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# Political ECONOMY

A Beginner's  
Course



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**ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ**

**Первоначальный курс**

*На английском языке*

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### PART ONE

#### THE CAPITALIST MODE OF PRODUCTION

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## Chapter One.

### THE SUBJECT-MATTER AND METHOD OF POLITICAL ECONOMY

Karl Marx (1818-1883), Frederick Engels (1820-1895) and Vladimir Lenin (1870-1924), thinkers of genius and great leaders of the working people, left mankind an invaluable ideological legacy—Marxism-Leninism, which is a vital creative teaching.

The creation of Marxism-Leninism was a genuine revolution in the history of human thought. In contrast to previous social theories, it not only gave a scientific explanation of the world, but also determined the conditions, ways and means for transforming it; it answered the questions raised before mankind by the development of society. Marxism-Leninism is a neat and integral scientific system, including three component parts: philosophy, scientific communism and political economy.

Marxist-Leninist political economy is among the social sciences that study the various aspects of the emergence and development of society. It investigates the economic system, the internal structure of society, connected with the production of means of subsistence of people. Marx noted that, while anatomy reveals the secrets of the living organism, the anatomy of society must be sought in political economy. It studies the "profound secrets" of the production of material wealth.

#### Production of Material Wealth—the Basis of the Life of Society. Chief Aspects of the Labour Process

There is a simple truth of profound meaning: in order to live, people must have food, clothing, footwear, housing and other vital benefits and services. Man is closely tied to nature. Scholars believe that a person can live only five weeks without food, five days without water and five minutes without air. Everything necessary for life is found in nature. In order to assimilate everything provided by

Mother Nature, to adapt natural substances for satisfying human requirements and for human ends, it is necessary, however, to labour and create material wealth. Society would die if work stopped for just a few weeks. The production of material goods constitutes the basis of the life and development of human society.

The process of the production of material goods includes labour, objects of labour and means of labour.

What is labour? Defined briefly, labour is a person's conscious, purpose-oriented activity, connected (directly or indirectly) with the production of material goods, his expenditure of physical, nervous and mental energy for productive purposes. In the labour process, people exert an impact on nature in order to adapt its objects to their requirements.

Labour differs fundamentally from the instinctive activities of animals (ants, spiders, bees). The "work" of animals is instinctive, while human labour is a thought-out, conscious activity. The worst architect differs from the very best bee right from the start in that, before building the simplest construction, he creates a plan of it in his head. Labour is an exclusively human quality, an eternally natural requirement, the primary condition for all human life. Labour played the decisive role in the emergence of man himself and of human society. Engels wrote that, thanks to labour alone, did the division of functions occur in man between the hands and feet, did his sense organs improve and his speech organs and brain develop.

The objects of labour are all the things to which a person's labour is applied. Thus, the wood-cutter's object of labour is the wood that he cuts; the smith's is the piece of metal that he works. Some objects of labour are provided for man by nature in ready form, but the majority are created by labour. Those objects of labour that were made by expenditure of labour in the past are raw materials and semi-finished goods (such as yarn for weaving, metal for an engineering works, and the like).

Nowadays, new materials are being created and used that do not exist in nature and have pre-set qualities, such as polymers, heat-resistant, durable and other synthetic materials, and so on. Whole ages in human history are defined according to the objects of labour used: there was the Stone Age, the Bronze Age, the Iron Age, and today is called the age of polymers.

The measure of man's domination of nature is, however, the level of development of the means of labour. Economic ages differ primarily not in what is produced, but how it is produced, and by which means of labour.

Means of labour include all things used by man to exert an impact on and to modify objects of labour. The decisive role among the means of labour is played by the implements of labour, which affect materials directly (machines, machine-tools, mechanisms, instruments, equipment, and so on). Marx figuratively called implements of labour "the bone and muscles of production". The means of labour used for storage and transportation purposes (barrels, cisterns, pipelines, gas-pipes, and so on) may be called the "blood vessels of production". Buildings and constructions, bridges, railways, steam, electricity, nuclear energy, and fuel are also means of labour. The land is a specific means of labour, all production being carried out on it. At the same time, the land is also the universal object of labour in farming. One and the same things may be means of labour or objects of labour, depending on the place they occupy in production. Cattle for fattening, for example, are objects of labour, while draught cattle are means of labour. Ore is both a product of labour for miners and an object of labour (raw material) for an engineering works.

