earlier; steel output to what it was 23 years earlier; iron output—76 years earlier, and foreign trade—36 years earlier.

During a crisis period great wealth is wasted and at the same time the most pressing needs of broad sections of the working people remain unsatisfied. Thus, 92 blast furnaces were demolished during the 1929-33 crisis in the United States; in Britain, 72; and in Germany—28. In 1933, 10.4 million acres of cotton in the U.S.A. were ploughed back, and so on.

During crises the most important productive force in society—labour power—is squandered. A crisis throws millions of workers on to the street. Society's best forces are condemned to enforced idleness and an aimless existence.

Crises lead to an aggravation of the class contradictions between the proletariat and the bourgeoisie, between the basic mass of the peasantry and the landowners, moneylenders, etc., who exploit them. During a crisis the working class loses a considerable part of the gains it had won in the struggle against the capitalists.

Broad sections of the proletariat condemned by crises to suffer tremendous privation acquire class consciousness and revolutionary determination. The workers become convinced that the only way to get rid of poverty and starvation is to alter the economic and social system. Even backward sections of the working people begin to understand this.

Economic crises thus clearly demonstrate the need for a revolutionary change from capitalism to socialism, which will put an end to the contradictions of the bourgeois system and open up boundless prospects for the development of society's productive forces.

## B. MONOPOLY CAPITALISM—IMPERIALISM

During the last third of the 19th century, capitalism passed into its highest and last stage—imperialism. The feature that chiefly distinguishes this stage is the replacement of free competition by the rule of the *monopolies*. During this period the productive forces progressed with great strides. New methods of smelting steel were introduced into the iron and steel industry by Bessemer, Martin and Thomas. These called for a transition from the small, semi-handicraft workshops which had predominated up to that time to large steel works. During this period a number of most important inventions were made (the dynamo, internal combustion engine, steam turbine) which greatly accelerated the development of industry and transport. Based on new types of motive power, the electric tram, automobile, diesel locomotive and aeroplane appeared. Advances in science and technology also paved the way for the production and everyday use of electricity.

In an earlier period, light industry had occupied the dominant position, but now heavy industry was pushed to the fore. Branches of heavy industry grew up very rapidly, so that by 1900 world steel production had risen to 56 times what it had been in 1870, oil—25 times, and coal output had increased over threefold. There was a rapid move towards large-scale production, which particularly developed after the 1873 economic crisis.

Parallel with this development of the productive forces and of production the contradictions of capitalism increasingly sharpened. Economic crises of over-production occurred more and more frequently, they became more destructive, and unemployment continued to increase. There were more frequent wars between the capitalist states, bringing untold suffering to the working people. Yet while the position of the working people deteriorated enormously, the wealth of the capitalists grew to unprecedented dimensions, and this heightened the economic and political struggle of the working class.

The supporters of the bourgeoisie within the labour movement hastened to declare that the establishment of monopolies in the capitalist world meant that a new era had opened in the development of capitalism, that now capitalism no longer opposed the interests of the people, that it was becoming "organised", "free of crises", "peaceful". Kautsky and Hilferding, for instance, advocated that now it should be possible to eliminate the anarchy of production and wars through the capitalists of the different countries reaching agreement among themselves. The essential aim of all these theories was to gloss over the contradictions of capitalism and distract the working class from the revolutionary struggle.

The ideologists of the working class were faced with the problem of providing a clear-cut scientific analysis of imperialism, making a proper study of the new phenomena which had become typical of capitalism at the turn of the century. This was essential primarily in order to give the working class the correct theoretical weapon in its struggle for liberation from the yoke of capital.

This task was accomplished by Lenin in his immortal work, *Imperialism, the Highest Stage of Capitalism* (1916), and a number of other writings. He showed that imperialism continues all the basic features of capitalism. Under imperialism there still exist private ownership of the means of production by capitalists and relations of exploitation between wage-workers and capitalists; distribution takes the form of increasing wealth being concentrated in the hands of some, while the position of others deteriorates; antagonistic relations between bourgeoisie and proletariat continue to exist. Imperialism retains the bourgeois state.

In consequence, all the economic laws of capitalism continue to operate under imperialism: the law of surplus value, the general law of capitalist accumulation, the law of competition and anarchy of production, etc. Under *imperialism, however, the operation of these laws reveals certain specific features.*

Lenin's analysis of imperialism showed that the monopoly stage of capitalism is marked by the following basic economic features: "1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; 2) the merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a financial oligarchy; 3) the export of capital as distinguished from the export of commodities acquires exceptional importance; 4) the formation of international monopolistic associations, which share the world among themselves, and 5) the territorial division of the whole world among the biggest capitalist powers is completed."[1]

[1] V. I. Lenin, *Imperialism, the Highest Stage of Capitalism*, Moscow, p. 151.

*Chapter VII*

# THE BASIC ECONOMIC FEATURES OF IMPERIALISM

## 1. Concentration of Production and Monopolies

**Concentration of production**

Prior to imperialism, free competition was the rule. In the period of free competition, one and the same type of commodity was produced by many different capitalists, each of whom tried to sell it at the greatest profit to himself. Free competition led to the weak becoming ruined, while the strong grew rich and expanded production. As Engels put it, "competition is the completest expression of the battle of all against all which rules in modern civil society".[1] Free competition, by enriching some and ruining others, brought about *concentration* of production in large enterprises employing hundreds or thousands of workers. At a definite stage of its development concentration of production gives rise to monopoly, and it reaches its highest development at the stage of imperialism.

In Germany, for example, enterprises with over 50 employees accounted for 22 per cent of the total number of employed persons in 1882; in 1895—30 per cent of the total; in 1907—37 per cent; in 1925—47.2 per cent; and in 1939—49.9 per cent. In West Germany in 1955, 87.1 per cent of all employed persons worked in enterprises employing 50 or more. In the U.S.A. the largest enterprises with a yearly output worth a million dollars or more made up 0.9 per cent of the total number in 1904. They then employed 25.6 per cent of the total employed workers, and produced 38 per cent of America's gross industrial output. In 1939 the largest U.S. enterprises which then

[1] K. Marx and F. Engels, *On Britain*, Moscow, p. 109.

accounted for 5.2 per cent of the total, employed 55 per cent of the total number of workers and produced 67.5 per cent of the gross industrial output. In 1955, 500 industrial corporations in the U.S.A. produced about half the total industrial output and acquired 68 per cent of the total profits. Of these, 50 of the largest, forming 0.05 per cent of the total corporations, had concentrated in them almost one-quarter of the entire U.S. output in the processing industry.

Today, 100 of the largest U.S. companies and 100 companies in other imperialist countries control almost one-third of the world's capitalist production.

Besides becoming concentrated, capital also becomes centralised. *Centralisation* is the term used when capital is increased through the amalgamation of several separate capitals into one enlarged capital. This may take place by agreement, as, for instance, when joint-stock companies are formed, or by coercion, when in the course of keen competitive struggle big capital ruins or takes over the smaller capitalist enterprises.

Competition compels every capitalist to cheapen his commodities, and this the big capitalist can do. The smaller enterprises, which cannot stand up to competition, either go into liquidation or fall into the hands of the big capitalist. This process goes on all the time. For example, the following figures give the number of companies that went bankrupt in the United States between 1947 and 1960: in 1947—3,474; in 1954—11,086; and in 1958—14,964. In 1960, the maximum number of bankruptcies in the entire history of the U.S.A. was registered, over 110,000.

The concentration and centralisation of production and capital lead to the massing of vast numbers of workers in large and gigantic enterprises. This makes it easier for the working class to unite and organise against capital and transforms the proletariat into a revolutionary force capable of effective struggle. The concentration and centralisation of capital and production lead to socialisatton of labour on a gigantic scale, increase the power of capital over labour and intensify the class struggle between workers and capitalists.

**Forms of monopoly** Concentration of production leads directly to monopoly. It is difficult for the largest enterprises with big capital behind them to defeat one another in the competitive struggle. But since there are only a few of these enterprises and the competitive struggle today is a costly business, it is possible and essential for the big capitalists to reach agreement among themselves for the purpose of sharing out markets and sources of raw materials, fixing prices, etc.

A *monopoly* is an agreement between, or association of, capitalists who control the production or sale of the greater part of certain commodities. Whatever the form these associations take, they all aim at the same goal—*to get the highest profits.*

Monopoly associations emerge first of all in branches of heavy industry where production becomes concentrated particularly rapidly. But once they have gained control over heavy industry, the monopolies spread to other branches of industry.

The forms of monopoly associations are extremely varied. In the beginning they are short-term agreements among individual capitalists regarding selling prices. These prepare the ground for long-term agreements. The basic forms of monopoly are cartels, syndicates, trusts and concerns.

A *cartel* is an alliance of capitalists who reach agreement on sharing out markets and fixing prices, and who determine the amount of commodities to be produced. The enterprises forming the cartel produce and sell their commodities independently of one another. This form of monopoly was particularly widespread in pre-war Germany and still prevails in the Federal Republic of Germany.

A *syndicate* is a higher stage of monopoly association. Enterprises belonging to a syndicate produce commodities independently but lose their commercial independence. The members of the syndicate do not sell their output and buy raw materials themselves, but set up a joint commercial apparatus for the purpose. This form of monopoly was widespread in pre-revolutionary Russia.

A *trust* is a monopoly with joint ownership of all the enterprises belonging to it, the former owners becoming shareholders who receive profits according to the number of shares they hold.

A *concern* is an association of large trusts or enterprises in different branches of industry, of banks, commercial firms, transport and insurance companies, dependent financially on one particular group of big capitalists.

Trusts and concerns have developed on a wide scale in the U.S.A., Britain, France, Japan and other countries.

**Monopoly associations in the leading capitalist countries**

Under imperialism, monopoly associations predominate in the economies of the capitalist countries. By and large they cover all branches of industry, transport, commerce, insurance and banking. This is seen in the following examples from the most important capitalist countries.

*The U.S.A.* Here the iron and steel industry is dominated by 17 monopolies, which in 1959 controlled 94 per cent of the steel productive capacity. Two of these monopolies—the U.S. Steel Corporation and the Bethlehem Steel Corporation—controlled half the steel productive capacity of the country. The U.S. Steel Corporation has 140 steel works and 180 blast furnaces; it controls up to 70 per cent of the country's iron ore resources, and has its own rail transport. In the oil industry, the largest monopoly is Standard Oil, which includes 20 companies with a dominating influence in the oil industry of the U.S.A and other countries.

The automobile industry has three big monopolies: General Motors, Ford and Chrysler, which in 1958 put out 93 per cent of the cars in the U.S.A. These three monopolies are of importance as producers of armaments and munitions. In the Second World War they produced all the U.S. motorised transport, 75 per cent of the aero-engines, 40 per cent of the tanks and 30 per cent of the artillery, machine-guns, automatic rifles, etc.

Large monopolies in *Britain*, as in the U.S.A., rule the country's economy. The British Iron and Steel Federation, for example, combines all the principal iron and steel companies in the country. The largest monopoly is the armaments firm of Armstrong-Vickers, which controls among other enterprises the production of armaments and munitions, military and civil engineering and shipbuilding, and aviation and electrical-engineering output.

In the chemical industry the largest monopoly is the Imperial Chemical Industries, which controls 95 per cent of the production of basic chemicals, 95 per cent of the nitrogen output, 40 per cent of the dyestuffs, and is the main producer of chemicals for military purposes. The I.C.I. is closely connected with other important branches of British industry, especially with the armaments firms.

In *France*, one monopoly has the entire production of aluminium concentrated in its enterprises. One monopoly also controls 80 per cent of the output of dyestuffs. About 96 per cent of the car production is concentrated in the enterprises of four monopolies.

In *West Germany*, one very large monopoly is the German Steel Trust, Vereinigte Stahlwerke A. G., which at the beginning of the Second World War controlled 370 companies and had 220 branches in Germany and elsewhere. After the war it was restored with the help of American capital and is now one of the principal members of the European Coal and Steel Community. Other large monopolies—Krupp, Thyssen, etc.—were also restored after the war and are now producing arms as well as steel. In the chemical industry the ruling monopoly is I. G. Farbenindustrie, which at the end of the war controlled 380 factories in Germany and 500 companies in other countries. I. G. Farbenindustrie has now fully regained its former economic position.

Large monopolies also occupy a dominant position in the economies of Italy, Japan, Belgium and other countries.

**Monopolies and competition**

The ideologists of the bourgeoisie assert that monopoly eliminates competition. In actual fact monopolies do not exclude competition but exist alongside it.

Firstly, although monopolies dominate the capitalist economies, one hundred per cent monopoly of an entire industry is rare. So there is, in fact, a competitive struggle *between the monopolies and those capitalists who do not belong to them* (what are known as outsiders). In this competition the monopolies use every possible means of forcing the outsiders to join the monopoly, the alternative being complete ruin.

Secondly, competition goes on *within the monopolies.* The members of cartels and syndicates fight one another for the best markets, for a greater share in production. In the trusts and concerns, capitalists fight over leading posts, the controlling interest, and the distribution of profits. The struggle inside a monopoly is more often than not under cover, and only in rare cases does it break through into the open and lead to the disintegration of the monopoly. When this happens, a new monopoly may be formed to replace the former one.

Thirdly, there is competition *between the different monopolies within the same branch of industry*, when there are more than one.

Fourthly, in the era of imperialism, competition becomes particularly keen *between monopolies in different branches of industry*, for instance, between the coal monopolies and iron and steel monopolies which supply each other.

The assertions of bourgeois ideologists that monopoly means planned development of capitalist economy are quite false. Although monopoly grew out of free competition, it does not eliminate competition but exists alongside it. Under the rule of the monopolies, competition becomes savage and rapacious. To throttle a competitor, financial manipulations, bribery, blackmail and direct violence are resorted to.

Imperialism cannot do away with competition. It is precisely the "combination of the contradictory 'principles', competition and monopoly, that is essential to imperialism, and it is precisely this which paves the way for its collapse, i.e., for socialist revolution".[1]

## 2. Finance Capital and the Financial Oligarchy

**Concentration of capital and monopolies in banking**

Concentration of production and the formation of monopolies in industry lead inevitably to concentration of capital in banking and to the creation of *banking monopolies*. Fierce competition among the banks ends with the large taking over the small. The big banks conclude agreements and thus banking monopolies arise.

[1] V. I. Lenin, *Collected Works*, Russ. ed., Vol. 24, p. 427.

They subordinate the small banks, savings banks and loan societies. Each of these banking monopolies controls scores or even hundreds of smaller banks. The banking concerns grow larger and their turnovers multiply. In the U.S.A., for instance, there were 10,382 banks in 1900 with assets of $10,785 million, but in 1940 there were 15,017 banks with assets of $80,213 million. Consequently, in the course of 40 years the number of banks increased by only 50 per cent, but the assets grew almost eightfold. In 1900, 20 of the biggest banks in the United States held 15 per cent of the total deposits in all the banks, and in 1956—31 per cent. In Britain, the combined balance of the five biggest banks in 1900 was 28 per cent of the total balances of all the deposit banks; in 1952 it was 70 per cent.

Concentration in banking and the formation of banking monopolies led to a change in the relations between banks and industry.

**The new role of the banks**

Originally, banks were simple intermediaries in the making of payments. As capitalism develops, the credit operations of the banks expand; the bank takes capital from capitalists who at the given moment have no use for it, and lends it to those who are in need of it. Concentration and centralisation of banking lead to a situation where the banks acquire enormous economic power over the whole economy.

When the big banks handle the current accounts of the capitalists they acquire knowledge of the affairs of their clients, exercise control over them and, by making credit easily available or difficult to obtain, put the industrial capitalists in a subordinate position and direct their activities.

Thus from being modest intermediaries in the sphere of payments, the banks become all-powerful financial centres.

This transformation of the banks into all-powerful monopolists greatly accelerates the concentration of production. This is because the banks give credit first and foremost to the large enterprises associated in monopolies. It becomes a matter of interest to the banks that these monopolies should prosper, so they begin to buy shares in them. They buy enough shares to ensure that they have a decisive voice inside the monopoly.

**Finance capital**

On the nature of *finance capital*, Lenin wrote: "The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of this term."[1]

Banks buy shares of industrial, commercial, transport, insurance and other monopolies and so become co-owners. The industrial monopolies in their turn also own shares in the banks with which they are connected. The result is an interweaving or *coalescence* of monopoly banking and industrial capital. On this basis a new type of capital emerges—*finance* capital.

The coalescence of banking and industrial capital takes various forms. Its most striking manifestation is in a *personal union*, i.e., when the same people head the banking, industrial, commercial and other monopolies. Heads of banks are brought into the managements of industrial monopolies and representatives of industrial monopolies, in their turn, occupy seats on the governing bodies of banks.

In *the United States*, for instance, a small group of 400 industrialists and bankers hold about 1,200 directorships in 250 of the largest corporations. A typical example of this sort of combination is Laurence Rockefeller, who is a director of more than 10 different companies.

In *France*, the directors of the largest bank, the Banque de Paris et des Pays Bas, occupy 190 posts on the boards of companies which, in their turn, own a whole network of branches and subsidiaries.

In *Germany*, during the Second World War, 54 representatives of the very large Deutsche Bank held 707 directorships in a number of different companies, and in 1958, 48 representatives of the same bank held a total of 662 leading posts in 126 big *West German* companies. The chairman of the bank's board of directors, Hermann Abs, holds 40 posts on advisory committees and boards of banks and commercial and industrial enterprises (under Hitler he occupied 42 posts).

The domination of the financial oligarchy is the concrete expression of the power of finance capital.

[1] V. I. Lenin, *Imperialism, the Highest Stage of Capitalism*, p. 76.

**The financial oligarchy**

The growth of monopolies and finance capital results in the biggest bankers and industrialists forming a small ring of individuals in whose hands is concentrated the whole economic and political life of their country. *The financial oligarchy*, i. e., the domination and power of a few financiers, now makes its appearance. All the vital branches of the economy, all the key positions in the political apparatus of the capitalist countries are in the hands of the financial oligarchy.

In *the U.S.A.*, for example, the decisive role in the economy goes to eight financial groups—Morgan, Rockefeller, Dupont, Mellon, the Bank of America, the Chicago Bank, the Cleveland Bank, and the First National City Bank. In 1955 the total capital controlled by these finance groups was 218.500 million dollars. The largest of these groups are those of Morgan and Rockefeller. In 1955 the *Morgan* sphere of influence embraced banks and corporations with a total capital of $65,300 million. Among these were 5 of the largest banks, 14 railroad companies, several telecommunications monopolies, the U.S. Steel Corporation, General Electric, etc. In the same year, the *Rockefeller* sphere of influence extended to banks and corporations with a total capital of $61.400 million, including the vast Standard Oil monopoly, railroad, steel and other monopolies. In the United States multimillionaires and millionaires comprising only one per cent of the population control 60 per cent of the total wealth of the country.

In *Britain*, eight financial groups are decisive in the country's economy. They control the main industries and retain their economic grip on countries which were formerly part of the British Empire.

The rule of the financial oligarchy is characteristic also of other capitalist countries.

The financial oligarchy exercises its control in the economic field through what is known as the *system of holdings*. The system works as follows: a large financier (or group of financiers), through his controlling interest or by other methods, gets control of the main joint-stock company, which acts as the "parent company". This company acquires shares in other companies and, when it holds the controlling interest in these, assumes control over them as "daughter companies", which in turn control "granddaughter companies", and so on. Through this system of holdings, a financier with a capital of a thousand million dollars can spread his influence over a capital of, say, 8 thousand million. Through this system the extent of the control exercised by big capital is continually increasing. The system can be viewed as a multistoreyed pyramid with the great "kings" of the financial world surmounting it.

The financial oligarchy also rules in the political life of the capitalist countries, subordinating the state apparatus. State monopoly capitalism emerges and begins to develop.

### 3. Export of Capital. Economic and Territorial Division of the World

**Export of capital**

Before the imperialist era, the main form of economic link between countries was foreign trade, the export of commodities. Under imperialism, world trade expands, but the export of capital becomes of prime importance. The *export of capital* becomes the basis for the exploitation of a large part of the capitalist world by a few big imperialist countries.

The point is that where monopolies rule, "surplus" capital piles up in the most highly developed capitalist countries. Of course, if the monopolies used their capital to raise the living standards of working people and to help modernise agriculture, there would be no such "surplus". But in that case capitalism would not be capitalism. The aim of capitalists is to employ their capital where they can make the highest profits.

Capital is exported abroad in two forms: loan capital and productive capital. Export of *loan capital* occurs when loans are made available to the government or capitalists of another country. The country receiving the loan has to pay interest on it. In this case the surplus value created by the workers of that country is drained away in the form of interest to the country exporting capital.

Export of *productive capital* occurs when capitalists build industrial enterprises, railways, etc., in other countries. This takes place in the following way. For example, a joint-stock company is formed in the U.S.A. for the purpose of drilling oil-wells in a Latin American country. The shares issued are bought up by American capitalists. The capital accruing from the sale of shares is used to build installations in the country concerned. But the profits from the oil-wells go to the shareholders, i.e., to American capitalists. In both cases capital is exported in order to obtain high monopoly profits.

Capital is for the most part exported to economically underdeveloped countries. These countries have very little capital, their land is cheap, there are raw materials in abundance and wages are low. All this makes it most profitable to invest capital there. At the present time there is intensified export of capital to Africa, the Latin American countries, the Middle East. But capital is exported to industrially developed countries as well. And the export of capital has serious consequences both for the country exporting it and those to which it is exported.

In countries which import capital, accelerated capitalist development takes place with all capitalism's inherent contradictions—impoverishment and ruin of the masses, rapacious squandering of land and other forms of national wealth. The economy of the underdeveloped countries develops in a deformed, one-sided manner to suit the requirements of foreign capital. The mining industry is for the main part chosen for development.

In the countries which export capital the consequences of doing so are twofold. On the one hand, these countries add to their wealth, i.e., they get surplus value from abroad in the form of profits from their enterprises in other countries or as interest on loans. On the other hand, the development of their production is retarded, i.e., capital exports restrict the possibility of investing capital in the home country.

Capital exports lead to broader economic relations among countries. But these broader relations imply exploitation of the underdeveloped countries by the economically developed countries. Thus, the export of capital creates a system of imperialist domination and subjection.

Bourgeois ideologists try to make out that the export of capital in the period of imperialism is a form of "aid", a "boon" to underdeveloped countries. A *decolonisation* theory has been put forward, the essence of which is that imperialism has supposedly promoted the industrial development of the colonies, made them less dependent on the metropolitan countries, and decolonised them. The theory aims at camouflaging the imperialist nature of capital exports. In point of fact, capital exports are not a form of decolonisation but a means by which some countries hold other countries in fetters.

After the Second World War certain new features appeared in the export of capital. The fact that a number of countries in Europe and Asia had broken away from capitalism meant a sharp reduction in the area open to capitalist investments.

The uneven export of capital became more strongly marked. The export of capital from Britain and France fell considerably. From the U.S.A., on the other hand, it rose significantly. In 1949, American capital investments abroad were greater than those of all the other capitalist countries put together. Between 1939 and 1955 U.S. total foreign investments increased almost fourfold.

The U.S.A. has been exporting more and more capital in the form of government loans and credits both to the underdeveloped countries of Latin America, Asia and Africa and to the highly industrialised countries of Western Europe—Britain, France, West Germany, etc. The U.S.A. is the centre of the financial exploitation of the entire capitalist world.

State loans and credits have a political and military as well as an economic aspect.

Through exports of capital the financial oligarchy of the highly developed capitalist countries seeks to bring under its control the entire economic life of the countries which import capital.

Each imperialist country tries to export capital to countries where it is more profitable to invest it. And this leads to competition and strife not only between capitalists but between the imperialist countries, and sharpens the contradictions throughout the capitalist world.

**Economic division of the world between capitalist alliances**

The monopolies in the capitalist countries strive first and foremost for undivided domination of the home market. They divide up the home market, keep prices at an artificially high level and make enormous profits. To maintain high prices, the monopolies try to protect the home market against foreign competition. For this purpose governments fix high import duties and sometimes even ban the import of certain commodities. The duty on imports often greatly exceeds the value of the commodities themselves. In this way the domination of the monopolies on the home market is ensured.

But the home market is limited. It cannot deal with the vast mass of commodities pouring out from the giant concerns. So the monopolies make increasing efforts to sell on foreign markets. But how can they do this when these markets, too, are protected by import duties?

In order to avoid high import duties they export capital. The capitalists build factories in other countries and swamp their markets with commodities. Dumping also does much to overcome high import duties and capture foreign markets. The term *dumping* refers to the sale at extremely low prices, sometimes even below the cost of production of commodities exported to foreign countries. As soon as the low prices have squeezed competitors out of the market in question, the monopolies raise prices.

The struggle for foreign markets, for sources of raw materials and for spheres of capital investment leads to an economic division of the world among the different monopolies into spheres of influence. The advance of the monopolies beyond the bounds of their own particular states marks the new, still higher stage of concentration of production and capital, which Lenin called *supermonopoly*.

When in an industry a few trusts or syndicates begin to assume the decisive role throughout the capitalist world, the conditions are created for the formation of international monopolies. *International monopolies* are agreements reached among the biggest monopolies of different countries on the division of markets and sources of raw materials, on production quotas, price policies, etc.

The rise of the first international monopolies dates back to the sixties and eighties of the 19th century. By the end of the 19th century there were about 40 of them, and by the beginning of the Second World War (1939) more than 300. At present there are about 350. The largest monopolies of the capitalist countries assume the character of international monopolies.

Lenin showed how before the First World War the U.S.A. and Germany had the monopoly of electrical engineering throughout the world. In Germany there was the General Electric Company (A.E.G.) with its enterprises and branches in several countries of Europe and America. In the U.S.A. the monopoly of electrical engineering was held by the General Electric Company with enterprises throughout America and penetrating into Europe. In 1907, these monopolies reached agreement on the sharing out of spheres of influence on a world scale. The German company acquired the European and part of the Asian markets, while the American company dominated markets on the American continent.

The world oil market was divided up before the First World War between American Standard Oil and Royal Dutch-Shell, the Anglo-Dutch company.

International monopolies dominate all branches of industry, including arms production. Armstrong-Vickers in Britain, Schneider-Creusot in France, Krupp in Germany have been connected for a long time. These firms shared out the markets and supplied arms to anyone who paid well. The connections between these firms were not discontinued during the war.

After the Second World War many new interstate monopolies came into being. The most powerful of these are the European Coal and Steel Community, which takes in the coal and the iron and steel industries of France, West Germany, Belgium, Holland, Luxemburg and Italy, the European Economic Community (the Common Market) and the European Free Trade Association (EFTA).

Owing to the uneven development of the capitalist countries the relation of forces between the international monopolies is constantly changing. The creation of international monopolies does not mean the end of the struggle to divide up the world, nor is it a transition to peaceful co-operation among the imperialist countries; it is a sharpening of the struggle.

So, through the export of capital and the formation of international monopolies the magnates of finance capital divide the world among themselves economically, i.e., divide it into spheres of influence. But the struggle for the economic division of the world gives rise to a struggle for its territorial division.

**Territorial division of the world and the struggle for its redivision**

During the period of transition to imperialism, the seizure of colonies intensified. Between 1876 and 1914 the Great Powers seized about 25 million square kilometres of colonial territory, i.e., an area one and a half times as great as that of the metropolitan countries. The greatest amount of land was seized by Britain. In 1876, her colonial possessions covered 22.5 million square kilometres with a population of 251.9 million, but by 1914 they had increased by 11 million square kilometres with a further population of 141.6 million. Germany, the United States and Japan had no colonial possessions in 1876 and France almost none. By 1914 these four powers had captured colonies with an area of 14.1 million square kilometres and a population of 100 million.

By the beginning of the 20th century the territorial division of the world was completed, there were no more "free" territories available. Territory could only be acquired by taking it away from previous owners. The question of a redivision of the world was on the agenda. The struggle to redivide the already divided world by means of war has been a characteristic feature of the whole period of the absolute rule of imperialism.

The first war for the redivision of the world was that fought by the U.S.A against Spain in 1898. The result of this war was that the American imperialists seized the Philippines, Puerto Rico, Guam, Cuba, Hawaii and Samoa.

It was for the purpose of redividing the world that the imperialists launched the First and Second World Wars.

With the advent of imperialism, the formation of the *capitalist world economic system* was completed. This was achieved through the subordination of economically weak countries to the strong imperialist powers. The colonial system of imperialism became a constituent part of the capitalist world economic system.

**The colonial system of imperialism**

*The colonial system of imperialism* covered the colonies, semi-colonies and dependent countries oppressed and exploited by the imperialist powers. The formation of the colonial system of imperialism was the result of the economic and territorial division of the world among the imperialist powers during the last third of the 19th and beginning of the 20th centuries.

The ideologists of capitalism try to make out that imperialism plays a civilising role in the colonies and dependent countries, raising the cultural level of their peoples. In actual fact these assertions are far from the truth. What is typically found in colonies and dependent countries is not cultural development, but almost complete illiteracy, absence of medical services and economic backwardness. The imperialists deliberately hold back the development of the colonies and dependent countries in order to maintain their own rule. The imperialists did not seize colonies in order to take civilisation to them but in order to make high monopoly profits there.

In the era of imperialism the importance to the imperialist states of colonies and dependent countries as markets had increased enormously. In 1930, for instance, Britain sent 43.5 per cent of the total exports to her colonies, and in 1949—54 per cent. By fencing off their colonies and dependent countries against competitors, through a policy of tariffs, the imperialists have been able to sell off poor quality goods at inflated prices.

The colonies and dependent countries have also gained in importance as spheres of capital investment. Here the imperialists eliminate outside competition, find cheap labour and raw materials and so are sure of a high return on the capital invested. As a rule, capital is invested in the mining industries, and colonial agriculture directed into narrow specialised channels, producing some one crop (rubber, coffee, cotton, etc.). The development of the colonies thus takes on a deformed, lop-sided character. The colonies become agrarian, raw material appendages of the imperialist powers.

The capitalist monopolies strive to get control of the greatest possible amount of raw materials. For example, at the end of 1958, the known oil resources of the capitalist countries amounted to 30,429 million tons, of which 20,681 million tons, or about 68 per cent, were in the Middle East and only 0.6 per cent in West European countries. A struggle is in progress for Middle East sources of oil between the monopolies of the U.S.A., Britain, France, Japan, etc. The seizure of sources of raw materials enables the industrial monopolies to dictate prices on the world market and so obtain high profits.

The military and strategic importance of dependent countries and colonies has also increased. The imperialist powers use them as strong points and build naval and air bases there.

Finance capital of the metropolitan countries cruelly exploits the peoples of the colonies and dependent countries. As a general rule, these countries have no labour legislation, the labour of women and children is widely employed, the working day can be 12-14 hours or more, and wages remain at starvation level. The desperate position of the working people causes starvation and epidemics and brings about the gradual extermination of the population.

Imperialist oppression and exploitation inevitably call forth the resistance of the colonial and dependent peoples, resulting in the struggle for national independence. The national-liberation movement of the colonial peoples became particularly widespread after the Second World War, which marked the beginning of the break-down of the imperialist colonial system.

### 4. Monopoly Profits—the Motive Force of Monopoly Capitalism

**Monopoly profits**

The basic economic law of capitalism at every stage is the law of surplus value. It determines the development of the entire capitalist formation. It expresses the striving of the capitalists to appropriate unpaid labour in order to enlarge their surplus value. But the forms in which the basic economic law of capitalism makes itself apparent are not the same at different stages of capitalism.

Prior to imperialism, when free competition ruled the day, pursuit of the highest profits went hand in hand with a more or less free flow of capital from one industry to another. There were many enterprises in competition with one another. The result of this was the formation of the average rate of profit.

Under imperialism, free competition is replaced by the rule of monopolies. In branches of industry where monopoly prevails, economic conditions are brought into being which make it possible for the monopolies to acquire the highest profits. Over and above the average profit, *high monopoly profit* includes the extra profit the monopolies get because they dominate the given sphere of production or exchange.

Under imperialism, the commodities produced by the monopolies are not sold at the prices of production as before, but at monopoly prices. The *monopoly price* consists of production costs plus high monopoly profits.

How do the capitalists obtain high monopoly profits?

**Sources of monopoly profit**

The basis of high monopoly profit, as of all capitalist profits, is the *surplus value* squeezed out of the workers in the process of excessive exploitation. Through the wide use of various sweating systems in the organisation of production—automation, rationalisation and intensified labour—an increase is achieved in the rate and mass of surplus value.

Another section of the bourgeoisie—landlords, traders, etc.—further exploit the worker after he has received his wages.

*Exploitation of the peasantry* is also a source of high monopoly profit. The monopolies sell manufactured goods at high prices to the bulk of the peasants, and at the same time buy from them agricultural products at exceedingly low prices. When peasants become deeply involved in debt and their farms ruined, the monopolies acquire their land and possessions for almost nothing.

The proletariat, the working peasantry and the lower-paid categories in capitalist countries carry the burden of additional exploitation by the bourgeois state and the big monopolies backing it. This *additional* exploitation takes the form of *taxation*, *government loans*, and the *devaluation of paper money*. The result of this inhuman exploitation is a sharp deterioration in the position of the majority of the population.

The monopolies derive enormous wealth from their *exploitation of peoples in colonies and other underdeveloped countries*. There wages are inadequate to provide workers with even the necessities of life. The majority of workers are burdened by a complicated system of taxation. Forced labour is openly employed in both agriculture and industry.

The monopolies also profit by selling commodities at high monopoly prices and purchasing raw materials and foodstuffs at low monopoly prices. Through this unequal exchange, the underdeveloped countries lose $20,000 million annually, which is one-sixth of the gross national product.

*Wars* and *militarised economy* also guarantee high monopoly profits. In wartime the degree of exploitation of the workers considerably increases, because compulsory labour discipline is imposed in industrial enterprises. In addition taxes increase and prices rise. All this brings in huge profits for the capitalists. During the Second World War, for instance, the profits of U.S. monopolies rose more than sevenfold. Militarisation of the economy in peacetime, i.e., switching industry over to war production, also helps profits to grow. For example, the rate of profit of U.S. monopolies producing war materials is today 50-100 per cent higher than the rate of profit in civilian industries. Production for war, which yields vast profits for the monopolies, inevitably leads to a deterioration in the position of the working people.

These are the chief methods by which monopoly capital obtains high monopoly profits. In the imperialist era, the basic economic law of capitalism provides the basis on which the broadest masses of the people—workers, peasants and peoples of the colonies and dependent countries—can fight against monopoly capital and so bring nearer the final collapse of imperialism.

*Chapter VIII*

# THE PLACE OF IMPERIALISM IN HISTORY. THE GENERAL CRISIS OF WORLD CAPITALISM

## 1. The Place of Imperialism in History

Imperialism is the highest and last stage of capitalism. In defining the place imperialism occupies in history, Lenin pointed out that it is a special stage of capitalism. It has three basic features: imperialism is 1) monopoly capitalism; 2) parasitic or decaying capitalism; 3) moribund capitalism.

**Imperialism is monopoly capitalism**

In its economic essence, imperialism is *monopoly* capitalism, as already mentioned. The domination of monopolies is its chief feature, and it is this that determines the place imperialism occupies in history.

In his work *Imperialism and the Split in Socialism*, Lenin revealed the four ways in which monopoly capitalism chiefly manifests itself.

*Firstly*, monopolies developed when concentration of production had reached a very high degree. Included here are the monopoly associations of capitalists: cartels, syndicates, trusts, concerns. They play the decisive role in the economic life of capitalist countries. That monopolies grew up from the concentration of production and began to rule in the economics and politics of capitalist countries is what characterises the new stage in capitalist development, namely, imperialism.

*Secondly*, monopolies developed through the banks, which had been modest intermediaries and then became all-powerful centres of finance. In each of the highly developed capitalist countries five to ten of the largest banks have achieved "personal union" between industrial and banking capital and these control vast sums of money. Finance capital and the financial oligarchy subjugate the economic and political life of the nation. A small group of multimillionaires and millionaires dispose of the country's entire wealth and are responsible to no one but themselves.

*Thirdly*, monopolies have led to intensified seizure of the most important sources of raw materials, markets and spheres of capital investment. Their rule may extend over separate countries or even whole continents. This kind of monopoly control has in particular increased the rule of a small group of financial magnates, thus greatly aggravating contradictions inside the capitalist camp.

*Fourthly*, monopolies developed from the colonial policy of the imperialist powers. The era of "free seizure" of territories is replaced by monopoly control of colonies through their economic enslavement. Export of capital and commodities, as a method of enslaving peoples economically and politically, operates towards this end.

All this produces a situation where one single monopoly binds gigantic enterprises into a unit, brings together the labour of hundreds of thousands of people, keeps a close watch on markets and sources of raw materials, and has at its disposal all the available specialists and scientists. Monopolies carry socialisation of production to the utmost possible limit under capitalism. But this gigantic socialisation of production is based on private ownership of the means of production and serves the interests of a handful of capitalists. The mass of the people derive no advantage from the tremendous development of the productive forces; on the contrary, their poverty and exploitation only increase.

Consequently, the rule of monopolies greatly aggravates the fundamental contradiction of capitalism—*the contradiction between the social character of production and the private capitalist form of appropriation of the results of production*. At its imperialist stage, capitalism has become a reactionary force that holds back the development of human society.

Lenin pointed out that monopolies lead to the greatest all-round socialisation of production. Proof of the high level of socialisation and productive development is the fact that there exist all the *material premises for the socialist transformation of society*.

Under imperialism the productive forces of society have reached a level where they have come into conflict with the *private capitalist* form of appropriation of the fruits of labour. Consequently, the productive forces develop slowly, or are thrown back in periods of economic crises.

At the same time monopolies carry the oppression of the working people to its extreme limits. The working class enters the struggle, grows strong and battle-steeled and so becomes capable of taking over the reins of power.

Lenin pointed out that, under imperialism, features of the epoch of the transition from capitalism to a higher socio-economic formation have developed and become obvious all along the line. That imperialism is the highest and last stage of capitalism is what determines its place in history.

**Imperialism is parasitic or decaying capitalism**

Imperialism is not only monopoly capitalism but also *parasitic*, *decaying* capitalism. The parasitic character of imperialism is seen in the fact that the vast majority of capitalists are in no way related to the production process. They lead an idle, parasitic life. In the period of monopolies, the capitalists have become holders of shares, state loan bonds and other securities which bring them in an income. The direct management of industrial enterprises is in the hands of an employed technical staff.

The decay of capitalism is seen primarily in the inability of capital to make full use of existing productive forces, to give work to the unemployed and to utilise productive capacities to the full. The richest capitalist country, the U.S.A., is now a country of considerable chronic unemployment and under-utilisation of productive capacity.

The decay and parasitism of monopoly capitalism are further expressed in the increased proportion of the working population employed in the non-productive sphere—commerce, the financial system, general and personal services for the capitalists, the state apparatus. For instance, in the U.S.A. between 1910 and 1955 the proportion of persons employed in non-productive branches of the economy increased from 25 to 51.4 per cent of the total working population (these figures do not include agriculture).

The parasitic nature of capitalism is also expressed in the export of capital, the growth of militarism, and the launching of wars. More and more resources are spent not on the production of material wealth but on destroying the productive forces and primarily the chief productive force of society, human beings. In the First World War, for example, 10 million people were killed and 20 million wounded. Millions of people died from epidemics and starvation. In the Second World War almost 50 million people were killed. This is the price mankind has paid for the efforts of the imperialists to solve their contradictions by means of war.

The decay of capitalism at the imperialist stage is determined by the fact that monopolies themselves (inasmuch as they ensure high profits by artificially maintaining high prices) reduce the incentive to improve production technology, i. e., create a tendency towards stagnation. There are more and more frequent cases of monopoly organisations buying up new inventions not in order to use them, but to prevent their being used.

But the pursuit of high monopoly profits nevertheless stimulates the capitalists to introduce new technology that is more productive than the old. To introduce new techniques under the conditions of state-monopoly capitalism, however, harms the working class. Capitalist automation takes the bread from the workers, unemployment increases and the standard of living of the working people falls.

Thus, two opposing tendencies are typical of imperialism: on the one hand, to stimulate technical progress, and on the other, to hold it back.

The decay of capitalism is also seen in the fact that the imperialist bourgeoisie uses some profits to give handouts to the upper section of skilled workers—the so-called aristocracy of labour. Backed by the bourgeoisie, the labour aristocracy contrives to get leading positions in the trade unions and other working-class organisations. Together with the petty-bourgeois elements they represent a serious danger to the labour movement.

Through the aristocracy of labour the bourgeoisie poisons the minds of the workers by advocating the reformist road to "improving" capitalism and maintaining "class peace". By splitting the ranks of the working class the labour aristocracy makes it difficult for the workers to unite their forces to overthrow capitalism.

Characteristic of imperialism is the turn from bourgeois democracy towards political reaction in both home and foreign policy.

Anti-communist and anti-labour laws, the banning of Communist Parties, mass dismissals of Communists and other progressive workers, blacklisting in factories, loyalty tests for office employees, police repression of the democratic press, the use of the armed forces to put down strikes are now all part of the normal methods, by which the imperialist bourgeoisie maintains its rule. These are the basic factors of the parasitism and decay of monopoly capital.

**Imperialism is moribund capitalism**

Lenin pointed out that imperialism is *moribund* capitalism. This means that imperialism is transitory by nature. It sharpens the contradictions of capitalism to their extreme limits, after which proletarian revolution begins.

The chief *contradiction* is that between *capital* and *labour*. In the period of monopoly capitalism, the working people undergo unrelenting exploitation on a scale not known prior to this period.

New methods of exploitation supplement the old. The monopoly position of the big capitalists provides an opportunity for unprecedented intensification of labour, purchase of labour power at a low monopoly price because of the existence of a vast permanent army of unemployed, plundering the working people as consumers by means of high monopoly prices for consumer goods, taxation, etc. Sharply increased exploitation, deterioration of the workers' material position and mounting political oppression of the working class under imperialism lead to an even greater intensification of the class struggle between the proletariat and the bourgeoisie. The old methods of struggle finally become inadequate, and while continuing its struggle on the economic and theoretical fronts, the proletariat turns more and more resolutely to revolutionary political struggle.

Thus imperialism brings the working class to the threshold of socialist revolution.

At the imperialist stage there is a sharpening of the *contradiction between the imperialist powers in their scramble for the territory of other peoples.* Each separate group of capitalists endeavours to seize and retain their grip on markets, sources of raw materials, spheres of capital investment. The economic struggle between the capitalists for spheres of influence has the whole-hearted support of the state. Consequently the fierce struggle between imperialist countries for spheres of influence causes military conflicts which weaken imperialism, shake its foundations and bring socialist revolution closer.

Under imperialism, particularly at its present stage, there is a serious sharpening of the *contradiction between the colonies and dependent countries* on the one hand, *and the imperialist powers* on the other. The imperialist powers plunder and mercilessly exploit the peoples in underdeveloped countries. Increasing imperialist oppression together with the development of capitalism in these countries drives their peoples to fight harder for their emancipation.

The rise and consolidation of socialism marked the advent of the era of emancipation for the oppressed peoples. National-liberation revolutions have struck a devastating blow against the colonialists. Over 50 sovereign states stand on the ruins of colonial empires. More than 1,500 million people have been liberated from colonial rule.

These are the chief contradictions which transform imperialism into moribund capitalism. But to depict imperialism as moribund capitalism does not mean that capitalism can die of itself, can automatically collapse. Imperialism is moribund capitalism because, by bringing all the contradictions of capitalism to a head, it has put socialist revolution on the agenda and made it, in practice, inevitable.

The triumph of socialist revolution first in Russia and later in many European and Asian countries is brilliant confirmation of the Leninist description of imperialism as moribund capitalism.

**State-monopoly capitalism**

Typical of *state-monopoly capitalism* are: a high degree of socialisation of production, the interlocking of private and state monopolies and the subordination of the state apparatus to the financial oligarchy. The state apparatus is subordinated for the purpose of intervening in the country's economy in order to bring greater wealth to the monopolies.

"State-monopoly capitalism," declares the Programme of the C.P.S.U., "combines the strength of the monopolies and that of the state into a single mechanism, whose purpose is to enrich the monopolies, suppress the working-class movement and the national-liberation struggle, save the capitalist system, and launch aggressive wars."[1]

In the period of imperialism the governments in all the capitalist countries consist either of trusted representatives of ruling monopolies or of the monopolists themselves. On the other hand the ministers, generals and diplomats are usually given important and profitable posts in leading monopolies.