All the means and objects of labour used in the production of material goods constitute the means of production. Thus, in a textile mill, the means of production include production premises, weaving looms, spinning machines, cotton, yarn, and so on.

The labour process is impossible without means of production, but without human labour the means of production are no more than a collection of useless objects. Without contact with live labour there can be no means or objects of labour. In the process of production it is essential for people and their labour power to combine with the means of production. Labour power is man's ability to work, his physical and mental abilities, his professional skills, used for creating products of labour and material goods.

The decisive factor in any production is, therefore, man himself, and his labour power. Only in an organic unity of labour objects and means of labour, in other words, labour power and means of production, can the production of material goods be accomplished.

## Productive Forces and Relations of Production

At all stages in the development of society, production consists of two inseparably linked parts: the *productive forces* and *relations of production*.

What are the productive forces? The *productive forces* are means of production and people with production experience, labour skills and knowledge who put the means of production into action.

The productive forces act as the most mobile and revolutionary factor in the development of human society.

The chief productive force of society is the toiling masses. It is they who, by participating in the production of material goods, act increasingly energetically on the natural environment and subordinate it to their requirements. In this way, the development of the productive forces and the production of material goods in growing quantities are ensured.

The productive forces mediate the relations between people and nature, and man's impact on nature for the purpose of adapting it to human requirements. They are studied by many sciences: the natural, technical and a number of specific economic sciences. Political economy, in contrast to the natural and technical sciences, studies the productive forces only in as far as they affect the formation of relations of production.

What are these? When operating on nature, during the production process people act, inevitably and independently of their wishes, in a particular relationship with one another. A person lives and works in society. Production by a separate individual is an extremely rare thing. Production by Robinson Crusoes is just as pointless as the development of language without people to speak it.

Material goods are produced not individually but jointly, by groups and societies. In the production process, Marx wrote, people "enter into definite connections and relations with one another and only within these social connections and relations does their relation with nature, does production, take place".<sup>1</sup> These links are called economic or production relations.

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<sup>1</sup> Karl Marx, "Wage Labour and Capital", in Karl Marx and Frederick Engels, *Collected Works*, Vol. 9, Progress Publishers, Moscow, 1977, p. 211.

It is important to note that relations of production arise directly in the production process; they exist objectively, independently of people's consciousness and will.

Yet people not only create products of labour; they also distribute, exchange and consume them. All these aspects of the life of society constitute different spheres of activity of people which are closely interlinked and interdependent. Production, distribution, exchange and consumption form part of a single whole. The decisive role in this unity belongs to production itself, since without it there would be nothing to distribute, exchange or consume.

Production predominates over consumption. This superiority or primacy consists, above all, in production creating an actual thing to be consumed, otherwise consumption would be impossible. Moreover, production engenders a demand for what is produced, providing the impetus to consumption. At the same time, only consumption makes production necessary, since production would be pointless without consumption.

Consumption is divided into personal and productive consumption. Productive consumption is the production process itself: means of production—implements of labour and raw materials, and human labour power are consumed, and people's physical and intellectual energy is expended. Personal consumption, on the other hand, takes place outside production; it is people's consumption of foodstuffs, clothing, footwear and other means of survival. Production and consumption of products constitute the beginning and the end of social production, and the links joining them together are distribution and exchange.

Distribution is the "reverse" of production; it is conditioned by the nature of production. For example, if production is capitalist, the material goods produced are distributed in such a way that the main part of them goes to the capitalist class. If production is socialist, the main task facing distribution is to improve the welfare of the working people and ensure their comprehensive development.

Exchange is a component part of production; it may be an exchange of activities (or their results), carried out primarily in the process of production. Under certain conditions, the exchange of the results of labour takes the form of an exchange of commodities. Commodity exchange arose when the social division of labour began to emerge, and it

developed further on the basis of private property, to reach its highest level under capitalism.

Thus, relations of production, as the totality of the links and relations in the production, distribution, exchange and consumption of material goods, form an integral economic system, giving production a specific social form. The chief link in this system is *ownership of the means of production*. This is what determines the way labour power is united with the means of production, the social form of the appropriation of material goods. The character of production, distribution, exchange and consumption depends on to whom the means of production belong and in whose hands they are. Economic relations are always property relations; they are inseparably linked with ownership of the means of production and products of labour.

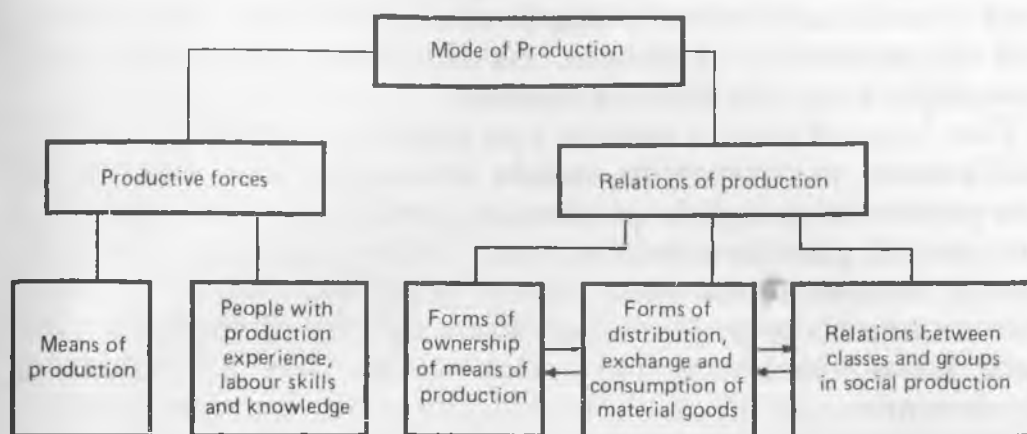
Ownership is the relations between people in the appropriation of the means of production and the material goods produced with their help. If the means of production belong to all society or individual work collectives, this is social ownership. All members of society have a vested interest in multiplying this property, since it provides the basis for a steady rise in the working people's standard of living. If the means of production are the property of a capitalist, relations of exploitation inevitably take shape: the capitalist uses the means of production to exploit people deprived of these means.

Ownership of means of production lies at the basis of the economic relations between people at all stages in the development of society; the nature of this ownership determines the position of the classes and groups in production and exchange, as well as relations in the distribution and consumption of the material goods produced.

Relations of production, together with the productive forces, constitute the *mode of production of material goods*. Production relations exert a substantial impact on the productive forces; they may speed up their development or, on the contrary, slow it down. When relations of production become a brake, an insurmountable obstacle to the development of the productive forces, they break down and are replaced by new ones. This is why political economy studies relations of production in their close interconnection with the development of the productive forces.

Let us depict these interlinks in the following diagram (Fig. 1).

Fig. 1



As the productive forces develop, being the most mobile and revolutionary factor, one mode of production is replaced by another. The following modes of production have existed in history: primitive-communal, slave-owning, feudal, capitalist and communist (the first phase of which is socialism). Each given mode of production predetermines the entire structure of society.

Each mode of production has its own economic basis, consisting of all the relations of production. On this, like a building on its foundations, arises a corresponding superstructure, including establishments and organisations like the state and political parties, and other political and social institutions, as well as the aggregate of political, legal, moral and aesthetic, and other views and ideas prevailing in society. The basis and the superstructure together form the socio-economic formation.

### The Subject-Matter of Political Economy

Political economy studies the economic laws governing the development of society, which reflect the most fundamental aspects of the relations of production and their interconnection with the productive forces. Economic laws reveal the essence of the processes taking place in economic life and economic phenomena.