In the middle of 1955, for instance, of the 272 most important posts in the state apparatus of the U.S.A., 150 were occupied by big capitalists and 30 by corporation lawyers. The Rockefeller group was represented in the government by Secretary of State John Foster Dulles,who was then head of a legal firm and director of 15 industrial and financial firms. For a long time the representative of the Dupont group in the government was Secretary of Defence Charles Wilson, former president of General Motors. In the Kennedy Administration formed early in 1961, a number of important posts went to representatives of Big Business. Thus, Robert S. McNamara, President of Ford Motors, was appointed to the post of Secretary of Defence, Douglas Dillon, head of the Dillon, Reed and Co., was made Secretary of the Treasury, etc., John F. Kennedy, the United States President, is himself a millionaire, and the wealth of the Kennedy family is put at 400 million dollars. Fourteen of the 21 Cabinet Ministers in the British Government are connected with monopolies, and 15 of the 21 members of the West German Government are direct representatives of concerns or joint-stock companies. The situation is similar in other capitalist countries. This is all evidence of the complete subordination of the state apparatus to the big monopolies. The state has become a committee for administering the affairs of the monopoly bourgeoisie.

[1] *The Road to Communism (Documents of the Twenty-Second Congress of the C.P.S.U.)*, Moscow, p. 471.

What are the chief forms in which state-monopoly capitalism appears at the present time? They are seen in various types of *state control* and *measures for regulating* the economic life of countries, in the use of *state property* in the interests of the monopolies, in the aid the state gives the latter in the shape of *government orders*, in the *export of capital* out of state resources, etc. All these forms in which state-monopoly capitalism reveals itself have the same aim: the enrichment of the financial oligarchy.

An important source of enrichment is the use of budget resources to build state enterprises and the nationalisation of private enterprises by the bourgeois state. Private monopolies are given contracts on favourable terms to carry out building projects for the governments; on completion of the work, these enterprises are generally handed over to the biggest monopolies for exploitation at a very low rent, or are sold off at low prices. If an imperialist government nationalises private enterprises, it does so in the interests of the capitalists, generally when private capitalists consider there is nothing to be gained by investing capital in them. The former owners are usually paid more than the value of the enterprises, which are then run on behalf of the big monopolies. Thus, in both cases, state enterprise is conducted in the interests of the capitalists.

State-monopoly capitalism brings increased exploitation of the working class and a lower standard of living for all working people. Backed by the state apparatus, the monopolies raise the rate of exploitation of the working class, and increasingly rob all working people through high taxation and high prices. All this causes a sharpening of contradictions and intensification of the struggle between labour and capital.

At the same time, since state-monopoly capitalism is the highest stage of the socialisation of production under capitalism, it constitutes the fullest material preparation for socialism; in fact it is the threshold to socialism. But for the transition to socialism a revolution with the transfer of power to the working class is essential.

State-monopoly capitalism develops unevenly in different periods and in different countries and branches of the national economy. Thus, world wars and economic crises, militarism and political upheavals accelerated the development of monopoly capitalism into state-monopoly capitalism.

Right-wing socialists and revisionists try to show state-monopoly capitalism as being almost socialism. They assert that the state has become the decisive force in the economy of the capitalist countries, that it can guarantee planned leadership of the economy in the interests of society as a whole, etc. Life has shown that this is wholly untrue.

State-monopoly capitalism does not alter the nature of imperialism. It does not alter the position of the basic classes in the system of social production but, on the contrary, deepens the gulf between labour and capital, between the majority of nations and the monopolies. Attempts at state regulation of capitalist economy cannot eliminate competition and anarchy of production, cannot guarantee planned development of economy on the scale of society, for the basis of production still remains capitalist ownership and the exploitation of wage labour.

Bourgeois theories about "planned, crisis-free capitalism" have been rejected by the entire trend of development of present-day capitalist economy. The dialectics of state-monopoly capitalism are such that instead of strengthening the capitalist system, which is what the bourgeoisie counts on, it further aggravates the contradictions of capitalism and rocks its foundations.

In a number of underdeveloped countries which have now taken the path of economic independence (India, Indonesia, Ghana, the U.A.R., and so on) the state is also responsible for certain economic measures and is expanding heavy industry. But there, it is not state-monopoly capitalism that is developing, but *state capitalism*. In economically underdeveloped countries this is a progressive step because it helps to develop the economy of these countries and to make them economically independent of the imperialists.

**The law of uneven economic and political development**

The uneven development of individual enterprises, industries and countries is typical of the whole capitalist era. Uneven development follows from competition and the anarchy of capitalist production. But in the pre-monopoly period, capitalism was able to develop relatively smoothly. Some countries were outstripped by others during a long period of time. But the nature of the uneven development of capitalism altered with the transition to imperialism. Then the separate countries began to develop in leaps and bounds. The unprecedented advance in technology gave some countries the opportunity to outstrip their rivals. The countries which gained the lead endeavoured to capture the greatest possible quantity of raw materials, new markets and spheres of capital investment. But there were no longer any free territories to seize because the division of the world had been completed.

The changed alignment of economic and military forces among the imperialist powers led to conflict. A struggle broke out for the redivision of the already divided world. The change in the relation of forces divided the capitalist world into hostile groups, and world wars broke out. The aggravated contradictions in the imperialist camp and world wars led to the weakening of the imperialists on all sides. Because of this, a break-through became possible on the imperialist front where the link in the chain was the weakest, where the most favourable conditions existed for the victory of the proletariat.

The uneven economic development of the capitalist countries in the imperialist period led to their *uneven political development*. Class contradictions also had not reached the same level in all countries. The political consciousness and revolutionary determination of the proletariat and its ability to carry with it the bulk of the peasantry were similarly unevenly developed. This meant that the political conditions for proletarian revolution also matured unevenly in the different countries.

Taking the law of the uneven economic and political development of capitalist countries under imperialism as his starting-point, Lenin drew the *historic conclusion about the possibility of socialism triumphing first in a few countries or even in one capitalist country alone, and the impossibility of the triumph of socialism in all countries simultaneously*. Moreover, it was not at all necessary for this one country to be the most highly developed capitalist country.

The triumph of socialist revolution in one country was the beginning of the world socialist revolution.

The supreme importance of Lenin's conclusion is that he put a revolutionary prospect before the proletarians of different countries, released their initiative and strengthened their confidence in the inevitable triumph of the socialist system. The need for the formation of a socialist system of world economy and the possibility of prolonged peaceful coexistence between the socialist and capitalist systems follow from the fact that the victory of socialism will come at different times in different countries.

The Leninist theory of socialist revolution was fully confirmed by the victory of the Great October Socialist Revolution, the organiser of which was the Communist Party led by Lenin.

The fact that after the Second World War several Asian and European countries dropped out of the system of imperialism as a result of victorious revolutions and are now building socialism is additional brilliant confirmation of the Leninist theory of socialist revolution.

## 2. The General Crisis of World Capitalism

**The essence and stages of the general crisis of capitalism**

"Our epoch, whose main content is the transition from capitalism to socialism, is an epoch of struggle between the two opposing social systems, an epoch of socialist and national-liberation revolutions, of the break-down of imperialism and the abolition of the colonial system, an epoch of the transition of more and more peoples to the socialist path, of the triumph of socialism and communism on a world-wide scale."[1] This proposition formulated in the Programme of the C.P.S.U. expresses the essence of the *general crisis of capitalism*.

The Great October Socialist Revolution in Russia in 1917 meant the beginning of the general crisis of capitalism. Capitalism ceased to be a single system taking in the entire world. On one-sixth of the world a state had come into being which was based not on private ownership of the means of production but on socialised, socialist ownership. The victory of the proletarian revolution in Russia meant that

[1] *The Road to Communism*, p. 449.

the era had begun of the end of capitalism and the victory of socialism. Here was full confirmation of the theory Lenin put forward, during the First World War, that at the imperialist stage socialism would be victorious in the separate countries not simultaneously, but at intervals over a long period by a succession of countries going through revolutions and dropping out, one after another, from the world system of capitalism.

In an earlier chapter we referred to the nature of economic crisis. Economic crisis under capitalism is one of commodity over-production. It develops only in the economic sphere, though it obviously has a definite effect on the political life of society. The *general crisis of capitalism* embraces all spheres of life in capitalist countries, economic and political alike; it is an all-round crisis of the world capitalist system as a whole, its characteristic being the struggle between moribund capitalism and nascent socialism. *The transition from capitalism to socialism is the main content of the general crisis of capitalism.*

The general crisis of capitalism has developed through two phases and has entered the third. The *first stage* began at the time of the First World War and became most marked in consequence of the October Revolution. The *second stage* developed during the Second World War and the socialist revolutions in several countries of Europe and Asia. In the second half of the fifties world capitalism entered the new, *third stage* of the general crisis of capitalism. The most important feature of this new stage is that it did not develop in connection with world war, but in a situation of competition and struggle between two systems, when the alignment of forces had become altered in favour of socialism

The basic features of the general crisis of capitalism are: the falling away from capitalism of more and more countries; the weakening of the positions of imperialism in the economic competition with socialism; the crisis and break-up of the colonial system of imperialism; the aggravation of imperialist contradictions in circumstances of state-monopoly capitalism and growing militarism; the increasing internal instability and decay of capitalist economy as seen in the continued inability of capitalism to make full use of the productive forces (low rate of economic growth, periodic crises, permanent under-capacity production, chronic mass unemployment); increased struggle between labour and capital; serious aggravation of the contradictions of world capitalist economy; the unprecedented increase in political reaction all along the line, abandonment of bourgeois liberties and the establishment of fascist, tyrannical regimes in a number of countries; and a profound crisis in the politics and ideology of the bourgeoisie.

Let us see how these features of the general crisis of capitalism are revealed.

**Division of the world into two systems**

The First World War in 1914-18 was the result of aggravated contradictions between the imperialist powers in the course of their struggle to redivide the world. The war had weakened imperialism and created a favourable situation for a break-through on its front. The break-through was made in Russia, which happened to be the weakest link in the chain of world imperialism, the focal point of all its contradictions. The result of the victory of the proletarian revolution in Russia was that the world became split into two systems, capitalist and socialist.

In a short period of time the socialist economic system demonstrated its great advantages over capitalism. By 1937 the Soviet Union had already occupied first place in Europe and second in the world for volume of industrial production.

The Second World War prepared by the forces of international reaction was unleashed by the bloc of fascist states—Germany, Italy and Japan. The war ended in complete defeat for the fascist aggressors. The Soviet Union played the decisive role in bringing about that defeat. The Soviet Union's victory in the war led to an unprecedented development of the revolutionary and national-liberation movement throughout the world.

A number of countries in Europe and Asia dropped out of the capitalist system and, in consequence, there are now more than one thousand million people (over one-third of the world's total population) who have become freed from the capitalist yoke and are successfully building socialism. This has brought about a further alteration in the alignment of forces between socialism and capitalism, which is favourable to socialism and detrimental to capitalism.

The net result of the war, therefore, was to deepen still further the general crisis of capitalism. Its *second* stage had now begun. It was reflected in the fact that socialism had gone beyond the framework of one country and had become a world system. Today, the countries of the world socialist system occupy more than one-fourth of the territory of the globe. They are responsible for 37 per cent of world industrial production and 40 per cent of world agricultural production.

In a short period of time the world socialist system has demonstrated its superiority over capitalism. The economy of the socialist countries develops incomparably faster than capitalist economy. The socialist countries in 1961 increased the volume of industrial production over 7 times compared with 1937, while the capitalist countries showed an increase of about 2.5 times.

The new, *third* stage of the general crisis of capitalism has begun. The chief distinguishing feature of this stage is that the *world socialist system is becoming the decisive factor in the development of human society*. Consequently, typical first and foremost of the new stage of the crisis is competition between two world systems, in which the positions of socialism are becoming increasingly strong while the positions of imperialism are growing increasingly weak.

**The crisis and break-up of the colonial system of imperialism**

Influenced by the October Revolution, the struggle of the peoples of the colonies for their national liberation gained considerably in strength; the *crisis of the colonial system of imperialism* had begun. This crisis signifies a serious aggravation of the contradictions between the imperialist powers and the colonies and dependent countries. The growth of the national-liberation struggle resulted in the colonies and dependent countries freeing themselves from the imperialist yoke. National-liberation forces had come into being and had begun to develop. The numbers of the proletariat—the most revolutionary class in modern society—began to grow. The proletariat was bringing the peasantry, constituting the bulk of the colonial population, into the struggle against imperialism. The national bourgeoisie, whose interests conflicted with the rule of the foreign monopolies, was also growing.

At the end of the First World War there was scarcely a colony or dependent country where more or less serious outbreaks against imperialism had not occurred. The movement for national liberation assumed particularly broad dimensions in China. There, in 1924, a people's anti-imperialist, anti-feudal revolution broke out, which took the form of a series of revolutionary wars. This revolution brought into being the People's Liberation Army under the leadership of the Chinese Communist Party, and in some parts of the country people's government was established. There was also a mighty movement for national liberation in India, Indonesia and other countries. The leading force in this national-liberation movement of oppressed peoples against imperialism was the working class, which allied round it many millions of peasants, democratic representatives of the bourgeoisie, and so on.

After the Second World War the peoples of many colonies and dependent countries achieved liberation from the colonial regime and began to develop as independent, sovereign states. The *break-up* of the colonial system of imperialism had now begun. The heroic struggle of the Chinese, Korean and Vietnamese peoples overthrew the domination of the foreign imperialists and exploiting classes, and resulted in the establishment of people's democratic states—the People's Republic of China, the Korean People's Democratic Republic, and the Democratic Republic of Vietnam.

In 1947, under the impact of the national-liberation movement, British imperialism was compelled to recognise India as an independent state. Along with India, other countries—Indonesia, Burma, Ceylon—set out on the road of independent development. Many countries of the Arab East and Africa won state independence after the war, and over the years since the end of the war more than 1,500 million people have thrown off the yoke of colonial or semi-colonial dependence. Cuba, a small country ninety miles from the United States, owned lock, stock and barrel by U.S. monopolies, took the path of socialist revolution. By 1963 the colonial population, which in 1919 represented 69.2 per cent of the world population, had been reduced to 1.5 per cent. This clearly indicates that the shameful colonial system has already collapsed.

One of the basic problems confronting the newly-liberated peoples is that of which path they should now take: the path of capitalist or non-capitalist development.

What can capitalism give these peoples?

*Capitalism is the path of suffering for the people.* It neither guarantees rapid economic progress, nor abolishes poverty. Capitalist development of the countryside will further ruin the peasantry. The workers' lot will be either hard labour to enrich the capitalists or unemployment. The petty bourgeoisie will be crushed in the competitive struggle against big capital. The intelligentsia will have to trade their talents.

What can socialism give these peoples?

*Socialism is the people's road to freedom and happiness.* It ensures a rapid rise in economy and culture. It transforms a backward country into an industrial one in the lifetime of one generation. The abolition of the exploitation of man by man puts an end to social inequality. Unemployment completely disappears. Socialism provides land for all peasants, helps them to develop their farms, unites them on a voluntary basis in co-operatives, offers them up-to-date agricultural technology and agronomy. Socialism ensures a high material and cultural standard of living for the working class and all working people.

The peoples will themselves choose the path they wish to take. With the present-day alignment of forces in the world arena and the real possibility of strong support from the world system of socialism, the peoples of the former colonies are free to decide this question to suit their own interests. Their choice will depend on their own relation of class forces. The struggle of the working class, of all working people, and the general democratic movement ensure the progress along the non-capitalist path which best corresponds to the interests of the nation.

Although colonialism has suffered a heavy blow from the mighty national-liberation movement of the oppressed peoples, it is not yet dead.

Colonialism today not only makes use of open armed struggle, but resorts to concealed forms of penetration into the newly-liberated countries, its aim being to keep these countries economically and politically dependent on the imperialist powers.

The mainstay of colonialism today is the United States of America. Headed by the U.S.A., the imperialists are desperately making use of new forms and methods of exploiting the peoples of the former colonies. The monopolies are striving to keep their grip on the levers of economic control and political influence in Latin America, Asia and Africa. They aim at maintaining their old positions in the economy of the newly-liberated countries and capturing new positions under the guise of economic "aid", drawing these countries into military blocs, imposing military dictatorships on them and establishing military bases on their territories.

The break-down of the colonial system inevitably increases the economic and political difficulties of the capitalist countries and shakes the foundations of imperialism as a whole.

The complete collapse of colonialism is inevitable. The break-down of the system of colonial slavery as a result of the advance of the national-liberation movement is the *phenomenon second in historic importance after the formation of the world socialist system.*

**Aggravation of the problem of markets. Chronic unemployment and under-capacity production**

One of the characteristic features of the general crisis of capitalism is the *aggravation of the problem of markets and spheres of capital investment.* The cause of this aggravation is the steadily increasing disparity between the growth of production and the possibility of selling commodities. The fact that a country like Russia dropped out of the capitalist system at the first stage of the general crisis of capitalism increased the struggle among the capitalist countries for markets and spheres of capital investment. At the second stage of the general crisis of capitalism, with the formation of the world socialist system, capitalism lost further huge markets and spheres of capital investment.

The establishment of the world socialist economy led to the formation of a world socialist market. Two world markets have now appeared: the market of the socialist countries and that of the capitalist countries.

The narrowing down of the sphere of capitalist exploitation, the present break-down of the colonial system of imperialism, the deterioration of the position of the working masses and the militarisation of economy, all combine to make the contradictions on the world capitalist market particularly profound today.

Competition from the newly-developing countries is another reason for the intensified struggle for markets. These countries are more and more competing against industrially developed countries for the sale of their commodities. This is particularly true of the output of the light industries.

The struggle for markets and spheres of capital investment leads to conflicts among capitalist monopoly associations and among the imperialist states.

Closely bound up with the aggravated problem of markets and spheres of capital investment are the *chronic under-capacity working of industrial enterprises* and *permanent mass unemployment.*

In the pre-monopoly period of capitalist development, under-capacity working of industrial enterprises on a mass scale only occurred during an economic crisis. Now, in the period of the general crisis of capitalism, under-capacity working of plants has become a permanent feature, i.e., is of a chronic nature. During the 1925-29 period of boom, for instance, only 80 per cent of the productive capacity of the U.S. processing industries was used; in 1930-34—only 60 per cent. At the end of 1957, the percentage was 78. The U.S. steel industry was using only 54 per cent of its productive capacity in 1960.

Conforming to this chronic under-capacity utilisation of industrial enterprises, the nature of unemployment has also changed in the period of the general crisis of capitalism. Formerly the army of unemployed grew during economic crises, but in periods of recovery or boom it was drawn back into employment; in the present period it is becoming a permanent mass army. According to official statistics, in 1959 the ratio of unemployed to the total working population was: for Canada and Italy—8.9 per cent; Belgium—

7.2 per cent, and the U.S.A.—6.1 per cent. By 1963 the unemployed in the U.S.A. were about five million, and in Britain about one million.

In many countries mass unemployment has become a real national calamity. According to 1961 official statistics, in the developed capitalist countries of North America and Western Europe, and also in Japan and Australia, there are today 12 million totally unemployed. This means that every ninth worker is unemployed.

**Changes in the capitalist cycle**

Let us recall that the cycle is the period from the beginning of one economic crisis to the beginning of the next. The cycle consists of four phases: crisis, depression, recovery and boom.

In the period of the general crisis of capitalism, changes also occur in the capitalist cycle: the duration of the cycle becomes shorter, so that the crises become more frequent. Before the First World War, economic crises occurred every 8-12 years. In the period between the world wars (1919-38) there were three economic crises, i.e., a crisis occurred every 6-7 years. At the same time the phases of crisis and depression were longer, and the boom phase less stable. Crises formerly lasted eighteen months to two years, but the 1929-33 crisis continued for over four years. Finally, in the period of the general crisis of capitalism economic crises go far deeper and become more acute, as expressed in the sharp fall in production and the huge growth of unemployment.

Take, for instance, the U.S.A., which is responsible for 43 per cent of the industrial production of the capitalist world. After the Second World War U.S. industry had already by 1949 been struck by an economic crisis which became increasingly acute throughout the year. Beginning with the second half of 1953 a new economic crisis developed and led to a reduction in the volume of industrial production and curtailment of orders, increased unemployment and the piling up of stocks in the warehouses. The crisis continued during 1954. In the middle of 1957 another crisis of over-production began in the United States and became particularly grave in 1958. In the first six months of 1958, pig-iron production dropped by 38.3 per cent, steel production—36.5 per cent and motor-car production—33.6 per cent compared to the same period in 1957. This particular economic crisis spread to other capitalist countries.

The 1957-58 crisis did not clear the ground for a long period of boom in American industry. Before two years had passed the U.S.A., in 1960, again slipped into economic crisis. This continued in 1961.

In the post-war period, therefore, U.S. economy has four times experienced economic crisis. Moreover, the usual sequence in the phases of the cycle has become disturbed. Some phases have disappeared altogether. For example, the transition from crisis to recovery not infrequently leaves out the phase of depression, and the recovery phase frequently does not lead to the boom phase, but directly to a new crisis. What is more, in a number of cases the transition to crisis now occurs not suddenly, but gradually, over a long period of pre-crisis stagnation. There are no more stock exchange and bank crashes. In the post-war period the crises have not lasted as long as they did before the Second World War.

What is the explanation of all these changes in the capitalist cycle since the war? The chief reason is that the capitalist system has entered a period of chronic stagnation and decline in some branches and whole countries, and also that there has been a slowing down of the general rates of growth.

There are a number of other factors which have led to the post-war change in the capitalist cycle.

1. The effect of the *militarisation of the economy* on the trend of the capitalist cycle is twofold and contradictory. It stimulates, on the one hand, a temporary boom in branches of industry connected with arms production, and, on the other hand, causes further aggravation of the contradictions of capitalist reproduction, and creates factors which make for a still more profound crisis.

2. *State-monopoly capitalism* to some extent influences the trend of the capitalist cycle. This means that the state intervenes economically on behalf of the monopolies (through the system of state purchases of industrial and agricultural output, state subsidies and credits to monopolies, etc.), and this is definitely important for a certain growth of production and renewal of fixed capital. Through state regulating measures, the monopoly bourgeoisie endeav-

ours to mitigate the destructive force of economic crises. But although state-monopoly capitalism affects the capitalist cycle, it cannot abolish economic crises of over-production.

3. *Modern scientific and technological progress* influences the trend of the capitalist cycle. This presupposes a rapid obsolescence of fixed capital. Consequently, capital investments may be curtailed during periods of crises and yet remain at a relatively high level. This imparts a different form to the development which the cycle had previously.

4. The *class struggle* in the capitalist countries has a much greater effect on the cycle. The more successful the workers are in the class struggle, the more the bourgeoisie is forced to make economic concessions. This favours the expansion of the internal market and can in some measure act as a factor which hampers the deepening of the crisis of over-production.

5. The *break-down of the colonial empires* also affects the capitalist cycle. This is seen in the fact that the countries which have won political independence have begun to consolidate their economic independence. Their path to economic independence lies through industrialisation. Today about half the equipment exported from capitalist countries, chiefly from West European countries, goes to underdeveloped countries. This has brought about an increase in output from the engineering industries of Western Europe and thus has helped to change the capitalist cycle in the post-war period.

These are some of the factors affecting the trend of the capitalist cycle at the present time. It is these factors that have brought about a position where the post-war economy of the capitalist countries has been subjected to frequent, though less grave, economic crises than the 1929-33 crisis.

Chronic under-capacity working of industrial enterprises, permanent mass unemployment, more and more frequent economic crises are proof that capitalism today is unable to make full use of the mighty productive forces which have grown up within it. Capitalism has become a tremendous brake on the development of mankind. It is trying to use the arms race and militarisation of the economy to solve its economic and political contradictions.

**Militarisation of economy and deteriorating position of the working people**

Militarisation of the economy implies the switching of a considerable part of industry from civilian output to the production of arms, and the piling up of material values in the form of strategic reserves. In the U.S.A., for instance, direct military expenditure of the Federal Administration on the eve of the Second World War was 14 per cent of the total budget expenditure, but between 1953 and 1960, direct military expenditure amounted to $45,000-46,000 million annually, or two-thirds of the annual federal budget. In 1962, this expenditure was $52,500 million. In Britain and France military expenditure in the post-war period has accounted for one-third of the total budget.

Militarisation of the economy and the arms race create the danger of war. For this reason the Soviet Union, the other socialist countries and all peace-loving mankind are waging a persistent *struggle for general and complete disarmament.* "We have always resolutely opposed the arms race," said Khrushchov at the Twenty-Second Congress of the C.P.S.U., "for in the past, competition in this field not only imposed a heavy burden on the peoples but inevitably led to world wars. We are opposed to the arms race still more firmly now that a tremendous technical revolution has taken place in the art of war, and the use of modern weapons would inevitably lead to hundreds of millions of people losing their lives."[1]

And yet the imperialist powers are unwilling to undertake general and complete disarmament. Why? Because the arms race leads to an unprecedented growth of profits for the monopolies. For instance, the profits of the American monopolies increased between 1938 and 1959 from $3,300 million to $48,000 million, i.e., more than 14.5 times. The total profits of 250 corporations increased from $7,500 million in 1961 to $8,800 million in 1962, i.e., 16.4 per cent.

Moreover, the ideologists of capitalism assert that militarisation of the national economy and the arms race free capitalist economy from economic crises and unemployment.

[1] *The Road to Communism*, p 47.

In point of fact militarisation of the economy, by deepening the disparity between productive potentialities and the shrinking effective demand of the population, inevitably leads to a new, more profound economic crisis. "The arms race," said Khrushchov at the Twentieth Congress of the C.P.S.U., "does not cure the disease, it drives it deeper. And the more extensive the militarisation of the economy, the graver will be the consequences for capitalism."[1]

The arms race is a heavy burden on the working class and all working people. In the U.S.A., for instance, military expenditure per head of population was $3.5 in the 1913/14 fiscal year; $7 in 1929/30, and $250 in 1954/55, i.e., it increased more than 70 times during the period. In Britain, military expenditure per head of population rose from £1.14s. 0d in 1913/14 to £29. 6s. 0d in 1954/55. This vast expenditure is met by continually raising direct and indirect taxes. In the U.S.A. direct taxation increased almost thirteen times in the 1956/57 fiscal year, compared to 1937/38, even allowing for the depreciation in the value of currency. In Britain and Italy direct taxes doubled, and in France—trebled during this same period.

The post-war arms race led to increased inflation in the capitalist countries, resulting in a sharp drop in the purchasing power of paper money. The amount of paper money circulating in the U.S.A. rose to $27.400 million at the beginning of 1958, compared to 5.600 million in 1937. In Britain paper money in circulation amounted to £1,850 million at the beginning of 1958, compared to £460 million in 1937. In Italy, paper money circulating in 1958 reached the astronomical figure of 1,852,000 million lire against 18,000 million in 1937.

In spite of the increased burden of taxation and growing inflation, the monopolies contrive to "freeze" nominal wages, i.e., to keep them at a fixed level. This means a reduction in real wages, a deterioration in the position of the working masses, causing the working class to struggle harder against capitalist oppression. Clear evidence of this is seen in the increased scope of the strike movement. Taking the official

[1] N. S. Khrushchov, *Report of the Central Committee of the C.P.S.U. to the Twentieth Party Congress*, Moscow 1956, p. 17.

figures, obviously minimised, for 11 countries—the U.S.A., Britain, France, the Federal Republic of Germany, Japan, Canada, Austria, Sweden, Belgium, Holland, and the Argentine—and comparing the ten pre-war years (1930-39) with the ten post-war (1945-54), it is found that the number of strikes increased from 67,000 to 101,000, the number of workers involved in them, from 21 million to 73 million, and the number of workdays lost, from 240 million to 672 million.

The class struggle of the proletariat, far from slackening, is flaring up.

In the post-war period the working class of the capitalist countries has not confined itself to economic struggle but with greater determination than before the war has gone into action on fundamental questions of home and foreign policy, and is marching in the vanguard of the peoples' struggle for peace and democratic liberties.

The proletarian class struggle is led by the Communist and Workers' Parties on the basis of Marxist-Leninist theory, the strength and viability of which have been confirmed by the whole experience of the present epoch.

**Monopolies go against the interests of the nation**

In the conditions prevailing today, the interests of the monopoly bourgeoisie in the imperialist countries come into irreconcilable conflict with those of the proletariat and the interests of the nation as a whole.

Monopoly capital intensifies exploitation of the working class and other sections of working people—peasants and handicraftsmen. At the present stage of the general crisis of capitalism the position of workers and farmers has seriously deteriorated. In the U.S.A., the monopolies have inflated prices to such an extent that in 1959 American farmers had to pay 12 per cent more for the goods they bought than they did in 1950, while in the same period there was a drop of 7 per cent in the prices at which the farmers sold their products. The gap between the prices of industrial and agricultural commodities, the burden of debt and the pressure of taxation imposed by the monopolistic state are leading to mass ruin among the farmers. Between 1952 and 1959 776,000 farmers went bankrupt in the U.S.A.

Monopoly interests conflict not only with the interests of the working people but also with those of the small and middle bourgeoisie. With the state, the monopoly capitalists pursue a policy of taxation, credit, tariffs and prices that ensures the redistribution of surplus value in their interests; small and middle capitalists are deprived of any share in the profits, and become ruined.

The interests of the small bourgeoisie and middle-class sections, like those of the working class, are increasingly coming into conflict with those of the monopoly bourgeoisie, with its political parties and with the state, the guardian of the monopolies. That is why the working class, peasantry, intelligentsia and urban small and middle bourgeoisie are vitally interested in abolishing the rule of the monopolies. Favourable conditions are developing for rallying these forces.

In conditions today all the forces of the nation can be rallied against the monopolies through the struggle for peace, national independence, defence of democracy, nationalisation of the most important industries and their democratic management, and the use of the entire economy to satisfy the needs of the population.

The Communist and Workers' Parties are the vanguard in the struggle against the rule of the monopolies and strive to rally and direct the masses into this struggle.

**Growth of contradictions among the capitalist countries**

The Second World War intensified the uneven development of the capitalist countries. Germany, Japan and Italy suffered military defeat, their economies became seriously undermined. France suffered great losses during the occupation. Britain was seriously weakened. Only the U.S.A. profited from the war. In 1948, the U.S.A. was responsible for 56.6 per cent of the total industrial production of the capitalist world, Britain—11.5 per cent, West Germany—4 per cent, France—4 per cent, Canada—3.5 per cent, Italy—2 per cent, and Japan 1.5 per cent. Since then, serious changes have taken place in the alignment of forces in the capitalist world. What are they?

Firstly, the U.S.A. lost its absolute superiority in world capitalist production and trade. Since 1948, its share in world industrial production has fallen by 10 per cent and in 1960 was 47 per cent; her exports have dropped from 23.4 per cent to 18.1 per cent and gold reserve—from 74.5 per cent to 43.9 per cent. Among the other capitalist powers, the U.S.A. is now approximately where it was before the Second World War.

Secondly, there has been a noticeable weakening of the positions of Britain and France. These states are losing their colonies irrevocably. They have been unable to restore their pre-war positions in world industrial production. In 1937 Britain accounted for 12.5 per cent of the industrial production of the capitalist world, but in 1961 the figure had dropped to 9 per cent. The figures for France were 6 and 5 per cent respectively.

Thirdly, the defeated countries, particularly West Germany and Japan, have forged rapidly ahead. West Germany, Japan and Italy are together responsible for over 17 per cent of the industrial production of the capitalist world, which is more than on the eve of the war.

The change in the relation of economic forces has led to a struggle for markets among the imperialist countries.

The U.S.A. is using its economic advantages in a great effort to subordinate other countries either fully or in part. In the early post-war years it succeeded in establishing its domination over a considerable part of the capitalist world market. But when West Germany, Britain, France and Italy had restored their economies, the U.S.A. encountered the competition of these countries on the world market. This led to an intensified struggle for markets among the monopoly associations of the U.S.A., Britain, West Germany and other countries. The struggle of the U.S.A. for markets, sources of raw materials and spheres of influence is encountering the growing resistance of the West European imperialists. The West European monopolies do not want to have their high profits threatened.

The struggle among the monopolies leads to a further growth of contradictions among the capitalist countries.

A most important inter-imperialist contradiction is that between *the U.S.A.* and *Britain*. U.S. monopoly capital is staging an offensive against Britain's traditional markets and spheres of influence. The U.S.A. is with some success destroying Britain's multilateral economic relations with her dominions and colonies. The struggle is growing more intense between Britain and the U.S.A. in the sphere of foreign trade and as regards sources of raw materials.

There are increasing contradictions between *France* and *the U.S.A.* The American monopolies are more and more penetrating into France's economy. Many American firms have opened industrial enterprises in France. The competitive struggle is also increasing in the sphere of foreign trade. The U.S.A. is staging an offensive against France's traditional markets in Morocco, Tunisia and Algeria. There are grave signs of America's intention to oust France from the African markets. Influential U.S. circles, frequently acting in the guise of "sponsors" of the national-liberation movement, are trying to replace French rule in the African countries by American monopoly rule, as they succeeded in doing in South Vietnam. This U.S. tendency is causing considerable concern in French ruling circles.

Further aggravation of the contradictions among the imperialist countries was to a large extent caused by the appearance on the world market of West Germany and Japan. In the post-war period the U.S.A. has been trying to get the West German monopolies under its control, to win firm positions in the most important branches of West German economy. Britain has been trying to do the same. But neither the U.S.A., nor, still less, Britain has succeeded in establishing a dominating influence in West Germany's economy. Backed by their growing industrial potential, West German monopolies have embarked on a broad expansionist programme. In the early years after the Second World War, West Germany occupied one of the last places among the capitalist countries for exports, but today it holds second place in the world, after the U.S.A.

The inter-imperialist contradictions derive from the fundamental contradiction of capitalism, that between the social character of production and the private form of appropriation by capitalists. There are no agreements, deals, alliances or compromises that can abolish the contradictions among the imperialists.

The chief contradiction of the present epoch—the *struggle between growing socialism and dying capitalism*—does not remove the internal contradictions in the capitalist camp. This chief contradiction of our epoch has a twofold effect on inter-imperialist relations. On the one hand, it stimulates the union of the capitalist countries, forms the basis for knocking together military blocs like NATO, SEATO, CENTO, and makes difficult the outbreak of armed conflicts among the imperialists. On the other hand, it creates new sources of contradictions and conflicts among the capitalist countries around the basic problems of present-day world development.

"Objectively, there are two trends that operate and intertwine in the imperialist camp," Khrushchov points out. "One is the trend towards joining all its forces against socialism, and the other towards an aggravation of the contradictions among the imperialist powers, and also between the imperialist powers and the other countries of the capitalist world."[1]

Inter-imperialist contradictions should not inevitably lead to world war. When capitalism was the force that dominated the world, inter-imperialist contradictions and a disturbance of the balance of power between countries finally led to world wars. Today, capitalism has lost its monopoly as the only world system of the states. There is now the world socialist system which is becoming the decisive factor of human development. There is now a new historical situation which makes it possible for the combined forces of the world, headed by the world socialist system, to curb the forces of aggression and exclude world war for ever from the life of society.

* * *

We have now examined the capitalist mode of production based on the exploitation of wage labour. Under capitalism, particularly at its highest stage of development, the contradictions between labour and capital, the metropolitan countries and the colonies, and between the imperialist powers themselves, are sharpened to the extreme limits. The deepening of these contradictions leads the capitalist

[1] *The Road to Communism*, p. 186

world to new economic and social upheavals and, in the final analysis, to the replacement by revolution of capitalism by socialism.

The facts at the present time are the best confirmation of the conclusion which Marx arrived at over 100 years ago, namely, that the capitalist mode of production is doomed by history.

# THE COMMUNIST MODE OF PRODUCTION

From one generation to the next working people have dreamed of a secure and happy life. But for a long time these dreams were not to come true, for people were unaware of their path to freedom. Marx, Engels and Lenin, the great leaders of the working class, showed the working people the path to communism, the radiant future of mankind.

• "Communism," declares the Programme of the C.P.S.U., "accomplishes the historic mission of delivering all men from social inequality, from every form of oppression and exploitation, from the horrors of war, and proclaims *Peace, Labour, Freedom, Equality, Fraternity* and *Happiness* for all peoples of the earth."[1]

In its development communist society has to pass through two phases: the first is called socialism and the second, which is the higher phase, communism.

The final aim of the liberation struggle of the working people of all countries is the building of communism. "...When embarking on socialist transformations," wrote Lenin, "we should clearly set before us the aim towards which these transformations are finally directed, namely, the aim of building communist society...."[2]

Marxism-Leninism proved that the communist socio-economic formation, which will follow capitalism, will not come ready to hand and at once.

Communist society cannot be built the day after the working class has won political power. The building of communism

[1] *The Road to Communism*, p. 450
[2] V. I. Lenin, *Collected Works*, Russ. ed., Vol. 27, p. 103.

requires a long period of time and strenuous effort on the part of the working class, peasantry and intelligentsia.

Society cannot pass to communism directly from capitalism. It has to pass from capitalism to socialism as the result of stubborn struggle and only then will socialism develop into communism.

Describing the two phases of the communist socio-economic formation, Karl Marx, the founder of scientific communism, wrote in his *Critique of the Gotha Programme* that socialism and communism are different stages of the economic maturity of one and the same mode of production. Karl Marx regarded socialism as the first phase of communism and indicated that at this stage we deal not with a communist society as it has developed on its own foundations, but with such a society that emerges from capitalism and which, for this reason, in every respect—economically, morally and intellectually—is still stamped with the birth-marks of the old society. Lenin stressed that "the only scientific distinction between socialism and communism is that the first term implies the first stage of the new society arising out of capitalism, while the second implies the next and higher stage".[1]

The development of socialism leads to the second, higher phase—communism.

Thus, socialism and communism are two stages, two phases of one and the same communist society.

[1] V. I. Lenin, *Selected Works*, Vol. II, Part 2, Moscow, pp. 223-24.

## A. SOCIALISM—THE FIRST PHASE OF COMMUNIST SOCIETY

*Chapter IX*

# THE RISE AND ESTABLISHMENT OF SOCIALISM

### 1. Marxism-Leninism on the Transition Period from Capitalism to Socialism

**Revolutionary transition from capitalism to socialism**

In their examination of the course of the economic development of society, the founders of Marxism-Leninism discovered the laws of the rise, development and downfall of capitalism. As against the old society with its economic poverty and political insanity, wrote Marx, a new society will inevitably come, the international principle of which will be *peace*, for each of the nations will recognise one and the same master—*labour*. This society is known as socialism. It was built for the first time in the world in the Union of Soviet Socialist Republics.

Consequent upon the defeat of fascist Germany and militarist Japan in the Second World War, in which the Soviet Union played the decisive role, and the triumph of the socialist revolutions, the peoples of several countries in Europe and Asia undertook the building of socialism and formed one socialist camp with the Soviet Union.

The victory of the Great October Socialist Revolution, which was the starting-point of a new era in the development of human society, showed that capitalism has outlived its day, that capitalist relations of production have become a tremendous brake on the development of the productive forces.

The socialist revolutions in countries of Europe, Asia and America have struck another mighty blow at the positions of world capitalism. They are the greatest event in world history since the October Revolution. Capitalism must inevitably relinquish its place to socialism, the new society.

But the replacement of capitalism by socialism cannot come about of itself, spontaneously. The bourgeois system can only be ended through a determined struggle by all the people, through a proletarian revolution which will deprive the capitalists and their underlings of power and the possibility of oppressing and exploiting the people. Marx wrote that "...*socialism* cannot be achieved without *revolution*. It requires this *political* act inasmuch as it requires the *annihilation* and *destruction* of the old".[1]

Revolution is required in order to abolish private ownership, i.e., to wrench all the basic means of production from the hands of capitalists and transfer them to the people as a whole, to establish socialist ownership.

The revolutionary transition from capitalism to socialism is brought about by two methods—peaceful and non-peaceful.

The working class and its communist vanguard try to achieve socialist revolution by peaceful means. This accords with the interests of the working class and the people as a whole.

The *peaceful method* of socialist revolution presupposes the winning of state power by the working class without civil war, for instance, through parliament.

By uniting the overwhelming majority of the people under its leadership, the working class can win a stable majority in parliament, transform it from a weapon serving the class interests of the bourgeoisie into one which serves the working people. A parliament of this kind can successfully solve the tasks of socialist revolution. All this is possible through the broad, uninterrupted development of the class struggle of the workers and all working people against the big monopolistic bourgeoisie, against reaction, and for profound social reforms, for peace and socialism.

Favouring this is the existence of the steadily growing world socialist system, which is becoming a decisive factor in the development of human society; the weakening of the world capitalist system, with its now unprecedentedly aggravated contradictions; the break-up of the colonial system

[1] K. Marx, "Der König von Preussen und die Sozial-reform. Von einem Preussen," *MEGA*, I Abt., Bd. 3, S. 22.

of imperialism; the increased organisational strength and class-consciousness of the working class in the capitalist countries; the increased prestige of the Communist and Workers' Parties.

It is not excluded that in circumstances of the increasing growth of the forces of socialism, the consolidation of the working-class movement and the weakening of the positions of imperialism, a situation may arise in a number of countries where, as Marx and Lenin forecast, it will be to the advantage of the bourgeoisie to agree to have their basic means of production bought up, and for the proletariat to "buy them out".

Where the exploiting classes resort to violence against the people, it is necessary to bear in mind the other possibility of the transition to socialism. Leninism teaches that the ruling classes do not relinquish power voluntarily, and the experience of history confirms this. Therefore revolutionary coercion becomes necessary.

The *non-peaceful transition* to socialism presupposes armed uprising, civil war and that the bourgeoisie should be forcibly deprived of political power.

In each individual country the actual possibility of the one or the other method of socialist revolution is determined by the concrete historical conditions. The success of the revolution will depend on how far the working class and its Party have mastered all the forms of struggle, peaceful and non-peaceful, and are prepared for a rapid, sudden change from one form of struggle to the other.

In conditions today, thanks to the support of the socialist countries, socialist revolution can take place even in a backward country. Relying on the support of the highly developed socialist countries, the backward countries can pass to socialism without going through the capitalist stage of development. This was done, for example, by Mongolia.

Socialist revolution, whether it is achieved peacefully or non-peacefully, always means the radical breaking up of obsolete capitalist relations and the establishment of new, socialist relations. These transformations are carried out by the government of the working class in the interests of the whole of the people.

**The need for a transition period**

The epoch of the revolutionary transformation of capitalist into socialist society is a transition period.

The transition period from capitalism to socialism is necessary because socialism cannot grow up within capitalism. Only the preconditions of socialism arise under capitalism.

Capitalism creates the large-scale machine industry, which is the material precondition of socialism. On the other hand, the growth of industrial production and the fact that it becomes large-scale leads to an increase in the numerical strength of the working class, which becomes concentrated in big enterprises, in industrial centres. The working class becomes organised, aware of its class interests and transformed into the social force capable of destroying capitalism.

Working-class interests coincide with those of all working people, and it is the working class that heads the struggle of the exploited masses for the overthrow of capitalism. This is a subjective prerequisite of socialism which arises within capitalism. The working class takes power by revolutionary means in order, together with the peasantry, to build the new, socialist society.

The period during which private ownership and the exploiting classes are abolished and the whole economy, culture and state are reorganised on socialist lines is called the *transition period from capitalism to socialism*. In this period socialism has not yet been built, it is in the process of being built; capitalism is not yet abolished, but is in the process of being abolished.

After the proletariat has won power and captured key positions in the national economy, capitalism has suffered defeat but is not yet fully destroyed. For a time capitalist private enterprises will remain in industry, agriculture and commerce. The task is not only to overcome the resistance of capitalist elements in town and countryside, but also to get rid of the factors which cause them to arise.

An important task in the transition period is the reshaping of the small peasant farms on socialist lines.

During the transition period the material and technical basis of socialism is created.

The transition period is essential for every country that takes the road to socialism. Whether the country is industrially developed or backward, great or small, a definite period of time is required for the transition from capitalism to socialism.

The transition period covers an entire historical epoch which begins with the victory of the proletarian revolution and establishment of the dictatorship of the proletariat and culminates with the complete building of socialism—the first phase of communist society.