In the sphere of the economy, certain internal links and dependencies exist between economic phenomena. Constantly reiterated cause-and-effect links, expressing the fundamental aspects of the objective processes in the economy, constitute *economic laws*. In other words, economic laws,



like the laws of nature, are objective in character, i. e. they emerge and operate independently of the will, wishes and consciousness of people. At the same time, economic laws differ from the laws of nature.

The laws of nature emerge and manifest themselves without human participation, while economic laws emerge in the process of people's production activities. For example, the law of gravity operated even before man appeared on Earth, but economic laws cannot manifest themselves outside human society. Moreover, the majority of them operate only for a specific period, after which they are replaced by new ones. In Engels's words, economic laws are not the eternal laws of nature, but historical laws that appear and disappear.

Some economic laws are common to all stages in the development of human society, and they express the interlinks between the common economic phenomena inherent in all modes of production. One such common economic law is that of the correspondence of the relations of production to the character and level of development of the productive forces, which means that, as the productive forces develop, the old relations of production are inevitably replaced by new, more progressive ones.

There are also economic laws that operate not under all, but only under the specific conditions of certain modes of production. For instance, the law of value exists wherever there are commodity relations.

The overwhelming majority of economic laws, however, are specific ones, arising from the relations of production of a given mode of production. Each mode of production has its own basic economic law, which expresses the most fundamental features of the predominant relations of production and determines the general direction of its development. Under capitalism, for example, the basic economic law is that of surplus value. In a socialist society, another basic economic law operates. Public ownership of the means of production subordinates production to ensuring the fullest possible well-being and free, comprehensive development of all members of society through a continuous growth and improvement of social production.

Apart from the basic economic law, other specific laws operate that describe the various aspects of relations of production. Thus, private ownership of the means of production leads to each capitalist striving to develop the branches of

production that are most profitable for him, which precludes any planned, balanced development of the national economy as a whole. The capitalist economy develops on the basis of competition and anarchy of production, so these are specific laws of capitalism.

Public ownership of the means of production unites the entire national economy in a single organism, a single national economic complex. Thus, under socialism, the objective conditions are created for the planned, balanced development of the economy, for the operation of the economic law of the planned, balanced development of production.

Economic laws do not operate each on its own; they form a system. Each mode of production has its own inherent system of economic laws, with the basic economic law playing the determining role in this. Economic laws taken together express primarily specific qualitative phenomena, characterising specific relations of production and the course of their development.

Consequently, the subject-matter of political economy is the system of relations of production in its connection with the productive forces, or (the same thing) the laws of production, exchange, distribution and consumption of material goods at different stages in the development of human society.

Political economy originally emerged as the science of the laws of production, distribution, exchange and consumption in capitalist society. Engels called this political economy in the narrow sense. He defined political economy as the science of the relations of production in the broad sense, as that of the conditions and forms under which production and exchange take place in different human societies and under which, correspondingly, the products are distributed.

The political economy we study is the political economy in the broad sense of the term: it considers the relations of production and economic laws of all the socio-economic formations that have ever existed in history, from the primitive-communal mode of production to the communist.

### The Method of Political Economy

The subject-matter of political economy—relations of production and the laws of their development—is very closely linked to the specific scientific method used in the study.

The method of political economy is an aggregate of means and methods for cognising relations of production and reproducing them in a system of economic categories and economic laws.

The method of Marxist-Leninist political economy is materialist dialectics, which demands that relations of production be studied in the process of their emergence and development.

The methods used to study the laws of nature are not applicable to understanding the laws of political economy. Laboratory equipment used in the natural sciences cannot be used here. In political economy, a specific mode of thinking is used, a method of scientific abstraction that implies the extensive use of generalised concepts, abstracting from the non-fundamental aspects of the phenomenon under study, in order to reveal and emphasise its most important aspects. "...In the analysis of economic forms... neither microscopes nor chemical reagents are of use. The force of abstraction must replace both", Marx wrote.<sup>1</sup>

The chief means of abstract thinking are analysis and synthesis. The break-down of the object under study into individual components and investigation of each of them as an essential part of the whole is called analysis. Analysis breaks down the phenomenon under study into its component parts. The unification of the separate components into an integral whole is called synthesis. Analysis and synthesis constitute an organic unity of the two aspects of the same process of the scientific comprehension of reality. Analysis provides the basis for synthesis, without which there can be no complete study. The application in thinking of analysis and synthesis at the same time reveals the essence of economic phenomena and economic laws and categories.

One of the chief tools used in abstract thinking is economic categories, which reflect the essence of individual economic phenomena. Such categories as commodity, money, capital, profit, rent and others, reflect the various relations that actually exist between people under specific social conditions.

The method of materialist dialectics requires investigation of relations of production in the process of their historical development, that is, their emergence, development

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, Progress Publishers, Moscow, 1974, p. 19.

and demise, and their replacement by other relations of production. In clarifying economic laws, it is useful to proceed in the analysis from the simplest forms of the given mode of production to the most complex ones. Such a logical analysis does not abstract from the historical course of events, but does give it in a "purified" form, reflecting the real content of the inevitable stages in historical development. This method—the unity of the logical and the historical—was used by Marx in his analysis of the development of capitalism, beginning with a study of the commodity. Capital arose historically on the basis of commodity relations. At the same time, commodity relations are the elementary "cells", making up the entire organism of the capitalist economy.

A characteristic feature of the method of political economy is a unity of the qualitative and quantitative analysis of economic phenomena, which presupposes extensive use of statistical data, mathematical methods, economic mathematical modelling and computers.

The process of the comprehension of reality begins with practice, with questions raised by life itself, people's practical activities, and ends with the application of scientific conclusions and recommendations in practice, in economic activity. Practice is the chief link in the method of Marxist-Leninist political economy, the criterion for judging the validity of its various propositions.

Such, in brief, are the main features of the method of dialectical and historical materialism used in Marxist-Leninist political economy.

### What Is the Significance of Political Economy

The enormous significance of Marxist-Leninist political economy lies in the fact that it arms the working people, above all the working class, with a knowledge of the economic laws governing the development of society and proves the inevitability of the replacement of one mode of production by another. It reveals to the working people of the capitalist countries the reasons for their economic and political suppression, economic crises, unemployment, inflation, and wars, and shows that the position of the working people depends on the domination of the capitalist system as a whole, rather than any chance factor or the arbitrary sway of individual capitalists. Thus, only an irreconcilable class

struggle, elimination of capitalism and the establishment of the power of the working people themselves can liberate them from exploitation, unemployment and the other evils of capitalism.

Political economy is a class, partisan science. This means that its goals, tasks and study methods are determined by the economic and political interests of various social classes. Marx wrote on this: "The peculiar nature of the material it deals with, summons as foes into the field of battle the most violent, mean and malignant passions of the human breast, the Furies of private interest."<sup>1</sup>

Marxist-Leninist political economy provides the working people in the capitalist countries with a theoretical weapon in their revolutionary struggle for the triumph of communism, the only truly just society on Earth. It shows the peoples that have liberated themselves from colonial oppression in Asia, Africa, and Latin America the reasons for their backwardness and poverty, proving convincingly that the oppression and robbery of the people of the colonies and dependencies over several centuries were engendered by capitalism and the colonial system created by it. Political economy helps the people of the developing countries in their struggle for genuine economic independence, for the final elimination of the survivals of colonialism and neo-colonialism in these states.

The importance of Marxist-Leninist political economy in the socialist countries consists primarily in that it serves as the theoretical basis for the economic policies of communist and workers' parties and socialist governments. A knowledge of its laws allows the broad population to take a conscious and active part in building communism; it allows to develop more broadly the initiative of the working people, teaches them to work as productively as possible and helps all the working people to act as energetic builders of a new and happy life, worthy of man.