The theory of the period of transition from capitalism to socialism was evolved by Marx, Engels and Lenin. They equipped the working class and all working people with scientific knowledge of the ways of building socialism. The Communist and Workers' Parties are making a great contribution to Marxist-Leninist theory on the transition period.

Between capitalist and communist society, said Marx, lies the period of the revolutionary transformation of the one into the other. There corresponds to this also a political transition period in which the state can be nothing but *the revolutionary dictatorship of the proletariat.*

**Proletarian dictatorship—the instrument for building socialism**

The dictatorship of the proletariat is essential because only the working class is in a position to lead the mass of the working people into the struggle to throw off the yoke of capital and build socialist society. The *dictatorship of the proletariat* is state leadership of society implemented by the working class. "The dictatorship of the proletariat is a dictatorship of the overwhelming majority over the minority; it is directed against the exploiters, against the oppression of nations, and is aimed at abolishing all exploitation of man by man. The dictatorship of the proletariat expresses not only the interests of the working class, but also those of all working people."[1] The working class makes use of state power in the interests of all the exploited masses. The joint struggle of the working class and peasantry against the exploiters and for the building of socialism binds them in an indestructible alliance. The highest principle of the

[1] *The Road to Communism*, p. 487.

dictatorship of the proletariat is that there should be a firm alliance between the working class and the toiling peasantry.

The dictatorship of the proletariat means the direct, active participation of the broad working masses in economic management, in the work of the state organs, in the guidance of all spheres of social and cultural life.

As part of the political superstructure resulting from socialist revolution, the dictatorship of the proletariat has as its task the breaking up of the old state machinery of oppression and suppression of the working people. The proletariat makes use of state power to abolish the economic rule of the bourgeoisie and all forms of exploitation of man by man.

But the dictatorship of the proletariat means more than coercion and is not primarily coercion. Its essence is not coercion but constructive work, the building of socialist society, its defence against the enemies of socialism. The dictatorship of the proletariat applies coercion because of objective circumstances, the resistance of the bourgeoisie. Coercion is a necessary function of proletarian dictatorship, which has to be applied because of the unwillingness of the exploiting classes to relinquish power to the proletariat.

Proletarian dictatorship is the instrument for building socialist society. The proletarian state directs its efforts towards creating a socialist economy. Through the practical work of the state in the economic sphere a new system of production relations arises. Socialist ownership of the means of production, comradely co-operation and socialist mutual assistance among people freed from exploitation form the basis of these relations.

The Communist and Workers' Parties—the vanguard of the working people in the struggle to build socialism and communism—are the leading and directing force of the dictatorship of the proletariat.

Marxism-Leninism teaches that the transition from capitalism to socialism evokes a variety of political forms. But their essence is the same—they are all forms of the dictatorship of the proletariat.

That there should be different forms of the dictatorship of the proletariat follows naturally from the laws of social development which Lenin foresaw. "The transition from capitalism to communism," he wrote, "certainly cannot but yield a tremendous abundance or variety of political forms, but the essence will inevitably be the same: the *dictatorship of the proletariat*."[1]

In the U.S.S.R. the victory of the October Revolution resulted in the establishment of proletarian dictatorship in the form of Soviets. Soviet power as a state form of the dictatorship of the proletariat was discovered by Lenin on the basis of the study of the experience of two Russian revolutions, in 1905 and 1917.

In the new historical conditions resulting from the victory of socialism in the U.S.S.R. and the defeat of fascism in the Second World War, the system of people's democracy was victorious in a number of countries in Europe and Asia. People's democracy is a form of political organisation of society, the essential content of which is the dictatorship of the proletariat. It reflected the specific features of socialist revolution developing in circumstances of weakened imperialism and an altered alignment of forces in favour of socialism. Also reflected in it were the historical and national conditions of the separate countries.

The dictatorship of the proletariat brought about by socialist revolution guarantees the triumph of socialism. Once it has secured the complete and final victory of socialism, the dictatorship of the proletariat has fulfilled its historic mission and from the point of view of the tasks of internal development ceases to be necessary. The state which arose as one of proletarian dictatorship becomes transformed into a state of all the people, the organ expressing their interests and will.

**The chief laws of development of socialist revolution and socialist construction**

The transition from capitalism to socialism is accomplished on lines common to all countries which take the road to socialism. These are: a) conquest by the working class of political power, establishment of the dictatorship of the proletariat—democracy for the working people, the Marxist-Leninist Party having the leading role; b) alliance between the working class and the bulk of the

[1] V. I. Lenin, *Selected Works*, Vol. II, Part I, Moscow, p. 234.

peasantry and other sections of working people; c) abolition of capitalist ownership and establishment of public ownership of the basic means of production; d) gradual socialist transformation of agriculture on the basis of co-operatives; e) planned development of the national economy directed towards building socialism and communism and raising the living standard of working people; f) accomplishment of socialist revolution in ideology and culture and the training of a numerically strong intelligentsia devoted to the working class, to all working people and the cause of socialism; g) abolition of national oppression and the institution of equal rights and fraternal friendship among peoples; h) consolidation and development of the socialist state, defence of socialist gains against internal and external enemies; i) solidarity between the working class of the given country and that of other countries, i. e., proletarian internationalism.

The main laws of socialist revolution and socialist construction show that in the course of socialist revolution the same tasks are, in the main, resolved in every country—the rule of the capitalists is abolished and socialism is built.

The Marxist-Leninist proposition on the main laws of development of socialist revolution and socialist construction forms the basis of the policy of the Communist and Workers' Parties of the socialist countries. This ensures the successful building of socialist society.

But the forms and methods of building socialism may vary, depending on the concrete historical circumstances of each country. Although there are main lines common to all countries, the variety of historically determined national features and traditions gives rise to certain specific conditions for the development of socialist revolution and the building of socialism.

But these specific features do not alter the fact that socialist revolution and socialist construction develop along certain main lines. In the practice of socialist construction, the differences may be seen in the forms of dictatorship of the proletariat, in the forms in which production is managed, in the different methods of co-operation in agriculture, but proletarian dictatorship, abolition of private ownership of the means of production, agricultural co-operation and so on represent the common factor without which the socialist system cannot develop successfully.

## 2. The Economy of the Transition Period

The economy of the transition period cannot be called capitalist or socialist. It represents a multiplicity of economic sectors. The economic sectors are based on one or other form of ownership of the means of production and are characteristic of a particular country at a definite period of its development.

The economic sectors in a country's economy during the transition period may vary. This follows from the concrete historical situation of the country which has taken the road to socialism. But for every country entering the period of transition from capitalism to socialism, three main sectors are essential: socialist, small-commodity and capitalist.

**The socialist sector**

The socialist sector in the national economy is established through socialist socialisation of the means of production.

The first and most important step taken in this direction by the proletarian government is to gain control of the commanding heights in the national economy by means of socialist nationalisation.

*Socialist nationalisation* is revolutionary confiscation by the proletarian state of the property of the exploiting classes and its transformation into state, socialist property (the property of all the people). All the wealth of the capitalist class was created by many generations of the working class. And when, in the course of socialist revolution, the working class confiscates the means of production from the capitalists, by this legitimate action historic justice is restored. That which the labour of people has created should belong to the people.

Socialist nationalisation of the means of production abolishes the fundamental contradiction of capitalism—that between the social character of production and the private form of appropriation by capitalists. Nationalisation brings the relations of production into accord with the productive forces and removes the obstacles to their further development.

Nationalisation of the means of production destroys the rule of the bourgeoisie in the economy. With the transfer of the means of production to working people, they become masters in their own country, the dominant economic force of society.

First and foremost nationalisation is achieved in the heavy industry, banks, rail transport, merchant marine, communications, large-scale trading establishments, etc., and in agriculture (full or partial nationalisation of the land).

Nationalisation in each country has its specific features, depending on the forms and intensity of the class struggle during the period of transition. In the U.S.S.R., for example, where the bourgeoisie waged an armed struggle, organised plots against the power of the Soviets and employed every means of sabotage, nationalisation was carried out without compensation to the former owners. In several European People's Democracies nationalisation of the basic means of production in industry, transport and communications, as well as nationalisation of the banks, took the form of the state buying up the enterprises of small and medium proprietors and those belonging to capitalists from countries that had been allies in the war against Hitler. Enterprises belonging to German and Italian owners or to capitalists inside the country who had collaborated with the nazis were nationalised without compensation.

In the People's Republic of China confiscation and the transfer of property to the state was restricted to enterprises belonging to the monopolistic bourgeoisie, which had been the mainstay of imperialism in the country. The bulk of the enterprises belonging to the national bourgeoisie became joint state and private enterprises, and these are now gradually being transformed into state, socialist enterprises.

After the most important means of production have been nationalised, other measures are taken; the socialist state organises a new sector previously unknown in the national economy—the *socialist sector*. This takes in factories, banks, transport, state-owned trading and agricultural enterprises and also co-operative societies of the socialist type—the supply and marketing, credit, consumer and producer co-operatives. Once the socialist sector of the national economy is established, the corner-stone is laid for the immense work of construction which the people carry out in the process of building the foundation of the whole socialist economy.

The socialist sector plays the leading role in the economy of the transition period. This is because it combines the decisive branches of the national economy, what are known as the commanding heights, and because it has the most modern and efficient technical equipment at its disposal. This sector represents the more progressive type of production relations.

At socialist enterprises there is no exploitation of man by man, labour power is no longer a commodity and the labour of the worker becomes labour for the benefit of himself and society. Everything that is produced in the socialist sector goes to the working people as a whole.

The socialist sector, where socialist ownership of the means of production predominates, gives rise to new economic conditions. On their basis the new economic laws of socialism come into being and develop, gradually extending their sphere of operation. Capitalist economic laws gradually lose their force and in the final count cease to operate.

**Small-commodity and capitalist sectors**

The *small-commodity sector* takes in the small farms of the peasants, the artisans and handicraftsmen whose economies are based on private ownership of the means of production and their own personal labour. They are all more or less connected with the market. Because small-commodity production is based on private ownership, it approximates to capitalist production. On the other hand, because the small peasants are interested in the abolition of all forms of exploitation, in the sense that they are working peasantry, they are closer to the proletariat.

In the early stages of the transition period, the small-commodity sector takes in the majority of the population in many of the socialist countries. During the building of socialism, small-commodity production becomes socialist production through the establishment of co-operatives.

The *capitalist sector* covers economic enterprises based on private ownership of the means of production and wage labour. It is represented in the countryside by the rich peasant section (kulaks) and in the towns mostly by owners of small or medium capitalist enterprises which have not been nationalised. Here exploitation exists and labour power is still a commodity. Surplus value is appropriated by the owners of the means of production.

The socialist state first puts restrictions on the capitalist sector, in particular on the exploitation of labour; its policy then aims at abolishing it altogether.

The socialist, small-commodity and capitalist sectors are basic sectors during the transition period. There may be, in addition, patriarchal peasant economy (natural economy) and state capitalism. These sectors may, but need not, exist.

During the transition period in the U.S.S.R., for instance, the patriarchal peasant economy existed and also state capitalism in the form of the concessions which the Soviet Government granted to foreign capitalists. State capitalism, however, did not develop to any large extent in the economy of the U.S.S.R.

State capitalism has been extensively developed in the People's Republic of China and in a number of other People's Democracies.

The task of the transition period is to develop the socialist sector to the full, to abolish the capitalist sector completely and to transform the small-commodity sector into a socialist form of economy, which must become completely dominant, and thus to build the foundation of socialism.

**Classes in the transition period**

The economic sectors of the transition period are represented by definite classes:

| | |
|---|---|
| Socialist sector | The working class and the peasantry united in co-operative enterprises |
| Small-commodity sector | The rural small and middle peasantry and urban artisans and handicraftsmen |
| Capitalist sector | The urban bourgeoisie and the rich peasants |

Such is the class structure in the period of transition from capitalism to socialism.

The position of the classes in this period compared to that under capitalism is altogether different.

The *working class*, which under capitalism was the oppressed and exploited class, plays the leading role in society after the establishment of the dictatorship of the proletariat. It becomes the ruling class, it exercises state power and together with all working people controls the socialised means of production.

The *peasantry* is freed from dependence on large landowners, receives land from the socialist state, is protected from being exploited by the rich peasant and assisted in the formation of co-operatives.

In its policy towards the peasantry during the transition period, the socialist state is guided by the Leninist formula: alliance with the middle peasant, reliance on the poor peasant and struggle against the rich peasant. The pursuance of this policy leads to the bulk of the peasantry becoming allied to the working class in the matter of building socialism.

The working class and the peasantry are the main classes in the transition period. The former rallies to itself, besides the peasantry, all other groups of working people—the working intelligentsia, urban artisans and handicraftsmen.

Once it has lost state power and the basic means of production, the *bourgeoisie* is no longer the dominant class in the transition period, though for a number of years it continues to remain strong. The explanation for this is that small-commodity production spontaneously engenders capitalism on a mass scale. In addition, after losing its power of domination, the bourgeoisie still has the support of international capital.

**Contradictions of the transition period**

The multistructural economy of the transition period and the presence of hostile classes give rise to a number of contradictions.

In this period, the socialist sector is not all-embracing, it does not take in all spheres of the national economy and, in particular, it does not include the whole of agriculture. Capitalism still exists to carry on a struggle against socialism. That is why Lenin pointed out that the period of transition from capitalism to socialism "cannot but be a period of struggle between moribund capitalism and nascent communism—or, in other words, between capitalism which has been defeated but not destroyed and communism which has been born but is still very feeble".[1]

The contradiction between socialism and capitalism is the fundamental contradiction of the transition period. The question of who will beat whom is settled in the course of bitter class struggle. The outcome of the struggle depends on who succeeds in taking the peasantry along with them.

The correct policy of the Communist and Workers' Parties, that of a stable economic and political alliance between working class and peasantry, enables the working class to get the working peasantry behind its leadership. This decides the outcome of the struggle in favour of socialism.

There are also other contradictions in the transition period. In a number of countries, for example, there is that between the advanced political system and the technical and economic backwardness. This contradiction existed in the U.S.S.R. in that period. In one degree or another it is characteristic of the majority of the People's Democracies. There is, in addition, the contradiction between large-scale, unified socialist industry and small, scattered, privately-owned peasant economy.

All these contradictions of the transition period are resolved by the economic policy of the socialist state.

### 3. Economic Policy in the Transition Period. The Leninist Plan for Building Socialism

To build socialism the appropriate economic policy, i.e., the system of measures to be taken by the socialist state in order to eliminate capitalist elements and ensure the victory of socialism, has to be drawn up and put into effect.

The aim in the transition period is to strengthen the alliance between the working class and the peasantry; to consolidate the dictatorship of the proletariat; to develop the country's productive forces; to abolish exploiting classes and build socialism.

The economic policy of every country taking the socialist road is determined by the level of the economy in the

[1] V. I. Lenin, *Economics and Politics in the Era of the Dictatorship of the Proletariat*, Moscow, 1955, pp. 5-6.

transition period and by the relation of class forces. But its main principles hold good for all countries building socialism.

The Soviet Government began to pursue this economic policy in the spring of 1918, but later, because of the effects of the war of intervention, the civil war and the devastation wrought, it was compelled to pass to the policy of "War Communism" (1918-20).

In the period of "War Communism" the Soviet Government enlisted the services of the rear to help the front. All industry became nationalised, including small and medium industry; private trade was prohibited; food surplus requisitioning was introduced, which meant the peasants' surplus agricultural produce was taken from them in order to supply the army and workers. Because of the difficult conditions created by civil war and foreign armed intervention, the Soviet Government introduced food rationing and universal labour conscription. This policy was an inevitable, temporary policy and it was calculated to secure the victory of the Soviet state in the difficult conditions of civil war and foreign military intervention.

As soon as civil war and foreign intervention ended, the Soviet Government, in 1921, returned to the economic policy proclaimed in the spring of 1918. To distinguish it from "War Communism", it was called the New Economic Policy (NEP). The change to the new economic policy began with food surplus requisitioning being repulaced by the food tax. This tax was smaller than the amount demanded under requisitioning. The peasant could do as he wished with everything that remained after paying the food tax to the state. He could freely market his surplus produce.

The introduction of the food tax and permission to engage in private trading were necessary in order to provide an economic incentive to the peasantry to improve agriculture, in order to rebuild light and heavy industries, and then, having accumulated the necessary strength and resources, to pass on to a determined offensive against the survivals of capitalism in the country.

Soviet economic policy of the transition period was worked out and implemented in a situation of capitalist encirclement and the building of socialism in one individual country.

This left a definite mark on the manner in which the policy was pursued.

The main principles of Soviet economic policy in the transition period are of international importance. At the same time, the different countries develop their specific forms and methods of pursuing economic policies in the transition period. These forms and methods derive from the circumstances of their development. The socialist countries are carrying out their economic policies in more favourable conditions. Each can use the wealth of experience of the Soviet Union, its scientific, technical and economic aid, and the experience and aid of the other socialist countries.

The economic policy of the transition period was the concrete expression of the Leninist plan for the building of socialism.

Lenin worked out a scientific plan for building socialism in the U.S.S.R., which envisaged the elimination of the country's technical and economic backwardness; socialist industrialisation; socialist transformation of agriculture and the cultural revolution. Lenin's plan for the building of socialism is reflected and developed further in the decisions of the Communist and Workers' Parties and is the basis of the building of socialism in all countries.

**Socialist industrialisation**

One of the most important components of the Leninist plan for building socialism is *socialist industrialisation*.

Socialism can only be built on the basis of large-scale machine production in all branches of economy. "A large-scale machine industry that is capable of reorganising agriculture," wrote Lenin, "is the only material basis that is possible for socialism." [1]

But the majority of the countries taking the road to socialism could not hope to inherit such a highly developed material and technical basis from capitalism. During its existence capitalism has been able to bring about the industrialisation of only a few countries inhabited by no more than about 15 per cent of the world's population. So for the majority of countries undertaking the building of socialism, industrialisation is a vital necessity.

[1] V. I. Lenin, *Selected Works*, Vol. II, Part 2, Moscow, p. 576.

Socialist industrialisation involves the development of large-scale industry, primarily heavy industry, capable of ensuring the radical reconstruction of the national economy, including agriculture, on the basis of advanced technology.

The key link in socialist industrialisation is priority development of the heavy industries producing the means of production—metal, fuel, machinery and equipment, building materials. Of special importance for industrialisation is the creation of a modern engineering industry.

In the process of socialist industrialisation the material basis is built for the development of state and co-operative enterprises in industry and agriculture. Industrialisation gives these the technical equipment they require in order to win their final victory over capitalist and small-commodity production.

Socialist industrialisation was of vital importance to the U.S.S.R.

Socialist industrialisation is the key to the fulfilment of all the main tasks of building socialism: the complete elimination of the capitalist sector, the socialist transformation of agriculture, the elimination of the country's technical and economic backwardness.

The policy of socialist industrialisation was launched in the U.S.S.R. in 1925, at the Fourteenth Congress of the Communist Party. This Congress affirmed that the central task was to industrialise the country in the shortest space of time.

The need for this was dictated, firstly, by the fact that the Soviet Union was technically and economically backward compared to the highly developed capitalist countries. It was a country of small peasants, where an economic basis more suitable for capitalism than for socialism was still preserved. Secondly, the country was encircled by capitalist states striving to destroy, or at least to weaken, the Soviet state.

All this called for high-speed socialist industrialisation. That this would be possible was determined by the advantages of the socialist economic system and by the specific features of the socialist method of industrialisation.

Because socialist ownership of the means of production predominated, it was possible to begin industrialising the country by developing heavy industry, and not light industry, as is usually the case in the capitalist countries. With the socialist economic system it was possible to mobilise all internal resources and direct them first and foremost into large-scale machine industry.

The funds required to industrialise the U.S.S.R. consisted chiefly of the revenues from nationalised industry, agriculture, home and foreign trade and the banks. All these sources of internal accumulation provided thousands of millions of rubles, so that it was possible to invest large capital in industry and, particularly, heavy industry.

The years of the pre-war five-year plans (1929-41) saw the building of new branches of industry—tractor, automobile, chemical, machine tools, aviation, etc. Thousands of factories were built and put into commission. The new enterprises began to play the principal role and accounted for the greater part of industrial production.

The successful fulfilment of the industrialisation programme meant that in the first two five-year periods (1929-37) the U.S.S.R., from being a backward, primarily agricultural country, became a mighty industrial power, achieved complete economic independence from the capitalist countries and greatly developed its defence potential. The ratio of the production of means of production to the gross industrial output increased from 33.3 per cent in 1913 to 57.8 per cent in 1937. By the end of the Second Five-Year Plan (1937) the U.S.S.R. occupied first place in Europe and second in the world for volume of industrial production.

The successful industrialisation of the U.S.S.R. eliminated the contradiction between the most advanced political system in the world and the outdated technical and economic basis inherited from tsarist Russia.

"*The industrialisation of the U.S.S.R.*," states the Programme of the C.P.S.U., "*was a great exploit performed by the working class and the people as a whole*, for they spared no effort or means, and consciously made sacrifices to lift the country out of its backward state."[1]

[1] *The Road to Communism*, p. 458.

Socialist industrialisation is of no less importance for the other socialist countries.

The People's Democracies are being industrialised in more favourable conditions than those which prevailed in the U.S.S.R. The less developed countries rely on the all-round assistance of the Soviet Union and the more industrially developed socialist states, and this facilitates and accelerates their industrial development.

**Socialist transformation of agriculture**

One of the first measures of the proletarian government in the countries taking the road to socialism is agrarian reform carried out by confiscating the land of the exploiters and transferring it to the working peasants.

When Lenin drew up the Party's agrarian programme he foresaw that land reforms could be carried out in different countries either through nationalisation of all the land or by making the land the private property of the peasants.

Lenin's forecast has been fully borne out. In the U.S.S.R., for example, immediately following the victory of the socialist revolution all the land was nationalised. The peasants were given land for free use in perpetuity, but the state remained the owner of the land. In the People's Democracies, the land of the big landowners was confiscated. The greater part of this was made the private property of the peasants. Only part of the land was nationalised; on this land state enterprises were organised.

But neither nationalisation of the land nor its distribution among the peasants will of itself lead to a rise of socialist production relations in the countryside.

After land reform, the predominant form of economy continues to be small, privately-owned peasant farming. But socialism presupposes socialisation of the means of production in agriculture as well as industry.

The need for the transition to large-scale socialist production in agriculture follows from the fact that socialism cannot be built on two opposing bases: that of large-scale socialist industry and that of scattered, backward, small peasant farming. These farms yield very little commodity output, for the productivity of labour on them is extremely low. Small, split-up, scattered peasant farms are a hindrance to the use of agricultural machinery and advanced agronomic techniques.

In this situation it is impossible to secure a sufficient supply of food for the populations of growing industrial towns, or sufficient quantities of raw materials for industry. Nor is it possible to achieve any substantial increase in the well-being of the peasants.

Lenin worked out ways and methods for the socialist transformation of agriculture based on co-operatives.

Lenin showed the difference in principle between co-operatives under the dictatorship of the proletariat and co-operatives under capitalism, pointing out that the growth of agricultural co-operatives under proletarian dictatorship and with state ownership of the most important means of production is equivalent to a growth of socialism. The transition of the peasants to large-scale co-operative production makes it possible to equip agriculture with new machinery. At the same time agricultural co-operatives are the easiest, simplest and most acceptable road to socialism for the peasants. Lenin said they were a form of building socialism in the countryside in which "*any* small peasant" could take part.

Starting out from this, Lenin indicated that the development of co-operatives among the peasantry was one of the most important tasks in building socialism.

Lenin showed the methods to be used to carry out the socialist transformation of agriculture through the organisation of co-operatives. He substantiated the principle of voluntary association, i.e., that socialist forms of economy must not be forcibly imposed on the peasants, and laid down that the co-operative movement cannot be decreed into existence.

The most important principle of Lenin's co-operative plan is that co-operation in agriculture should be introduced gradually, beginning with its simplest forms. The highroad to socialism for the peasant is from consumer, supply-and-marketing, and credit co-operatives to the simplest of producer co-operatives, and then on to co-operative enterprises of the socialist type.

The development of the simplest forms of co-operation in the fields of supply, marketing and credit, and the positive experience of work in the first collective and state farms give the peasants a practical demonstration of the advantages of large-scale socialist farming and impart to them the practical skill of managing collective farms.

For co-operation in agriculture to be successfully achieved, the working class should lead socialist construction in the countryside and the proletarian state give it every possible support. State assistance can be expressed in many forms: provision of agricultural machinery, loans of money or seed to the peasants, etc.

Lenin's co-operative plan was first put into practice in the U.S.S.R. The outcome of the immense educational and organising work carried out by the Communist Party and the Soviet Government was that in the second half of 1929 there was a radical turn among the peasants towards collective farming. The bulk of the peasantry joined collective farms. Through collectivisation, the most numerous exploiting class in the country—the kulaks—was eliminated. The question "who will beat whom?" was decided in favour of socialism in the countryside as well as the towns.

Collectivisation gave the Soviet state a socialist base in that branch of the national economy which, besides being the most extensive and vitally essential, was also the most backward, namely, agriculture. Agriculture began to develop on the same kind of basis as industry—socialised, socialist ownership of the means of production.

Led by the Communist Party and with the utmost assistance and support of the working class, the peasantry embarked on the road to socialism.

The basic form of collective farming in the U.S.S.R. was the *agricultural artel*, i.e., a form of collective-farm management which is based on socialisation of the basic means of production and the collective labour of the peasants, but with each peasant retaining his own personal auxiliary farm. The agricultural co-operative guarantees the correct combination of the collective farmers' personal and social interests and promotes the development of the productive forces.

Collectivisation in the U.S.S.R. made it possible, within a few years, to create the most massive socialist agriculture in the world based on advanced technology and supplying the country with a much larger output of commodities. It made way for a sharp rise in the well-being of the collective-farm peasantry.

"The introduction in the Soviet countryside of large-scale socialist farming," the Programme of the C.P.S.U. points out, "meant a *great revolution in economic relations, in the entire way of life of the peasantry*. Collectivisation for ever delivered the countryside from kulak bondage, from class differentiation, ruin and poverty. The real solution of the eternal peasant question was provided by Lenin's co-operative plan." [1]

The peasants of the People's Democracies are now stepping firmly along the path laid down by the working peasantry of the Soviet Union. Socialist transformation of agriculture is already completed in the majority of the People's Democracies.

The experience of the Soviet Union and other socialist countries shows that the basic principles of Lenin's co-operative plan retain their force today for every country taking the road to socialism.

At the same time agricultural co-operation in socialist countries may have its own specific features.

For example, in the People's Democracies where the land was distributed as private property among the peasants, there arose transitional forms of co-operative farms which the U.S.S.R. has not known. In these farms the land remained the property of the peasant co-operators and income was distributed not only on the basis of work performed but according to the amount and quality of the land put at the disposal of the co-operative.

By creatively applying the basic propositions of Lenin's co-operative plan to suit the concrete conditions in their own countries, the Communist and Workers' Parties are themselves contributing to Marxist-Leninist theory and enriching it by their experience of building socialism.

**Cultural revolution**

Improvements in the education of working people in socialist countries follow from the very nature of socialism. The working people take over the reins of power for the express purpose of being able to share in both material and spiritual values.

[1] *The Road to Communism*, p. 458.

At the same time the actual requirements of socialist production raise the need for the utmost improvement in the cultural and educational standard of working people. For socialist production to develop, highly skilled, educated, socially-conscious workers are needed in every branch of the national economy. And so, however we approach this question, the conclusion is the same: once the working class has assumed power, it must concern itself with education and organise the training of the builders of socialism.

The socialist state inherited ignorance and illiteracy from the capitalist system, and even more so from the feudal system. Because of this, the proletariat from the outset had to put through strong, revolutionary measures to counteract the illiteracy and lack of culture of the broad masses of working people throughout the country. That is why Lenin used the phrase "cultural revolution" to describe the abolition of illiteracy, introduction of universal education and implementation of other measures to spread culture and enlightenment.

A *cultural revolution* should give the broad working masses all the blessings of culture which in the past were the monopoly of the exploiting classes.

In a short period of history the illiteracy of the adult population was eliminated in the U.S.S.R. and a new system of popular education introduced. General education was made available in the form of primary, seven-year and secondary schools. All grades of schools gave free education in the native tongue.

Far-reaching measures were also undertaken in the field of higher education and secondary specialised education, which within a short space of time have produced large contingents of the new, Soviet intelligentsia. An extensive system of scientific institutions has been established, and the professional and technological standard of knowledge among the working class has risen considerably. Much progress has been made in the development of the press, radio and television, film industry, literature and the arts, and cultural work in general among the population.

The cultural revolution led the working people out of spiritual slavery and ignorance and put them in contact with the wealth of culture accumulated by mankind.

"The country, the bulk of whose population had been illiterate, made breath-taking progress in science and culture,"[1] states the Programme of the C.P.S.U.

## 4. The Victory of Socialism

**Abolition of the multiplicity of economic sectors**

The result of the radical revolutionary transformations in the economy, politics and culture achieved during the transition period is that the new, socialist society has been created and socialism is victorious.

The victory of socialism means that private ownership has been replaced by social ownership of the means of production. The place of multiform economy has been taken by the socialist sector, which has acquired undivided rule and has assumed the form of mechanised socialist enterprises in town and countryside. In this process the exploiting classes are eliminated, exploitation of man is ended.

The victory of socialism means that the country's entire economic life is determined and directed by state planning. Competition, anarchy of production and crises are abolished for all time. Social production is organised for the purpose of more fully satisfying the growing material and cultural needs of the people.

Under socialism revenue is distributed among the people according to the quantity and quality of their work; the principle established is: "From each according to his ability, to each according to his work." This guarantees that the members of socialist society will be interested in the results of their labour, ensures that personal and social interests are combined in the best possible way and creates a powerful stimulus for increasing labour productivity and improving the economic position and well-being of the people. The knowledge working people have that they are not working for exploiters but for themselves gives rise to enthusiasm for labour, invention, initiative and socialist emulation.

With the completion in 1933-37 of the socialist transformations in the U.S.S.R., the building of socialist society was in the main completed.

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[1] *The Road to Communism*, pp. 458-59.

The victory of socialism led to radical changes in the class structure of society. The *working class* ceased to be the class deprived of the means of production. It became the class freed from exploitation and owning, jointly with the whole of the people, the basic means of production. It became the foremost class, the leading force in social development.

The *peasantry*, from being a class of small, scattered producers, became a completely new class, freed from exploitation. In close alliance with the working class, the collective-farm peasantry takes an active part in the management of the socialist state. The fact that the two forms of ownership are socialist has brought the working class and peasantry together, strengthened their alliance and made their friendship indestructible.

A new *intelligentsia* has grown up, born of the people and loyal to socialism. It has the fullest opportunity of making creative use of its knowledge in the interests of the people. The intelligentsia together with the working class and peasantry has actively joined in the management of the country's affairs.

The victory of socialism abolished political and economic inequality between nations, the former antithesis between town and country and between physical and mental work.

Because workers, peasants and intelligentsia basically share the same interests, there now exists a socio-political and ideological unity of the Soviet people, friendship among peoples, Soviet patriotism.

The profound changes that took place in the economic, political and social spheres following the victory of socialism in the Soviet Union were legislatively embodied in the Constitution of the U.S.S.R. adopted in 1936.

The entire life of socialist society is built on the broadest democracy. Through Soviets, trade unions and other mass organisations the working people actively join in the management of state affairs, in solving problems of economic and cultural construction. Socialist society guarantees true freedom of the individual.

To the Soviet people, the first in the world to blaze the trail to socialism, has fallen the historic role of pioneer in laying down the new path of social development.

Today socialism is winning one brilliant victory after another in the People's Democracies.

The successful implementation of the plans for socialist industrialisation and socialist co-operation in agriculture has resulted in the majority of the People's Democracies eliminating the multiplicity of sectors of economy and making socialist production relations predominant.

This means that the People's Democracies have accomplished or are about to accomplish the period of transition from capitalism to socialism.

The victory of the socialist revolutions in the People's Democracies means that socialism has gone beyond the frontiers of one country—the Soviet Union—and become a world system.

**Elimination of the possibility of capitalist restoration in the socialist countries**

The victory of socialism in the U.S.S.R. was *complete*. This means that socialist production relations in the country were established throughout the national economy and that capitalist relations and the exploiting classes were abolished. The result of the complete victory of socialism was the establishment of the undivided rule of the new society in the country.

But the victory of socialism in the U.S.S.R. was not final. The Soviet Union was the only country building socialism; it was in capitalist encirclement. The imperialists were strong. The danger remained, therefore, that the forces of international reaction might restore the bourgeois-landlord system.

After the Second World War the world situation changed. A large number of countries in Europe and Asia took the road to socialism. The Soviet Union, by completing the building of socialism, has entered the period of full-scale communist construction. Capitalist encirclement no longer exists.

The increased economic and political might of the U.S.S.R., the formation and consolidation of the world socialist system have made any elimination of the socialist gains out of the question. The victory of socialism in the U.S.S.R. is now *final*. Not only in the Soviet Union, but in the other socialist countries, the socio-economic possibilities of capitalist restoration are now abolished.

"The combined forces of the socialist camp are a sure guarantee for each socialist country against encroachments by imperialist reaction," states the Programme of the C.P.S.U. "The consolidation of the socialist countries in a single camp, its increasing unity and steadily growing strength ensures the complete victory of socialism and communism within the framework of the system as a whole."[1]

The victories of socialism are of great international importance. Working people are becoming convinced that the new society is irrevocably coming to take the place of capitalism and that it has enormous advantages over the old world.

Only in socialist society do people find true freedom and happiness. Only socialism frees man from oppression, gives him the broadest rights and confidence in the future.

That is why the magnificent victories of socialism inspire the working people of the capitalist countries to struggle for their rights and liberties and for emancipation from capitalist oppression.

The complete building of socialism in the U.S.S.R. and the successful building of socialism in the People's Democracies are clear evidence of the triumph of the Marxist-Leninist doctrine which lights the way for the working people to emancipation from capitalist slavery and the transition to communism, the new social formation.

[1] *The Road to Communism*, p. 465.

*Chapter X*

# PRODUCTIVE FORCES AND PRODUCTION RELATIONS IN SOCIALIST SOCIETY

The preceding chapter dealt with the victory of socialism and its conversion into a world system. In examining the economic laws and categories of socialism it is first necessary to give a general description of the productive forces and production relations of socialist society.

## 1. The Productive Forces

The productive forces in socialist society are represented by large-scale machine production in all branches of the national economy, based on the highest technology and the labour of workers freed from exploitation.

Large-scale machine production under socialism develops on planned lines and serves to improve the material well-being and cultural level of all working people. This is what fundamentally distinguishes socialist from capitalist production.

A most important feature of large-scale machine production in socialist society is its high technical level and the rapid rate and uninterrupted nature of technological progress.

**Technical progress**

*Technical progress* in the national economy means: steady development of science and technique and improvements in the cultural and technical standards of working people, the best organisation of production and, on their basis, every possible increase in the productivity of social labour.

Under socialism technical progress in the different branches of production is continuous and on planned lines, use being made of the latest achievements of science and the creative efforts of all working people. Technical progress is a powerful means of increasing the social wealth with the object of steadily raising the people's living standard.

The main trends of technical progress under socialism are: improvement of the instruments of production and technological processes; mechanisation and automation of labour processes; electrification of the national economy; wide use of chemistry in production; use of atomic energy for peaceful purposes. These trends are closely linked and interdependent. Mechanisation is the precondition for automation. Mechanisation and automation develop on the basis of electrification. But electrification is now impossible without mechanisation and automation. In just the same way, wide use of chemistry is impossible without mechanisation, automation and electrification.

The basis of technical progress is *improvement in the instruments of production*, which consists in the invention and practical use in production of more economical, more productive machines. It is inseparably linked with improvement in technology—extraction methods, processing, and utilisation of raw and other materials; introduction of new types of raw and other materials; use of high and ultra-high velocities, power, and temperatures, as well as other means of intensifying production processes.

Modernisation of equipment is of great economic significance in technical progress. *Modernisation* is the process of renewing and improving equipment already in use by replacing out-dated units, parts, etc. The economic efficiency of modernisation is that it increases the volume of production and rapidly improves the work of enterprises with relatively small outlays. Improvement in the instruments of production is the basis of continued development of the country's productive forces.

*Mechanisation of labour processes* is of great importance for improving production under socialism. It involves the use of machines instead of manual work. Machines make work lighter and more productive and accelerate the rate of development of socialist economy.

In 1961, engineering and metal-processing plants in the U.S.S.R. produced 300 times as much as in 1913. This made it possible to introduce extensive mechanisation of production throughout the branches of the national economy.

Under socialism, *comprehensive mechanisation* is widely developed. This means the mechanisation of all interconnected production processes, both basic and auxiliary. Comprehensive mechanisation raises labour productivity and lays the basis for automation in production.

A still higher stage of mechanisation is *automation*, i.e., use of automatic machines which are self-regulating and completely eliminate manual work.

Automation of socialist production lightens and saves labour and helps to improve the quality, reduce costs. The transition to automation (and particularly to comprehensive automation of all production processes) lengthens the period of service of the equipment and increases its reliability. There is less expenditure of power, production standards are higher and the servicing personnel is reduced. The result is a sharp rise in the productivity of social labour.

Contrary to capitalism where mechanisation and automation make millions of workers redundant, causing unemployment, in socialist conditions mechanisation and automation do not and cannot lead to unemployment. In socialist society comprehensive mechanisation and automation of production processes accord with the vital interests of the workers, lighten and radically change the character of the work of millions of people, raise productivity, create conditions for shortening the working day and eliminating the basic distinctions between mental and physical work.

Mechanisation and automation of production processes are inseparably linked with electrification. *Electrification* implies the introduction of electricity in all branches of the national economy and in everyday life. Electricity is the most important source of power in modern technology. It is the basis of the most up-to-date technology and accelerates and intensifies production processes. Based on electricity, new branches of industry have sprung up—electrometallurgy, electro-chemistry, and new metal-processing methods.

In 1961 the output of electric power in the U.S.S.R. reached 327,600 million kwh, as against 1,900 million in

1913. According to the Seven-Year Plan for the Development of the National Economy of the U.S.S.R. (1959-65), the production of electric power in the country will be brought up to 520,000 million kwh in 1965. To accelerate the development of power capacities, the intention now is to give priority to the building of thermal power stations using cheap coals, natural gas and crude oil. Simultaneously work will continue on the building of major hydropower stations.

A powerful factor in the technical improvement of the national economy is the *wide use of chemistry*. This entails the development of chemical methods of production and their use in all branches of the national economy. Chemical processing methods speed up production processes and make the fullest use of raw materials. They also promote the production of new types of raw and other materials.

The chemical industry in the U.S.S.R. is developing rapidly. In 1961 the gross output from the chemical and rubber-asbestos industry was 150 times what it was in 1913. In the years 1959-65 the volume of output from the chemical industry will be increased approximately threefold. Production of synthetic materials is to be widely developed.

Technical development has reached its highest point with the *utilisation of atomic energy*. In the U.S.S.R. a powerful atomic industry has been established and has a great future.

These main trends in technical progress are being realised through the heroic labour of the Soviet people. It is a measure of the achievements of Soviet science and technology that it was in the U.S.S.R. that the first atomic power station in the world was built, the first earth satellites and space rockets to the Moon, Venus and Mars were launched and the *Lenin* atomic ice-breaker constructed.

Magnificent achievements by Soviet scientists and engineers were the first launchings of man into space.

The Communist and Workers' Parties of the socialist countries are constantly concerned for high rates of technological progress. The Twenty-Second Congress of the C.P.S.U. mapped out a grand programme for the technical advance of the U.S.S.R. It indicated the need to speed up the fullest utilisation of everything created by science and technology, to accelerate the rates of comprehensive mechanisation and automation of industry, to produce the most up-to-date machine tools, set up production lines, introduce automation and further improve manufacturing processes.

**Material and technical basis of socialism**

The material and technical basis of society rests on the level of development reached by the productive forces and accords with the character of the predominant relations of production.

Socialism builds its own material and technical basis which gradually develops into that of communism.

The socialist material and technical basis rests on large-scale machine production developing according to plan in all branches of the national economy, with priority growth of the production of the means of production.

With large-scale machine production it is possible, on the scale of all socialist society, to make use of modern instruments of labour, scientific and technical achievements and advanced technology. Thus, large-scale machine production promotes the continuous growth of labour productivity. It allows socialist society to lighten labour, shorten the working day and thereby save enough time for steady improvement of the cultural and technical standards of industrial personnel.

The material and technical basis of socialism is distinguished for its high degree of socialisation in the form of concentration, specialisation and co-operation in industry. *Concentration* refers not only to production, but also to labour power and output in the increasingly expanding enterprises. Socialist production has the highest level of concentration in the world. One form in which concentration is expressed is combination.

*Combination* of production means the concentration in a single enormous enterprise of various branches of industry which are linked together by a production process. Characteristic of the Magnitogorsk Metallurgical Combine, for instance, is that it includes the whole cycle of iron and steel production: gigantic iron and steel shops and industrial enterprises for mining and the production of coke-oven products, refractories, etc. The combine is one organic technological production unit.

Another example of combination are the oil and chemical combines for the comprehensive chemical processing of oil, which produce petrol and lubricants, synthetic rubber and spirit, acetic acid, acetone, plastics and other organic chemical products. Production combines are also widely used in the timber and paper, food, textile, and other industries.

A distinguishing feature of the material and technical basis of socialism is broad, planned specialisation and co-operation. *Specialisation* is the process of isolating enterprises which have a characteristically specific equipment, production process, and specially qualified personnel, and which turn out one particular kind of finished product or parts of finished products.

Specialisation is based on a division of labour among enterprises. In the specialised enterprises there are much greater opportunities for introducing highly productive equipment, standardisation, and mass, line-flow production. Specialisation ensures a steady rise in labour productivity.

Specialised enterprises require close relations with one another. This is achieved through *co-operation*, which, under socialism, is the planned establishment of permanent relations between enterprises which jointly make some definite product but are otherwise economically independent of one another.

A distinction is drawn between co-operation within areas, when the relations are established between enterprises located in the same economic administration area, and co-operation between areas when production relations are established between enterprises in different economic administration areas.

The forms of socialisation in socialist industry examined above are characteristic of all its branches, including agriculture. A diversified system of agriculture is closely connected with specialisation of production.

Specialisation and co-operation in production exist not only within one country, but on the scale of the socialist world system.

The characteristic feature of the material and technical basis of socialism is the high technical level achieved in all branches of economy as the result of scientific and technical progress. In the socialist system of economy machinery is introduced wherever it is to the advantage of society, i.e., when it saves and lightens the work of man.

Large-scale socialist enterprises based on the most advanced technique are one side of the productive forces in socialist society. But the other, most important side is represented by people with their labour skills.

**Working people — society's chief productive force**

When producing material wealth people improve the instruments of labour, invent machines, put the wealth of nature to use and, in doing so, enrich and perfect their own experience and technical know-how. People alone set technique in motion. People it is, therefore, who play the decisive role in developing production. The first productive force of mankind, said Lenin, is the worker. Large-scale machine production and technical progress in all branches of the national economy call for large numbers of highly skilled, trained workers. Socialist society has an interest in seeing that the level both of technical qualification and general culture of the people should systematically rise. The mass of skilled workers are trained in a planned way in the U.S.S.R.—through the state system of trade and technical schools. Both various types of courses and classes, and collective and individual training at the bench bring annually additional numbers of skilled personnel into the factories.

A large proportion of young workers are given specialised and general education through the system of evening classes, technical schools and higher educational establishments. A factor of immense importance in improving the training of skilled, highly educated personnel in the U.S.S.R. is the reorganisation of the system of general education so as to combine school lessons and productive work.

Socialism ensures the highest level of cultural and technical development for all working people. This is reflected in the changed structure of the workers' trades, and in the higher standard of education of working people. The total number of specialists in the Soviet economy who have specialised secondary or higher education (not including servicemen) reached 9,433,000 in 1961 as against 190,000 in 1913.

The development of large-scale machine production has augmented the numerical composition of the working class.

In 1928 the total number of workers and other employees in the U.S.S.R. was 10.8 million, but by 1962 the figure had risen to 68.4 million.

The socialist system is responsible for the unprecedented creative activity of the people. Under socialism everyone who works has an interest in raising labour productivity, in a steady and rapid development of the productive forces, since he works for himself, for his own society.

## 2. Relations of Production

Socialist relations of production differ radically from those of capitalism and other social formations based on private ownership of the means of production.