#### Revision Exercises

1. What is material production and what is its role in the life of society?
2. What is meant by the productive forces, relations of production and mode of production?

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 21.

3. Define the subject-matter of Marxist-Leninist political economy.
4. Why is dialectical materialism the method used in political economy?
5. What significance does the study of political economy have for the working people?

## Chapter Two.

### PRE-CAPITALIST MODES OF PRODUCTION

The development of human society is a law-governed, natural-historical process by which socio-economic formations replace one another. The reasons for this succession of formations are rooted in material production itself, in the development of the productive forces and relations of production.

The productive forces, as already mentioned, are the most mobile element of production; they are constantly changing, since people are constantly improving the implements of labour, accumulating production experience and so on. Relations of production change in response to the level of development of the productive forces and, in turn, affect their development. When the relations of production promote the development of the productive forces, the latter develop successfully. If, however, the correspondence between them is disturbed, relations of production act as a brake on the development of production.

A given level of development of the productive forces demands corresponding relations of production. This is the economic law of the correspondence of the relations of production to the character and level of development of the productive forces, as discovered by Marx. It reveals the economic basis of the profound social transformations and it is behind the transition from one social system to another: from the lower levels of social development to the higher and more modern ones. The historical panorama is such: mankind has progressed consistently from the primitive-communal system to the slave-owning, from this to the feudal, from the feudal system to the capitalist, and from the latter to the communist mode of production. Moreover, the general development can never go backwards or reverse towards the past; it always advances from lower forms of

social life to more and more mature and progressive ones. In this chapter we shall look at the reasons for the emergence, development and demise of the primitive-communal, slave-owning and feudal modes of production.

The study of pre-capitalist modes of production is of major theoretical and practical significance. It is important both for a scientific understanding of the development course of human society, and for comprehension of a number of modern phenomena. In many developing countries that have gained their political independence, part of the population still lives under the conditions of pre-capitalist, primarily feudal relations.

### 1. The Primitive-Communal Mode of Production

Modern science has proved that life on Earth appeared about 900 million years ago, and Man himself emerged from the animal kingdom roughly two million years ago. Man's remote historical ancestors were a breed of highly-developed apes, living in herds and gradually getting used to living on the ground, which meant that they developed an upright stance and their forelimbs were freed for labour activities. The first and most extended mode of production in human history was the primitive-communal one, which lasted 1.9 million years, right up to the 4th and 3rd millennia B.C. Engels wrote: "This 'hoary antiquity' will in any case remain a historical epoch of the greatest interest for all future generations, because it forms the basis of all subsequent higher development, because it has for its starting point the moulding of man from the animal kingdom, and for its content the overcoming of obstacles such as will never again confront associated mankind in the future".<sup>1</sup>

There were two periods in the development of the economy of primitive-communal society: the period of the gathering economy, when people mostly gathered products of nature, and the period of the reproducing economy, when people began to engage in livestock-breeding and crop-growing and mastered methods for increasing production with the help of manufactured implements of labour. The latter period was completed by the creation of a class society and a transition to the slave-owning mode of production.

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<sup>1</sup> Frederick Engels, *Anti-Dühring*, Progress Publishers, Moscow, 1975, pp. 138-39.

The primitive-communal system was connected with man's break-away from the animal kingdom and the appearance of Man as such. The basis of this tremendously important event was labour. For many millennia, our remote ancestors learned gradually to adapt their forelimbs to very simple labour operations and grasping functions. The French philosopher Helvétius wittingly remarked that if nature, instead of hands and flexible fingers, had ended our arms with horse's hooves, there can be no doubt that people, without art, without housing, without defence against animals would still be wandering around the forests in fugitive groups.

Changes in the functions of the hands, the upright stance, joint labour activity in gathering the gifts of nature with the help of manufactured implements of labour, were responsible for the appearance of articulate speech and the development of the other human organs, especially the brain. Labour, in a certain sense, created Man himself.

What means of labour did primitive people use and what were their productive forces?

The productive forces of the primitive-communal system were weakly developed and they were at a low level. People were extremely dependent on the environment, and they were helpless in the face of the forces of nature, wild animals and, as Engels put it, were as poor as animals and not much above them in terms of their productivity. People possessed the very simplest implements of labour: a stick, a stone, a hand axe made from a stone sharpened down two edges. With this they cut and sharpened sticks, defended themselves against wild animals, hunted small ones, dug up edible plants and roots, and so on. Then people invented the stone axe. The epoch of the use of primarily stone tools (the Stone Age) lasted hundreds of millennia. The motive force was mostly human muscle-power.

A major event in the improvement of implements of labour was the invention of the bow and arrow; that made it possible to advance from simple food gathering to hunting, which became the chief form of labour activity of primitive people and provided more means of subsistence. Hunting provided people with hides for clothing, bones for making implements of labour, and meat to eat, the latter having a considerable impact on the development of the brain and people's intellectual capabilities.



Of tremendous importance in the life of primitive man and his struggle with nature was the discovery and application of the useful qualities of fire. Fire was used as a means of protection against cold and predatory animals, as well as for cooking food and producing more advanced implements of labour. Man learned to make metal tools, at first out of copper and bronze, and then out of iron.

The more advanced implements of labour made possible the transition from the simple gathering of edible plants to the cultivation of particular crops, such as wheat, rye, oats, onions, cabbages, cotton, and so on. Farming developed and this, together with the developing hunting, led to the taming of cattle: sheep, goats, pigs, donkeys, cows, antelopes, and later, in the Bronze Age, horses and camels. A natural division of labour occurred according to sex and age: between men and women, between adults and children. The taming and breeding of animals became the specific occupation of men hunters, while women looked after home matters.

Construction gradually began to develop—the building of straw and mud huts and houses with walls and roofs, as well as the production of clothing, domestic items and pottery. Drag harrows, sledges, boats, and sails appeared and the wheel was invented. The economy of primitive people became more complex, the forms of their labour activity more and more varied, and their implements of labour more specialised. Labour activity was based on simple co-operation, i. e. many people fulfilling the same job. This meant that, in primitive society, simple co-operation was practised, making it possible to unite individual forces, raise the productivity of labour and create more of the products necessary for life.

While the process of Man's separation from the animal kingdom was underway, people lived in groups. As a consequence, in connection with the emergence of an economy, the clan organisation of society gradually took shape, i. e. only people who were related joined together to carry out joint labour. At first, the clan consisted of a few dozen people, but then grew to several hundred. Several clans made up a tribe. In the initial stages of the clan system, the leading role was played by women, who gathered wild fruits, prepared the food and engaged in primitive forms of farming and livestock-breeding. This was a matriarchal clan—*matriarchate*. As the productive forces developed, when livestock-breeding and more developed crop-growing began to acquire

greater significance, the *patriarchy* emerged, with men dominating.

The relations of production under the primitive-communal system were based on communal ownership of the means of production and means of subsistence. In order to simply survive and not die from starvation, people joined together in communes, defended themselves jointly against wild animals, and worked jointly to acquire the necessary means of subsistence. The labour activity of primitive people was a collective activity right from the start. Every individual was subordinated to the combined will of the collective.

The economy was run on a subsistence basis, the products being obtained and produced for direct consumption. The life of our remote ancestors took the following form: men made war, hunted and fished, obtained food and made the implements required for this purpose. Women worked in the home and engaged in preparing food and making clothing, i. e. they cooked, weaved and sewed. Each was the master of his (her) own sphere: he in the forest, she in the home. The household was run on general principles, often by many families together. Everything done or used jointly constituted joint property: the house, garden, boat. It is interesting to note that a tribe has recently been discovered in New Guinea which still lives at the level of the Stone Age: they use home-made stone axes, a bow and arrow for hunting, spears with stone tips, and so on.