**Basis of socialist production relations**

The basis of socialist production relations is *social ownership of the means of production*, which holds undivided sway in all branches of the national economy.

Of decisive importance in the system of production relations is the way workers are connected with the means of production. Under capitalism the two are not connected at all, but oppose one another, since the means of production are the private property of the capitalists. Consequently, under capitalism working people are tirelessly battling to abolish private ownership.

In socialist society working people are not opposed to the means of production, but own them. Therefore, under socialism the working people have an interest in the fullest strengthening and development of socialised ownership.

How is socialised ownership of the means of production to be described? It implies first and foremost that the means of production belong to the people who work and are consequently no longer capital, a means of exploitation.

Socialised, socialist ownership of the means of production determines the character of the respective relations among people in production, exchange and distribution. Typical of these relations are comradely co-operation and socialist mutual assistance among people freed from exploitation, and the distribution of products to the advantage of the working people on the principle: to each according to his work.

Indeed, when the means of production belong to the working people, when every individual member of society and society as a whole are alike interested in increasing production, people's relations are friendly. In the effort to produce more goods for consumption, people do all they can to help one another achieve greater success. The community of interests of the working class, peasantry and intelligentsia, in fact of all members of socialist society, who are free from exploitation, is the basis of comradely co-operation and socialist mutual assistance. These relations develop inside the enterprises, between the different enterprises, between state enterprises and collective farms, between the working class and peasantry, and so on. Relations of comradely co-operation and mutual assistance and creative activity offer boundless opportunities for developing the productive forces.

Socialism removes the antagonistic contradiction between the social character of production and the private capitalist form of appropriating the results of production. Here the social appropriation of the products of labour accords with the social character of production. Because of this, socialist relations of production offer the great scope for rapid, uninterrupted development of the productive forces.

As these develop, socialist relations of production gradually change and improve, without remaining passive in respect of the productive forces, for as they improve they open up boundless scope for the development of the productive forces.

**Two forms of socialist property**

Socialist property, as shown above, arises during the period of transition from capitalism to socialism. After winning political power, the working class encounters, on the one hand, large-scale capitalist property which it nationalises and turns over to the socialist state (this is the origin of state socialist property), and, on the other hand, the small private property of the peasants, handicraftsmen and artisans based on personal labour. These small and middle commodity producers associate voluntarily in producer co-operatives and their property becomes socialised on co-operative principles. This is the origin of collective-farm and co-operative property.

It follows that there are two forms of social property under socialism: 1) *state (public) property*, i.e., the property of the whole people, and 2) *collective-farm and co-operative property*, i.e., that of the collective farms and co-operative associations. The presence of these two forms of socialist property determines the existence of two forms of socialist enterprises—state and collective-farm and co-operative enterprises, the social nature of which is identical. The predominant and leading form of property in all socialist countries is state (public) property.

*State (public) property* in the U.S.S.R. consists of the land, mineral wealth, waters, forests, factories, mines, water and air transport, banks, communications, state farms, repair and service stations, state-owned trade and purchasing enterprises, communal amenities, aggregate living accommodation in towns and workers' housing estates, and the output from state enterprises.

Belonging to the whole people in the U.S.S.R. are more than 200,000 state industrial enterprises, the entire railway system (the total length of the permanent way in 1960 being 126,000 kilometres), air transport and shipping, about 8,300 state farms, etc.

*Collective-farm and co-operative property* in the U.S.S.R. includes the possessions of the 41,300 collective farms: agricultural machinery (tractors, combines, etc.), farm buildings, commonly-owned draught, meat and dairy cattle, auxiliary enterprises for processing raw materials, collective-farm power stations, an extensive system of cultural amenities and communal services, and the output from collective farms and other co-operative enterprises.

The commonly-owned collective-farm property steadily grows. In 1961, for instance, the non-distributable assets of the collective farms increased more than 55 times compared with 1932.

The co-operative form of property exists not only in agriculture but also in trade in the shape of consumer co-operatives, whose members are chiefly from the rural population.

These are the main types of co-operative association in the U.S.S.R. Similar types are also to be found in the People's Democracies.

In the Soviet Union and the People's Democracies there is also the property of the individual farmers and that of the non-co-operative handicraft workers. The economies of these categories play no important role in the economic life of the Soviet Union. They produce only about 0.01 per cent of the national income of the U.S.S.R.

Economically and socially, state (public) property and collective-farm and co-operative property are *of a similar type*. First, both are based on socialised, socialist means of production and collective work; secondly, both exclude exploitation of man by man; thirdly, both conduct their economy on planned lines. for the purpose of raising the well-being of the working people; and fourthly, both apply the socialist principle of "to each according to his work".

But because these two forms of property are of the same type, it does not mean that there is no difference between them. The principal difference between state property and co-operative and collective-farm property is the degree of socialisation of the means of production. In state enterprises all the means of production are socialised on the scale of the whole of society (they are the possession of the whole people), but in co-operative and collective-farm enterprises the means of production are the property of separate groups of people (the farm or co-operative association). The products from state enterprises belong to the whole people. The products from collective farming are the property of the particular farm.

The different degree of socialisation of production gives rise to different forms of payment[1] to the people working in production, and to different forms of management. Today the most important administrative bodies in industry and building in the U.S.S.R. are the Economic Councils of the various economic administration areas. In state enterprises the socialist state administers through its representatives—directors, who are appointed and dismissed by the organs of state. All the affairs of the co-operatives and collective

[1] See Chapter XIV.

farms are administered by the general meeting of members and the board of management elected by the members, with its own chairman.

As the productive forces develop, collective-farm production becomes increasingly socialised and collective-farm and co-operative property gradually reaches the level of national property. As the building of communism proceeds, these processes will lead to collective-farm and co-operative property merging with state property and becoming a single form of communist property[1] owned by the whole of the people.

**Personal property**

Social property under socialism extends to the means of production and their output. Part of this output, consisting of consumer goods, is set aside for distribution among working people according to the amount and quality of the work contributed, and becomes the personal property of individuals.

*Personal property* under socialism means ownership by individuals of those products of labour which are made for personal consumption. In the U.S.S.R. personal property also includes earned income and personal savings, a share of the aggregate living accommodation, domestic and household goods, items for personal use and convenience, etc.

A special form of personal property under socialism is the collective farmer's household. This consists of his house, farm buildings, domestic animals and poultry, and agricultural implements for cultivating the holding. The personal holding is worked by the collective farmer and his family and is of a subsidiary nature. As collective-farm economy develops, this kind of property will gradually lose its significance.

Work in social production is the source of personal property in socialist society. Under socialism the predominance of socialist ownership of the means of production is the firm basis on which the requirements of the working people will be increasingly satisfied, and their personal property grow larger. This is guaranteed by the consistent application of the principle of personal material incentive through payment for work according to quantity and quality. But

[1] See Chapter XX, Par. 1.

there is a limit to the growth of personal property. "The working man's personal ownership of a large number of things," said Khrushchov, "is not at variance with the principles of communist construction as long as it keeps within reasonable bounds and does not become an end in itself."[1]

Under socialism personal property cannot be utilised to the detriment of individual citizens or the state as a whole.

**Economic laws**

Socialist ownership of the means of production gives rise to the following *economic laws*: the basic economic law of socialism, the law of the planned, proportional development of the national economy, the law of distribution according to work done, the law of steadily increasing labour productivity, etc. Socialist economic laws express the essence of socialist relations of production and are objective in character. They arise and operate independently of the will or desire of people. But this does not mean that economic laws are similar to the laws of nature, which operate of themselves, apart from the actions of people. Economic laws, being laws of the relations of production, cannot operate where there are neither people nor social production. The objective character of socialist economic laws means simply that in their actions people take these laws into account and cannot disregard the way they operate.

Failure to understand the objective nature of the economic laws of socialism and to reckon with these laws in economic affairs brings negative results.

The way socialist economic laws operate differs radically from the way economic laws operate under capitalism. The difference is that socialist economic laws do not operate spontaneously, as with capitalism, but are used by society consciously and in an organised way. Between capitalist and socialist economic laws the same difference exists as that between lightning bursting from a cloud and electricity handled by man, as Engels put it.

Socialist ownership unites the actions of people in a unified economy with unified leadership. Spontaneous development of society is out of the question under socialism. It

[1] *The Road to Communism*, p. 116.

becomes possible and necessary to make conscious use of socialist economic laws on the scale of society as a whole. For instance, without a centralised body to tackle the most important economic problems, planned development of the economy would be impossible. Without unified state leadership the plans of individual enterprises would lose all meaning, as each of them would be accommodating itself to spontaneous market fluctuations. Market spontaneity and socialism are incompatible and mutually exclusive.

Socialist economic laws arise and operate in definite conditions; therefore, when these conditions change, the economic laws are either given further scope in which to operate or their sphere of operation shrinks and they fade away.

For instance, the role of the law of planned, proportional development of the national economy becomes more important with the transition to single communist ownership. The sphere of operation of the law of distribution according to work done will become more and more curtailed as the transition to communism proceeds, and in fully developed communist society this law will die out altogether, since distribution will then be according to need.

Scientific knowledge of the economic laws of socialism is essential in order to use them to work out and put into effect the policy of the Communist Party and the socialist state, the aim being the building of communism.

### 3. The Basic Economic Law of Socialism

Under socialism, the age-old hopes of working people for an improvement in their position are at last realised. Socialist production is organised to satisfy the material and spiritual needs of all members of society. This is its direct aim, its whole purpose. Only for the purpose of raising the standard of living of the population, of more fully satisfying the growing requirements of all people, can socialist production develop successfully.

As the Programme of the C.P.S.U. points out, the aim of socialism is the ever fuller satisfaction of the growing material and cultural requirements of the people. This was also indicated by the founders of scientific communism.

Describing socialist society, Marx and Engels showed that if in capitalist society "money-making" is the goal of every type of business and the acquisition by the capitalists of surplus value is the motive and ultimate result of production, under socialism production is developed to satisfy the needs of society itself, of all its members. "With this recognition, at last, of the real nature of the productive forces of today," wrote Engels, "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."[1]

Lenin pointed out that capitalist society would be replaced by socialist in order to ensure the prosperity and all-round development of all its members. Lenin repeatedly stressed the idea that only socialism provides the possibility of subordinating social production and the distribution of products, out of scientific considerations, to the interests and needs of people, in order to make life for all who work as easy, prosperous and happy as possible.

Lenin said that whereas formerly the genius of man had been used to create in order to give some people all the benefits of technology and culture, while depriving others of what was most essential—enlightenment and development, now, under socialism, all the marvels of technology and all the achievements of culture will be possessed by the people as a whole, and from now on human genius will never again be turned to means of coercion and means of exploitation.

Satisfaction of the needs of all members of society is the objectively determined aim of production under socialism. No other purpose for production is possible under socialism, for where there is socialist society there is no private ownership of the means of production and consequently no economic basis for the exploitation of man by man. All the means of production and products of labour belong to working people united on the basis of socialist ownership of the means of production. The economic interests of working people, who own the means of production and the products of labour, are the chief motive force of production

[1] F. Engels, *Anti-Dühring*, Moscow 1954, pp. 387-88.

under socialism. The motto of social production is to produce everything for the sake of man, for the benefit of man. This cardinal feature of socialist production is scientifically expressed in the *basic economic law of socialism.* Its essence is that the direct object of socialist production is the ever fuller satisfaction of the constantly growing material and cultural requirements of all people, through continued development and improvement of social production based on the highest technology.

The basic economic law of socialism expresses the object of socialist production and ways to its achievement; it determines the driving force of socialist society and the radical difference between it and capitalism.

The Marxist-Leninist Party and the socialist state subordinate their work of developing the economy and socialist culture to the basic humanitarian aim of achieving ever more complete satisfaction of the material and cultural needs of the people and their all-round development.

On what does the fulfilment of this task depend? The key to it lies in continuous development and improvement of social production relying on the highest technology. And this means that every worker in socialist society should put all he can into his work, thereby making possible a steady improvement in the well-being of the people. The workers understand that continuous development of social production will alone guarantee improvements in their living standards.

During the development and improvement of social production, the material and spiritual preconditions are created for communist society.

Consequently, the basic economic law of socialism is the law of the movement and development of socialist society towards communism.

All the measures carried through by the Marxist-Leninist Parties in the socialist countries aim at securing a steady improvement in the people's living standards.

Every Soviet citizen is conscious of the results of Communist Party policy; day by day, life in the Soviet Union becomes better and more prosperous. During the years of Soviet power the living standard of the Soviet people has become immeasurably higher than that of the working people in pre-revolutionary Russia.

Compared to 1913, the national income of the U.S.S.R. increased almost 25 times in 1961, while in the U.S.A. the increase for the same period was 3.6 times. Between 1913 and 1961 the national income per head of population in the U.S.S.R. increased more than 18 times, in the U.S.A. and France (1960)—1.9 times, in Britain—1.8 times. Compared to pre-revolutionary times, in 1961 the real incomes of the workers rose almost 6 times and those of the peasants almost 7 times.

There will be much greater national prosperity in the future. The real income per head of population will increase more than 3.5 times in the 20 years (1961-80). In the first decade the real incomes of industrial, professional and office workers will be almost doubled, and those of the low-paid categories will increase approximately threefold.

The real incomes of working peasants calculated per head will more than double during the coming ten years and over twenty years will increase more than fourfold.

As the incomes of the population grow the general level of popular consumption will rapidly rise. The entire population will be able to satisfy its need for high-quality and varied foodstuffs and consumer goods—clothing, footwear, furniture, household articles, goods for cultural purposes, etc.

In the course of twenty years the housing problem will be completely solved. The first decade will see the end of the housing shortage. The net result of the second decade will be that every family will have a comfortable apartment conforming to the requirements of hygiene and cultural living. This will require a threefold increase in the total available housing accommodation in the U.S.S.R.

There will be a further reduction in working hours, providing scope for rapidly improving the people's cultural and technical standards and giving more time for leisure. Factory and office workers already now have a seven-hour working day, and workers engaged in some branches have a six-hour day. Before 1970 a six-hour working day, or 35-hour working week, will be introduced for the bulk of the workers and a five-hour day, or 30-hour week, for people working underground or in enterprises with harmful working conditions. Between 1970 and 1980 the transition will begin to an even shorter working week.

Simultaneously the annual paid holidays of all working people will be extended to three weeks and later to one month. Gradually the system of paid holidays will apply to all collective farms. In the course of 20 years the needs of the population for public catering, holiday facilities, medical care, etc., will be fully satisfied.

With the fulfilment of the tasks mapped out by the Communist Party to improve the well-being of the people, the U.S.S.R. will reach a higher standard of living than any of the capitalist countries.

### 4. The Economic Role of the Socialist State

The activities of the socialist state are mainly concerned with the organisation of production, direction of the economy and cultural and educational work. Development of productive forces and improvement in relations of production do not come about of themselves, spontaneously. The socialist state has the decisive role in organising production, distribution and exchange at all stages of socialist construction.

This role of the state in the economic life of the country is due to the fact that it controls all the commanding heights in the national economy. The greater part of the means of production in the socialist countries (90 per cent in the U.S.S.R.) is the property of the people as a whole and is controlled by the state and its representatives, centrally and locally. The remaining part belongs to co-operative enterprises and in one form or another is also centrally controlled and planned.

The socialist state is the first workers' state in the history of mankind. It reflects the interests of the people, of those who create material values, who by their constructive work safeguard the existence and development of society. The socialist state performs all its functions with the support and active participation of the broad mass of the working people.

In its daily practice the socialist state is guided by the Marxist-Leninist theory of the laws of social development. The economic policy of the socialist state rests on scientific analysis of the objective development of socialist society, which not only ensures the correct estimation of past results but determines future trends of development.

Starting out from the economic laws of socialism, the socialist state maps out the plans for the development of the economy and culture, and puts them into practice by mobilising all working people for their fulfilment. The state determines the scale, speed and proportions of the development of all branches of the economy and the volume and structure of capital investments. It organises finance and credits, draws up the state budget and ensures its execution, distributes the national income and decides what proportion should go to accumulation and to consumption. The state keeps strict account and control of the amount of labour and amount of consumption. It determines the wages policy, organises the commodity turnover, fixes the prices of goods, etc. The state trains, educates and allocates cadres. It organises every link in the administrative apparatus.

The guiding and organising force of the socialist state is the Marxist-Leninist Party. It directs the work of all state organs and mass organisations of the working people (Soviets, trade unions, Young Communist League, etc.); it mobilises workers, peasants and intellectuals alike for the fulfilment of economic and political tasks, educates the masses and imbues them with communist consciousness.

Thus, the socialist state led by the Marxist-Leninist Party performs gigantic work covering all aspects of the country's economic life.

Socialist ownership of the means of production requires that society should guide the entire development of production, and this is done through the state. And the more socialist ownership develops, the more important becomes state guidance of the economy.

The principle on which the socialist state relies in guiding the economy is *democratic centralism*. Democratic centralism in the economic field is the basic principle which combines centralised, planned leadership of the economy with socialist democracy, and relies on the initiative and activity of the working people.

Organising the economy on the basis of democratic centralism implies that the central organs give planned guidance only on the main questions. Centralised administration is combined with the maximum development of the local initiative and creative activity of the mass of the workers. Lenin wrote that with democratic centralism "the unity of essentials, of fundamentals, of the substance, is not disturbed but ensured by *variety* in details, in specific local features, in methods of *approach*, in *methods* of exercising control". [1]

An important stage in the realisation of the Leninist principle of democratic centralism in the U.S.S.R. was reached in 1957 when the management of industry and construction work was transferred from the ministries to territorial Economic Councils.

Prior to 1957, ministries of the different branches of production administered industry and building. It became difficult, however, with the increased number of enterprises and development projects, to give effective guidance from a single centre. Administration according to branches of industry also hampered specialisation and co-operation of the enterprises and cramped the initiative shown by local economic and mass organisations. For this reason the economic ministries were closed down, and the administration of industry and building passed to Economic Councils (*sovnarkhozy*) set up in each economic area. The Economic Councils direct the entire work of the enterprises under their control.

The reconstruction of the administration of industry and building has fully justified itself. "This revolutionary, vitally necessary measure," says one of the resolutions of the Twenty-Second Congress of the C.P.S.U., "broke down the departmental barriers which had become a brake on the further development of the productive forces of the country, increased the part played by the Union Republics and local Party, government and economic bodies in economic and cultural development, and stimulated the creative initia-

[1] V. I. Lenin, *Selected Works*, Vol. II, Part 1, p. 375.

tive of the masses."[1] At the present stage of communist construction the Communist Party and the Soviet Government have recognised the need to set up a new system of agricultural administration. By decision of the March and November (1962) Plenary Meetings of the Central Committee of the C.P.S.U., territorial administrations (to guide agricultural production) and agricultural committees have been set up, and Party and state guidance of agriculture reorganised, in the regions, territories and republics.

The organs of agricultural administration are called upon to plan and control the state of production and delivery of agricultural produce, to make their influence felt in organising production in every collective and state farm. They are responsible for keeping the country supplied with agricultural produce.

The socialist state fulfils other functions besides those of organising the economy and cultural and educational work. It organises the defence of the country and the protection of socialist property.

The rise of the world system of socialism put before the Communist and Workers' Parties of the socialist countries the task of establishing international relations of a new type, those of a community of socialist countries. In this connection the scope of the foreign policies of the socialist states has broadened. From the international character of the dictatorship of the proletariat there has grown up an entirely new, hitherto unknown function of the socialist state—that of helping other countries in socialist construction.

In the period of full-scale communist construction, the economic role of the state increases. The socialist state is the instrument for the consolidation and further development of socialism, the instrument for building communist society.

[1] *The Road to Communism*, p. 421.

*Chapter XI*

# THE PLANNED DEVELOPMENT OF THE NATIONAL ECONOMY UNDER SOCIALISM

## 1. The Law of the Planned, Proportional Development of the National Economy

**Need for planned development of socialist production**

Socialist economy consists of different branches of production and a large number of industrial, agricultural, commercial, transport and other enterprises, which in a variety of ways are connected with production. The whole aggregate of closely connected enterprises, branches and also economic areas forms one unified, comprehensive production organism—the socialist system of economy, which brings together both state and co-operative enterprises.

This vast social economy develops on planned lines. Planning in the national economy, according to Lenin's definition, means proportionality maintained constantly and consciously (a balance between the various links in the national economy). The planned establishment of proportions in social production is inherent in socialism alone.

Capitalist economy, as we know, develops spontaneously, through competition and anarchy; there we find no planning or consciously maintained proportionality.

The absence of a unified plan means that proportions in capitalist economy are arrived at spontaneously and are continually being upset. This does not mean, of course, that there is no co-ordination at all between the different branches and enterprises. The necessary proportions in production break through countless violations of proportionality and crises of over-production.

It follows, therefore, that private ownership of the means of production, by isolating the producers of commodities, precludes any possibility of planning the economy as a whole.

That is why, under capitalism, there can never be any consciously maintained proportionality in the economy.

The situation is quite different under socialism. The result of socialisation of production and the institution of socialist ownership is that society becomes, as Lenin said, "one single office, one single factory". Social ownership does away with anarchy of production and spontaneity, and production is developed in the interests of the people as a whole. This being so, the national economy can develop only on planned lines. Through their own state, workers under socialism make a prior calculation of all the needs of society and of its productive resources and direct production in the interests of the people. In conformity with set aims, society also establishes the necessary proportionality which it then constantly and consciously maintains.

But people cannot arbitrarily decide on any kind of proportions: they have to reckon with definite economic conditions and to build their economic policy with these conditions in mind. For instance, the industry producing consumer goods must not be developed one-sidedly, without first ensuring the more rapid development of the industries which make the means of production. The result will be failure if this is not taken into account. It is possible, for example, to turn out a large amount of agricultural raw materials for the light and food industries. But this raw material will be so much idle capital if there is not a correspondingly large supply of machinery and power to convert this material into consumer goods. Thus, to satisfy society's need for consumer goods, production of the means of production must be developed at a still higher rate. It follows that the rate of development of the light and food industries must not be accelerated arbitrarily without first achieving a higher rate of development of engineering and power.

There must also be definite proportions in the rates of development within Departments I and II of social production. For instance, large numbers of tractors, cars, aeroplanes and other machines having internal combustion engines can be produced; but if a corresponding amount of liquid fuel is not produced as well, all this machinery will be so much useless metal, and the labour used to produce it will be valueless.

It is this objective connection between the processes of economic development that, independently of man's will, demands the planned establishment of definite proportions and is expressed in the *law of the planned, proportional development of the national economy*.

By applying the law of the planned, proportional development of the national economy it is possible to distribute the means of production and labour reserves correctly among the branches of the national economy and among the areas of the country to achieve their rational use, to ensure that the work of all branches and enterprises is mutually co-ordinated, and to establish the essential relations for developing production, distribution and exchange.

The law of the planned, proportional development of the national economy has been in operation in the socialist countries ever since socialist ownership and the socialist sector of the economy were established there. But in the early period, the operation of the law was limited, since at that time non-socialist economic sectors existed side by side with the socialist sector in the socialist countries. But as the socialist sector develops and grows stronger, the sphere of operation of this law is gradually extended. The law of the planned, proportional development of the national economy will operate to its fullest extent when the socialist enterprises become dominant in economic life.

With the spread of socialism beyond the framework of one country and the rise of the world socialist system, the law of the planned, proportional development extends also to the relations between the socialist countries.

**Proportions in socialist economy**

Applying the law of the planned, proportional development of the national economy, the socialist state consciously and on planned lines maintains a permanent balance between the different economic links of social production, which are both interconnected and interdependent.

The proportion which is most important in developing the national economy is that which determines all the others, and, indeed, the whole trend of social production: *the ratio of the production of the means of production to the production of consumer goods*, i. e., Department I to Department II of social production. Accelerated development of the economy and the building of socialism and communism require priority development of the production of the means of production, primarily of heavy industry, which is called upon to provide uninterrupted supplies of the most up-to-date technical equipment to all the other industries.

Of no less importance for planned economic development is the establishment of *correct proportions between industry and agriculture.* Correct proportions in the development of these branches have to guarantee, on the one hand, that industry plays the leading role and, on the other, that the growth of agricultural production is adequate to guarantee supplies of the required amount of food for the urban population and raw materials for light industry. Further, *correct proportions have to be established between the branches within industry and within agriculture.*

The basic proportional relations in the national economy are: the proportions between production and consumption, between accumulation and consumption, production and manpower resources, among the different economic areas of the country, etc.

Correct proportion among the different parts of social production depends on a number of factors. These include the existing level of development of the productive forces, the volume of material resources, the existing internal and foreign situation of the particular socialist country, etc. Correct proportional relations within the economy are established to conform to these factors. For this reason they are not fixed once and for all time; they change and improve.

Thus, in the period of full-scale communist construction in the Soviet Union, parallel with accelerated development of heavy industry, the possibility has arisen of considerably extending the production of consumer goods. When heavy industry was just being built in the U. S. S. R., the state had to allocate resources primarily for the development of enterprises producing the means of production for heavy industry; it had to restrict investments in enterprises putting out means of production for the light and food industries, agriculture, housing, and the welfare services of the people. It is now possible to obtain a considerable increase in the investments for enterprises of the second type, which will mean that the amount the population consumes will rise more rapidly. Thus, compared with 1960, production in the first type of enterprises will increase approximately sixfold by 1980, while that in the second type will increase 13 times.

To conform to this, it is planned to bring the speed of development of production of the means of production much closer to the speed of that of consumer goods. In 1929-40, the average rate of increase in the output of the means of production was almost 70 per cent higher than that of consumer goods, but in 1961-80, the excess will be only about 20 per cent.

In two decades (1961-80) there will be a considerable change in the proportions, because some branches of Soviet economy develop faster than others. With an increase in industrial production averaging 6.2-6.4 times in 20 years, the output of electricity will increase 9.2-10.3 times, that of machine-building and metal-processing—9.8-11 times, gas extraction—14.4-15.2 times, and chemical production—17 times.

These proportions are fixed to ensure the fulfilment of the main task of the Communist Party and the Soviet people: the creation of the material and technical basis of communism.

Planned, proportional development of the national economy presupposes proportional *distribution of the productive forces* as well. This is achieved on planned lines to ensure an increase in the productivity of social labour, a rise in the well-being of the people and consolidation of the economic and defence potential of the socialist state.

Under socialism, the main principles in siting production are: that industry should be sited as closely as possible to the sources of raw materials and power, to the areas where the finished product will be consumed, and that, in this connection, long-distance transport and cross traffic will be eliminated; that there will be planned territorial division of labour between economic areas, combined with comprehensive development of the economy within each area and a steady rise in the economy of all the national republics; and this is the economic basis for strengthening friendship and co-operation among peoples.

Over the years of Soviet power, radical changes have taken place in the distribution of the productive forces. In 1921, Lenin wrote: "Look at the map of the R.S.F.S.R. To the north of Vologda, to the south-east of Rostov-on-Don and Saratov, to the south of Orenburg and Omsk, to the north of Tomsk, are boundless areas big enough to contain scores of large civilised states. And over all these spaces patriarchalism, semi-savagery and real savagery reign."[1]

Since then over 40 years have passed. What are these areas like today? Near Vologda, the Cherepovets Iron and Steel Works has been built; the Kola Peninsula now has mining enterprises, a shipbuilding yard, and paper and cellulose combines. In the east of the country there are big iron and steel and engineering works, large-scale chemical and food industries, and gigantic grain enterprises; millions of hectares of virgin land have been brought under cultivation. To the north of Tomsk mining, iron and steel and timber industries (Norilsk, Igarka) have been established.

The eastern regions of the country produce about one-third of the country's total industrial output, about 30 per cent of the total oil output, almost half the total output of steel, rolled metal and coal, and over 40 per cent of the total electric power.

Big changes have also taken place in the distribution of agricultural production. Areas that were formerly backward, Siberia and Kazakhstan, for instance, have become the main suppliers of marketable grain.

The Twenty-Second Congress of the C.P.S.U. mapped out a broad programme for further improving the distribution of the productive forces. The next 20 years will see:

*In Siberia and Kazakhstan*—the creation of new power bases using deposits of cheap coal or the hydropower resources of the Angara and Yenisei rivers; the organisation of big centres of power-consuming industries; the development of new rich ore, oil and coal deposits; and the construction of a number of large machine-building centres;

*In areas along the Volga, in the Urals, North Caucasus and Central Asia*—the rapid expansion of the oil, gas, and chemical industries and the development of ore deposits.

[1] V. I. Lenin, *The Tax in Kind*, Moscow, p. 42.

Alongside the development of the old metallurgical centres in the Urals and the Ukraine and the completion of the country's third metallurgical base in Siberia, the *building is envisaged of two new ones in the Central European part of the U.S.S.R. and in Kazakhstan.*

In addition, a long-term plan envisages large-scale work to divert the courses of some northern rivers in the European part of the U.S.S.R. to the Volga basin, to provide water to Central Kazakhstan, the Tselinny Territory, Donets Basin and the Urals, the building of regulating reservoirs in Central Asia, on the Volga, Dnieper, Dniester and Bug, development of irrigation and amelioration on a large scale.

The siting of production under socialism ensures the most effective exploitation of natural resources, capital investments and manpower resources. This means that the productivity of social labour will increase, the rate of growth of production will be accelerated, and the needs of the people will be more fully satisfied.

## 2. Socialist Planning

**Principles of socialist planning**

The term *planning* means the drawing up of plans for the development of socialist economy and the organisation of production on the basis of a single state plan.

Economic planning primarily reflects the economic and organisational function of the socialist state.

When planning the national economy as a whole, the state proceeds from the entire system of socialist economic laws and relies first and foremost on the deliberate application of the law of the planned, proportional development of the national economy.

The chief task in socialist planning is to fix the proportions in which the branches of the national economy should be developed in order to guarantee the continuous and rapid progress and improvement of social production and, on this basis, a rise in the well-being of the people. "It is essential," the Programme of the C.P.S.U. indicates, "that the national economy develop on a strictly *proportionate* basis, that economic disproportions be prevented in good time, ensuring sufficient economic reserves as a condition for stable high rates of economic development, uninterrupted operation of enterprises and continuous improvement of the people's well-being."[1] Taking account of the requirements of social development, the socialist state draws up economic plans, i.e., organises production, distribution and exchange on a planned basis and on the scale of society as a whole. The state distributes material, labour and financial resources, determines the volume and structure of production and capital construction, the rate of growth of labour productivity based on the introduction of new technology, the amount and pattern of the internal and foreign commodity turnover of the country, fixes the prices of goods for state or co-operative trading, determines the level of wages for workers and other employees.

The organisation of planning proceeds from the decisions of Communist Party Congresses, which determine how socialist society will develop over a long period of time.

Each of the plans of Soviet national economy is the embodiment of Party policy directed towards building communism. This reflects the *Party and state approach to the solution of economic tasks.*

Plans of national economy are not prognostications or guess work, but concrete plans for definite periods. Since the immediate tasks of economic and cultural construction are reflected in the state plans, their fulfilment is objectively essential. After the national economic plan has been widely discussed by the working people and ratified by the higher state organs, it acquires the force of law and its fulfilment is binding.

*That plans are regarded as directives and their fulfilment binding* is an important principle of socialist planning. Otherwise planning would have no meaning. For if one branch of the national economy, say the timber industry, fails to fulfil the plan, then plan fulfilment is jeopardised in other branches which should get a definite supply of sawn timber under the plan. That is why the strictest requirements for plan fulfilment are to be observed in the socialist countries.

To ensure planned, proportional development in all branches of material production, the plans of all enterprises

[1] *The Road to Communism*, p. 534.

and industries have to be brought together. Planned guidance by the state is extended to the collective farms and co-operatives as well as the state enterprises. This does not mean, of course, that the state planning bodies draw up plans for each collective farm. But each enterprise compiles its own plan on the basis of the general state assignment. The plans of individual enterprises of state industry, collective and state farms, after being discussed locally, are presented to the central planning organs and are there shaped into the unified plan of the national economy.

Centralised guidance combined with local initiative forms *the principle of democratic centralism in planning.*

Planning becomes better organised each year as democratic methods of economic leadership develop. The reconstruction of management and economic planning in the U.S.S.R. meant the elimination of excessive centralisation so that a greater role went to the Union Republics, economic areas, regions, and also to enterprises and construction projects in the drawing up of plans. The collective farms now have more independence in organising and planning agricultural production, and have a new system of agricultural management. The Party fully reveals and criticises shortcomings in planning, rejects all that is old, out-of-date and hampers progress. The November 1962 Plenary Meeting of the C.C. C.P.S.U. devoted much attention to improving the planning of the national economy. Now the functions are being clearly divided between the central planning organs, and their revision is thus being completed.

There is a distinction between *current* plans for a month, quarter or year, and *long-term* plans for five, seven or twenty years. Lenin pointed out that the economy cannot develop without plans calculated over several years. Long-term plans set out the main line of economic development over several years and current plans form the concrete programme of work over a shorter period. The long-term plans map out the solution of great socio-economic tasks.

The first long-term plan for the development of the national economy was the GOELRO plan (state plan for the electrification of Russia), drawn up in 1920 on Lenin's initiative and under his guidance. The chief task set by the plan was to radically reconstruct the national economy on the basis of electrification, and develop large-scale machine industry—the material basis of socialism. After 1929, long-term planning took the form of five-year periods. The Seven-Year Plan (1959-65) and twenty-year plan (the general long-term plan for 1961-80) are the programme for the construction of the material and technical basis of communism in the U.S.S.R.

Long-term plans contain only the most general indices which are then given concrete shape in current plans. *The combination of current plans* (monthly, quarterly, annual) *and long-term plans* is also one of the principles of *socialist planning*. The correct combination of long-term and current plans should guarantee continuity in planning, consecutive planning over periods, and ensure that enterprises are regularly financed and supplied with raw materials, technical equipment, etc.

A plan cannot be compiled without first singling out the economic links which must have priority development. The key branches of the national economy underlie all planning and their rate of growth determines that of other branches. For example, the current Seven-Year Plan is an important stage in the creation of the material and technical basis of communism. And this necessitates the rapid development of engineering, power, iron and steel, chemical and other branches of heavy industry. The basic forces and resources of the country are directed to these branches.

In conformity with the rates of their development, those of other branches of the national economy are envisaged. *Singling out the leading economic links is one of the most important principles of socialist planning.*

Plans in socialist society are *real and scientifically substantiated*. This means that when each economic plan is drawn up, the planning organs proceed from the existing economic conditions and potentialities, from the already attained level of development of the productive forces, science and technology, and make wide use of the advanced experience of production. The reality of the plans is guaranteed by the organising work of the Party and mass organisations and the creative initiative of the working people.

Drawing up plans is only the first step in planning. The most important aspect of planning is checking plan fulfilment, so that errors in planning are revealed in good time, new reserves are found, and the necessary adjustments made in the plan. If, because of inaccurate planning or for other reasons, disproportions arise in the national economy, they are quickly revealed and removed. The socialist state has an important means, in the form of state reserves, of removing any errors that may occur in planning, and of preventing any particular disproportion.

Principles of socialist planning are put into effect when the plans for economic development are compiled.

A system of balances is used when the basic indices of economic plans are drawn up by the planning organs.

**The system of balances in planning**

*The system of balances* makes it possible to compare in advance the assignments for the development of the key branches of the national economy and the possibilities for satisfying their material and technical needs. For example, it has been decided to build in seven years about 15 million flats in towns and industrial centres. In order to fulfil this gigantic construction programme, a prior calculation is made of the amount of building materials, of the building technique, personnel and financial resources needed. A comparison of the requirements and the available possibilities of supplying building materials reveals a deficiency in the capacities of the enterprises which turn out building materials. In this case plans are drawn up for developing the building materials industry.

When working out the system of balances, a careful check is made to find out how far the planned rates of development of the different branches are co-ordinated, and what reserves are indicated in the plan to cover overfulfilment of the plan by individual branches of production or failures in realising the planned programme.

The state planning bodies draw up material balances, value balances, and manpower balances.

*Material* balances are drawn up for all the most important products of labour, e.g., metals, machine tools, coal, oil, grain, butter, etc. In drawing up the balance, all the supply sources of the given product are taken into account. The data obtained are compared with society's needs *in regard to* the given product.

*Value balances* include the balance of the cash incomes and expenditure of the population, the balance of the national income, the state budget, and others.

*The manpower balance* determines the manpower requirements of the national economy, branch by branch, both in general and according to trades and qualifications. Here, too, are indicated the sources which will guarantee to the national economy the amount of labour required.

Most comprehensive of all is the *balance of the national economy* which unites all the indices characterising the proportional relationships in socialist economy.

The system of balances in planning makes it possible, with the greatest exactitude, to determine the correct proportions required for developing all the branches of the national economy.

### 3. Advantages of Planned Economy

Planned management of the economy is one of the decisive advantages of socialism over capitalism. It has already been demonstrated in practice by the magnificent results achieved in developing the economy in the U.S.S.R. and the People's Democracies.

What are the advantages of planned economy?

Socialist economy develops continually in an ascending line.

Under capitalism the contradiction between the social character of production and the private form of appropriation of the results of production dooms society to economic crises; under socialism, however, this contradiction is abolished. In socialist conditions, social ownership corresponds to the social character of production. Because of this, socialist production knows no economic crises of over-production. Planned socialist economy guarantees high-capacity utilisation of equipment and full use of the fixed assets of enterprises.

Socialist planned economy rids society of the colossal waste of material and manpower resources, which is typical of capitalism and goes hand in hand with economic crises, anarchy and competition, unemployment, chronic under-capacity working of enterprises, etc.

Socialist national economy develops along planned lines, on the basis of proportions fixed by society in order to provide ever fuller satisfaction of the material and cultural needs of the people.

Planned economy is a powerful factor in scientific and technical progress. Under capitalism the efforts made by the monopolies to conceal technical secrets from others and the chronic under-capacity working of enterprises retard the application of the new discoveries of science and technology. There is boundless scope in socialist society for the development of science and technology. Planned economy makes it possible to concentrate manpower, material and financial resources for the solution of scientific and technological problems of the first magnitude.

An important advantage of socialism over capitalism is the planned use of manpower resources, which guarantees that the entire working population is always fully employed. Under socialism there is no unemployment but, on the contrary, a steady increase in the number of people employed in the national economy; the training of skilled personnel proceeds along planned lines, as also does their distribution throughout the different branches of economy; the material and cultural standards of the working people systematically improve.

The advantages of planned economy are most clearly seen in the high rate of socialist development. In the socialist countries the volume of industrial production increases from year to year at rates unattainable by capitalism. The advantages in the rate of economic development guarantee that in a short period of history socialism will triumph in the economic competition with capitalism.

The planned character of socialist economic development leads to a constant rapid growth of production, of the cultural and material standards of the people in the socialist countries.

It is no accident that the ideologists of the bourgeoisie and the revisionists try to prove that planned economy is possible under capitalism. With their arguments to this effect, the revisionists try to whitewash the capitalist system, to give working people the idea that its social evils can be removed without overthrowing capitalism. But the contradictions of capitalist economy, the anarchy of production and crises, unemployment and the deterioration in the position of working people in the capitalist countries completely refute these fallacies.

*Chapter XII*

# SOCIAL LABOUR AND PRODUCTIVITY UNDER SOCIALISM

## 1. Social Labour Under Socialism

**Character of labour under socialism**

Labour, the working activity of people directed towards the production of material wealth, is essential for the life of every society. But the character of labour is not the same in different socio-economic formations; it entirely depends on the relations of production prevailing in society. Labour can be voluntary and free and performed for oneself and one's society, or it can be compulsory, for the exploiters, depending on who owns the means of production.

In all exploiting social formations, the character of labour has always been compulsory, and various methods have been used to compel working people to create riches for the exploiters. All this was because the direct producers were deprived of the means of production. Thus, private ownership of the means of production is the root cause of the compulsory character of labour which turns it into a heavy burden. In order to abolish the compulsory character of labour, it is essential to get rid of private ownership of the means of production.

The situation is different in socialist society, where people work for themselves and their own society. Every achievement in production, every success at work helps, directly or indirectly, to improve the material and cultural standards of the working people. The greater the amount of goods produced, the cheaper they are, the more of them there will be for the working people in socialist society and the lower the prices.

Characterising labour under socialism, Lenin pointed out that "for the first time after centuries of working for others, of working in subjection for the exploiter, it has become possible *to work for oneself*, moreover, to employ all the achievements of modern technique and culture in one's work".[1]

Socialism brings about a fundamental change in people's ideas about labour and engenders a new attitude towards it, transforming labour into a matter of honour, glory, valour and heroism. The creative nature of labour in socialist countries is seen in the fact that the workers themselves invent and improve machinery and perfect production processes and the organisation of production. The army of rationalisers and inventors is constantly growing. In 1961, for example, over 4 million suggestions for technical improvement were put forward in the U.S.S.R., of which 2.7 million were introduced into the national economy. The saving effected, calculated over one year, was more than 1,600 million rubles.

The socialist state gives every encouragement, material and moral, to creative work and the creative attitude to labour. The most honoured citizen in the socialist country is the worker-innovator who develops production and increases the wealth of the country.

In capitalist society, where labour is a cruel, painfully humiliating burden, workers' innovations are reduced to a minimum. What creative attitude can there be, when what is gained by inventing goes into the pockets of the capitalists!

Socialism offers extensive possibilities for rapidly increasing the technical equipment of labour in all fields of social production. The increased use of machinery is seen in the U.S.S.R. particularly in the increased power consumption per industrial worker.

The labour of the worker in socialist society is highly mechanised, highly skilled labour. Socialist production, based on the most up-to-date technique, demands technically efficient, trained people. Every worker has a great opportunity of improving his skill and level of education. All types of training under socialism are free.

[1] V. I. Lenin, *Selected Works*, Vol II, Part 1, p. 368.

For the first time in human history, socialism creates working conditions which to the maximum extent preclude harmful consequences to the workers' health.

Lenin repeatedly pointed out that under socialism every achievement in science and technology should be used to lighten labour, shorten the working day and improve working conditions.

Under socialism everyone is guaranteed the *right to work*. The application of the right to work, i.e., the right of every person to obtain work in his own country, at his own trade, and to receive payment for his work, is one of socialism's great achievements. This right is truly guaranteed by the planned development of the national economy and by the continuous growth of production. Under socialism, the workers have no fear of being deprived of the means of subsistence. The abolition of unemployment in all its forms gives the working people complete confidence in the future and genuine freedom.

While guaranteeing to every citizen the right to work, socialism at the same time demands that *all people should work*, and play their part in socialist production. To take part in social labour is the honourable duty of every citizen in socialist society, irrespective of social origin, sex, nationality, etc.

A specific feature of labour under socialism is its *directly social character*. Socialist labour is labour that is organised on planned lines and is rated on the scale of the state as a whole. Socialism leads to a new social division of labour, which is fundamentally different from division of labour under capitalism. The most important feature of socialist division of labour is that it is planned. Socialism does away with the dispersed, isolated nature of economy and unites all enterprises in one economic organism, and all the people in one working collective. Therefore, the labour of workers, peasants and intellectuals is part of the aggregate social labour and is directly social in character.

Therefore, the most important features of labour under socialism are: that the working people are freed from exploitation and so can work for themselves instead of being compelled to labour for the exploiters; that the attitude to labour becomes conscientious and creative; that all working people enjoy the right to work, while it is the universal duty of everyone to work; and that labour is directly social in character.

**Socialist co-operation of labour**

The radical change in the character of social labour under socialism brings about equally radical changes in the forms and methods in which labour is organised. Socialist labour is collective labour, the combined activity of workers, peasants and intellectuals.

In every society the production process takes place on the basis of co-operation of labour—the labour of people combined in one form or another. *Socialist co-operation of labour* is labour that is combined, organised and planned and is based on the comradely collaboration of working people freed from exploitation. Socialist co-operation of labour differs in principle from labour co-operation under capitalism.

The basis of labour co-operation under capitalism is the capitalist's private ownership of the means of production. Capitalist labour co-operation has its roots, therefore, in the exploitation of man by man, and production is guided by one person, the capitalist. It is the capitalist who derives all the benefits from this labour co-operation.

Under socialism the basis of labour co-operation is socialist ownership of the means of production. Here there is no exploitation of man by man.

Socialist labour co-operation covers not only the labour of people working together in one enterprise, but the labour of all the members of society. Under socialism, their labour appears as unified, collective labour organised according to a plan on the scale of the whole of society, and calculated to secure the most rational utilisation of the means of production and labour power.

Under capitalism, labour co-operation (simple co-operation, manufacture, large-scale machine production) is a method of increasing the production of surplus value, a method of increasing the degree of exploitation of the workers. Consequently, there are permanent and irreconcilable contradictions between the workers engaged in this co-operation and those who organise it—the capitalists. Capitalist labour co-operation is maintained by the discipline of hunger, by the grim necessity of selling labour power in exchange for a crust of bread.

Socialist co-operation of labour appears as the combined working activity of people, aimed at increasing the production of material wealth and ensuring the ever fuller satisfaction of the needs of working people. Therefore socialist labour co-operation knows none of the irreconcilable contradictions inherent in capitalist co-operation.

Labour co-operation, i.e., the combined labour of many workers, requires to be organised. There are several points to labour organisation under socialism.

Typical of socialist labour co-operation is the new type of *labour discipline*, which is unlike that of all the preceding social formations. Socialist labour discipline is the conscientious, comradely discipline of working people. This new discipline, Lenin pointed out, does not arise from good intentions, but is developed during the building of socialism, in the process of a continuous struggle against the survivals of capitalism. Among the workers in socialist enterprises, people are still to be found who cling to the old attitude to labour, trying to do less work and snatch more for themselves. For this reason one of the major tasks of the state is to instil in people the socialist attitude to labour and steadily to combat violations of labour discipline.

Socialist co-operation of labour implies *planned guidance of the national economy*, which means, on the one hand, firm and steady adherence to one-man responsibility in the production process and, on the other, the broadest, most active participation of working people in the management of socialist enterprises and of social production as a whole. With the advance to communism, working people will take part more extensively in management.

**Socialist emulation and its role**

It has already been mentioned that the change in the character of labour under socialism leads inevitably to a new attitude to labour on the part of the workers. This new attitude is most strikingly expressed in *socialist emulation*.

Socialist emulation is an expression of socialist production relations, the relations of comradely co-operation and mutual assistance among workers in socialist society, their efforts to fulfil and overfulfil the economic development plans and to advance production as a whole.

Socialist emulation is used as the most important means of raising labour productivity and improving production through the activities and creative initiative of working people. Socialist emulation, said Lenin, is a method of building communism.

Lenin formulated the most important principles of the organisation of socialist emulation. For instance, emulation should be widely publicised, and its results should be in comparable terms, the experience of leading workers should be widely disseminated and the contestants should assist one another.

Every worker engaged in emulation to improve production and adopting the best methods of work is justifiably entitled to expect that "... the best example of production organisation will go hand in hand with an inevitable lightening of labour and an increase in the volume of consumption for those who introduced this better organisation".[1]

Socialist emulation in the U.S.S.R. has a glorious history of its own. It first took the form of communist *subbotniks*.[2] Since then it has gone through a number of stages—shock work, the Stakhanovite movement, and others.

The fact that the Soviet Union has entered the period of full-scale communist construction has evoked a new wave of socialist emulation. The movement of shock workers and communist work teams is spreading throughout the country.

Every year sees a wider development of socialist emulation in the People's Democracies. Wherever the power belongs to the working people and people work for themselves and not for capitalists and landlords, the new, creative attitude

[1] V. I. Lenin, *Collected Works*, Russ. ed., Vol. 27, p. 179.

[2] *Subbotniks*—voluntary work performed after working hours for the benefit of the Soviet Republic. The first *subbotnik* that ushered in the mass movement of the working class for greater labour productivity, for a new labour discipline, was organised on the initiative of Communist workers on the Moscow-Kazan Railway on April 12, 1919, a Saturday (*subbota* is the Russian for Saturday).—*Ed.*

to labour emerges, and socialist emulation becomes widespread.

An essential condition for the correct organisation of socialist emulation is observance of the principle of material incentive, so that workers have an interest in the results of their labour.

## 2. Steadily Rising Labour Productivity Is an Economic Law of Socialism

**Concept of labour productivity**

*Productivity* of labour is expressed in the amount of finished products made by the worker in a unit of time.

An increase in labour productivity means an economy in living and past (materialised) labour. Marx said: "The increase in labour productivity consists precisely in that the share of living labour is reduced while that of past labour is increased, but in such a way that the total quantity of labour incorporated in that commodity declines, in such a way, therefore, that living labour decreases more than past labour increases."[1]

The expression "increasing labour productivity" means cutting down the expenditure of labour-time required for making the social product, or increasing the amount of products made in a unit of time.

Socialist organisation of social labour is the highest form of labour organisation in society; it ensures higher productivity of social labour.

A steady rise in labour productivity is the most important condition for the victory of socialism over capitalism, and for the successful building of communism. Describing the role of labour productivity under socialism, Lenin wrote: "In the final analysis, productivity of labour is the most important, the principal thing for the victory of the new social system. Capitalism created a productivity of labour unknown under feudalism. Capitalism can be utterly vanquished, and will be utterly vanquished, because socialism creates a new and much higher productivity of labour."[2]

[1] K. Marx, *Capital*, Vol. III, p. 255.
[2] V. I. Lenin, *Selected Works*, Vol. II, Part 2, p. 231.

**The law of the steady rise of labour productivity**

Rising labour productivity is a universal economic law, which operates in all socio-economic formations.

But this law operates in different ways in different formations. How it operates directly depends on the kind of production relations which predominate in society, on the nature, the state and the purpose of social production. The operation of the law is limited under capitalism, the growth of labour productivity is uneven and in some periods productivity even declines.

With the abolition of private ownership of the means of production under socialism, the barriers to increased labour productivity are thrown down.

In socialist society, a steady growth of labour productivity is an objective necessity arising from the very essence of socialist production relations.

"Economy of time," wrote Marx, "equally with planned, distribution of working time for the different branches of production remains the first economic law on the basis of collective production. It becomes a law even to a much higher degree."[1]

From what has been said it follows that, unlike capitalist society, where the operation of the law of rising labour productivity is checked to a more or less extent, as, for example, during economic crisis, socialist society gives full scope to the *law of the steady rise of labour productivity*. The essence of this law is that there should be the maximum economy of living and past labour and the creation, with the minimum expenditure of labour, of an ever-increasing quantity of the material wealth required for the ever fuller satisfaction of socialist society's needs.

**Factors in the rise of labour productivity**

Marx indicated the main factors on which labour productivity depends. "This productiveness," he said, "is determined by various circumstances, amongst others, by the average amount of skill of the workmen, the state of science, and the degree of its practical application, the social organisation of production, the extent

[1] *Marx-Engels Archive*, Russ. ed., Vol. IV, p. 119.

and capabilities of the means of production, and by physical conditions."[1]

The level of productivity is determined first and foremost by the standard of *technical equipment in the enterprises.* The better the factory workers are equipped with new, improved machinery, the more fruitful will be their labour. The best results in the struggle to raise labour productivity are obtained by enterprises where comprehensive use is made of modern technical equipment in all sectors and at all stages of the production processes.

But no matter how great the importance of technique in modern production, man is society's chief productive force. Therefore, it is on the *degree of skill and level of technical qualifications* of the bulk of the personnel, and primarily the workers, that the level of labour productivity and the possibility of further growth largely depend. It is not merely that the labour of the skilled worker is more productive. But it becomes possible for a worker with higher technical qualifications to make better use of technical equipment and to find ways of improving it.

Labour productivity at industrial enterprises depends largely on the *organisation of production and labour.*

Every production process is an aggregate of all the stages through which the object of labour passes as it is worked upon in the various production sectors. These sectors should be strictly specialised and their work organised and well balanced. In other words, there must be strict organisational co-ordination between them, steps must be taken to ensure that every worker's bench, every sector of production is given efficient service. This kind of organisational bond should exist both inside each enterprise and between the various enterprises. Correct and efficient organisation of the whole production process and well-planned organisation of labour at each worker's bench reduce loss of working time and its irrational expenditure.

Labour productivity has always been greatly promoted by *various forms of emulation* developing both inside and among enterprises.

[1] Marx, *Capital*, Vol. I, p. 40.

*Natural conditions* also affect labour productivity. To a large extent they determine the level of productivity in agriculture, and in extractive industries (coal, oil, iron ore, etc.).

Increased productivity of labour further depends on how the payment of labour is organised and on how *material incentives for workers* attaining the best results are implemented.

The *moral stimulus* to work is also important in socialist society. The socialist state gives encouragement to the best workers and leading collectives in the various enterprises. Orders, medals and certificates of merit are awarded for good work and the best workers are given honorary titles, etc. All this encourages the desire to distinguish oneself at work, to produce better work and more of it and to ensure high-quality work.

The higher the level of *science* and the more rapidly and extensively its latest achievements are applied to production, the higher will be the social productivity. It is possible for science and material production to be linked in every possible way only under the socialist system of economy, where there cannot be open or concealed competition.

Finally, the *rational location of production* is an important factor for raising labour productivity. The location of production must, on the one hand, provide for clearly defined specialisation of the enterprises and co-operation among them, and, on the other hand, account should be taken of the need to put natural resources more fully into economic use.

Correct location of production cuts the expenditure of social labour in production, transport, storage and the realisation of material values. Reduced expenditure of labour means a rise in labour productivity.

The decisive factor in raising the productivity of social labour is technical progress in all branches of the national economy. That is why, during the period of full-scale building of communist society, tremendous importance attaches to work on comprehensive mechanisation, automation and electrification in production processes, improving the organisation of production and of labour and raising the workers' efficiency and technical qualifications.

Socialism offers great possibilities for raising labour productivity. The socialist countries lead the world in their increasing rates of productivity. In the U.S.S.R. it is rising four to five times faster than in the capitalist countries. In 1961, labour productivity in the U.S.S.R. increased approximately 11.9 times compared with 1913, while in the U.S.A. the corresponding increase was 3.1, in Britain—1.6, and in France 2.7 times. In 1913, Russia's labour productivity in industry was only one-ninth of that in the U.S.A., but by 1961 the gap was much less, the figure for the Soviet Union being around fifty per cent that of the U.S.A. Labour productivity in the U.S.S.R. is already higher than in such capitalist countries as Britain and France.

The Seven-Year Plan for the Economic Development of the U.S.S.R. envisages that rising labour productivity will be responsible for 75 per cent of the total increase in industrial output. This makes it quite obvious that without higher labour productivity there can be no development of socialist economy, no guaranteed high rates of economic growth and no material and technical basis of communism. "Raising labour productivity," the Resolution of the Twenty-Second Congress of the C.P.S.U. points out, "is the key question of the policy and practice of communist construction, the essential condition for the improvement of the well-being of the people and the creation of an abundance of material and cultural benefits for the working people."[1]

The rapid growth of labour productivity is the chief condition required for accelerating the rate of production, for solving the tasks of communist construction. That is why it is so important to make full use of the possibilities for raising labour productivity that exist in socialist society at every enterprise, at every worker's bench.

[1] *The Road to Communism*, p. 427.

*Chapter XIII*

# COMMODITY PRODUCTION, MONEY AND TRADE UNDER SOCIALISM

## 1. Commodity Production Under Socialism

**Specific features of commodity production under socialism**

"It is necessary in communist construction," says the Programme of the C.P.S.U., "to make full use of commodity-money relations in keeping with their new content in the socialist period."[1]

Under socialism, commodity-money relations have a new content due to the fact that commodity production is here carried out on planned lines by united socialist producers (the state and co-operatives), on the basis of socialist ownership of the means of production. Owing to these specific features, commodity production under socialism cannot be transformed into capitalist commodity production.

Commodity production under socialism is not universal, as it is under capitalism. The sphere in which commodity production and commodity circulation operate under socialism is limited. For instance, labour power is not a commodity; it is not bought or sold. The land with what it contains is withdrawn from the trade turnover, i.e., it cannot be bought or sold. Neither can socialist enterprises with their fixed assets (machinery, buildings, equipment, etc.) be bought and sold.

The radical change in the nature of commodity production under socialism has led to a change in its categories. Many categories, such as labour power as a commodity, surplus value and others, which reflected the capitalist nature of commodity production, have disappeared. Other economic categories of commodity production—commodity, money,

[1] *The Road to Communism*, p 536.

value, price, profit, credit—still remain, though their nature has essentially changed.

Commodity-money relations arise in socialist society, *firstly*, between the state enterprises and the co-operative associations and the collective farms. State industry produces the commodities which provide the means of production for the co-operatives and consumer goods for the members of co-operative enterprises. The co-operatives produce the commodities which provide industry with raw materials and the population with food and certain other consumer goods.

Commodity exchange is an essential form of economic relations between state industry and co-operative agriculture.

*Secondly*, commodity production and exchange cover the whole of the consumer goods which are produced by the state and co-operative sectors, and also by the collective farmers on their personal subsidiary holdings, and which, through the system of purchase and sale, become the personal property of the urban and rural population.

*Thirdly*, commodity relations arise within state enterprises, in the sphere of production of the means of production. The means of production put out by state enterprises (machine tools, machinery, metals, coal, oil, cement, etc.) are exchanged through purchase and sale among the enterprises and are therefore commodities.

*Finally*, commodity relations arise between the socialist state and other countries through the foreign trade turnover.

In socialist society commodity production serves to promote the development of the productive forces and thereby the transition from socialism to communism. "With the transition to the single communist form of people's property and the communist system of distribution," the Programme of the C.P.S.U. points out, "commodity-money relations will become economically outdated and will wither away."[1]

**Use-value and value of the commodity**

The commodity, as we already know, has two aspects, two properties—*use-value* and *value*. Under socialism these two properties have a totally different meaning compared with the properties of the commodity in capitalist conditions.

[1] *The Road to Communism*, p. 536

Under capitalism, the socially necessary labour-time is formed blindly on the market. In socialist economy it is the state, working on the basis of the objective economic conditions, that plans the growth of labour productivity, fixes the rate of labour expenditure and thereby tends to reduce the amount of socially necessary labour-time.

In order to reduce the value of the commodity, the labour spent on its production has to be reduced. How can this be done?

The magnitude of the value of the commodity is affected by labour productivity. The higher the productivity, the lower the value of one unit of the commodity. Thus, the campaign to raise labour productivity is also a campaign to reduce the value of the commodity.

The expenditure of raw and other materials also affects the value of the commodity, which is made up of living labour and past, materialised labour. Past labour is the labour spent on the production of materials, machine tools, buildings, etc. In order, therefore, to reduce the value of the commodity, it is necessary to economise in both past and living labour.

Such measures as the rapid spread and application of advanced methods of labour and production and of technical achievements substantially reduce the socially necessary labour-time required for the production of one unit of the commodity. Exchanges of experience and technical information, as well as mutual assistance, enable enterprises which are lagging behind to reach rapidly the level of the leading enterprises.

## 2. Money and Its Functions in Socialist Society

**The nature of money** Money is needed under socialism because of the existence of commodity production and circulation. The value of the commodity created by social labour during the production process is expressed in the form of money. It follows that the essential function of money under socialism is as *universal equivalent*, i.e., it expresses the value of all other commodities.

But under socialism, money as the universal equivalent has a content that is qualitatively new. Money under capitalism is an instrument for the exploitation of man by man, an instrument for the domination of some people over others; but in socialist society, money is an instrument for stimulating and improving socialist production, with a view to satisfying ever more fully the requirements of the members of socialist society. Under socialist conditions, money is an expression of socialist production relations; it cannot become capital, but is used as the universal means of accounting and controlling the production and distribution of the social product; it is the economic instrument for planning the national economy.

The radical change in the nature of money in socialist society and in its socio-economic content is made apparent in the changed functions of money.

**Functions of money** The basic function of money is to serve as the *measure of value of commodities.* This means that the value of all the other commodities is measured in money. But money's function as the measure of value is fulfilled only by money as a commodity which itself has value, and this commodity is gold.

The value of the commodity expressed in money is called, as we have already seen, the *price of the commodity.* Soviet money exists in the form of bank and treasury notes, which take the place of gold. The principal money unit in the U.S.S.R. is the Soviet ruble and prices are measured in rubles. The Soviet ruble contains 0.987412 grammes of gold.

The function of money as a measure of value under socialism makes it possible to control the amount of labour and the amount of consumption. In its function as a measure of value, money is used by the state when planning the prices of commodities.

In socialist economy money fulfils the function of a *means of circulation.* In this way it serves in trading, and is the medium in commodity circulation, which is planned and regulated by the socialist state.

Under socialism, money is also a *means of payment.* This function is seen primarily in the wages paid to industrial, office and other workers, in the money incomes of collective farmers, in repayment of loans, in tax payments, etc.

Money as a means of payment is used by the state for organising finance and credit relations in the national economy, for the financial control over the work of socialist enterprises.

Money under socialism fulfils the function of a *means of socialist accumulation and saving*. This function is fulfilled when the resources and incomes of the working people that are temporarily not in use, and also the accumulated money of socialist enterprises and various organisations, are banked and used for the needs of accumulation. It is also expressed in the savings which working people put into savings banks.

Under socialist conditions, accumulated money does not give rise to exploitation of man by man, as is the case under capitalism.

In socialist society, gold performs the function of *world currency*, in its role as international means of payment, universal purchasing medium and reserve fund.

**Money circulation under socialism**

In the normal way money can fulfil the role of universal equivalent only if the amount of money available corresponds to the national economy's real need of it as a medium of circulation and means of payment.

The amount of money required for circulation is defined as the *total of the prices of the commodities in circulation divided by the velocity of the circulation of money.*

To keep the correct balance between the aggregate prices of commodities and the amount of money in circulation is one of the most important conditions for ensuring the normal course of economic life in the country. On the basis of the law of money circulation, the state regulates the circulation of money and makes planned use of it to further the development of the national economy. The money in circulation is regulated through the planning of state finances, through the cash and credit plans.

A vital factor affecting the circulation of money is the proportion between the incomes of the population, on the one hand, and the volume of the commodity turnover and the services paid for by the population, on the other. The current cash plan of the State Bank is drawn up for approval by the Government on the basis of the balance between the money income and expenditure of the population.

The current cash plan of the State Bank shows all the anticipated cash payments into the State Bank, such as: money received from trading organisations (more than four-fifths of all deposits), receipts from public services enterprises, transport, communications, tax payments, savings bank deposits, etc. The plan also reflects the amount of money paid out by the State Bank in wages to workers, payments to collective farmers against workday units, to collective farms and their members against state purchases of produce, payments to pensioners, allowances, etc. The ratio of income to expenditure in the current cash plan enables the State Bank to regulate the amount of money in circulation.

Planned organisation of the circulation of money in socialist conditions helps to strengthen circulation and stabilise money.

The stability of money under socialism is ensured not only by the gold reserve, but primarily by the fact that the state controls vast masses of commodities put into commodity circulation at fixed, stable prices. Because of this, Soviet currency is the most stable currency in the world. As socialist production develops the Soviet ruble grows stronger. Very important in this respect was the tenfold increase in the scale of prices and the increase in the gold content of the ruble, introduced on January 1, 1961.

### 3. The Law of Value in Socialist Economy

The fact that commodity production exists under socialism means that the law of value operates in socialist economy.

Under socialism the law of value does not have the same scope as under capitalism. Its sphere of operation is limited. This is because of the existence under socialism of socialist ownership of the means of production and planned economy.

In socialist society the law of value is not the regulator of production and of the distribution of the means of production and of labour among the branches of the national economy. This is all done by the state planning organs on the basis of the operation of the law of the planned, proportional development of the national economy. In socialist conditions not only is the sphere of operation of the law of value different, but the way it operates is also changed. It no longer functions as an alien force that dominates people.

In planning socialist economy, account has to be taken of the way the law of value works. Above all, it is important to use the law of value in price formation; the law of value operates through the mechanism of prices. Under socialism, prices are not determined spontaneously, they are planned. The socialist state determines prices on the basis of the amount of socially necessary labour spent to produce the commodities, i.e., on the basis of value. It is here that the state makes practical use of the law of value.

Out of national-economic considerations, the socialist state fixes the prices of commodities either above or below their value. Through its prices policy, the state can use part of the revenue from one branch of the economy to bring about rapid advances in other branches. Consequently, the variation between price and value is a process that is planned in advance by the state.

When fixing the prices of consumer goods, for example, the state takes into account not only their value, but the ratio of supply to demand.

The socialist state makes use of the law of value to stimulate growth of production, to raise labour productivity and lower production costs, and to ensure that production is profitable.

## 4. Trade Under Socialism

**Nature and role of trade under socialism**

Since the products of labour in socialist society are commodities, there should inevitably be commodity circulation as an intermediary link between production and consumption.

The form which commodity circulation takes under socialism is *trade*. Through trade relations are maintained between socialist enterprises, between town and country, and between socialist production and public consumption, thereby satisfying ever more fully the growing requirements of the working people.

There is a fundamental difference between socialist trade and capitalist trade.

Socialist trade rests on social ownership of the means of production. Because this is so, it is planned in the socialist countries. The state plans and determines the volume of the trade turnover, the prices, circulation costs, etc. Trade under socialism is not for the purpose of making profits and enriching some people at the expense of others; it does not experience the marketing crises common to capitalist trade.

Trade plays a big part in developing socialist production, expanding the internal market, promoting improvements in the quality of commodities, etc. As the intermediary economic link both within the state sector of the national economy and between the state sector and the co-operative sector, socialist trade promotes the process of socialist reproduction.

Trade is an important instrument in distribution according to labour. Through the medium of socialist trade, the working people exchange the money paid them for their labour for the consumer goods they require. Under socialism, trade has a positive effect on public consumption as well as on production. Trade helps to bring new consumer goods into circulation and stimulates the population to put forward new, rational demands and to acquire new tastes.

Trade is also a most important factor in strengthening the country's financial, credit and monetary system.

**Forms of trade under socialism**

As experience in the U.S.S.R. shows, trade under socialism assumes three forms: state, co-operative and collective-farm trade.

*State trade* is the highest stage of socialisation of commodity circulation. It is conducted by trading organisations, the material resources and money of which belong to the state.

State trade plays the leading, dominant role in the trading system under socialism. The greater part of the manufactured goods produced in state enterprises and a considerable proportion of the marketable agricultural produce are handled by state trading organisations. In 1960, for example, state trade handled 66.8 per cent of the total

Soviet retail trade turnover. State trading organisations chiefly serve the population in towns and industrial centres.

*Co-operative trade* is conducted mainly by the trading enterprises of the system of consumer co-operatives. The consumer co-operatives account for nearly nine-tenths of the total co-operative trade turnover. They are engaged for the most part in supplying manufactured goods to the rural population and handling purchases of agricultural produce, which they sell on a commission basis. Co-operative trade in the U.S.S.R. in 1960 accounted for 28.8 per cent of the retail trade turnover.

The state and co-operative trading systems share between them the public catering establishments—factory-kitchens, public dining rooms, restaurants, cafés, etc. State and co-operative trade were jointly responsible for 95.6 per cent of the country's total trade turnover in 1960. These two kinds of trade form the *organised market*. There is in addition an unorganised market, in the shape of collective-farm trading.

*Collective-farm trade* is conducted by the collective farms and their individual members who sell their surplus produce to the population at prices determined by supply and demand. But the level of these prices is economically influenced by state and co-operative trade.

As state and co-operative trade expands, the importance of the unorganised market diminishes. Collective-farm trade accounted for only 14.3 per cent of the total trade turnover in 1940, 8.7 per cent in 1955, and 4.4 per cent in 1960.

**Retail prices and circulation costs in trading**

There are two types of prices corresponding to the two forms of market under socialism: those of the organised market and those of the unorganised market.

In the U.S.S.R., organised market prices are the wholesale prices in industry and in the trading organisations, the retail prices in state and co-operative trading enterprises, and the purchase prices paid for the marketable products sold to the state by the collective farms and their members.

*State retail prices*, i.e., the prices at which the state sells manufactured goods and food to the population, play the leading part in the socialist trading system. They are planned and fixed by the state for each kind of commodity.

For the majority of manufactured goods the price is the same throughout the Soviet Union, but for certain foods, prices are graded according to zones and seasons.

The retail prices on the organised market are not subject to spontaneous fluctuations; but they are altered when, how and to what extent the state considers it necessary in order to achieve immediate economic and political tasks. But the state never fixes prices arbitrarily. It takes into account the value of the commodities.

The continuous growth of socialist production, the rise in labour productivity and reduction in production costs make possible systematic reductions in retail prices. Consecutive reductions in retail prices under socialism are one of the ways of improving the well-being of the people.

There can be no trade without circulation costs; these, in socialist trading, are totally different from capitalist circulation costs.

*Circulation costs* under socialism are the expenses the trading enterprises and organisations incur when bringing commodities to the consumer from the place where they are produced. They consist of the wages of the people working in trading enterprises, transport charges, maintenance of trading establishments and storage facilities, packaging costs, office expenses, payment of interest on money obtained on credit, etc. The level of circulation costs, measured as a percentage of the trade turnover, is planned and laid down by the state.

Reductions in circulation costs are characteristic of socialist trade. In the U.S.S.R., for instance, circulation costs in 1928 amounted to 19.7 per cent of the trade turnover, in 1940—9.7 per cent, and in 1960—6.7 per cent.

Reductions in circulation costs serve as the overall qualitative index of the standard of work in the trading organisations; they are also an important source of socialist accumulation.

In socialist trade, the level of circulation costs is considerably below that in the capitalist countries. In the U.S.A., for instance, circulation costs are as much as one-third of the sum total of retail trade prices.

**Foreign trade** In socialist countries, foreign trade is conducted alongside internal trade. Through foreign trade it is possible to make use of the advantages of the international division of labour.

Foreign trade in capitalist countries is chiefly conducted by the private capitalist monopolies. In the socialist countries foreign trade is conducted by the state. One of the first decrees of Soviet power declared foreign trade to be a state monopoly. *Monopoly of foreign trade* means that all trade operations involving the import and export of commodities are conducted by the state.

The monopoly of foreign trade guarantees that the socialist countries will be economically independent of the capitalist world, and their internal markets protected against foreign capital. At the same time foreign trade monopoly helps to promote economic co-operation among the socialist countries.

Foreign trade is also an important form of economic relations with the countries of the capitalist world. The socialist countries do all in their power to extend trade among themselves on the basis of the international division of labour, but they also trade with the capitalist countries. The foreign trade of the socialist countries is carried out on the basis of respect for national sovereignty, complete equality between the contracting parties, and mutual advantage without political conditions or dictation.

The steady development of the national economies of the U.S.S.R. and the other socialist countries leads to a continual expansion of the foreign trade turnover.

*Chapter XIV*

# DISTRIBUTION ACCORDING TO WORK AND FORMS OF PAYMENT FOR WORK UNDER SOCIALISM

## 1. The Economic Law of Distribution According to Work

Every mode of production has its corresponding mode of distribution. The relations in distribution correspond to those in production.

Under socialism the social product is distributed according to the work performed, and this form of distribution is an objective necessity. It is due to the fact, on the one hand, that production takes place on the basis of socialist ownership of means of production, and, on the other hand, that the productive forces at the socialist stage have not yet reached the level where it is possible to distribute material wealth according to need. In addition, labour has not yet become a prime necessity of life but is still a means of subsistence and, consequently, requires the appropriate reward. Finally, under socialism, basic differences still remain between mental and physical work and also between skilled and unskilled work.

Under socialism, it is *work* that solely determines man's position and well-being in society. Accordingly, the quantity and quality of the work contributed by each member of society can alone be the measure of the distribution of consumer goods under socialism.

*Distribution according to work* is an economic law of socialist society.

In distribution according to work we find one of the most important advantages socialism has over capitalism. The distribution of material wealth according to work excludes unearned incomes and parasitism which drain away vast resources from production and from satisfying the requirements of the working people. It is an important stimulus for the development of production, offering boundless scope for the workers to develop their abilities. Lenin said that the principle "he who does not work, neither shall he eat" contains "the basis of socialism, the indefeasible source of its strength, the indestructible pledge of its final victory".[1]

The law of distribution according to work means that there should be: 1) distribution of the fund of commodities available for personal consumption according to the amount and quality of the work contributed. This ensures that working people have a material interest in the fullest and most efficient use of their working hours; 2) higher payment for skilled as against unskilled work over equal periods of labour-time. This is an incentive to working people to raise their technical qualifications; and 3) higher material encouragement for labour in the more arduous branches of production (iron and steel industry, coal mining and certain other industries) as compared with labour under normal conditions. This gives material compensation for additional expenditure of work.

The economic law of distribution according to work is an expression of the need to distribute material wealth in direct relation to the quantity and quality of work contributed by everyone, and to give equal pay for equal work to all citizens irrespective of sex, age, race or nationality.

The economic law of distribution according to work remains in force throughout the period of communist construction. "In the coming twenty years," the Programme of the C.P.S.U. points out, "payment according to work will remain the principal source for satisfying the material and cultural needs of the working people."[2] The transition to communist distribution will come about when an abundance of material wealth and cultural values has been attained and when work becomes a prime necessity of life.

Only part of the gross social product is distributed according to work.

When Marx wrote his *Critique of the Gotha Programme*, he pointed out that for socialist society to function and develop normally, the following should be set aside out of the

[1] V. I. Lenin, *Selected Works*, Vol. II, Part 2, p. 16.
[2] *The Road to Communism*, p. 538.

total social product: a) cover for replacement of the means of production; b) additional portion for expansion of production; c) reserve or insurance funds; d) the cost of administering and maintaining schools, hospitals, etc.; e) funds for the maintenance of people unable to work.

The part of the gross social product required for the needs of the country's defence must be deducted as well.

It follows that only that part of the total social product which forms the personal consumption fund is distributed according to work.

The part of the product of labour which goes into the personal consumption fund for the workers engaged in material production is known as the *necessary product*, and the labour which creates it—*necessary labour.*

The part of the product of labour which goes into the public fund, not including expenditure to replace the used-up means of production (public consumption, accumulation, defence, etc.), is called the *surplus product*, and the labour which creates it—*surplus labour*. But an increasingly large part of the social product goes to working people through the public funds, which annually grow absolutely and relatively.

Surplus product under socialism is not used in the interests of individuals, but in order to meet the needs of society as a whole and each worker individually. It is not surplus value, because under socialism there is no exploiting class and no exploitation.

Distribution according to work ensures that *people have a material interest in the results of production*, stimulates increased labour productivity, raises the skill of workers and improves production techniques; it also has an important educational side, since it teaches people socialist discipline and makes work universal and compulsory.

Material incentive is necessary under socialism because work has not yet become a prime necessity of life for all members of society. Under socialism, the survivals of capitalism in people's minds are not yet eliminated once and for all. Side by side with the bulk of the workers who honestly perform their duty to society, people can still be found who are not conscientious in their work or who violate labour discipline.

The principle of material incentives also excludes in practice any sort of equalisation in the distribution of material wealth.

Equal distribution of products is incompatible with socialism. The economic law of distribution according to work necessitates a decisive struggle against equalising wages. The purpose of all the efforts of petty-bourgeois "theoreticians" to ascribe to Marxism-Leninism the viewpoint of "absolute" equality is deliberately to distort Marxism-Leninism.

Equality under socialism, in the Marxist-Leninist meaning, does not mean levelling in the sphere of personal requirements and everyday life (equality of consumption), but social equality, i.e., equality in relation to the means of production, equal freedom from exploitation of all working people, abolition (applying equally to all persons) of private ownership of the means of production, the equal right for everyone to work and to have a share in material wealth, in accordance with the labour contributed.

Thus, socialism implies not equalisation, but distribution according to work which takes place in two ways: in the form of wages for industrial, office and other workers, and in the form of payment for work in co-operative and collective-farm enterprises. These two forms of the implementation of the law of distribution according to work are due to the difference between the two forms of ownership of the means of production—state ownership and co-operative and collective-farm ownership.

## 2. Wages Under Socialism

**Nature and organisation of wages**

The existence under socialism of commodity production and the law of value determines the need for wages in monetary form. The monetary form of wages provides for flexibility and differentiation in determining the share each worker should have of the social product, depending on the quantity and quality of his work.

Labour power is not a commodity under socialism; it is neither bought nor sold, and therefore has neither value nor price. Because of this, wages are not a form of the value or the price of labour power, but are a form of the distribution of material wealth according to work.

*Wages* under socialism are the proportion, expressed in money, of the social product, which serves to compensate for the expenditure of necessary labour, and which is paid out by the state, according to the quantity and quality of the work contributed, to every worker in state socialist enterprises.

The level of wages under socialism is planned by society on the basis of the existing level of production. The state determines the size of the fund for distribution according to work, which the people get in the form of wages for their personal use; the state also determines the rate at which the fund should increase, bearing in mind the interests of both the individual and the public.

The socialist state uses wages as an important lever for increasing labour productivity, raising the technical qualifications of the workers, and also to ensure priority supplies of labour power to the most important branches of the national economy. Through wages it is possible to achieve the correct combination between the individual material interests of the working people and the interests of the state (of the people as a whole).

Wages depend on the qualifications of the worker and the nature and complexity of his work.

The system of calculating wages under socialism should be simple and clear so that every worker can understand it.

The principal elements in the organisation of wages under socialism are the rating of work and the grading system.

The *rating of work* is the establishment of the standard time required to fulfil a definite job, or the amount of articles produced per unit of time.

In socialist society the rating of work makes for better organisation of labour and production, in line with the latest scientific and technical achievements.

Correct rating of work is based on *technically justified output standards* calculated on the fullest use of technology and the achievements of leading production workers and innovators. Technically justified output standards are worked out as progressive standards which take into account the achievements of leading workers, but are not based on outstanding individual achievements. Progressive, technically justified standards mark the trend set by workers whose labour productivity is above the average; but they are within the reach of all workers and are therefore realistic standards.

An important role in the correct organisation of wages is played by the *grading system*. Through the grading system the socialist state differentiates the payment for work depending on the nature, quality and conditions of work, the branch of production, area of the country, etc. The centralised regulation of the wages of industrial, office and professional workers is effected through the grading system.

The grading system consists of three elements: 1) the skill grading handbook which is used to determine the grades of work (according to how complicated it is) and the qualifications of the workers; the handbook splits the work up into *grades* and places the worker in one of the grades in the schedule of grades; 2) the schedule of grades, which determines the amount of payment for work of varying skills; the number of grades and how wages should be related between the grades depend on the specific features of the particular branch of industry; and 3) the basic rate, which gives the amount of wages for work in Grade I.

Since correct classification of grades of work and differential payment for them is a most important stimulus in raising labour productivity and improving the standard of technical qualifications among workers in socialist enterprises, the grading system is constantly undergoing improvement.

The establishment of the wages fund is most important in the organisation of wages.

The *wages fund* is the aggregate wages of industrial, office and professional workers that are fixed by the state on the basis of a plan for distribution according to labour over a given period (a year, month, etc.). This fund is established for the national economy as a whole, for each Union Republic, each Economic Council, each branch of industry and each enterprise.

The forms of organisation of wages change and develop as socialist society develops.

From this the need arises for continually improving the entire wages system and eliminating defects in it.

A great deal of work in this direction has been carried out in the U.S.S.R. since the Twentieth Congress of the C.P.S.U., which drew attention to grave defects in the organisation of wages. The Congress fully approved the measures elaborated by the Central Committee for bringing order into payment for work, and recognised the need to introduce extensively in production technically justified output standards to correspond to the up-to-date standard of technology and the organisation of production; to raise the proportion of basic rates in workers' earnings and to establish the correct proportions in basic rates for individual branches of industry and individual trades, taking into account the qualifications of the workers and the payment of higher wages to workers engaged in arduous work in hot shops; to regularise wages for certain categories of engineers, technicians and other personnel and to eliminate the multiplicity of systems of payment and lack of uniformity therein; to attach greater importance to the bonus system which stimulates the introduction of new technology, higher labour productivity and reduced production costs.

The regulation of wages in the U.S.S.R. goes hand in hand with the transition to a shorter working day. But this does not imply that no further regulation of wages will occur in the future. Improvement in production techniques and technology will mean improvement also in labour payment. As the Programme of the C.P.S.U. points out: "There must be a continuous improvement in rate setting, the system of labour payments and bonuses, in the financial control over the quantity and quality of work, in the elimination of levelling, and the stimulation of collective forms of material incentives, raising each employee's interest in the high efficiency of the enterprise as a whole."[1]

Further improvement in the organisation of wages will facilitate fuller use of the law of distribution according to labour in the interests of communist construction, and on this basis will still more inspire the industrial workers and other employees to show more creative initiative and put in more work to develop socialist production.

[1] *The Road to Communism*, p 536.

**Forms and systems of wages**

Two basic forms of wages exist: piece-rates and time-rates.

With *piece-rates* the worker's earnings are determined by the amount of output. Piece-rates make for a combination of the interests of society (increased labour productivity) and the personal interests of each worker (higher individual earnings).

In socialist industry a series of piece-rate *systems* are in use:

a) the direct piece-rate system, under which each unit of output is paid for at the same rate for the given type of work;

b) the progressive piece-rate system, when every unit produced over and above the basic quota is paid for at a higher rate, the rate becoming progressively higher;

c) the piece-rate bonus system, when the total number of items turned out is paid for at normal piece-rate prices, but a bonus is paid for certain indices (economy of raw materials and fuel, output of higher grade products, etc.).

There can be either individual or collective piece-rates. With individual piece-rates, the amount of earnings depends directly on the output of the individual worker. With collective piece-rate wages (applied when working conditions make it impossible to calculate the amount of work done by each individual), the worker's earnings depend not only on his own output, but on that of his collective as a whole. To raise the material interest of the worker in the results of his labour, collective piece-work is combined with individual piece-rate payment. Thus, when calculating the amount earned by each member of the collective, the skill of the worker (the grade in the schedule) is taken into account as well as the number of hours worked.

With *time-rates* payment for labour is made on the basis of the hours worked, and the skill of the worker is also taken into account.

With time-rates there is no direct connection between the worker's output and his wages. Time-rates are applied where rating and accounting are not possible. As an additional stimulus in time-rate payment, the time-bonus system has been extensively used in the U.S.S.R. Here the amount of earnings depends on the quantity and quality of the work as well as the time put in and the qualifications of the worker.

Time-rates are extensively applied to managers of enterprises, engineers, technicians and office workers, who are paid fixed salaries. Salaries are fixed in line with the economic law of distribution according to work.

An increased material incentive for these salaried workers is the system of awards. These are given for fulfilment or overfulfilment of production plans, provided the stipulated range of articles is observed and production costs are reduced.

**Rising real wages and incomes under socialism**

Satisfaction of the constantly growing material and cultural needs of all members of society is vividly expressed in the growth of real wages.

*Real wages* are the amount of consumer goods and services the worker and his family can obtain in exchange for their wages.

As socialist production develops, real wages constantly rise. This is seen in the increasing purchasing power of the population.

A clear expression of the growth of real wages in the U.S.S.R. is the increased consumption of the most important commodities per head of population. Between 1940 and 1960 the amount of milk and dairy produce consumed in workers' families increased more than 2.6 times per head; meat and fats—2.5 times; fish and fish products—1.7 times; eggs—2.4 times; sugar—2.3 times. Over the same period purchases of textiles by workers' families increased on the average—1.6 times and of leather footwear—2.1 times.

The steady rise in real wages follows from the whole policy of the socialist state—the discontinuation of subscriptions to state loans, reduced agricultural taxes, and other measures.

The living standard of working people in socialist society depends not only on the amount of their wages. Under socialism many of the people's needs are satisfied out of the *public consumption funds*. Among these are well-appointed housing, communal services, the increased number of children's institutions, free education, organisation of recreation and medical services, buildings for cultural purposes, pensions, etc.

The amount the socialist state spends on social services for the workers is steadily increasing. In the Soviet Union, for instance, state expenditure on social and cultural measures in 1962 was about 28,600 million rubles, and by 1980 will have reached 255-265,000 million.

The sum total of the necessities of life that working people are given both as payment for work according to quantity and quality and as benefits from the public consumption funds represents the *real income* level of the population. In 1961, the real incomes of workers and other employees in the U.S.S.R. increased 5.8 times as against 1913.

### 3. Payment for Work on Collective Farms

Collective-farm economy is conducted on the basis of its members' collective work, which is planned and is a component part of the united labour of socialist society as a whole.

The output of collective-farm production, the size of the income of the farm and the welfare of its members depend on the amount of work the collective farmers do and how efficiently this work is organised.

Collective-farm incomes take the form of produce and money. They are distributed on the following lines.

*Incomes in kind* consist of products from crop-raising and livestock-breeding. Out of the crops harvested and the produce from their livestock-breeding, the collective farms fulfil their undertakings to the state by selling products to it at planned prices. Timely fulfilment of undertakings by collective farms serves to ensure correct combination of the interests of the farms and those of Soviet society as a whole.

When their undertakings to the state have been fulfilled, the collective farms form their commonly-owned funds. These include: 1) seed resources; 2) fodder resources; 3) insurance resources (seed and fodder for use in the event of crop failure or fodder shortages); 4) food resources for use after poor harvests; 5) the assistance fund to help the disabled or families of servicemen, and for the upkeep of nurseries, kindergartens and boarding-schools.

After fulfilling their obligations to the state and forming their own commonly-owned funds, the collective farms distribute the remainder of their income in kind among their members according to the number of workday units they have to their credit.

The collective farms derive most of their *cash incomes* from the sale of produce to the state and co-operative organisations and also to the public, on the collective-farm market. The first calls on their cash incomes are for income tax, insurance payments and repayment of bank loans.

After settling these payments to the state, the collective farms put aside a sum of money for the farms' common requirements. These include: 1) allocations to the farm's non-distributable assets; 2) allocations for current production requirements—mineral fertilisers, spare parts, fuel for machinery, chemicals for pest and plant-disease control, etc.; 3) allocations for administration expenses; 4) allocations for cultural requirements — building and equipping clubs, libraries, reading-rooms, cinemas, radio installations, etc. When fixing the amount required for these allocations, the state of the collective-farm economy and the appropriate relation between consumption and accumulation are taken into account. The remainder of the collective farm's financial resources is distributed among the members.

As in the state enterprises, the amount paid for labour in collective farms depends on the quantity and quality of the labour contributed by each collective farmer. The economic law of distribution according to labour is implemented in collective farms through the system of workday units and payment in cash. The *workday unit* is a measure of the work the collective farmer contributes to the common economy of the farm; it also determines the share each member is entitled to out of the farm's income.

Output quotas are fixed for every type of work fulfilled on the collective farm. Each type is assessed in terms of workday units or cash, depending on how far the work is complicated or arduous and how important it is for the collective farm.

Since the collective farms are co-operative enterprises, the actual amount of produce and money paid out against workday units is finally determined at the end of the year and is not the same for all collective farms. The incomes of collective farmers depend, therefore, not only on the number of workday units to their credit, but on the amount of produce and cash per unit that is available in the particular collective farm.

Increasingly important is the practice of issuing monthly advances to the members. This means that the members of the collective farm can receive part of the produce and money due to them for their work before the final distribution is made. For this purpose the collective farms set aside special funds of produce and cash. In addition to this basic method of payment, there are other payments (in kind and in cash) to encourage members for work well carried out.

The increasing profitability of the collective farms creates an economic situation where it will gradually become possible to introduce monthly payment for work. Payment in cash is a more advanced form: it greatly stimulates higher labour productivity among the collective-farm peasantry. The transition to cash payment will take place as the economic position of each collective farm grows stronger.

"The economic advancement of the kolkhozes," the Programme of the C.P.S.U. points out, "will make it possible to perfect *kolkhoz internal relations*: to raise the degree to which production is socialised; to bring the rate setting, organisation and payment of labour closer to the level and the forms employed at state enterprises and bring about a guaranteed monthly payment for work; to develop community services more broadly (public catering, kindergartens and nurseries, and other services)."[1]

The real incomes of collective farmers are rising thanks to the growth of gross agricultural production and higher labour productivity. Between 1913 and 1961 the working peasants' income in kind and cash from their collective farming and personal holdings, after subtracting all taxes and levies, and calculated per collective-farm member, increased 4.5 times (in comparable prices); and if allowance is made for payments and subsidies from the Soviet state, the increase was approximately sevenfold.

[1] *The Road to Communism*, p 530.

*Chapter XV*

# COST ACCOUNTING AND PROFITABILITY. PRODUCTION COSTS AND PRICE

## 1. Cost Accounting and Profitability

**Policy of strict economy and its importance**

Planned guidance of socialist economy gives every opportunity for efficient use of material and manpower resources on the scale of society as a whole. Everyone working not for capitalists and landlords but for himself and his society is deeply concerned for the rational and economical use of the wealth of society and for the thrifty management of the economy.

The *policy of strict economy* underlies socialist management, the object being production of ever-growing quantities of good quality output with the smallest expenditure of resources and labour. The Programme of the C.P.S.U. points out that "the immutable law of economic development is to achieve in the interests of society the highest results at the lowest cost".[1]

One of the main conditions ensuring high rates of development in socialist economy is to observe the policy of strict economy.

Thrifty expenditure of manpower, material and money resources has always been of immense importance for socialist economy.

To put into practice the grand programme outlined at the Twenty-Second Congress of the C.P.S.U. for the development of the productive forces, for rapid rates of economic growth, for a colossal scale of economic and cultural construction on the basis of technical progress, demands a vast expenditure of manpower, material and money resources.

[1] *The Road to Communism*, p 532.

The growing importance of the policy of strict economy during the period of full-scale communist construction is therefore readily understandable.

Implementation of this policy helps to fulfil and over-fulfil plans, reduce expenditure of labour and production costs on which lower prices of consumer goods are based. Better utilisation of existing productive capacities, economical use of raw and other materials, fuel, electric power, etc., make it possible to increase output without additional expenditure of resources. The more efficiently the national economy is conducted, the more economical is the use made of manpower, material and money resources, the more rapidly will the national wealth increase and the material and cultural standards of the working people improve.

Soviet economy is vast and saving—even in trifles—can produce tremendous results. "Look after the pence, and the pounds will take care of themselves." A small saving in every production sector, in every factory and collective farm is transformed into enormous figures when calculated over the national economy as a whole. Every one per cent reduction in outlays in Soviet state enterprises amounted to the colossal figure of over 1,600 million rubles in 1959 and will mean a saving of 2,100 million rubles by the end of 1965. The reduction in outlays for all branches of the national economy over the seven years, 1959-65, should give Soviet economy 85,000 million rubles. That is why it becomes particularly important at the present time to pursue a policy of strict economy.

To campaign now for economy means finding more and more possibilities of increasing output and reducing costs; of achieving more economical and efficient utilisation of raw and other materials, fuel, electric power; of reducing spoilage and waste of all kinds, and unproductive expenditure.

**Cost accounting**

Cost accounting is the most important means of practising the strictest economy. Cost accounting literally means calculated conducting of the economy. But calculation can be of many kinds. Capitalist calculation, for instance, is for private gain, for personal enrichment of the capitalists through the exploitation of other people's labour.

Cost accounting under socialism has nothing in common with capitalist calculation. The determining factor here is not the personal self-interest of individuals, but the interests of the whole of society. Under socialism, cost accounting becomes possible in every separate enterprise, the object being the best results with the least expenditure in the management of the *entire* socialist economy.

*Cost accounting* is a method of planned economic management in socialist enterprises; it consists in comparing in money terms the expenditure of the production of output and the results of economic activities, in compensating for the expenditure of the enterprises out of their own incomes, and in ensuring profitability of production. The Programme of the C.P.S.U. proposes the task thus: "To promote cost accounting in enterprises, to work for the strictest economy and thrift, reduction of losses, lower production costs and increased profitability."[1]

Money makes it possible to use the same yardstick for measuring production, to ensure the planning and control of living and past labour, control of production costs, prices and the profitability of each enterprise. Cost accounting establishes the direct dependence of the financial-economic position of enterprises on the results of their activities.

The socialist state applies cost accounting as an instrument for planned guidance of economy and for controlling the results of the economic activities of each enterprise.

Cost accounting operates in both state and collective-farm enterprises.

The introduction of cost accounting at industrial enterprises involves providing the conditions required for the most economical management of production. One of these is to combine planned guidance by the socialist state with independence for each enterprise in its economic activities.

The state puts the material and financial resources required for plan fulfilment at the disposal of every state enterprise and organisation which operate on the cost accounting system.

[1] *The Road to Communism*, p 536.

In their relations with one another these enterprises are independent juridical and economic units. They are further given the right to recruit personnel, to give basic and advanced training to their workers, and to apply one or other system of payment for work.

Enterprises working on the cost accounting basis draw up independent balance-sheets reflecting the basic indices of their economic activities. They have current accounts at the State Bank, where they deposit their money and through which they settle accounts with other enterprises and organisations.

The overall effect of these provisions is to enable the managers of state enterprises and economic organisations to take prompt decisions on questions arising in the course of management of production, to show economic initiative and flexibility in disposing of their output and financial resources, and to achieve plan fulfilment with the smallest possible expenditure.

The state enterprises have independence of economic operation within the framework of the targets set by the state plan. While giving these enterprises independence of economic operation, the state makes them materially responsible for the safety and the correct and most efficient use of their resources and for the fulfilment of the plan and of their obligations to the state budget, to their suppliers and customers.

Fulfilment of all the requirements laid down in the plan is a law for every enterprise. Managers of enterprises are responsible to the Economic Councils and other superior bodies for the entire economic activity of their enterprises.

Economic relations between the enterprises are regulated by economic contracts. Contractual relations are a feature of the cost accounting system. Enterprises operating on this system buy the means of production they require and sell their output to customers with whom they have contractual relations.

Their contracts stipulate the conditions of supply, the volume, range and quality of output, delivery dates, prices, dates and terms of payment, forms and extent of responsibility for infringement of the contractual conditions.

Strict observance of contracts is one of the most important requirements of cost accounting.

Cost accounting implies constant financial control of the economic activity of the enterprises. This means that the amount of financial resources an enterprise receives depends directly on the results of its work. Non-fulfilment of the plan for production and accumulation, or expenditure over and above that stipulated in the plan creates financial difficulties for the enterprise when settling accounts with suppliers or meeting obligations towards finance and credit organs, and this in turn involves the application of economic sanctions. Financial control is implemented by the finance and credit bodies. They make this control effective when providing money and credit to the enterprise concerned and when accounts for commodities supplied are settled.

Financial control prompts the enterprise to be more rigid in its observance of the policy of strict economy and to accelerate the turnover of its resources.

Cost accounting presupposes material interest on the part of the enterprise and the workers, including the managerial personnel, in the fulfilment of the plan and in the economical and efficient working of the enterprise.

The material interest of the working personnel is ensured by the system of wages and bonuses that accords with the economic law of distribution according to labour. The workers' collective and individual material interest in the way their enterprises function is enhanced by the establishment of special funds set aside from the sums of money accumulated by fulfilling and overfulfilling the plan. Part of this accumulated money forms the fund of enterprise and is used for putting in new machinery, expanding production, for house repairs and new building. The remaining part of the accumulated money is spent on the cultural and everyday requirements of the workers, on individual bonuses or on single grants where the need arises.

Consequently, under the system of cost accounting, the enterprise as a whole and every individual worker have a material interest in the fulfilment and overfulfilment of the plan, in making the operation of the enterprise as economical and profitable as possible.

**Profitability of the enterprise**

Cost accounting places socialist enterprises in a position where they have to achieve the greatest possible economy in the use of resources and be managed profitably.

*Profitability* of the enterprise means that the resources it acquires from the sale of its output should show a profit as well as cover outlays.

If the enterprise spends more on output than the socially necessary expenditure, then it cannot recover its expenses and will show a loss. But the enterprise that spends the same amount as the socially necessary expenditure, or less, is managed profitably. In its planned economic activity the state starts out from the need for all enterprises and branches of industry to be profitable.

Under socialism, the increased profitability of certain enterprises does not run counter to the interests of other enterprises but, on the contrary, creates favourable conditions for the more rapid development of the entire national economy for many years to come. The profitability of socialist enterprises is not subject to spontaneous, fortuitous price fluctuations. Planned management of the economy ensures that the sale of output will be at firm, planned prices.

## 2. Assets of Enterprises Under Cost Accounting

The production process requires labour power and means of production. These consist of the instruments of labour (machinery, equipment, factory premises, installations, etc.) and the objects of labour (raw and other materials, fuel, semi-manufactures, etc.).

The means of production are known as production assets. Production assets of socialist enterprises are divided into fixed assets and assets in turnover, depending on the nature of the circuit.

**Fixed assets**

*Fixed assets* include the means of production which serve the production process over a long period. They transfer their value to the products piecemeal, as they wear out.

According to the Soviet classification, fixed production assets include: production buildings and installations, power plant and machinery, apparatus, transmission gear, transport facilities, instruments and tools (with a working life of over one year and valued at more than 50 rubles), piping systems, roadways and road surfacing, dams, water-supply systems, installations for irrigation and land improvement, draught and productive livestock, etc.

Fixed production assets represent the productive groundwork of socialist society.

One of the most important demands required of enterprises operating on the cost accounting system is the economical use of fixed assets. Improvement in the use of fixed assets makes it possible to increase output and reduce production costs without additional capital investment.

As they are used in production, the fixed assets gradually depreciate. There are two distinct types of depreciation—physical and moral.

*Physical depreciation* is the wearing out of the fixed assets due to physical or chemical action during the production process or due to the influence of natural factors.

*Moral depreciation* is the result of technical progress. This form of depreciation means that, with the development of technology, it becomes profitable to use new, more productive and cheaper machines rather than to keep old ones. Consequently the machines and other elements of the fixed assets become out-of-date before they are physically worn out. In order, therefore, to curtail the losses involved in moral depreciation of the fixed assets, equipment must be modernised on planned lines, it must be used to full capacity, avoiding stoppages, etc.

Fixed assets, as they wear out, are replaced out of the depreciation funds, which are formed by including in the value of the finished output that part of the value of the fixed assets which corresponds to the value of the parts worn out. The state uses part of the depreciation funds of state industrial enterprises to replace fixed assets as they go out of commission, while the other part is left at the disposal of the enterprises and is spent on overhauling the operating fixed assets.

The amount of the fixed assets of state enterprises is in the main enlarged out of the accumulated part of the national income. Between 1928 and 1961 the fixed production assets of the U.S.S.R. increased almost seven times, those of industrial and building concerns increasing approximately 41 times.

In Soviet economy there are *fixed non-productive assets* as well as fixed production assets. The property of the socialist state or of the collective farms and co-operatives which serves non-productive public consumption over a number of years is called the fixed non-productive assets. These include living accommodation, the buildings, installations and equipment of institutions and organisations connected with education, health services, communal services, administration, culture, etc.

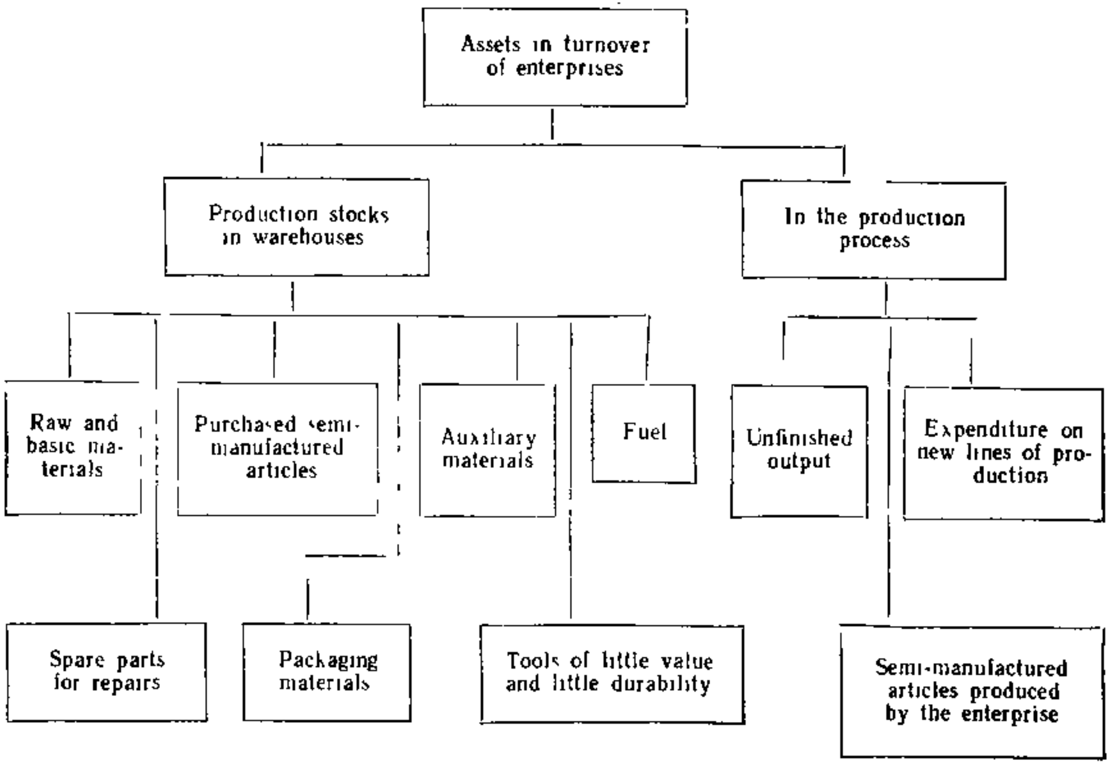
**Assets in turnover**

*Assets in turnover* are that part of the means of production which is completely used up in production during one production period and the value of which is transferred in full to the finished product. Materially expressed, they include: 1) production stocks in warehouses—raw materials, basic and auxiliary materials, fuel, semi-manufactured articles purchased for use in production, spare parts for running repairs, tools of little value and little durability, etc., and 2) unfinished output, semi-manufactured articles and outlays in later years (expenditure incurred in introducing new lines of production, preparatory and other work calculated to continue over a long period).

The composition of the assets in turnover of state enterprises is shown in the scheme on page 301.

**Circulating assets**

Besides fixed assets and assets in turnover, socialist enterprises require additional resources to serve in the sphere of circulation. The output from socialist enterprises is sold according to plan and the enterprises receive money in exchange. From this it follows that at a given moment enterprises under the cost accounting system, besides having fixed assets and assets in turnover, possess a definite amount of manufactured output waiting to be sold and a sum of money already received from the sale of output. The stocks of output waiting to be sold and the financial resources of the enter-


Assets in turnover of enterprises
Production stocks in warehouses
In the production process
Raw and basic materials
Purchased semi-manufactured articles
Auxiliary materials
Fuel
Unfinished output
Expenditure on new lines of production
Spare parts for repairs
Packaging materials
Tools of little value and little durability
Semi-manufactured articles produced by the enterprise

prise required for purchasing raw materials, fuel, etc., together form its *assets on hand.*

Assets in turnover and assets on hand expressed in money constitute the *circulating assets* of the enterprise. The two component parts of the means of circulation have different ways of serving the process of reproduction: assets in turnover operate in the sphere of production and assets on hand—in that of circulation. Both operate within the framework of the turnover of the means of the enterprise.

The circulating assets of socialist enterprises are divided into those of the enterprise and borrowed means.

A state enterprise's own circulating assets are placed at its disposal by the state, the amount representing its minimum necessary requirements for the fulfilment of the production plan. Any other means the enterprise may require at certain periods of the year in connection with seasonal purchases of raw materials and fuel, or because commodities are held up in transport, etc., are obtained in the form of credit from the State Bank. Credits from the State Bank are repayable with interest strictly within the stipulated time (not more than one year).

The state provides enterprises with only the minimum means in order to promote their economical spending and to accelerate their turnover.

**Velocity of turnover of circulating assets**

The velocity of the turnover of circulating assets is one of the general characteristics of the activities of enterprises and economic organisations. Their circulating assets are in continual motion and pass through three consecutive stages. This continual motion is called the turnover of the circulating assets.

At the first stage of the turnover the circulating assets in the state enterprise are transformed from the monetary form into the form of production stocks, i.e., become the means of production intended for production.

At the second stage of the turnover the production stocks are used up and become finished articles. The circulating assets are then in the sphere of productive consumption.

At the third stage of the turnover the commodities produced by the enterprise are sold, and the circulating assets assume the monetary form. This money is again spent on acquiring production stocks, etc., and the whole turnover is repeated.

The time taken by the circulating assets to pass through these consecutive stages is known as the complete period of their turnover.

Accelerating the turnover of the circulating assets enables the enterprise on the cost accounting system to curtail the stocks of raw and other material values used in production. This makes it possible to release part of the circulating assets in order to expand production at the given enterprise or to use them in other branches of the national economy.

The *velocity of the turnover* of the means of any enterprise depends on the time spent in production and that spent in circulation (in the form of stocks of commodities ready to be sold, etc.). So the main factors which accelerate the turnover of the circulating assets are to reduce the time spent on production and circulation and to eliminate stocks in excess of the necessary quota. The importance to the national economy of accelerating the turnover of the circulating assets is truly immense.

## 3. Production Costs and Prices of Manufactured Output

**Costs and their structure in socialist economy**

The value of output in socialist society falls into three parts: 1) the value of used-up means of production; 2) the value of the output created by necessary labour; 3) the value of the output created by surplus labour.

The first two parts of the social outlays enter into the *production costs* in socialist enterprises. The third part of the value forms the *net income of society*.

In industry, a distinction is made between *factory costs*, which include what the enterprise spends to produce its output, and *full costs*, which, besides factory costs, include all the expenditure of the given enterprise connected with the sale of output and also expenditure incurred in other directions (transport, packaging, expenditure of trusts and combines on administration, on training personnel, on technical propaganda, and on payment to the research institutions).

What is the structure of the production costs of industrial output?

Everything the enterprise spends on the production of output is grouped according to economic characteristics, according to the composition of the basic elements of production, giving the following homogeneous groupings:

1. Wages, and additional charges calculated on wages.
2. Outlay on raw and other materials, fuel and electric power.
3. Depreciation allowance against the value of the used-up means of production.
4. Outlays of the enterprise and its departments on the managing and servicing of production.

The proportion of the production costs represented by these different elements varies, depending on the specific conditions and features of the branch of industry, and also on its level of technical equipment and the organisation of production and labour.

The principal ways of reducing production costs to ensure an economy in the expenditure of social labour in all branches of the national economy are to raise the labour productivity of the employed workers, to reduce outlays on raw and other materials, fuel and electric power per unit of output, and to cut down expenditure on administration.

Reducing production costs is important, first and foremost, because on this depends not only the profitability of the individual enterprise, but the increased accumulation which is used to expand socialist reproduction and raise the material and cultural standards of the people. The drive to reduce production costs is therefore particularly important. Over the two decades (1961-80), reductions in industrial production costs should produce an economy of 1,400-1,500 thousand million rubles, representing almost three-fourths of the total capital investment in the national economy.

**Net income and its two forms**

*Net income* is the expression in money of the value of the surplus product created by surplus labour throughout socialist society.

The net income of society, like the entire national income, is created in the branches of material production. Part of the net income created at state enterprises is for the separate enterprises to dispose of themselves (in the form of profit), while the other part goes to the state. Net income is also created on collective farms. Part of this remains at the disposal of the collective farms, and the remainder, through the mechanism of prices and income tax, goes to the state.

Net income appears in two main forms: the centralised net income of the state and the net income of the state enterprise (and also of the collective farm).

*The centralised net income of the state* is that part of the value of the surplus product of socialist society which is concentrated in the hands of the state for spending on the needs of the people as a whole.

This income goes into the state budget as turnover tax, deductions from profits, charges for social insurance calculated on the wages bill, income tax from co-operative enterprises, etc.

The centralised net income of the state is allocated for the needs of the people as a whole, for financing capital construction projects, covering the country's expenditure on defence, public education, health services, pensions, administration, etc.

*The net income of the state enterprise* is that part of the value of the surplus product which remains with the enterprise. The amount of the net income depends on the degree to which the enterprise fulfils or overfulfils its plan and on the reduction in production costs. The better the enterprise operates and the lower the production costs, the higher will be the net income. This system ensures that all the workers in the enterprise will have a material interest in raising the profitability of production.

The net income of the state enterprise is used on planned lines to expand production (for capital investment and for increasing the enterprise's circulating assets) and to form the fund of enterprise.

Part of the net income (profits) of the enterprise is transferred to the state budget in the form of deductions from profits.

The net income of socialist enterprises increases steadily. Thus, in 1940 the net income of enterprises and economic organisations in the U.S.S.R. was 3,270 million rubles and in 1961—26,800 million rubles.

**Price in the state sector**

The output of socialist industry is sold at prices planned in advance. The basic principle of price formation under socialism is planned fixing of prices, taking into account the social outlays of production, i.e., commodity value. Prices in socialist society deviate from the value, but these deviations are not spontaneous, they are determined by the state with a view to developing the country's economy and raising the well-being of the working people. "Prices," the Programme of the C.P.S.U. points out, "must, to a growing extent, reflect the socially necessary expenditure of labour, ensure return of production and circulation outlays and a certain profit for each normally operating enterprise."[1]

In socialist economy, a distinction is drawn between the wholesale prices of the enterprise and of industry, the purchase prices for the commodity output of collective farms and their members sold to state and co-operative organisations, and the retail prices in state and co-operative trade.

*Wholesale price* in the U.S.S.R. includes full costs, the profit of the industrial enterprise and the outlays and profit of the selling organisation. If the type of commodity is liable to turnover tax, then this tax is also included in the wholesale price.

Turnover tax is paid into the budget mainly from branches of industry producing consumer goods, and from a number of branches of heavy industry (oil, gas, iron and steel, electrotechnical industry, etc.). Much of the output of heavy industry is sold at prices below their value. This means that part of the net income created in heavy industry is realised, through the turnover tax, in the prices of commodities produced by the light industry.

In fixing wholesale prices the state is guided by the need to compensate for the planned expenditure of the enterprises on the production of their output and to guarantee profitability.

Through its system of prices, the state promotes the profitable operation of enterprises, stimulates reductions in production outlays and increased output of the necessary

[1] *The Road to Communism*, p. 537.

types of commodities. The continual growth and improvement of socialist production provide the basis for reductions in wholesale prices, which, in turn, are the condition for reducing retail prices. "Systematic, economically justified price reductions based on growth of labour productivity and reduction of production costs," the Programme of the C.P.S.U. points out, "are the main trend of the price policy in the period of communist construction."[1]

### 4. Cost Accounting on Collective Farms

The principles of cost accounting considered above apply basically also on collective farms. "Farming on all collective farms must be based on the principle of cost accounting,"[2] the Programme of the C.P.S.U. points out. But on collective farms cost accounting takes somewhat different forms from those prevailing in state enterprises, owing to the specific features of co-operative and collective-farm property.

Cost accounting primarily requires that strict accounts, expressed in money, should be kept of the entire *gross output* of the collective farm, i. e., of all that is produced in the course of a year in the common economy of the collective farm. A considerable part of this output is sold as the *marketable output* of the farm. The bulk of it is sold to the state at state purchase prices.

State purchase prices in the U.S.S.R. for each variety of output are fixed according to the different zones of the country, depending on the conditions of production in each zone. For example, the state purchase price for grain is higher in the Urals than in the Ukraine, because in the Ukraine less expenditure of labour is required per centner of grain.

In order to reveal the profitability or otherwise of collective-farm production it is necessary to determine the *production costs*, which involves certain difficulties. For example, the collective farms do not buy some of their means of production (e.g., seed, fodder); they replace what is used by what they themselves produce; payment for labour

[1] *The Road to Communism*, p. 537.
[2] *Ibid.*, p. 529.

on collective farms is in kind as well as in cash. This makes it difficult to calculate collective-farm production costs. But these difficulties can be overcome if calculations and accounting are correctly organised and if labour and materials are properly rated, etc.

At the present time, collective-farm production costs are calculated on the following lines: the seed, fodder and other materials produced on the farm are valued at their production cost; bought materials are valued at their market price. Depreciation of fixed production assets (tractors, motor vehicles, farm machinery, etc.) is reckoned at the rates accepted for state farms. Payment in kind to members of the collective farm is calculated in terms of money. Payment for labour in money makes it easier to apply the cost accounting method.

The collective farm is a large-scale economic enterprise. The work cannot be conducted by the old methods used by the farmers' forefathers. The modern collective farm demands that accounts in terms of money should be kept of all that is spent on production. The task now before the collective farms is to achieve a further reduction in collective-farm production costs. For this they need a higher level of mechanisation in production, better utilisation of available land and higher labour productivity.

Increased output and reduced production costs are the essential condition if the state purchase prices and the retail prices of agricultural output are to be reduced.

State purchase prices are fixed in such a way that when the collective farms sell their output to the state they can cover their production costs and obtain a net income (profit) as the difference between the purchase price and costs of production.

*The net income of the collective farm* is that part of the value of its gross output which remains after deduction of all expenditure incurred in its production, i.e., the costs of production. A comparison of production outlays and incomes received makes it possible to determine the economic advantage accruing from cultivating one or other crop, and to assess the results of the economic activity of the collective farm as a whole.

Part of the collective farm's net income is *differential rent*. For the essential condition for agricultural production is the land. But different plots of land differ in fertility and situation. Better natural fertility and a better situation mean higher labour productivity on some collective farms, or less expenditure of labour per unit of output.

Therefore, collective farms conducting their economy on the better or average plots of land, or on land that is close to the places where output is sold, and so incurring less outlay on transport, get an additional net income compared to farms working under relatively less favourable conditions. This part of the net income forms *differential rent I*.

*Differential rent II* is also formed on collective farms. This is the net income that leading collective farms receive as a result of their better use of the land—by applying up-to-date technology, using fertilisers and improved farming methods, etc. This raises labour productivity and lowers expenditure per unit of output.

Part of the differential rent remains with the collective farms. The other part goes to the state budget through the system of prices and income tax.

The collective farms have plenty of scope for reducing expenditure per unit of output. Lowering expenditure by raising labour productivity leads to reduced production costs and higher net incomes for the collective farms, to a further increase in the well-being of the collective farmers.

*Chapter XVI*

# SOCIALIST REPRODUCTION. NATIONAL INCOME AND THE FINANCE AND CREDIT SYSTEM UNDER SOCIALISM

## 1. Socialist Reproduction

**Nature of socialist reproduction**

Reproduction means the uninterrupted, continually repeated process of production, distribution and consumption. In it, production determines everything else, because only what has been produced can be distributed and used.

Reproduction can be either simple or extended. Under socialism, there is a constant, uninterrupted, annually expanding scale of production, i.e., *extended reproduction*. The process of reproduction implies more than the constant material wealth and labour power; it also includes the relations of production.

In the period of full-scale communist construction the reproduction of socialist production relations ensures the growth and consolidation of the socialist property of society in two forms, the drawing closer and, in perspective, the fusion of state and co-operative and collective-farm property, their gradual transformation into one communist property of the whole people, the extension and improving of comradely co-operation and mutual assistance among working people, the development of the communist attitude to labour, and the gradual development of communist forms of distributing the good things of life.

The chief characteristic of socialist, as against capitalist, reproduction is that it is subordinated to the aim of satisfying the needs of the people. Under capitalism the aim is different—the enrichment of a small group of private owners. Socialist reproduction develops in the interests of society as a whole, and this precludes any possibility of competition between enterprises and industries, any possibility of crises of over-production and the rise of unemployment.

Another characteristic feature of socialist reproduction is the continuous growth of production. Production in the U.S.S.R. has been continually increasing, whereas in the U.S.A.—the principal country of the capitalist world—the growth of production has been interrupted by economic crises four times in the post-war years.

Socialist reproduction takes place on planned lines. This means that the development of every branch of economy and of social production as a whole proceeds according to a predetermined plan.

A high rate of economic growth, a steady expansion of the productive forces, the creation of the material and technical basis of communism are characteristic of socialist reproduction.

Socially, the process of reproduction is one which reproduces the productive forces and the relations of production; but from the point of view of the material output, it is the process of creating the gross social product.

**The gross social product and its structure**

The result of socialist reproduction is the creation of the gross social product and, on that basis, the augmentation of the wealth of society. By *wealth of society* is meant the sum total of material values at the disposal of society. These material values represent the result of the productive activity of the given generation of people and of all preceding generations.

The *gross social product* is the whole mass of material wealth created by society over a given period, usually one year (the annual social product). It is created by the labour of people engaged in the sphere of material production: industry, agriculture, transport, communications, and of people working in trade, since the production process is continued in that sphere (the packaging, sorting, storage and transport).

But apart from the work in material production, part of the work goes into state administration, cultural work, municipal and medical services for the population. The work of people engaged in these spheres is not directly responsible for creating the gross social product, but it is socially useful labour which society needs and it contributes to the creation of the gross social product.

In socialist society, the gross social product increases continuously on planned lines, and it is distinguished by its rapid rate of development. During the twenty years (1961-80) the gross social product in the U.S.S.R. will increase approximately fivefold.

The following are the factors which make for its growth under socialism.

The most important factor is the *growth of labour productivity*. The possibilities of increasing the gross social product through the growth of labour productivity are boundless under socialism.

Another factor is the *rise in the number of people engaged in material production.*

The total social product is reproduced both in the physical or material form, and in value.

In its *physical* or *material form*, the gross social product consists of:

1) articles intended for production, or the means of production (machinery, raw and other materials, fuel, etc.);

2) articles of personal consumption (clothing, footwear, food, housing, household goods, articles for cultural use, etc.).

Articles intended for production are used to replace the already consumed means of production and to expand production.

Articles of personal consumption may be used to satisfy the personal requirements of the working people, to create state stocks, and to supply consumer goods to additional groups of people drawn into production.

Thus, according to the purpose for which the articles included in the gross social product are intended, social production is divided into two main groups: *production of the means of production* (Department I) and *production of consumer goods* (Department II).

As regards *value*, the gross social product falls into three parts: 1) the value of the already consumed means of production, namely, that part which is transferred to the finished product; 2) the newly created value intended for the personal consumption of the workers; 3) the newly created value intended for the expansion of production and of the public consumption fund.

Each of these parts plays a special role in the process of reproduction. The first part is used to replace (in value) the already consumed means of production, i.e., depreciation of buildings, installations, machine tools, machinery and mechanisms, and to replace consumed raw materials, fuel, electric power and other elements used in production.

The second part of the value of the gross social product compensates (in value) for the labour power expended, i.e., for the articles used by the people working in material production.

The third part of the gross social product incorporates the value of the surplus product, and is used both to cover the outlays on the upkeep of the non-productive sphere and to form the resources for expanding production (the accumulation fund).

**Realisation of the gross social product**

The annual social product is realised on the basis of a plan. Realisation takes place by means of exchange between Departments I and II and within each of them.

Let us first consider how realisation of the output from all the enterprises in *Department I* takes place.

For the production process in Department I to be continually renewed, it is essential for the means of production consumed in it to be continually replaced.

This is achieved by means of exchange between the various branches in Department I. The iron ore and coal industries, for instance, provide raw material and fuel for the iron and steel industry, the atter supplies metal to the engineering industry, and in exchange receives machinery and equipment, and so on. Between the branches in Department I there is planned exchange of the means of production needed for continuing the production process in those branches. Thus one part of the output from Department I is realised.

Another part of the output from Department I is intended to replace the means of production already consumed in Department II. And finally, the third part, which incorporates surplus labour, goes to expand production in both Department I and Department II.

*In Department II*, part of the produced output, as in Department I, is realised through exchange between different branches within this Department, and is used for the personal consumption of the people engaged in the branches of this Department. The second part is intended for consumption by the workers in Department I. Part of the output from Department II also has to go to workers additionally drawn into production.

A planned exchange of output takes place between Departments I and II. Department I supplies the industries of Department II with machine tools, machinery and mechanisms, fuel, materials, etc., to replace the already consumed means of production and to expand production. Department II supplies consumer goods for the personal needs of the people working in Department I, and also to expand the consumption fund, since consumption is always increasing, and all the branches of production in Department I are expanding further, and additional workers are being drawn into it.

Thus, both in the material and in the money form there is continuous movement and mutual exchange between the constituent parts of the gross social product.

To ensure the smooth, uninterrupted process of socialist extended reproduction, the following conditions are essential:

*Firstly*, the annual output from Department I, which consists of the means of production, must be sufficient, both in value and in the material form, a) to fully replace, both materially and in value, the production assets already used up in Departments I and II during the creation of the gross social product; b) to increase production assets in Departments I and II to accord with increased social requirements, i.e., to accumulate the means of production necessary to expand the scale of production; c) to create the socially necessary stocks and reserves of production assets.

*Secondly*, the annual output from Department II, which consists of consumer goods, must be sufficient, both materially and in value, a) to supply the workers of both Departments, including those already employed and those additionally drawn into production, with consumer goods on the principle of "to each according to his labour"; b) to supply, on the same principle, the workers engaged in the non-productive spheres (administration, education, health services, etc.); c) to create the socially necessary stocks and reserves of consumer goods.

Only if these conditions are observed is it possible to guarantee uninterrupted extended reproduction of the gross social product.

**Priority growth of production of the means of production**

The most essential condition for socialist extended reproduction is that the production of the means of production (Department I) should have priority over, i.e., should grow more rapidly than, the production of consumer goods (Department II). In order to expand production, it is necessary first of all to produce the means of production, and to produce them in quantities sufficient not only to replace the capital goods consumed in production, but to expand the volume of production in all branches of the national economy.

Lenin regarded *priority growth of production of the means of production over that of consumer goods* as an economic law of extended reproduction.

Let us explain the meaning of this law.

The development of society's productive forces and technical progress go hand in hand with the increase in the social product of the share of congealed (past) labour and a diminution in the share of living labour. Manual labour is more and more replaced by the labour of machines, which raises labour productivity and, in consequence, increases the scale, the volume of production. Priority development of production of the means of production is an expression of the replacement of hand by machine labour, of the general progress of machine industry. It is, moreover, both a consequence and a condition of technical progress.

Extended reproduction on the basis of technical progress is indissolubly linked with priority development of production of the means of production.

Under socialism, as distinct from capitalism, this priority development of the production of capital goods acquires additional significance. It is no longer spontaneous and cyclical, but is deliberate, planned and continuous and is not for the enrichment of capitalists, but in order to guarantee a steady rise in the welfare of all the people.

Socialism can be achieved only on condition that production of the means of production is given priority development. The light and food industries and agriculture, which satisfy the needs of the people for consumer goods, can only develop successfully and expand their production if heavy industry supplies them with the necessary quantity of machinery of various kinds, electric power, raw materials, namely, if technical progress is also extended to these branches of the economy. To increase the output of textiles, for example, more high-efficiency weaving looms and other machinery must first be produced.

Priority development of production of the means of production is a vital requirement, the material basis for the development of all branches of industry and of the national economy. "The main task of heavy industry," the Programme of the C.P.S.U. points out, "is to meet all the needs of the country's defence and to ensure the development of industries producing consumer goods, so as to satisfy better and in full the requirements of the people, the vital demands of Soviet man, and to effect the development of the country's productive forces."[1]

The Communist Party of the Soviet Union consistently pursues the line of priority development of production of the means of production, of heavy industry.

Priority growth of Department I is fundamental for the building of the material and technical basis of communism. During the twenty years (1961-80) the gross industrial output of the U.S.S.R. will increase 6.2-6.4 times, production of the means of production (Group A) increasing 6.8-7 times, and production of consumer goods (Group B)—5-5.2 times.

Heavy industry will continue to be the basis for the development of socialist economy, one of the most important conditions for the building of socialism and communism. Only on the basis of its priority development is it possible

[1] *The Road to Communism*, p 515.

to guarantee a gigantic rise in the productive forces, technical progress and a further improvement in the welfare of the people.

## 2. The National Income and Its Distribution Under Socialism

**The national income** Under socialism the *national income* is the part of the gross social product that remains after replacement of the already consumed means of production, and it incorporates additionally expended labour.

In its material, physical form, the national income consists of the entire amount of the means of production and articles of consumption newly produced in the country. It is used for accumulation, for expanding production, for personal consumption by the population and for other forms of non-productive consumption. Since commodity production exists under socialism, the national income assumes the form of value, of money, as well as the physical form, and it is expressed and measured through the medium of money.

The national income of socialist society is fundamentally different from that of capitalist society. It differs in its economic nature, in the sources from which it is built up, in the principle on which it is distributed and in the way it is used.

Under capitalism, the national income derives from the exploitation of the working masses and is put at the disposal of the exploiting classes, the greater part of it being appropriated by capitalists and landowners and only the smaller part reaching the working people.

Under socialism the national income is created by the labour of working people freed from exploitation and it belongs in full to the working people. Here all the conditions are produced for the uninterrupted, rapid growth of the national income.

The Seven-Year Plan provides for an increase in the national income in 1965 of 62-65 per cent over the 1958 level. This means that the national income in the course of seven years will equal the total national income of the U.S.S.R. over the past thirty years. In 1962, the national income of the U.S.S.R. amounted to 161,500 million rubles. By 1980, the national income will reach the figure of approximately 720-750 thousand million rubles.

The growth of the national income under Socialism is primarily due to the *increasing labour productivity*. Here most important are the development of science and culture, the accumulated experience, and the technical know-how of working people. In the U.S.S.R. increased labour productivity accounts for the overwhelming part of the increase in the national income. This factor is decisive in building up the national income. In 1961-80, for instance, more than nine-tenths of the total increase in the national income will be due to greater labour productivity. The higher the labour productivity, the higher the physical volume of the gross social product and, consequently, the greater the national income.

Another factor in the growth of the national income in socialist society is the *increase in the number of people engaged in material production.*

At the same time there is a constant increase in the number of people working in science, public health and culture. The total personnel in these fields will increase in the twenty-year period (1961-80) by approximately 40 per cent.

The socialist system of national economy guarantees the most efficient utilisation of society's manpower resources, since under socialism unemployment has been abolished and it is possible to plan the use of labour power to suit the requirements of society.

Finally, a factor in the growth of the national income is *economy in the means of production.* Reducing the expenditure of fuel, raw and other materials per unit of output, and more efficient use of available machinery and production premises create additional resources for increasing the volume of output, and so lead to a corresponding increase in the national income.

**Distribution of the national income**

The national income under socialism is distributed on the basis of a plan for the purpose of expanding socialist reproduction and achieving a steady rise in the welfare of the people.

The national income consists of two parts. One part is the *necessary product*, or the *product for oneself*, and is distributed among people working in material production according to the quantity and quality of their labour. This production for oneself takes the form of wages for industrial and other employees in state enterprises and of payments in cash and in kind for collective farmers.

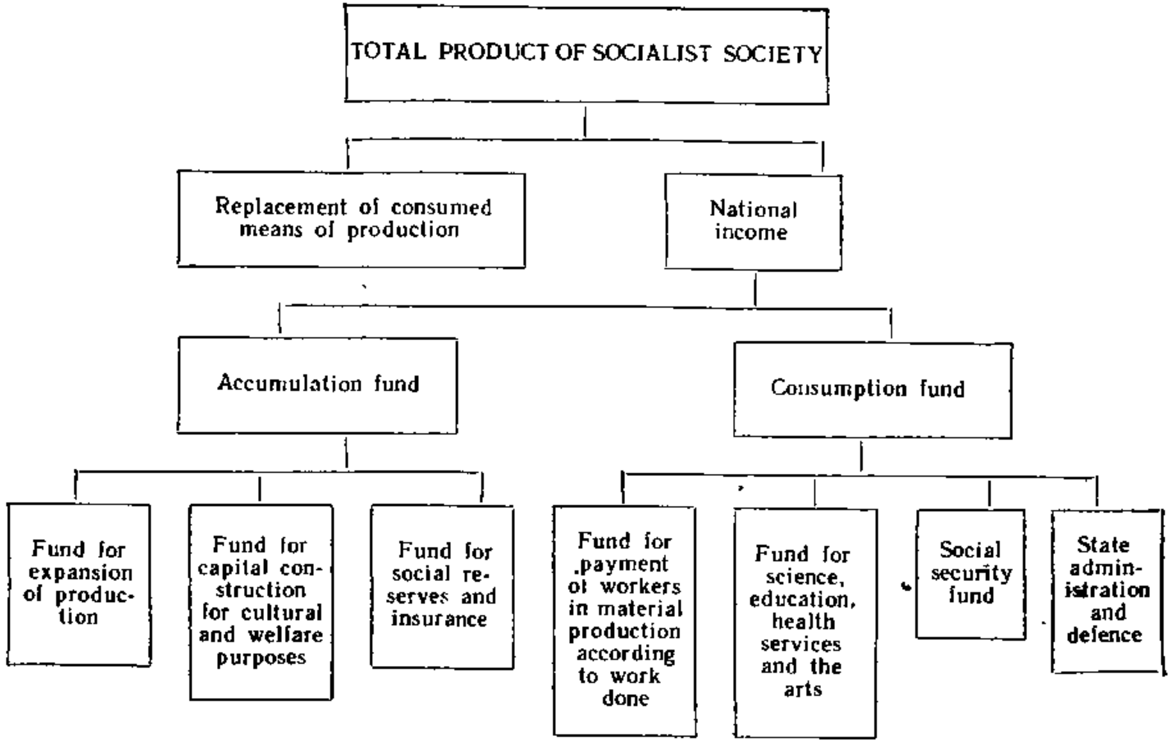
The other part of the national income is the *surplus product*, or the *product for society*, which is used to expand production and build up stocks, to build premises for cultural and welfare purposes, to form the public consumption fund and to supply other social needs.

In line with the plans to expand socialist production in town and country and to satisfy the needs of society, the socialist state carries out a further redistribution of the national income, mainly through the state budget. Groups of the population who work in the non-productive sphere receive remuneration for their work through this redistribution of the national income.

The entire national income of socialist society divides into the consumption fund and the accumulation fund.

The *consumption fund* is the part of the national income used to satisfy the needs of the population for food, clothing, footwear, household goods and articles for cultural use, and to meet the needs of the public. In the U.S.S.R. about 72-75 per cent of the national income is spent in this way. The consumption fund is formed by the products created by necessary labour and by part of the surplus product which is spent on various social, cultural and other public requirements.

Under socialism, the consumption fund can again be divided, according to the way it is used, into the fund for payment of the workers in material production and the public consumption fund. The latter fund is spent on social and cultural needs, i.e., to cover requirements in the fields of science, public education, health services, the arts, etc., on social security (state assistance to mothers of large families and unmarried mothers, pensions, etc.), to cover the cost of administration and defence (upkeep of the state apparatus, the armed forces and so on). The public consumption fund is


TOTAL PRODUCT OF SOCIALIST SOCIETY
Replacement of consumed means of production
National income
Accumulation fund
Consumption fund
Fund for expansion of production
Fund for capital construction for cultural and welfare purposes
Fund for social reserves and insurance
Fund for payment of workers in material production according to work done
Fund for science, education, health services and the arts
Social security fund
State administration and defence

most important for improving the welfare of the people. An increasingly large part of what Soviet people consume at the present time is paid for out of public funds.

The *accumulation fund* is built up out of the surplus product. In its material make-up this fund consists mainly of the output from Department I. But a definite part of the output from Department II is also accumulated (production stocks, consumer goods accumulated for distribution among workers newly drawn into production, etc.). Expressed in money the accumulation fund chiefly consists of the resources of the state budget, of state, co-operative and collective-farm enterprises, set aside for the purpose of accumulation. Roughly 25-28 per cent of the national income goes into the accumulation fund.

According to the way it is used, the accumulation fund may be divided into three parts, one of which is for the expansion of production, the second—for financing capital construction for cultural and welfare purposes (schools, hospitals, housing, etc.), and the third—for the reserve or insurance fund.

The distribution of the gross social product and the national income may be expressed in the scheme on page 320.

**Socialist accumulation**

Under socialism, there is no antagonism between production and consumption, or consumption and accumulation. Socialist society starts out from the possibility of so combining consumption and accumulation as to create the conditions which guarantee the most rapid rate of extended reproduction and the ever full satisfaction of the requirements of socialist society.

The relation between consumption and accumulation is determined according to the current tasks of socialist construction, on the basis of the law of the planned, proportional development of the national economy. The proportions between consumption and accumulation cannot be immutable; they change and are determined for each given period.

Socialist accumulation is the source of extended socialist reproduction. The result of socialist accumulation is a continual increase in the wealth of society, in its productive and non-productive funds, which is attained through the systematic direction of part of the surplus product into the uninterrupted expansion of production, the aim being steadily to improve the welfare of the people.

Socialist accumulation takes place through capital investment in the national economy, which grows annually larger. For example, in the U.S.S.R. the capital investment of state and co-operative enterprises (excluding collective farms) and organisations during the period of the First Five-Year Plan (1929-33) was approximately 6,700 million rubles, during the Fifth Five-Year Plan (1951-55) it was 67,200 million. Capital investment for the Seven-Year Plan (1959-65) amounts to 194-197 thousand million rubles.

### 3. Finance and Credit System Under Socialism

Most important in socialist reproduction is the finance and credit system, all the links of which are called upon to serve in the production, distribution, exchange, accumulation and consumption of the social product. Finance and credit are involved in the distribution and utilisation of the major part of the social product—the national income. Through finance and credit, the socialist state strongly influences the economic activity of every enterprise and promotes the fullest tapping of reserves and economical expenditure of available resources.

**The state budget**

The national income is created, as we know, in the sphere of material production and a considerable part of it goes to the accumulation fund, i.e., is used for the further expansion of production.

But if the enterprises themselves were to use this part of the national income to expand their own production, it would not be possible to maintain correct proportions in the development of individual enterprises and branches of the national economy. For this reason a centralised accumulation fund is established in the socialist economy, which is used to finance capital construction and the reconstruction and expansion of existing enterprises.

The centralised accumulation fund enters into the state budget, the most important link in the finance system of the socialist state. The *state budget* is the country's basic financial plan, by means of which a considerable part of the national income is concentrated and utilised to satisfy social needs. It is drawn up for one year, in accordance with the current economic plan.

The state budget is split up into revenue and expenditure.

The *revenue* side of the state budget chiefly consists of receipts from the socialist enterprises. These include: the turnover tax, deductions from the profits of state enterprises and economic organisations, income tax from co-operative organisations and collective farms, timber revenue[1], etc. In 1961, receipts from the socialist enterprises represented 91.2 per cent of the revenue side of the budget. The social insurance fund also forms part of the revenue side of the state budget, since state organisations and enterprises pay contributions into this fund, on a fixed scale, in the shape of special charges calculated on the basis of their wages bills.

A distinctive feature of the Soviet state budget is that the proportion of revenue made up of direct contributions from the population is small. Thus, in the 1963 budget of the U.S.S.R., taxes from the population amounted to only 8 per cent of the total budget revenue. In the near future, taxes from the population will be abolished and the U.S.S.R. will become the first state in history that levies no taxes on the population.

The *expenditure* side of the state budget includes the financing of the national economy, social and cultural projects, the maintenance of the organs of state administration, the cost of the country's defence.

The greater part of the Soviet state budget resources (up to 75 per cent) is used to finance the national economy and social and cultural projects. The proportion spent on maintaining the state apparatus is being reduced.

The U.S.S.R. pursues a consistent policy of peace, and for this reason defence expenditure accounts for a comparatively small proportion of the budget.

In socialist society the state budget shows systematic growth, on the basis of the steady rise in the whole national

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[1] The timber revenue includes: timber procurement payments per tree felled, incomes of forest nurseries from the sale of young trees and seed to institutions and private persons, etc. Half of the revenue from state forests is assigned to the Union budget and half to local budgets.

economy. The U.S.S.R. budget always shows a preponderance of revenue over expenditure.

All the organs of Soviet power, from the Supreme Soviet of the U.S.S.R. to the village Soviet, have their independent budgets. This makes it possible to take local conditions into account in every area during the implementation of state plans.

**Credit and banking under socialism**

Under socialism, *credit* is a form of state mobilisation of temporarily idle monetary resources and of their planned use to meet the needs of the national economy.

Credit is closely bound up with the turnover of the means of socialist enterprises. During this turnover, the enterprises find themselves with temporarily idle resources. This is due to the fact that the time at which money is received from the sale of output does not coincide with the time at which money has to be spent on production requirements. As output is sold, the enterprises and economic organisations accumulate money in their accounts at the State Bank, which will need to be spent after a certain lapse of time. The increase in incomes of working people also means the formation of considerable sums of money temporarily not in use in the form of savings bank deposits.

While some enterprises and economic organisations may find themselves with money lying idle, others may have a temporary need for additional ready money. They may need it to buy seasonal supplies of raw materials, for building up production stocks, for meeting expenditure on production and transport, etc.

Concentrated in the banks are all the temporarily idle monetary resources in the national economy, and out of these, the banks give credit to economic organisations and enterprises in need of ready money.

Credits may be either short- or long-term.

*Short-term credit* is usually given for periods less than one year. The centre for short-term credit in the U.S.S.R. is the State Bank. Short-term credit is given to enterprises and economic organisations so that they can meet a temporary need for additional means of circulation.

*Long-term credit* is made available over a long period and is chiefly used for capital construction. Nowadays, long-term credit is issued by the All-Union Bank for Financing Capital Investments (the U.S.S.R. Stroibank). Long-term credit is given for capital construction projects, for developing livestock breeding, for individual housing construction, for increasing the output of consumer goods, and for improving welfare services. Credit for capital investment of state enterprises is also given by the State Bank. It gives loans for capital investments which will be recouped within a short period. Among these are: credits earmarked for the introduction of new technique, and the organisation and expansion of production of consumer goods. The State Bank of the U.S.S.R. also gives long-term credit to foreign states on favourable, mutually advantageous terms.

Institutions giving credit charge a fixed interest on loans and also pay a fixed interest on deposits.

Under socialism, credit promotes efficient use by the enterprises of their means, increased socialist production and greater profitability.

The redistribution of temporarily idle resources among various branches and enterprises of socialist economy is carried out through the highly developed credit and banking system.

The Soviet *credit and banking system* consists of: 1) The State Bank, 2) The All-Union Bank for Financing Capital Investments, and 3) The state savings banks.

The *State Bank* occupies a leading position in this system and provides short-term credit for the national economy; it is the country's centre for clearing accounts and making payments. Payments into the state budget are made through it, and it is used for the settlement of accounts between economic organisations and enterprises, and between members of the public and organisations or institutions. The State Bank is also the only centre for the issue of currency; it is responsible for putting money into circulation, for planning and regulating the circulation of money. Lastly, the State Bank is the one centre in the country that holds foreign currency and handles all international accounts.

The State Bank of the U.S.S.R. is the largest bank in the world. It has over 6,000 establishments (republican, territory, regional and city offices, district branches and local municipal banks) which handle an immense volume of accounting and credit operations.

*The All-Union Bank for Financing Capital Investments* (the U.S.S.R. Stroibank) finances, and gives long-term credit for capital construction by the various enterprises; it also gives short-term credit to the building organisations which contract to do the building work, and settles accounts between customers and contractors. At present the capital construction of state enterprises is mostly financed on a non-repayable basis; but the capital investments of co-operative organisations and collective farms are realised through long-term credits and from their own available resources.

Like the State Bank, the U.S.S.R. Stroibank controls plan fulfilment of construction work, correct utilisation of means, and measures to lower construction costs.

*Savings banks* are also credit bodies. They receive deposits from the public and from collective farms and non-government organisations. They also serve the public in operations connected with state loans, letters of credit and other cash operations.

In socialist society, money that working people are temporarily not using, and which they deposit in the savings banks, is used to finance socialist construction. The savings banks pay their depositors interest in return for the use of their savings.

The constant rise in the material welfare of the people in socialist society has meant an immense development of savings. In the U.S.S.R., for instance, the total deposits by the public in savings banks in 1962 reached the figure of 12,700 million rubles, as against 700 million in 1940.

*Chapter XVII*

# THE WORLD SOCIALIST SYSTEM

## 1. The Rise and Development of the World Socialist System

The Great October Socialist Revolution in Russia put an end to the undivided rule of capitalism.

There began a new era in human history—the era of the downfall of capitalism. The capitalist economic system ceased to be the one, all-embracing system. The socialist economic system had emerged and was developing alongside it.

The rise of the socialist economic system in the U.S.S.R. was of immense international significance and decisively influenced the whole subsequent course of world development.

The socialist revolutions in a number of European and Asian countries were the continuation of the Great October Socialist Revolution in Russia, and the victory of the Soviet Union in the Second World War was of decisive importance for the triumph of socialism in those countries.

The victory of the socialist revolutions and the fact that a number of European and Asian countries dropped out of the capitalist system led to the emergence of the world socialist system.

The principal feature of the present epoch is that *socialism has spread beyond the bounds of a single country and has become a world system*. Socialism has become an international phenomenon.

The world socialist system is not the simple sum total of states which have dropped out of the capitalist system, but *a social, economic and political community of free, sovereign nations which are following the road to socialism and communism, and are united by their common interests and aims and close ties of international socialist solidarity.*

The countries of the world socialist system stretch over two continents, Europe and Asia, and occupy a territory of 35.1 million square kilometres or 26 per cent of the world's territory. The population of the socialist countries is more than 1,000 million, or 35.5 per cent of the world's population.

The socialist countries have a powerful economic basis. They are responsible for 37 per cent of the world industrial output and about 40 per cent of the world agricultural production.

*The economic basis of the world socialist system is common ownership by society* of the means of production in its two forms: state and co-operative ownership. Socialist ownership holds undivided sway in the U.S.S.R. and the majority of the People's Democracies. The development of socialist production in all the countries of the world socialist system is subordinated to a common aim: the ever fuller satisfaction of the material and cultural needs of the people.

*The political basis of the world socialist system is the power of the people led by the working class.* The Communist and Workers' Parties are the leading and guiding force in all the socialist countries.

The socialist countries share the common interest of defending their revolutionary gains and their independence against the encroachments of the imperialist camp.

*Characteristic of the world socialist system is its single ideology*—Marxism-Leninism.

The rise of the world socialist system brought about the socialist camp which strengthens as this system develops. Relations of fraternal friendship, the common historic destiny of the socialist states and their desire to build socialism and communism are typical of the socialist camp, or, which means the same, the world community of socialist countries.

The world socialist system and the world capitalist system develop according to diametrically opposite laws. The capitalist world system was formed and developed in the course of a violent struggle between the states belonging to it on the lines of the subordination and enslavement of the weak countries by the strong; but the formation and development of the world socialist system takes place on the basis of sovereignty, the voluntary principle of association, in accordance with the fundamental vital interests of the working people in all the socialist countries.

Typical of the world capitalist system is the law of uneven economic and political development, which leads to conflict between states. Typical of the world socialist system are fundamentally different laws, which ensure the steady, planned growth of the economy of all its member countries, leading to the all-round development and strengthening of the world socialist system as a whole.

World capitalist economy develops slowly, experiencing crises and upheavals. World socialist economy grows at rapid, steady rates; all the socialist countries experience a general, continuous rise in their economies.

In 1961, the total volume of industrial output in the socialist countries was about 7.3 times above the pre-war level. For instance, industrial output in the U.S.S.R. was 5.7 times higher in 1961 than before the war. In Poland, industrial output increased 8.4 times, Czechoslovakia—4.4, the German Democratic Republic—3.4, Hungary—4.6, Rumania—5.8, Bulgaria—14 and the Mongolian People's Republic—9 times.

In the People's Democracies, the most difficult problem of socialist construction—the voluntary conversion of the peasants from small, individual farming to large-scale, mechanised, co-operative farming—has been solved or is being successfully solved. This shows that the result of the indestructible fraternal co-operation of workers and peasants has been the victory of socialist production relations not only in the towns but also in the countryside. In the socialist countries today, more than 90 per cent of the total area of arable land comes under the socialist sector.

The highly developed economy of the socialist countries makes possible a steady rise in the material and cultural standards of the masses. In the socialist countries the national income, approximately three-fourths of which is used to satisfy the rapidly growing needs of the working people, is increasing fast.

The constantly rising public consumption funds in the socialist countries play an increasing part in improving living conditions. Out of public funds houses are built, medical, cultural and welfare services are improved, and the system of public education extended.

*The world socialist system has now entered a new stage of development.* The Soviet Union is successfully accomplishing the full-scale construction of communist society, rapidly establishing the material and technical basis of communism. Other countries in the socialist camp are successfully laying down the basis of socialism and some have already entered the period of building fully-developed socialist society.

The world socialist system is becoming *the decisive factor in the development* of human society. By force of example, the socialist countries are inspiring the working class and all working people in the capitalist countries to struggle harder against capitalist oppression, for social emancipation and stable peace throughout the world. "As the might of the socialist states grows," said Khrushchov, "the material and moral factors for peace become stronger. The cardinal problems of the day, the problems of war and peace, for instance, can no longer be approached only from the standpoint of the laws of capitalism and how they operate. Today it is not imperialism with its wolfish habits but socialism with its ideals of peace and progress that is becoming the decisive factor in world development."[1]

The formation of the world socialist system, its growing unity and solidarity mark the rise of a new type of international economic and political relations.

### 2. Co-operation and Mutual Assistance as the Basis of Economic Relations Among the Countries of the World Socialist System

**The new type of economic and political relations**

The fact that the member countries of the world socialist system are united on the most progressive political, economic and ideological basis *has given rise to a new type*, hitherto unknown in history, *of economic and political relations among nations.* The relations among the socialist

[1] *The Road to Communism*, p. 21.

countries are built on principles of complete equality, respect for territorial integrity, state independence and sovereignty, and non-interference in internal affairs. But these important principles do not exhaust the nature of these relations. An inalienable feature of the relations between the socialist countries is fraternal mutual assistance, which is an expression of the principle of proletarian internationalism.

Every socialist country, great or small, is always in need of all-round co-operation with other socialist states. But now, when the world is split into two systems, the very existence of the socialist countries and their successful progress are possible only because of the existence of the socialist camp and because it is possible to rely on its economic might and political unity.

The socialist countries are making their contribution to the building and development of the world socialist system.

The fraternal multilateral co-operation of the socialist countries enables them to make the fullest use of the advantages of the world socialist system in order to accelerate the development of the productive forces of each country and to strengthen the economic might of the socialist camp as a whole.

"The strengthening of the unity of the world socialist system on the basis of proletarian internationalism," the Programme of the C.P.S.U. points out, "is an imperative condition for the further progress of all its member countries."[1]

The new type of economic and political relations is a natural phenomenon which has a firm socio-economic and ideological basis. These relations follow from the very essence of the socialist system, i.e., from the predominance of socialist production relations. Because of this, there is no desire for economic expansion, no domination and subordination in the relations between socialist countries.

In the world socialist system economic ties and relations between states are entered into in accordance with the requirements of the economic laws of socialism and are subordinated to the task of continuously expanding production, based on advanced technology, for the purpose of improving the welfare of the people.

[1] *The Road to Communism*, p. 468.

**Socialist international division of labour**

Economic co-operation among the socialist countries develops and grows stronger on the basis of *socialist international division of labour*. This division of labour is fundamentally different from division of labour in the world capitalist system. Capitalist international division of labour is brought about spontaneously in the course of fierce competition and the drive for profits. Socialist international division of labour is made according to a plan on the basis of the operation of the law of the planned, proportional development of the national economy.

Socialism for the first time creates the conditions for large and small nations to co-operate on a basis of equality and mutual advantage. It strengthens the economic independence of all the member states of the world socialist system. The socialist countries harmoniously supplement one another and are able to economise forces and resources, and this promotes the comprehensive development of their productive forces. Each country is able to make use not only of its own resources but of those of the member countries of the world socialist system. This makes attainable the most efficient use of all the economic resources of the world socialist system for the purpose of accelerating economic development and improving the welfare of their people.

Socialist international division of labour enables every country to devote special attention to the branches of social production for the development of which they have the most favourable conditions, i. e., natural and material resources, production basis, industrial workers, engineers and technicians, etc.

Socialist international division of labour harmoniously combines the task of developing the national economy of each country with the international task of developing the world socialist system as a whole.

Division of labour among the socialist countries implies specialisation and co-operation in production in the countries of the socialist camp. *Specialisation in production* here means priority development of those branches of production which possess the possibility of producing their output with the least expenditure of labour. *Co-operation in production* takes the form of interrelations between specialised industries which complement one another, the aim being to get the maximum economic effect in the production of certain kinds of output.

Specialisation and co-operation in production are organised with an eye to the specific interests of the separate socialist countries and their general interests. They facilitate the exploitation of all the productive capacities of the socialist countries, the organisation of mass, serial production, the lowering of the outlays on production and improvement in the quality of output.

In the process of economic co-operation and increasing specialisation of production, the industrial profile of the separate socialist countries is shaped and their place in the socialist economic system is determined.

Poland, for instance, has become a country with highly developed engineering, coal-mining and chemical industries, and non-ferrous metallurgy. In Czechoslovakia, priority has been given to the development of heavy machine-building and electrical engineering and to some branches of the light industry. The German Democratic Republic specialises in heavy power plant, precision mechanics, optical equipment and chemicals. In Rumania, oil-refining and machinery for the oil industry have been highly developed, and so on.

While the majority of the countries of the socialist camp specialise in the production of particular types of output, the U.S.S.R., which has vast territory, varied natural resources and a large population, is developing all the main branches of the economy. But this by no means rules out extensive participation by the U.S.S.R. in the socialist international division of labour; on the contrary, it creates most favourable conditions for developing specialisation and co-operation in production within the world socialist system.

"*The combination of the effort to develop the economy of each socialist country on the one hand,*" said Khrushchov, "*and the common effort to strengthen and expand economic co-operation and mutual assistance on the other, is the main road to further progress in the world socialist economy.*"[1]

[1] *The Road to Communism*, p 20.

### 3. Forms of Economic Co-operation

The main forms of economic co-operation between the countries in the world socialist system are: co-ordination of their plans of national economy, foreign trade, granting of credits, scientific and technical assistance and exchange of experience in economic construction, assistance in training personnel.

**Co-ordination of plans of national economy**

Socialist international division of labour, specialisation and co-operation in production between the socialist states imply planned economic relations between these countries. In accordance with the law of the planned, proportional development of the national economy, economic co-operation between the countries of the socialist camp develops on the basis of mutually *co-ordinated plans of national economy.*

Each country, when planning its economy, co-ordinates its development with that of the economies of other socialist countries. This establishes a firm basis for all-round economic co-operation between the socialist countries, on which the economy of each state and of the whole world socialist system can go forward.

Co-ordination of the planning of the national economies enables the socialist countries to establish the correct proportions between the various branches of production not just within the separate countries, but between countries as well. Thus, rational proportions are established through comradely arrangement and the conclusion of equal, mutually advantageous agreements.

In the course of co-ordinating economic plans, account is taken of the interests, productive capacities and requirements of each national economy and each population, of the need to increase each country's economic strength, to consolidate its independence and raise the material and cultural standards of its working people.

By their joint efforts the socialist countries are building industrial and transport enterprises, creating associated power systems, etc. Thus, power transmission lines have already been erected, linking the power systems of Poland, Czechoslovakia, Hungary, the Soviet Union and the German

Democratic Republic. The Soviet Union, Poland, Czechoslovakia, the German Democratic Republic and Hungary are jointly building the Druzhba (Friendship) oil pipeline for transporting oil from the U.S.S.R.

For the organisation of planned economic co-operation between the socialist countries, the *Council for Mutual Economic Aid* was set up in 1949 on principles of complete equality for all the member states in it, viz., the U.S.S.R., Poland, Czechoslovakia, the German Democratic Republic, Hungary, Rumania, Bulgaria and Albania. In 1962, the Mongolian People's Republic also joined it.

The Council for Mutual Economic Aid is the inter-governmental economic organ of socialist countries; its function is to organise exchanges of economic and technical experience, arrange for mutual assistance in regard to raw materials, food, machinery and equipment, and to bring about the planned interlinking and co-ordination of the economic development of the socialist countries on the basis of a rational division of labour between them.

The decision to co-ordinate plans for the development of the economies of the member countries of the Council for Mutual Economic Aid was adopted in 1954 at its Sixth Session. The Seventh Session in May 1956 discussed questions of co-ordinating the development of their key industries during 1956-60.

The June 1962 Conference of Representatives of Communist and Workers' Parties of the member countries of the Council altered the former arrangement for co-ordinating national economic plans. The countries will first work out their own draft economic plans, then co-ordinate them, and only after that will the plans be ratified by the national directing bodies. The more profound co-ordination of national economic plans calculated for 20 years or shorter periods makes it possible to solve the major problems of socialist international division of labour. Co-ordination of national economic plans applies primarily to long-range planning. The members of the Council for Mutual Economic Aid have to work out a long-range plan for a period of 20 years. They also recognised the expediency of making concrete planned assignments for the next five-year period (1966-70).

The session of the Council for Mutual Economic Aid in June 1962 opened a new stage in the development of the world system of socialist economy. This stage is marked by the working out of a single interstate plan. This plan has to be drawn up on the basis of interstate specialisation, and not merely by co-ordinating the plans of the separate states. It ensures co-ordination of the planning of capital investments in huge building projects, joint financing of large enterprises, increased aid to the less developed countries, etc.

The main condition for further strengthening the economic might of the world socialist system is further development of the socialist international division of labour, and the most important means for achieving this is improved joint planning activity aimed at establishing a single communist economy regulated according to a common plan.

**Foreign trade**

*Trade* between the socialist countries is widely developed and is conducted on the basis of plans. There is no room in it for anarchy of production, competition, spontaneous price fluctuations, non-equivalent exchanges and the exploitation and plundering of some countries by others.

Foreign trade between the socialist countries develops on mutually advantageous terms which serve to develop the economy of each country. Trade is conducted at fair and stable prices, fixed by voluntary agreement for a more or less long period, taking world prices into account. Co-operation and fraternal assistance are characteristic of foreign trade on the world socialist market.

The world socialist market experiences no selling difficulties. Its capacity expands because of the steady growth of production and the rise in the material and cultural standards of the working people in all the socialist states.

Trade relations between the socialist countries are based on long-term agreements for mutual supplies of commodities.

The steady rise in the national economies of the socialist countries leads to changes in the structure of their exports and imports. Before the war the chief exports of all the People's Democracies, with the exception of Czechoslovakia and the German Democratic Republic, were raw materials and food. Today the situation is different. Before the war Bulgaria's exports were chiefly agricultural produce; but in 1960 the greater part of her exports consisted of manufactured output.

**Provision of credits** An important form of economic co-operation and mutual assistance among the socialist countries is the *provision of credits*. When the Soviet Union was building socialism it had to rely solely on its own material and financial resources; but the People's Democracies today are engaged on the same task under quite different conditions. They rely on the fraternal and disinterested aid of the Soviet Union, the co-operation and mutual assistance of the states of the entire socialist camp.

During the post-war years, the Soviet Union has granted credits to the People's Democracies to the total amount of about 8,000 million rubles. The credits were granted on most favourable terms. Capitalist countries charge very high interest for the credits they give (from 3.5 to 6 per cent per annum), and impose economic and political conditions on them; but the interest on credits in the socialist countries is usually fixed at the rate of 1-2 per cent per annum. In special cases, credit is given without interest at all. Credit agreements never contain any unequal conditions, economic or political, regarding how the credits are to be used. They are usually paid off in the form of deliveries of commodities which the country concerned traditionally exports.

**Scientific and technical co-operation** In the capitalist world the dominating principle is *homo homini lupus est*.[1] Competing firms and companies in the different capitalist countries try to shroud in the deepest secrecy any technical improvements and scientific discoveries. At the same time, they stop at nothing, including blackmail and bribery, in their efforts to discover their competitors' secrets.

As distinct from capitalism, the countries of the world socialist system are ever more extensively exchanging information on scientific and technical achievements and advanced production experience. Friends have no secrets. The scientists of the socialist countries work in close co-operation on the

[1] Man is a wolf to man.—*Ed.*

solution of the most important scientific and technical problems.

Scientific and technical co-operation takes the form of an exchange of documents and literature on various projects and technical matters, aid in work on designing, in geological surveys, experiments and exchange of experience, and help in training personnel.

The leading role in organising scientific and technical co-operation between the socialist countries goes to the Soviet Union. In the period 1948-60, the U.S.S.R. passed on to the People's Democracies 29,000 sets of technical documents of various kinds and, in accordance with existing agreements, this material was supplied free of charge.

On the other hand, the U.S.S.R. is more and more applying in its economy the achievements of other countries of the socialist camp. Between 1948 and 1960 the U.S.S.R. received 7,000 sets of scientific and technical documents from the People's Democracies.

The outcome of scientific and technical co-operation is that each socialist state can save time, energy and resources on scientific and technical problems which have already been successfully solved in other fraternal countries.

An important aspect of scientific and technical co-operation is *assistance in training personnel*. Large numbers of young people from the fraternal countries are getting systematic training in the higher educational institutions of the Soviet Union, Czechoslovakia, Poland and other countries.

The success of economic co-operation and the growing might of the socialist camp are the pledge that socialism will be victorious in the economic competition with capitalism.

### 4. Peaceful Coexistence and Economic Competition Between the Two World Systems

**What does peaceful coexistence mean?**

The question of peaceful coexistence and economic competition between socialism and capitalism was first theoretically substantiated by Lenin. He started out from the thesis that the socialist revolution cannot be victorious simultaneously in all the countries of the world; therefore, for a more or less long period one socialist country, or a group of socialist countries, will be developing, while the capitalist system will continue to exist in a number of countries.

The presence of two systems, socialist and capitalist, makes *peaceful coexistence between them* inevitable.

Peaceful coexistence does not mean rejecting the class struggle. Coexistence between states with different economic systems is *a specific form of the class struggle between socialism and capitalism*. Peaceful coexistence does not mean reconciliation of two ideologies — socialist and capitalist. On the contrary, it implies that the working class and its Party should increase the struggle for the triumph of socialist and communist ideas.

The working people of socialist countries do not like the capitalist system. The ruling circles in the capitalist countries do not like the socialist system. The establishment of one or other system is the business of the people of each state. Therefore the relations between two opposing social and economic systems should be based on the principle of peaceful coexistence.

"*Peaceful coexistence* of the socialist and capitalist countries is an *objective necessity* for the development of human society," the Programme of the C.P.S.U. points out. "*War cannot and must not serve as a means of settling international disputes*. Peaceful coexistence or disastrous war—this is the alternative offered by history."[1]

What, then, is peaceful coexistence?

It is rejecting war as a means of settling matters in dispute between states, their settlement through negotiation. But this by no means exhausts the concept of peaceful coexistence. Besides the undertaking on non-aggression, it also implies that all states undertake not to violate one another's territorial integrity and sovereignty in any form or under any pretext. Peaceful coexistence means rejecting all interference in the internal affairs of other countries with a view to changing their state system or way of life, or out of any other motive; recognition of the right of every nation independently to solve questions concerning its development.

[1] *The Road to Communism*, p. 506.

Peaceful coexistence implies mutual understanding and trust among states, recognition of each other's interests. It implies that the political and economic relations between countries should be based on full equality of the parties concerned and their mutual advantage.

Peaceful coexistence between states with different systems has always been and remains the general line of the foreign policy of the socialist countries. The Soviet Union has always consistently defended the policy of peaceful coexistence between states with different social systems and will continue to do so.

The policy of peace follows from the very nature of socialism and corresponds not only to the interests of the peoples of the socialist countries but also of all other peoples in the world.

Characteristic of the present world situation is that the forces struggling to maintain and consolidate peace, for international co-operation and the removal of international tension are considerably superior to the forces of militarism, aggression and war.

Peace is safeguarded by the mighty Soviet Union and the entire socialist camp. Working for peace with the socialist countries representing over one-third of mankind is a large group of non-socialist countries which are not interested in launching war. The number of neutralist countries striving to protect themselves from the dangers involved in joining imperialist military blocs is growing.

Today the peoples are more and more actively taking into their own hands the decision of the issue of war and peace. The anti-war movement of the popular masses is a tremendous factor in the struggle for peace. The international working class, the most irreconcilable, consistent fighter against war, is now the great organising force of the struggle for peace.

"*It is possible to avert a world war*," the Programme of the C.P.S.U. points out, "by the combined efforts of the mighty socialist camp, the peace-loving non-socialist countries, the international working class and all the forces championing peace. The growing superiority of the socialist forces over the forces of imperialism, of the forces of peace over those of war, will make it actually possible to banish world war from the life of society even before the complete victory of socialism on the earth, with capitalism extant in a part of the world."[1]

Of course, this does not alter the aggressive nature of imperialism. But if imperialism does launch another world war, it will thereby sign its death warrant. The peoples will never again tolerate the system which plunges them into devastating wars. They will sweep away imperialism and bury it once and for all.

**Economic competition between socialism and capitalism**

Peaceful coexistence between socialism and capitalism does not simply mean states with different social systems living side by side. Peaceful coexistence means above all economic competition between the two systems, a competition in the course of which socialism achieves ever greater successes. While consistently pursuing a policy of peaceful coexistence, the socialist countries are steadily consolidating the positions of the world socialist system in its competition against capitalism.

In the final analysis, victory on earth will go to the system that offers the nations the greatest opportunity of raising their material and spiritual welfare. That system will be socialism. It is socialism that creates the vast, prospects of inexhaustible creative enthusiasm among the masses of the people, of the true flowering of science and culture, the realisation of mankind's dream of happiness without destitution and unemployment, of contented childhood and peaceful old age, of the fulfilment of man's most daring, courageous plans, of man's right, on behalf of the people, to work and create in true freedom.

But when it is said that in the competition between the two systems—capitalist and socialist—the socialist system will be victorious, this, of course, does not at all mean that it will be victorious by means of interference in the internal affairs of the capitalist countries. The Soviet people's confidence in the victory of communism is of a different kind. It is based on the knowledge of the laws of social development, on the advantages of the socialist system of economy. Just as capitalism at one time replaced feudalism, so

[1] *The Road to Communism*, p. 505.

a more progressive, more just social system—communism—will inevitably come to replace capitalism on a world scale.

Soviet power has only been in existence for forty-five years, and during those years the U.S.S.R. has experienced two most terrible wars, has fought off the attacks of enemies who tried to strangle it. In the United States, capitalism has been in existence for more than a century and a half; in addition, no enemies have ever once invaded American territory. And yet, the U.S.S.R. and the U.S.A. have developed in such a way that the Land of Soviets now has the opportunity of challenging the greatest capitalist state in the world to economic competition.

The economic competition between socialism and capitalism is a struggle for a higher level of industrial and agricultural output per head of population, a struggle to give the people the highest standard of living. In this competition the advantages are clearly on the side of the Soviet Union, on the side of socialism. Proof of this is seen, primarily, in the rate of economic development of the U.S.S.R. and the U.S.A.

In the competition against the United States, the U.S.S.R. has already substantially cut down the distance which separates it from the level of American economy.

Thus, between 1913 and 1961, the volume of industrial output in the U.S.S.R. increased 44 times, and in the U.S.A.—5.2 times. In 1913, Russia's industrial output was 8 times less than that of the U.S.A., but in 1962 the Soviet Union's output was more than 63 per cent of the American level. During 45 years the rate of increase in industrial output in the U.S.S.R. was 10.1 per cent, and in the U.S.A.—3.3 per cent. In recent years the superiority of the U.S.S.R. as regards the rate of development has been considerably greater. Thus, in the period 1951-61, the average annual rate of industrial growth in the U.S.S.R. was 11.4 per cent, and in the U.S.A.—3.5 per cent.

In agriculture, as in industry, the average annual rate of growth of Soviet production is much higher than in the U.S.A. Thus, the average annual rate of increase of agricultural gross output between 1954 and 1961 was 6 per cent in the U.S.S.R. and 2 per cent in the U.S.A.

In recent years, the Soviet Union, with its continued considerable superiority over the U.S.A. in the rate of economic growth, has begun to overtake the U.S.A. also as regards the absolute increase in the production of many important items. It is now a question of rapidly cutting down the gap in production levels, of the U.S.S.R. coming to occupy first place in the world for the output of several products and manufactured goods.

The Soviet Union has already overtaken the U.S.A. as regards the volume of coal and iron ore extraction, coke output, main line electric and diesel locomotives, prefabricated reinforced concrete, sawn timber, woollen textiles, sugar, animal fats, fish and other products and manufactured goods.

In recent years, the U.S.S.R. has surpassed the U.S.A. in volume of capital investments in industry and agriculture.

The prospects of the economic competition between the U.S.S.R. and the U.S.A. were defined at the Twenty-Second Congress of the C.P.S.U.

"*The Party sets the task of converting our country, within the next decade, into the world's leading industrial power, of winning preponderance over the United States both in aggregate industrial output and in industrial output per head of population,*" Khrushchov pointed out at the Twenty-Second Congress of the C.P.S.U. "By approximately the same time, the U.S.S.R. will exceed the present U.S. level of agricultural production per head of population by fifty per cent, and will surpass the U.S. level of national income.

"But that is only the first objective. We shall not stop at that. *In the course of the second decade, by 1980, our country will leave the United States far behind in industrial and agricultural output per head of population.*"[1]

The fulfilment of the Seven-Year Plan of Soviet economic development is an important stage in the realisation of this vast programme. It will bring the Soviet Union to the point where very little time will be needed to outstrip the U.S.A. in output per head of population.

The advance of socialism against capitalism in peaceful economic competition is proceeding along a broad front. The

[1] *The Road to Communism*, p. 269.

U.S.S.R., together with the other socialist countries, is solving the task of ensuring economic victory in the competition with the capitalist countries.

The internationalist duty of the Communist and Workers' Parties of the socialist countries is to develop their economies as rapidly as existing capacities allow, to make the fullest use of the advantages of the socialist system and the internal resources of each country in order, by joint effort, to ensure the complete victory of socialism in the economic competition against capitalism in the shortest space of time.

The result of the fulfilment of their economic plans will be that by 1965 the socialist countries will be producing over half, and by 1980 approximately two-thirds, of the world's industrial output. This means that the socialist world system will have absolute superiority over the capitalist system in the decisive sphere—material production. This will be an epoch-making victory for socialism in the peaceful economic competition against capitalism.

## B. THE GRADUAL DEVELOPMENT OF SOCIALISM INTO COMMUNISM

*Chapter XVIII*

# THE HIGHER PHASE OF COMMUNIST SOCIETY AND THE LAWS OF THE DEVELOPMENT OF SOCIALISM INTO COMMUNISM

The Twenty-Second Congress of the Communist Party of the Soviet Union revealed the clear, bright prospects for mankind in the victorious march towards the finest society on earth—communism. The Party Programme adopted by the Congress and justifiably called the Communist Manifesto of the Twentieth Century covers all aspects of the development of socialist society and gives the full scientific substantiation of the transition from socialism to communism.

"*Communism*," the Programme of the C.P.S.U. points out, "*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.*"[1]

Communism is the direct continuation of socialism. Socialism and communism are two phases in the development of one and the same communist socio-economic formation and so have features in common and also substantial differences.

[1] *The Road to Communism*, p. 509.

## 1. Economic Features Common to Socialism and Communism and Their Points of Difference

**Features common to socialism and communism**

The economic basis of socialism and communism is *social ownership of the means of production.*

In both phases *the relations of production conform to the productive forces*, i.e., the social ownership of the means of production corresponds to the social character of production. The appropriation of material wealth is in the interests of society as a whole.

Under both socialism and communism *there are no exploiting classes and no exploitation of man by man, there is no racial and national oppression.* At the lower and higher phases of communist society, comradely co-operation and mutual assistance between people freed from exploitation are typical of the relations of production.

*Steady growth of social production* on the basis of rapid progress in science and technology for the purpose of ever more fully satisfying the material and cultural needs of all members of society is also typical of both socialism and communism. Under socialism and communism, man himself with his material and cultural needs, the creator of material and spiritual values, occupies first place.

*Planned development of the national economy* which guarantees rapid rates of growth, rational use of society's material and manpower resources and steadily increasing labour productivity, is also typical of both phases of communist society.

Under both socialism and communism there is no *antithesis between town and country, between mental and physical labour.*

In both phases of the communist formation *labour is free and creative.* Common to both phases is the equal duty of all members of society to work according to their ability.

Under socialism and communism there exists a *single Marxist-Leninist ideology.*

These, then, are the chief features common to socialism and communism.

That socialism and communism have features in common does not mean that no differences exist between them.

**Basic differences between communism and socialism**

The basic differences between communism and socialism arise from the unequal degree of economic and cultural maturity in communist society at its lower and higher stages of development.

Communism differs from socialism primarily in its incomparably *higher level of development of the productive forces.* Communism will have a considerably more powerful and improved material and technical basis, making it possible to raise labour productivity immeasurably and to guarantee an abundance of material and spiritual wealth. Under communism there will be a higher level of planned organisation of social economy as a whole; more effective and rational use of material wealth and manpower resources to satisfy the growing needs of all members of society will be ensured.

Under communism the relations of production will be more mature in character. For instance, under socialism there are two forms of social property—state and co-operative and collective-farm, but under communism there will be *one communist property, owned by the entire people.* There are two forms of social property under socialism because two classes exist there, the working class and the co-operative peasantry. With the establishment of one communist ownership, the *economic basis for the existence of classes and class distinctions will no longer exist.* The socio-economic, welfare and cultural distinctions between town and country will also disappear.

As production techniques and the standard of education and technical skill of the working people improve, there will be an organic fusion of mental and physical work in the productive activity of people. The intelligentsia will no longer be a special social stratum; the level of education and technical skill of people performing physical work will draw level with that of people engaged in mental labour.

In communist society the *very nature of work will change.* Work under socialism is not yet a prime necessity of life. Under communism, free, creative work for the whole of society becomes a prime necessity of life, giving people the joy of creation and great pleasure. But communism does not free members of society from their duty to work; it is incompatible with idleness and parasitism. Everyone capable of working will join in social labour and so ensure a continuous increase in the material and cultural wealth of society.

During the transition from socialism to communism the *forms of distribution of material and cultural wealth among the members of society* will develop further. When under communism an abundance of wealth has been created and work has become a prime necessity of life, it will be possible to make the transition from the socialist principle "from each according to his ability, to each according to his work" to the communist principle "from each according to his ability, to each according to his needs".

When everyone is equally related to the means of production and to work, there follow equal relations in the distribution of material wealth in accordance with the rational requirements of culturally developed man. "The purpose of communist production is to ensure the uninterrupted progress of society and to provide all its members with material and cultural benefits according to their growing needs, their individual requirements and tastes," the Programme of the C.P.S.U. points out. [1]

At the higher phase of communism, commodity production and the economic categories typical of it—commodity, money, price, wages, cost accounting, credit and finance—will die out.

*Communism represents the highest form of organisation of public life.* As the transition to communism proceeds and with the development and improvement of socialist production relations, changes will also take place in the corresponding superstructure—in the sphere of political and juridical institutions, in the forms of social consciousness (political views, morality, arts, etc). Socialist statehood will become communist, public self-government. With the transition to communism, nations will draw even closer together on the basis of their common political, economic, and spiritual interests, of fraternal friendship and co-operation.

But in spite of the differences between communism and socialism, there is no wall dividing these two phases of social development. It is already possible to speak of the shoots of

[1] *The Road to Communism*, p 511.

communism maturing within socialism. Thus, communist methods of work and organisation of production, communal methods of satisfying the needs of the working people: public catering, boarding-schools, kindergartens, nurseries, etc., arise and develop in socialist society. Already now many palpable and visible features of communism exist and are developing.

## 2. Objective Laws Governing the Development of Socialism into Communism

**How socialism develops into communism**

Communism is the most just and perfect society on earth. To build communism is the final goal of the Communist and Workers' Parties.

The development of socialism into communism is a *historical process governed by objective laws* which cannot be arbitrarily violated or ignored.

The transition from capitalism to socialism takes place in conditions of class struggle and demands a radical break-up of social relations, a profound social revolution and the dictatorship of the proletariat.

It is quite another matter with the transition from socialism to communism. Socialism develops into communism without social revolution, because socialism and communism are just two phases of one and the same communist socio-economic formation. The transition to communism takes place in the absence of exploiting classes, in circumstances where all members of society—workers, peasants and intellectuals—are vitally interested in building communism.

Although it was possible and is still possible for some peoples to reach socialism without going through the capitalist stage, no country can pass to communism without going through socialism. Only after building socialism can society pass on to the building of communist society.

The transition from socialism to communism takes place *gradually and continuously*. Communism does not appear suddenly, all at once.

The transition to communism, as Khrushchov pointed out, "... does not come about at the wave of a wand: going to bed under socialism and waking up under communism.

Only stupid people can imagine such a process of transition to communism; actually the process is a gradual one; as the productive forces develop man ascends step by step, in order, on the basis of an unprecedented growth of labour productivity, to create an abundance of material and spiritual wealth and to pass from the socialist to the communist principle of distribution".[1]

During the transition from socialism to communism, the material and spiritual preconditions are produced which are required for the second phase of communist society.

Thus, the transition to the higher phase of communism cannot take place until the necessary conditions for it are ready, i.e., until an abundance of material wealth has been created and people are prepared to live and work on communist lines.

"*The creation of the material and technical basis of communism, the development of socialist relations, the moulding of the man of communist society—such are the major tasks confronting the Party in the sphere of internal policy during the period of the full-scale construction of communism,*"[2] points out the resolution of the Twenty-Second Congress of the C.P.S.U.

The gradual transition from socialism to communism does not mean slow development. On the contrary, this transition takes place at *a rapid, hitherto unknown rate.* Typical of it is vigorous development of the productive forces and culture, revolutionary leaps in the development of science and technology. In the period of communist construction, there is a rapid development of modern industry, large-scale mechanised agriculture, of the whole economy and culture, with millions of working people taking an active part in it.

All this is fostered by the continuous growth of social production based on rapid scientific and technical progress, by the greater technical skill of the workers, and the increased understanding and activity of working people in the struggle to build communism.

Communist construction is not a spontaneous process, but the creative work of broad masses of working people, their

[1] N. S. Khrushchov, *Speech at the Conference of Leading Farmers of the Byelorussian S.S.R.*, Russ. ed., 1958, p. 30.

[2] *The Road to Communism*, p. 430.

conscious and active participation in the development of social production, culture and science.

Rapid building of communism is based on the knowledge and application of objective laws which enable socialist society to select the shortest and most effective ways and methods of introducing communist changes.

**The U.S.S.R. in the period of full-scale communist construction**

The great victories of socialism in all spheres of economic and socio-political life in the U.S.S.R. have enabled the country to enter into the period of full-scale communist construction. The complete and final victory of socialism, highly developed productive forces and socialist relations of production, the flowering of science and culture have produced the situation in which the first shoots of communist society are daily growing stronger in the Soviet Union. Communist construction in the U.S.S.R. has become the practical concern of every Soviet worker, the concrete, immediate task of the present day.

The tasks of communist construction are solved in consecutive stages.

*In the current decade* (1961-70), by creating the material and technical basis of communism, the Soviet Union will surpass the richest and most powerful capitalist country, the United States of America, in output per head of the population; it will considerably raise the material well-being and the cultural and technical standards of the working people; everyone will be guaranteed a sufficiency of material wealth; all collective and state farms will become highly productive enterprises, earning high incomes; the Soviet people's need for well-appointed homes will be satisfied in the main; arduous physical labour will disappear; the U.S.S.R. will be the country with the shortest working day.

*The end of the second decade* (1971-80) will see the completion of the material and technical basis of communism, which will ensure an abundance of material and cultural wealth for the whole population. Soviet society will come closest to the implementation of the principle of distribution according to need, there will be a gradual transition to one communist property owned by the whole people.

In the process of building communist society, class distinctions will be eliminated, classes will fuse into a classless society of communist working people. The basic distinctions between town and country and between mental and physical labour will be eradicated, there will be a greater economic and ideological community of nations, the features will develop of the man of communist society, a man harmoniously combining ideological integrity, wide education, moral purity and physical perfection; all citizens will participate in the administration of public affairs. As the result of the broadest development of socialist democracy, society will prepare itself for the full implementation of the principles of communist self-government.

Thus, *in the course of twenty years communist society will in the main have been built in the U.S.S.R.* But the full construction of communist society will be completed in the period which follows.

Communist construction in the U.S.S.R. is of the greatest international importance. The Soviet Union which paved the high road to socialism is now paving mankind's way to communism. Communist construction in the U.S.S.R. will lead to a further increase in the productive forces, to the country's increased economic might. This will strengthen the positions of the world socialist system in its competition with capitalism. The Soviet Union will have a higher standard of living than any capitalist country. This will be tremendously important for the revolutionary struggle of the working class in capitalist countries.

**The more or less simultaneous transition to communism of the socialist countries**

The transition from socialism to communism is inevitable for all countries which have taken the path of socialist construction. Communist construction in the U.S.S.R. is a component part of the building of communist society by the peoples of the world socialist system.

"Since the social forces—the working class, the co-operative peasantry and the people's intelligentsia—and the social forms of economy (enterprises based on the two forms of socialist property) in the Soviet Union and in the other socialist countries are of one type," states the Programme of the C.P.S.U., "there will be common basic objective laws for communist construction in the U.S.S.R. and in those countries, with due allowance made for the historical and national peculiarities of each country."[1]

Today the socialist countries are at different stages of development. The Soviet Union has entered the period of full-scale communist construction. The other fraternal countries are either completing, or have in the main completed, the building of socialism. Consequently, the countries of the world socialist system are not at the same level, but at different stages of socialist maturity.

In this connection the question arises as to how the socialist countries will develop towards communism. Can there arise a situation where one of the socialist countries has arrived at communism, while the others still remain somewhere far behind, at the initial stages of building socialist society? No, there cannot!

Because the socialist countries belong to the world socialist system and are making use of all the advantages of that system they are able to curtail the time necessary to build socialism and *they have the prospect of making the transition to communism more or less simultaneously within the same historical epoch.*

Though under capitalism, particularly at the imperialist stage, the uneven economic and political development of individual countries becomes intensified and more profound, in the world socialist system, a gradual levelling out takes place in the economic and cultural development of all countries. A country that was formerly economically backward, by relying on the co-operation, mutual assistance and experience of the other socialist countries, can gain time and bring its economy and culture up to the level of the leading socialist countries.

The economic basis of the more or less simultaneous transition of the socialist countries to communism is the creation of the material prerequisites for communism through the creative labour of the people of each country, their constantly increasing contribution to the common cause of strengthening the socialist system, and the consolidation of co-operation and mutual assistance among all the socialist countries.

[1] *The Road to Communism*, pp. 579-80.

The country that first proceeds to communism facilitates and accelerates the advance towards communism of the other socialist countries. By building communism, the peoples of the Soviet Union are blazing uncharted paths for the whole of mankind, testing by their own experience the correctness of these paths, revealing the difficulties, finding means of overcoming them, selecting the best forms and methods of building communism.

Communism is the age-old dream of mankind. It is becoming a reality for all the countries of the world socialist system. In the final analysis, all mankind will arrive at communism. This will be the inevitable trend of social development.

*Chapter XIX*

# THE CREATION OF THE MATERIAL AND TECHNICAL BASIS OF COMMUNISM

Communism primarily differs from socialism in the higher level of development of its productive forces.

Consequently, the essential condition for the transition from socialism to communism is the building of the material and technical basis of communism. To do this means raising the productive forces of society to a new stage where an abundance of material and cultural wealth is achieved and the transition to communist relations becomes possible.

## 1. Ways of Creating the Material and Technical Basis of Communism

**What the material and technical basis of communism means**

"The main economic task of the Party and the Soviet people is to create *the material and technical basis of communism* within two decades,"[1] the Programme of the C.P.S.U. points out.

The material and technical basis of communism is the foundation on which the bright edifice of communist society will be erected. Its creation is the key to the solution of all the tasks of communist construction.

The material and technical basis of communism will be considerably superior in scale and technical level to that of socialism. The elements of this basis are created already under socialism, the task therefore consists in providing the broadest scope for their further development on the basis of the high rate of technical progress.

[1] *The Road to Communism*, p. 513.

The Programme of the C.P.S.U. points out that the creation of the material and technical basis of communism "means complete electrification of the country and perfection on this basis of the techniques, technologies, and organisation of social production in all the fields of the national economy; comprehensive mechanisation of production operations and a growing degree of their automation; widespread use of chemistry in the national economy; vigorous development of new, economically effective branches of production, new types of power and new materials; all-round and rational utilisation of natural, material and labour resources; organic fusion of science and production, and rapid scientific and technical progress; a high cultural and technical level for the working people; and substantial superiority over the more developed capitalist countries in productivity of labour, which constitutes the most important prerequisite for the victory of the communist system."[1]

The result will be that the Soviet Union will have at its disposal productive forces of a power hitherto unprecedented, will surpass the technical level of the most highly developed capitalist countries and firmly occupy first place in the world for output per head of population.

The creation of the material and technical basis of communism *calls for the further development of heavy industry.* On this basis all the other branches of the national economy—agriculture, industries producing consumer goods, building, transport and communications, as well as branches directly concerned with services for the population—trade, public catering, health, housing and welfare services—will be technically re-equipped.

Compared to 1960, the gross industrial output in 1980 will increase 6.2-6.4 times, output of the means of production—6.8-7 times, output of consumer goods—5-5.2 times. Gross agricultural production will increase 3.5 times.

The result of the twenty-year development plan will be that by 1980 the U.S.S.R. will produce almost twice as much industrial output as the whole non-socialist world produces at the present time.

[1] *The Road to Communism*, p. 513.

With the material and technical basis of communism completed, the Soviet Union will have at its disposal productive forces of unprecedented power.

**Ways of creating the material and technical basis of communism**

One of the most important ways of creating the material and technical basis of communism is *the complete electrification of the entire country.* Electrification is the backbone of the building of communist society and plays a leading role in modern scientific and technical progress. Complete electrification makes possible profound changes in the techniques and technologies of all branches of industry and agriculture. It will mean that industry, agriculture, transport and other branches will be transferred to the higher technical basis which the use of electric power guarantees.

By 1970 the electric power consumption per worker in Soviet industry will increase almost threefold. Cheap electric power will ensure extensive development of energy-consuming industries; transport, agriculture and services to the urban and rural population will be electrified on a mass scale. In 1980 the electrification of the U.S.S.R. will, in the main, be completed.

The annual output of electric power in 1970 will reach 900-1,000 thousand million kwh, and by 1980—2,700-3,000 thousand million kwh. The result will be that the U.S.S.R. will be generating 50 per cent more power than the amount generated today by all other countries of the world combined; this will be an eight- or ninefold increase in the electric power consumption per industrial worker.

During the twenty-year period a unified power system for the entire U.S.S.R. will be established, making it possible to transmit power from the eastern districts to the European part of the country. This power system will also be linked up with those of the other socialist countries.

It is of great importance in establishing the material and technical basis of communism to *develop machine-building*, to press forward the production of automatic lines and machinery, automatics, telemechanics and electronic devices and precision instruments.

In the twenty-year period, 2,800 new engineering and metal-working plants will be constructed in the U.S.S.R. and 1,900 old ones will be reconstructed. This will make it possible to raise the total output of the machine-building and metal-working industries 10- or 11-fold, including a more than 60-fold increase in the output of automatic and semi-automatic lines.

In 1961-70, *comprehensive mechanisation* will spread in industry, agriculture, building, transport, loading and unloading operations, and in the public services. Comprehensive mechanisation will embrace all stages of production, all its processes; it will lead to the elimination of hand labour in both basic and auxiliary work.

But comprehensive mechanisation only paves the way for *automation in industry*.

The material and technical basis of socialism only contains the elements of automation, but during the building of the material and technical basis of communism, the *automated systems of machinery* will become predominant. The twenty-year period (1961-80) will see broad, comprehensive automation in industry, based on all-round mechanisation. More and more automated shops and factories with higher technical and economic effectiveness will appear. Cybernetics, systems of electronic computers and control devices will be extensively applied in industry, building and transport, in research, planning, designing, accounting, statistics and management.

Automation and comprehensive mechanisation form the material basis for the development of socialist into communist labour. With automation, the character of labour radically alters, the workers' level of efficiency and technical skill rises, and the conditions are established for eliminating the basic distinction between mental and physical labour.

Comprehensive mechanisation and automation of production processes greatly promote scientific and technical progress in all branches of the national economy.

*Greater output of the metals and fuels* which constitute the backbone of modern industry is of great importance in creating the material and technical basis of communism. In twenty years, metallurgy will be producing approximately 250 million tons of steel annually. The output of light, non-ferrous and rare metals will be appreciably accelerated and that of aluminium will greatly increase. In the coming years, a steady effort will be made to ensure the priority development of oil and gas extraction, since these items will be used increasingly as raw materials for the chemical industry. Coal, gas and oil should satisfy all the requirements of the national economy. In twenty years, coal output in the U.S.S.R. will increase 2.3-2.4 times, oil—4.7-4.8 times, and gas—14.4-15.2 times.

The *extensive use of chemistry in production* is most important for the creation of the material and technical basis of communism.

The Programme of the C.P.S.U. envisages the broad development of the chemical industry, greater use of the achievements of modern chemistry throughout the national economy; this will enhance the possibilities of increasing the national wealth and producing new, better and cheaper, capital and consumer goods. Metals, wood and building materials will be more and more replaced by economical, durable, light synthetic materials. There will be a steep rise in the output of mineral fertilisers and chemical weed and pest killers. In twenty years the gross output of the chemical industry will increase about 17-fold, including a 15-fold increase in that of artificial and synthetic fibres, a 60-fold increase in plastics and resins, and a 10-fold increase in mineral fertilisers.

Tremendously important in creating the material and technical basis of communism is the further improvement of the organisation of production, of specialisation and co-operation and the appropriate combination of kindred enterprises.

Creating the material and technical basis of communism implies the most extensive application of the achievements of science and technology and of progressive experience in *agriculture*. Along with a powerful industry, a flourishing, versatile and highly productive agriculture is an imperative condition for the building of communism.

Intensified development of the productive forces of agriculture will make it possible to accomplish two basic, closely related tasks: a) to build up an abundance of high-quality food products for the population and of raw materials for industry, and b) to ensure the gradual transition of social relations in the country to communist relations, and so eliminate the basic distinctions between town and country.

The chief means of achieving these tremendous tasks are further mechanisation of agriculture; the use of comprehensive mechanisation and automation; complete electrification of agriculture; introduction of scientific methods in agriculture; rational distribution of agriculture by natural-economic zones and areas throughout the country, comprehensive introduction of chemicals in all branches of agriculture.

The standard of technical equipment and organisation of production in agriculture will draw closer to that of industry. The dependence of agriculture on the natural conditions will decrease considerably and ultimately drop to a minimum.

In ten years the total agricultural output will increase almost two and a half times and in twenty years—three and a half times.

*Science* is exceedingly important in creating the material and technical basis of communism. With scientific and technical progress it is possible to make the fullest use of the wealth and forces of nature in the interests of the people, to discover new types of power and create new materials, to work out methods for influencing climatic conditions and exploring outer space. Science is more and more becoming a decisive factor in the vast growth of society's productive forces. As Marx foresaw, science is becoming one of society's immediate productive forces.

The development of science and the use of scientific achievements in the national economy is a matter of special concern to the Communist Party and the socialist state.

The steady, rapid growth of labour productivity is of prime importance for building communist society. "Communism," Lenin wrote, "is the higher productivity of labour—compared with that existing under capitalism—of voluntary, socially-conscious and united workers employing advanced technique."[1]

Progress in science and technology in all branches of the national economy, a higher standard of culture and technical

[1] V. I. Lenin, *Selected Works*, Vol. II, Part 2, p. 231.

skill among workers, improved organisation of production and labour will lead to a tremendous growth in the productivity of labour. In twenty years, labour productivity in industry will increase 4-4.2 times, in agriculture—5-6 times. The U.S.S.R. will then occupy first place in the world in labour productivity.

Vast resources are required for building the material and technical basis of communism. In twenty years, capital investments in the national economy will reach approximately 2,000,000 million rubles, i.e., will be over 7 times as much as the total investment made throughout the existence of Soviet power.

**Results of creating communism's material and technical basis**

The building of the material and technical basis of communism will make possible the realisation of the following tasks:

*Firstly*, to create productive forces of unparalleled power and to attain first place in the world for per capita production;

*Secondly*, to ensure the highest productivity of labour, to equip Soviet people with the most up-to-date technique, to transform labour into a source of happiness, inspiration and creativeness;

*Thirdly*, to develop the production of material wealth in order to satisfy the requirements of Soviet people, to secure for them the highest standard of living, to create the conditions for the transition to distribution according to needs;

*Fourthly*, gradually to transform socialist into communist relations of production, to create a society without classes, to eradicate the basic distinctions between town and country and between mental and physical labour;

*Fifthly*, to be victorious in the economic competition with capitalism, to maintain the country's defences at the level which will ensure the defeat of every aggressor who dares to raise a hand against the U.S.S.R. or against the socialist camp as a whole.

Does everything necessary exist for creating the material and technical basis of communism within two decades? Yes, because the U.S.S.R. has the most advanced social system in the world. In the U.S.S.R. the working people hold the reins of power; there is an indestructible alliance of workers, peasants and intelligentsia; the peoples of the Soviet multinational state are bound by ties of friendship. The guiding force of Soviet society is the Communist Party equipped with Marxist-Leninist theory and knowledge of the laws of social development.

There is no country in the world as vast as the U.S.S.R. Its territory is three times that of the U.S.A. and four times that of all the West European countries taken together. The population of the U.S.S.R. is the third largest in the world after China and India. The Soviet Union has inexhaustible natural resources. It holds first place in the world for prospected reserves of iron and manganese ore, copper, lead, nickel, tungsten, bauxite, potassium salts, phosphates, peat, etc. Soviet geologists have discovered large deposits of natural gas, diamonds, rare metals, nuclear raw materials and other minerals. Its rivers and lakes are inexhaustible sources of cheap power, as well as fine means of communication. The U.S.S.R. has very large timber resources and vast areas of arable land. All this forms the raw material resources for rapid development of all branches of the national economy.

During the years of socialist construction, the Soviet people have built up a powerful industry equipped with up-to-date machinery and have created the most advanced science in the world. Besides, a contingent of skilled personnel has been trained, capable of handling, and steadily improving on, this modern technique.

All this has produced the conditions and provided the opportunities for building the material and technical basis of communism within the span of time indicated in the Programme of the C.P.S.U. But the creation of this basis also implies the further development of society's main productive force—man.

### 2. Development of the Main Productive Force of Society—Man

The Programme of the C.P.S.U. points out that to create the material and technical basis of communism means to achieve a *high cultural and technical standard among the* *working people* which will in itself promote their creative initiative and alter the character of their labour.

The creation of this basis not only calls for highly skilled specialists capable of improving and advancing social production, but it is in itself an important factor in the all-round development of the working people.

Under socialism, working people have a high standard of culture, education and professional skill. The U.S.S.R. today holds first place in the world for the training and education of specialists. In 1914 there were only 289 scientific institutions and 10,200 researchers in Russia, but by the beginning of 1961 the U.S.S.R. had 3,828 scientific institutions and more than 354,000 researchers. In 1960/61, about 4.5 million people were studying in higher and specialised secondary schools (of whom almost 2.4 million were in higher educational establishments alone).

Besides the schools, technical schools and higher educational institutions, there will be a great extension of the various forms of technical and professional training in the shape of schools, classes, courses, seminars, correspondence and evening courses. Today, every fourth person in the U.S.S.R is studying in some form or other; 40 per cent of the workers and 23 per cent of the collective farmers have a higher or secondary education. Education has truly become universal. As the standard of education rises, the general cultural level of all working people improves.

The Communist Party of the Soviet Union considers the rising cultural standard of the people to be a guarantee of the triumph of communist construction.

In the next twenty years, the vast mass of the population in the U.S.S.R. will have a full secondary, specialised secondary or higher education. By 1980, there will be 8 million people attending higher educational institutions, i.e., over three times as many as in 1960. Various methods of improving the professional skill of working people will be applied extensively.

With the comprehensive mechanisation and automation of production, work will be more and more reduced to the functions of controlling, watching, adjusting and improving automated systems of machinery. This will require harmoniously developed and highly skilled people to work in all branches of the national economy.

Technique under communism will change not only man's degree of skill but also his intellectual outlook. The necessary material conditions will be created for the all-round development of abilities and talents, for a rich intellectual life for everyone. "The transition to communism," says the Programme of the C.P.S.U., "implies training that will make people communist-minded and highly-cultured, people fitted for both physical and mental labour, for active work in various social, governmental, scientific and cultural spheres."[1]

[1] *The Road to Communism*, p. 569.

*Chapter XX*

# THE DEVELOPMENT OF SOCIALIST INTO COMMUNIST RELATIONS OF PRODUCTION

As the productive forces develop during the transition from socialism to communism, the relations of production which are closely connected with, and equally conditioned by, them also develop and are improved. Socialist relations of production, based on the growth of the productive forces, gradually develop into communist relations of production.

## 1. From Socialist to Communist Ownership

Under socialism, the relations of production are based on socialist ownership in its two forms: state (owned by all the people) and co-operative ownership.

As the transition to communism proceeds, a *gradual coming together and, in perspective, a fusion takes place between state and co-operative forms of socialist ownership and they become one communist ownership by all the people.*

The shaping of one communist ownership by all the people is the result of the comprehensive development and improvement of both state and co-operative and collective-farm ownership.

**State property in the period of transition to communism**

As socialist property develops into one communist property, state property becomes more mature and its leading role in the national economy grows stronger.

First of all state property increases in *size* through the vast construction of new enterprises and the expansion of those already in operation. With the advance towards communism there wil be a further extension of the scale of production, with its simultaneous greater efficiency.

State property also alters in *quality*. These qualitative changes are connected with the continuous rise in the level of socialisation. With the advance of communism, there will be greater concentration of production, large, fully automated enterprises will be built, a unified power grid will be established, economic ties between the areas of the country will be extended and strengthened, social division of labour, specialisation, co-operation and also the combination of enterprises will be tremendously developed.

As state property grows, enterprises will be improved and expanded into the enterprises of communist society. The Programme of the C.P.S.U. points out that typical of this process will be: new machinery, high standards of production organisation and efficiency through increased automation of production operations and the introduction of automation into management and control; an improvement of the cultural and technical standards of the workers; the increasing fusion of physical and mental labour and the growing proportion of engineers and technicians in every industrial enterprise; the expansion of research and closer links between enterprises and research institutes; promotion of the emulation movement; the application of the achievements of science and the best forms of labour organisation and the best methods of raising labour productivity; the extensive participation of workers' collectives in the management of enterprises, and the spread of communist forms of labour.

In the process of communist construction the sphere of influence of state ownership will be extended. It will increasingly cover social forms of organisation of labour and living conditions.

**Collective-farm and co-operative property in the period of transition to communism**

The transition to one communist property also implies the fullest development and improvement of *collective-farm and co-operative property*.

"Economic advancement of the kolkhoz system," the Programme of the Communist Party of the Soviet Union points out, "creates conditions for the gradual *rapprochement* and, in the long run, also for the merging of kolkhoz property and the property of the whole people into one communist property."[1]

During the transition from socialism to communism, *socialisation of collective-farm production will reach a higher level.* Evidence of this are the following typical processes taking place in the U.S.S.R. already now. There is a steady increase in the non-distributable assets of the collective farms, based on which collective-farm production will further expand. During the period of 1932-62 their assets increased more than fifty times and amounted to 27,000 million rubles.

With non-distributable assets continually multiplying, the qualitative aspect of collective-farm and co-operative property will change more and more. In the early stages of collectivisation, the farms obtained their property simply by socialising peasant property—horses, ploughs, livestock and small farmyard outhouses. Collective-farm property today consists of up-to-date machinery—tractors, combine harvesters, lorries, etc. It is now the direct result of the collective labour of farmers, workers, engineers and scientists.

The Soviet state spends hundreds of millions of rubles on training agricultural personnel, advances thousands of millions of rubles, seed, food and other loans on credit to the farms. All this indicates that the collective farms derive their wealth from the work of their members, assisted by all the Soviet people.

Socialist state policy of furthering the development of the kolkhoz system plays a great part in raising the existing level of socialisation of collective-farm and co-operative property, so that ultimately it will become the socialised property of the whole people. Thus, the transfer of machinery to the agricultural co-operatives in the U.S.S.R. promotes the steady growth of their non-distributable assets and brings them closer in structure and social character to the production facilities owned by the whole people.

Collective-farm production is being extended more and more fully to one branch of agriculture after another. Most fully socialised is the collective-farm production of grain

[1] *The Road to Communism*, p. 524.

and industrial crops. Such branches as livestock-breeding and vegetable-growing are less socialised and are still largely concentrated in the personal subsidiary farms of the collective farmers. When agricultural production has sufficiently developed to enable the collective-farm economy to satisfy the farmers' needs in regard to all products, personal subsidiary farming will have no meaning, will offer no economic advantages and will die out.

As the productive forces grow, production relations between collective farms will grow closer, and the socialisation of production will transcend the limits of individual collective farms. This process will take place through the amalgamation of the resources of several collective farms for establishing joint enterprises, cultural and welfare institutions, state-kolkhoz power stations and enterprises for primary processing, storage and transporting of farm produce, constructing various structures manufacturing building materials, etc.

When several collective farms own all this property in common, the property comes increasingly nearer in character to public property.

In connection with the developing electrification of agriculture and the mechanisation and automation of production, collective-farm means of production are becoming increasingly fused with state, public means of production. For example, already now there are mixed state and kolkhoz enterprises—power stations, irrigation systems, etc., which come into existence as a result of pooling the resources of the state and the collective farms.

As the commonly-owned assets increase, the collective farms will participate more and more in building public enterprises and cultural and welfare institutions: boarding schools, clubs, hospitals, holiday homes, etc.

As the collective farms continue to develop, their production relations with one another and with local industrial enterprises will grow stronger. The practice of jointly organising various enterprises will extend. Then, wherever economically expedient, agrarian-industrial associations will gradually emerge, in which agriculture will combine organically with the industrial processing of its produce. This will lead to the appropriate specialisation and co-operation of agricultural and industrial enterprises, to complete and even utilisation throughout the year of labour power and production resources. All these developments will gradually impart to collective-farm and co-operative property the character of public property.

When the degree of socialisation of the collective-farm and co-operative property reaches the level of public property, the collective farms will draw level in economic conditions with the nationally-owned agricultural enterprises. They will turn into highly developed mechanised farms. High labour productivity will lead to the collective farms becoming economically powerful. Their members will be adequately provided and their requirements fully satisfied out of socialised collective farming. All of them will have the services of catering establishments, bakeries, laundries, kindergartens and nurseries, clubs, libraries and sports grounds. The payment of labour for collective-farm members will be the same as at nationally-owned enterprises; the collective farmers will enjoy all types of social security (pensions, holidays, etc.).

With the transition to communism, the character of the *personal property of working people* will alter. Since the principle "from each according to his ability, to each according to his needs" will triumph in communist society, the personal savings, private houses, subsidiary farms and many other things will lose all economic meaning and cease to exist. Personal property under communism will apply exclusively to articles of personal use.

In the course of the transition to communism on the basis of highly developed productive forces, socio-economic distinctions in society will be eradicated.

## 2. The Elimination of Socio-Economic Distinctions

**Elimination of distinctions between town and country**

The basic distinctions between town and country, consisting chiefly of state (public) ownership of the means of production in the towns and collective-farm and co-operative ownership in the countryside, still remain under socialism. Technical equipment and labour productivity are lower in collective farms than in industrial enterprises. Cultural and living conditions are better in town than in country.

With the gradual drawing together and the prospective fusion of state and collective-farm and co-operative property, the conditions are created for *overcoming the basic distinctions between town and country.* The ways in which state and kolkhoz and co-operative property will draw together and become fused are at the same time the ways of eliminating the basic distinctions between town and country.

The basis for this is continued development of the productive forces and an abundance of machinery in agriculture.

The technical re-equipment of agriculture will lead to a rise in the efficiency and technical level of the rural population. The character of the labour of collective farmers, extensively using the most up-to-date agricultural machinery, will become increasingly closer to that of industrial workers engaged at state industrial enterprises. Under communism, labour in agriculture will become a variety of industrial labour.

During the gradual transition to communism, there will be a further improvement in cultural and living conditions in the countryside. As communist changes take place the face of town will alter as well.

"*Elimination of socio-economic and cultural distinctions between town and country and of differences in their living conditions will be one of the greatest gains of communist construction,*"[1] the Programme of the C.P.S.U. points out.

**Elimination of distinctions between mental and physical labour**

The basic distinctions between mental and physical labour remain under socialism. As a general rule, workers and peasants engage in physical labour and the intelligentsia in mental labour. The level of general education and culture of people engaged in physical labour is considerably below that of the intelligentsia.

With the gradual transition to communism, *the basic distinctions between mental and physical labour will be overcome*. The basis for this will be the continued

[1] *The Road to Communism*, p. 532.

development of modern production through mechanisation and automation, with arduous hand labour being replaced by machinery and the level of general education and scientific and technical knowledge among working people rising to that of engineers and agronomists.

Elimination of the basic distinctions between mental and physical labour will transform every kind of work into an organic unity of both types of labour. Everyone working in communist society, irrespective of qualifications, will perform work which, as *Marx* wrote, combines mental and physical labour.

The labour of working people in communist society will be highly mechanised, highly skilled work to control the technique of communism, work in which the elements of mental labour predominate. Thus, as the Programme of the C.P.S.U. points out, with the victory of communism "...mental and physical labour will merge organically in the production activity of people. The intelligentsia will no longer be a distinct social stratum. Workers by hand will have risen in cultural and technological standards to the level of workers by brain".[1]

**Elimination of class distinctions**

Communist construction leads to the removal of the dividing lines between classes, to the establishment of a socially homogeneous society.

With the elimination of the basic distinctions between town and country and between mental and physical labour, there will also disappear the differences in the position of the two friendly classes of socialist society, the working class and peasantry, and their social stratum—the intelligentsia.

*Communism will put an end to the division of society into classes and social strata. Under communism there will be no classes, no class distinctions and no social distinctions between people.*

Communism brings complete equality to all people. Under communism all people will have equal status in society, will stand in the same relation to the means of production, will enjoy equal conditions of work and distribution.

[1] *The Road to Communism*, p. 510.

They will take a more active part in the management of public affairs. Harmonious relations will be established between the individual and society on the basis of the unity of public and personal interests.

### 3. Transformation of Labour into Man's Prime Necessity of Life

**Labour—man's prime necessity of life**

When labour has the assistance of technical equipment, when the basic distinctions between physical and mental labour have been eliminated, and people are educated in the communist attitude to labour, *the labour activity of every individual will become a prime necessity of life, a natural manifestation of the functions of a healthy organism.*

Free creative labour for the good of society as a whole will give everyone joy and pleasure.

Under communism, where people will have every opportunity of developing their abilities and talents to the full, everyone will be able to select the work he wishes with the knowledge that what he does is necessary to society and of interest to himself.

Engels wrote that under communism there should be "...an organisation of production in which, on the one hand, no individual can throw on the shoulders of others his share in productive labour, this natural condition of human existence; and in which, on the other hand, productive labour, instead of being a means of subjugating men, will become a means of their emancipation, by offering each individual the opportunity to develop all his faculties, physical and mental, in all directions and exercise them to the full—in which, therefore, productive labour will become a pleasure instead of a burden". [1]

Under communism, all members of society will work conscientiously. It is not possible in communist society for a person not to work. Public opinion and his conscience will prompt him to work. Labour according to one's ability will become a habit, a prime, vital necessity for every member of society.

[1] F. Engels, *Anti-Dühring*, Moscow 1954, p. 408.

When labour activity becomes a prime necessity of life, there follows a new, communist attitude to labour. Describing labour under communism, Lenin wrote: "Communist labour in the narrower and stricter sense of the term is labour performed gratis for the benefit of society, labour performed not as a definite duty, not for the purpose of obtaining a right to certain products, not according to previously established and legally fixed rates, but voluntary labour, irrespective of rates, labour performed without expectation of reward, without the condition of reward, labour performed out of a habit of working for the common good, and out of a conscious realisation (become a habit) of the necessity of working for the common good—labour as the requirement of a healthy organism."[1]

The new, communist attitude to labour begins to arise in socialist society. The man of the communist future develops during the struggle for communism, in the process of labour and social activity. Communism is built by labour; it is the creative work of millions. The higher their consciousness, the fuller and more extensive their activity, the more rapid will be the rate at which the material and technical basis of communism will be built. Communism is inseparable from labour. By work and work alone will communism—the bright future of mankind—be built. That is why it becomes tremendously important to train people to love and respect labour as man's prime necessity of life.

The development of the communist attitude to labour is the most important task in the period of full-scale communist construction. "The Party sees the development of the communist attitude to labour in all members of society as its chief educational task," the Programme of the C.P.S.U. points out. "Labour for the benefit of society is the sacred duty of all."[2]

The trade unions, the Young Communist League and schools play a big part in developing the communist attitude to labour in the U.S.S.R.

The communist attitude to labour is reflected in the selfless struggle to fulfil and overfulfil economic plans, in social-

[1] V. I Lenin, *Selected Works*, Vol II, Part 2, p. 339.
[2] *The Road to Communism*, p. 565.

ist emulation and particularly emulation for the title of shock worker and communist work collective, in the Soviet people's patriotic movements like that to cultivate virgin and disused lands, etc.

Valentina Gaganova, team-leader at the Vyshni Volochok Cotton Textile Mill, set an inspiring example of the communist attitude to work by giving up her work in one of the foremost teams in order to work in a backward team with young people who had only just finished a factory course of training. Her idea was to bring the work of these young women up to the level of the foremost team. Describing Gaganova's action, Khrushchov said: "The value and noble character of this woman's action lay in the fact that it was not material gain that urged her to take this step, but an ideal, her ideological loyalty to the communist system."

Following Gaganova's initiative, a mass movement to introduce communist labour spread throughout the country. Hundreds of thousands of collectives—teams, departments, sectors and enterprises, have joined in the movement.

In less than three years, 20 million people have joined in the movement. More than three million workers, engineers and technicians have earned the title of shock worker of communist labour. The members practise the slogan: "Learn to work and live in the communist way!"

The development and improvement of socialist relations of production during the building of communist society is reflected also in the new forms of distribution of material and spiritual wealth.

### 4. The Transition to the Communist Principle of Distribution

With the transition to communism, the socialist principle "from each according to his ability, to each according to his work" is replaced by the communist principle "from each according to his ability, to each according to his needs".

Marx wrote that "... after the enslaving subordination of the individual to the division of labour, and therewith also the antithesis between mental and physical labour, has vanished; after labour has become not only a means of life but life's prime want; after the productive forces have also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly, only then can ... society inscribe on its banners: From each according to his ability, to each according to his needs!"[1]

**What is essential for the transition to the communist principle of distribution**

For the transition to the communist principle of distribution, it is necessary first and foremost to attain a level of production which can ensure such an abundance of material and cultural wealth that society will have a sufficiency of everything: consumer goods—food, clothing, footwear, as well as everything required for culture and welfare—schools, theatres, cinemas, radio, transport, houses, etc.

An abundance of the necessities of life and realisation of the principle "to each according to his needs" will mean that everyone, irrespective of his position, of the quantity and quality of his work for society, will receive from society everything he needs. Obviously, communist distribution according to needs must not be interpreted in the bourgeois-philistine sense: give everyone everything and as much as he fancies. Distribution according to needs implies satisfaction of the *reasonable requirements of the highly cultured, highly educated man*, who respects the rules of community life under communism. Satisfaction of these requirements will enable man to be completely free from cares connected with obtaining the necessities of life for himself and his family.

The transition to the communist principle of distributing the necessities of life cannot be carried out, unless every member of society is conscientious in the communist sense and has acquired the new, communist attitude to labour. It is essential for people to develop an ingrained habit of working according to their ability.

Until the factors required for the transition to communist distribution have been established, society will strictly control the amount of labour and the amount of consumption,

[1] K. Marx and F. Engels, *Selected Works*, Vol. II, Moscow, p. 24.

and will distribute products according to the quantity and quality of the work contributed.

**Public funds—the way to communist distribution**

The socialist principle of distribution does not exclude, but implies the fullest development of communist forms of distribution. Communist forms of distribution will not arise at once in their fully developed, final form, but will at first exist side by side with socialist forms of distribution according to labour. The Twenty-Second Congress of the C.P.S.U. pointed out that the transition from the socialist principle of distribution according to labour to the communist principle of distribution according to needs would be a gradual one. It stressed the need for them to be combined, because, until an abundance of material wealth has been created, to give up distribution according to labour would mean consuming all the accumulated resources and interrupting economic growth to the detriment of the building of communist society. At the same time, in the course of the transition from socialism to communism, an ever-increasing part of the material and cultural wealth will be distributed among the members of society *out of public consumption funds*, irrespective of the quantity and quality of their work, i.e., gratis.

Already now, working people in the U.S.S.R. are given a great deal out of public funds.

In the U.S.S.R. pensioners are maintained out of public funds; about 4 million students and schoolchildren have state scholarships and hostel accommodation; over 7 million working people and their children spend their annual vacations in sanatoria, holiday homes, and Young Pioneer camps at the expense of social insurance and collective-farm funds; about 7 million mothers are in receipt of state benefits.

In 1961 the Soviet population received 26,400 million rubles from public funds in various allowances and benefits as against 4,200 million rubles in 1940; in other words, this form of expenditure increased more than sixfold in the last 20 years. In 1980, 255,000-265,000 million rubles will be spent in this direction.

With the advance towards communism, society will show increasing care for everyone, from infancy to old age. The need for every type of highly skilled medical care will be fully satisfied. The system of institutions for children will be extended so that it will be possible for every family to have their children, irrespective of their age, put, free of charge, in the educational establishments, if so desired. Gradually the state, trade unions and collective farms will undertake the care of all citizens unable to work due to disablement or old age.

• At the end of the twenty years (1961-80), public consumption funds will total about half the aggregate real incomes of the population. The Programme of the C.P.S.U. points out that this will make possible, at public expense:

free maintenance of children at children's institutions and boarding-schools (if parents wish);

maintenance of disabled people;

free education at all educational establishments;

free medical services for all citizens, including the supply of medicines and the treatment of sick persons at sanatoria;

rent-free housing and free communal services;

free municipal transport facilities;

free use of some types of public services;

steady reduction of charges for, and, partially, free use of, holiday homes, boarding-houses, tourist camps and sports facilities;

increasingly broad provision of the population with benefits, privileges and scholarships (grants to unmarried mothers, mothers of many children, scholarships for students);

gradual introduction of free public catering (midday meals) at enterprises and institutions, and for collective farmers at work.

Fulfilment of the tasks raised at the Twenty-Second Congress of the C.P.S.U. will mean that the U.S.S.R. will have progressed far towards the practical implementation of the communist principle of distribution according to needs.

With the transition to communism, the development and improvement of production relations make essential changes in the superstructure too.

## 5. The Political Organisation of Society, State Structure and Administration in the Period of Transition from Socialism to Communism

**From proletarian dictatorship to the state of the whole people**

Marxism-Leninism points out that the state is part of the political superstructure on the economic basis. Whenever changes take place in the economic basis, changes also occur in the superstructure.

The Programme of the C.P.S.U. points out that the dictatorship of the proletariat which was established as the result of the victory of the Great October Socialist Revolution, once it had ensured the abolition of exploiting classes, the complete and final victory of socialism and the transition of Soviet society to full-scale communist construction, became no longer indispensable in the U.S.S.R. from the point of view of the tasks of internal development. The historic mission of the working class—the building of communism—is now the task of the whole people. The Soviet socialist state, which arose as a state of the dictatorship of the working class, is now the *state of the entire people, the organ which expresses the will of the whole people.*

The state of the whole people is a new stage in the development of the socialist state, an all-important milestone on the road from socialist statehood to communist public self-government.

During the transition to communism, the state of the whole people is called upon to organise and build the material and technical basis of communism, to ensure that socialist relations become communist relations. The socialist state has to exercise control over the amount of work and the amount of consumption, to promote the people's welfare, protect the rights and liberties of Soviet citizens, maintain socialist law and order, protect socialist property, instil in the people socialist discipline and the communist attitude to labour. The socialist state's prime task is to guarantee the defence of the country, promote fraternal co-operation with the socialist countries, uphold world peace and maintain normal relations with all countries, irrespective of their socio-economic systems.

All-round extension and improvement of socialist democracy, active participation by all citizens in the administration of the state and the management of economic and cultural development, improvement of the work of the state apparatus and increased control over its activities by the people, all constitute the main direction in which socialist statehood develops under present conditions.

**Soviets and the development of democratic principles of government**

*Socialist democracy in the U.S.S.R. which means genuine democratic rule by the working people*, extends and develops more fully year by year. In recent years the Communist Party and the Soviet Government have put through several important measures which indicate a big advance in socialist democracy.

Among them are those giving more extensive rights to the Union Republics in their economic and cultural development, the elimination of excessive centralism in the leadership of economic and cultural life in the U.S.S.R., the maximum encouragement of local initiative, reconstruction of the management of industry and building so that the emphasis is shifted to leadership of the industrial and building enterprises by the Economic Councils, and additional rights for local Soviets. An end has been put to infringements of socialist legality. Important measures have been undertaken to encourage the initiative of collective farms and their members; regulations for planning agricultural production have been modified and a new system of agricultural management introduced.

During the transition from socialism to communism, the working people will be further drawn into active participation in managing state affairs. Here the Soviets which represent and express the interests of Soviet people as a whole are called upon to play a great part.

The Soviets combine all the working people in town and country and are an all-inclusive organisation of the people.

The Programme of the C.P.S.U. stresses that the Soviets will have to play an even greater part during the building of communism. The Soviets combine the features of state and social structures, but they will operate more and more as public organisations, with the masses participating extensively and directly in their work.

In conditions of full-scale communist construction, state administrative bodies which guide the economy and culture are of especial importance. They have a tremendous future. Under communism they will lose their political character and become self-administrative bodies of the public required to direct comprehensive, multiform processes of economic and cultural life.

Improvements in the work of the state and economic apparatus are closely linked with more active participation by working people in the management of state affairs, with increased public control.

In line with the directives of the Twenty-Second Congress of the C.P.S.U., the November 1962 Plenary Meeting of the Central Committee decided to reorganise the system of control in the country, basing it on the Leninist idea of combining Party and state control, setting up a system of unified, permanently-operating control with the participation of broad masses of working people.

It was decided to form a single organ of Party and state control—the Party and State Control Committee of the C.C., C.P.S.U. and Council of Ministers of the U.S.S.R., and its local bodies. The local Party and State Control Committees have been given considerable rights and powers. They are called upon to verify the actual fulfilment of national economic plans; tap internal reserves and unutilised possibilities of expanding industrial and agricultural production; campaign for the strictest economy, and for the correct and most rational expenditure of resources.

**The increasing part played by mass organisations**

In the period of full-scale communist construction, *mass organisations* have a more important part to play. Gradually they will become responsible for many of the functions at present fulfilled by the state organs.

Already now, the rights of the trade unions, as the largest organisations of the working people, their importance and the part they have to play have been considerably extended. For instance, they are now much more engaged in resolving production problems which include the rating of work and wages, ensuring labour protection in industry, health services, the organisation of the rest and recreation of industrial, professional and other workers, etc. They are responsible for a considerable number of the cultural institutions, health resorts, sanatoria, holiday homes and countless sports establishments.

Through the trade unions, industrial, office, and professional workers are more and more influencing economic activities, helping to improve work in industrial enterprises and to control production.

It is most important to extend the functions of the mass organisations to cover the maintenance of public order in towns and industrial and agricultural centres, and energetic measures against hooliganism, crime and anti-social elements.

Mass organisations will have a continually increasing part to play. The Programme of the C.P.S.U. points to the need to give mass organisations a greater part in managing cultural and health institutions, to entrust them in the next few years with the management of theatres, cinemas, concert halls, clubs, libraries and other cultural and educational establishments at present state-controlled, to give them more power in promoting law and order, particularly through the people's volunteer squads and comradely courts.

The all-round development and improvement of socialist democracy inevitably implies that the largest possible sections of the working people should participate in the management of socialist production.

At all state enterprises and on all construction sites, standing production conferences and committees have been set up. Being a form of attracting people into production management, they make it possible to combine the one-man management principle with mass control from below, to add the experience of the working masses to that of the managers. Their strength lies in the fact that their work is done with the full participation of industrial and office workers, engineers and technicians, and representatives of the administration, the Party and Y.C.L. organisations.

"The administration of our state," Khrushchov pointed out, "is effected *for* the working people and by the working people. We set ourselves the task of drawing all citizens without exception into the administration of the affairs of society.

"How do we plan to solve this task?

"Firstly, by creating ever better material and cultural conditions for every working man and woman.

"Secondly, by perfecting the forms of popular representation and the democratic principles of the Soviet electoral system.

"Thirdly, by extending the practice of nation-wide discussions of the more important matters of communist construction and of draft laws of the Soviet state.

"Fourthly, by extending in every way the forms of public control over the activities of the organs of state power and administration, and by making this control more effective.

"Fifthly, by systematically renewing the composition of the governing organs, by increasingly and consistently implementing with regard to leading officials of the state apparatus and of public organisations the elective and accountability principle, and gradually extending this principle to all leading officials of state and public organisations, and cultural institutions."[1]

Thus during the period of full-scale communist construction exceptionally favourable conditions arise for the continued development of socialist statehood.

**Communism and the state**

The development of socialist statehood gradually leads to its transformation into *communist* public *self-government*, combining the Soviets, trade unions, co-operatives and other mass working-class organisations.

In economic and cultural management, public functions similar to those fulfilled by the state today will be preserved under communism, becoming modified and perfected as society develops. But the character of the functions and the ways in which they are fulfilled will be different from those under socialism. The organs in charge of planning, accounting, economic management and cultural advancement, which at present are government bodies, will lose their political aspect and will become organs of public self-government. Consequently the withering away of the state does not signify its complete disappearance, but implies the dialectical development of the state organs into communist public self-government.

[1] *The Road to Communism*, pp 254-55.

When fully-developed communist society has been established, the state will no longer be necessary from the point of view of internal conditions. But from the point of view of the external situation, the state can only wither away completely when communism is victorious on a world scale. As long as imperialism remains and imperialist countries exist, state organs such as the armed forces should be strengthened to the full. The state will be retained, therefore, even under communism so long as the menace of imperialist aggression persists.

It follows that the complete withering away of the state requires both the internal conditions—the building of communist society, and the appropriate external conditions—the victory and consolidation of socialism in the world arena.

"The state," Khrushchov pointed out at the Twenty-Second Party Congress, "will remain long after the victory of the first phase of communism. The process of its withering away will be a very long one; it will cover an entire historical epoch and will not end until society is completely ripe for self-administration. For some time, the features of state administration and public self-government will intermingle. In this process the domestic functions of the state will develop and change, and gradually lose their political character. It is only after a developed communist society is built in the U.S.S.R., and provided socialism wins and consolidates in the international arena, that there will no longer be any need for the state, and it will wither away."[1]

**The Party in the period of communist construction**

With the advance towards communism *the role and importance of the Marxist-Leninist Party increases.*

The Communist Party of the Soviet Union which arose as the party of the working class has become the party of the whole people. The activity of the Communist Party is based on the scientific programme for building communist society. The Party shows the people scientifically substantiated ways of advance, awakens the vast energies of the masses and leads them in the accomplishment of great tasks.

[1] *The Road to Communism*, p. 252.

The increased role and importance of the Communist Party as the leading force in Soviet society follows from the greater scale and comprehensive nature of the tasks of communist construction which require a higher level of political and organisational leadership; from the increased activity of the masses; from the fact that additional millions of working people have been drawn into the management of state affairs and production; from the further development of socialist democracy, the greater part played by mass organisations, the increased rights of the Union Republics and local organisations; from the ever-growing importance of the theory of scientific communism and its creative development and propaganda; from the need to extend communist education among the working people and the struggle to overcome the survivals of the past in the minds of people.

For the successful building of communism it is essential that the forms and methods of the Communist Party's political, ideological and organisational leadership of all state and mass organisations should improve. Because the Party's political and organisational work ensures the united will and coordinated action of the working people, it is the Party alone that can unite the efforts of all these organisations and direct them towards one single end.

The Communist Party with its knowledge of the laws of social development ensures correct leadership throughout the entire work of communist construction and sees that the work is organised and planned on a scientific basis.

* * *

Under the leadership of the Communist Party the Soviet people are successfully building their bright future—communism.

More than a hundred years ago the great teachers of the proletariat, Marx and Engels, wrote in the *Manifesto of the Communist Party*: "A spectre is haunting Europe—the spectre of communism." The courageous, selfless struggle of the working people of all countries has brought mankind closer to communism. A long road, drenched in the blood of those who fought for the happiness of the people, had to be travelled before communism, once only a dream, became the greatest force of our day, a society which is being built over vast expanses of the earth.

At its historic Twenty-Second Congress, the Communist Party of the Soviet Union triumphantly proclaimed: "*The present generation of Soviet people will live under communism!*" The complete building of communism in the U.S.S.R. will be the greatest achievement of mankind throughout its long history.

Every stride the Soviet people take towards communism is an inspiration to the working masses of the capitalist countries in their struggle for emancipation from social and national oppression, and brings nearer the triumph of the ideas of Marxism-Leninism, the ideas of communism on a world scale.

The communist road is the road of the peoples of the world. The road from capitalism to communism is the road of human progress.