Communal ownership of the means of production and the low level of development of the productive forces made for a levelling distribution of products. Given the low level of production, the quantity of products made hardly provided for even a starvation-level existence, so levelling distribution was then the only possible method for satisfying the primitive people's requirements for means of subsistence, and their entire lives were taken up with ensuring the most basic conditions for survival.

The basic economic law of the primitive-communal system was the law of providing the members of the primitive commune with vitally necessary means of subsistence through collective labour, with the help of primitive implements on the basis of joint (communal) ownership of the means of production.

No one in the commune stood above the masses and ruled them in their own selfish interests; only the force of moral authority, acquired through age, knowledge, and accumulated

experience was recognised; there were no classes or exploitation of man by man. In his books, the French thinker Jean-Jacques Rousseau (17th century) depicted primitive times as a Golden Age, when people were unaware of evil, self-interest, meanness, envy and other low passions; these "wild children of nature" were, in his opinion, happy, enjoying freedom and equality.

Yet the primitive-communal system was not, of course, any Golden Age. Primitive people were totally oppressed by the difficulties involved in their struggle for survival and in fighting off wild animals, by hunger, cold, the forces of nature, and they were constantly on the move.

At a particular stage in the development of the primitive-communal system, in connection with the separation of herdsmen tribes, the first major social division of labour took place. Some groups of people began to engage primarily in livestock-breeding, and others in farming. Primitive crop-growing remained at a very low level for a long time. The use of cattle as draught power made farm labour more productive and farming became more firmly established. Primitive people began to go over to a settled way of life.

The first major social division of labour led to people's labour becoming more productive. A certain surplus of some products and requirement for others appeared within the communes. This laid the foundations for the emergence of exchange between cattle-breeding and crop-growing tribes. Later, when people learned to smelt metal ores—copper and tin (they learned to mine for iron later)—and make bronze instruments, weapons and dishes, and when the invention of the handloom facilitated greatly the production of cloth and clothing, people who engaged in crafts gradually began to separate out within the communes, and their output to be exchanged more and more often. The product began to be manufactured constantly for exchange purposes, i. e. it became a commodity (a thing produced for exchange). Exchange gradually became more and more regular.

The development of the productive forces greatly increased the productivity of labour and Man's power over nature, and product surpluses began to appear or, in other words, a surplus product.

What is this? In the sphere of material production, a product is made that, according to its economic purposes, may be divided into a *necessary* and a *surplus product*. The former, as a means of subsistence, is used to satisfy the re-

quirements of the working people themselves, and the latter constitutes a surplus over the necessary product. Depending on the division of the product into these parts, there is a division of labour into necessary and surplus labour, and of labour time into necessary and surplus time. It was as a result of the development of the productive forces in primitive-communal society that it became possible to produce, and then also for certain members of the commune to appropriate more and more of the surplus product. Private ownership of the means of production emerged, and this was accompanied by the appearance of inequality between people—between individual clans and within a given clan. Rich and poor people appeared. By this time, specific clan, communal and tribal organs of administration had emerged, as well as special officials: elders, tribe and military leaders. In individual cases, these posts became hereditary. Gradually, a rich and influential upper crust took shape—a clan, tribal aristocracy, which attempted to use the members of the commune and the communal economy for their own enrichment.

Property inequality and private ownership of the means of production were no chance phenomenon or “fall” by primitive people. In reality, they were an inevitable result of the development of primitive-communal production. “Wherever private property evolved,” Engels wrote, “it was the result of altered relations of production and exchange, in the interest of increased production and in furtherance of intercourse—hence as a result of economic causes”.<sup>1</sup>

Private ownership of the means of production arose as an objective necessity for the further development of the productive forces. New productive forces of society could no longer fit into the framework of the existing relations of production. The narrow bounds of communal ownership and levelling distribution of the products of labour began to act as a brake on the further development of the productive forces. There was no longer any need for joint labour and the possibility of individual labour appeared. Thus, previously, the collective labour of dozens of people had been needed to work a piece of arable land, but as the productivity of labour grew, one family now managed to work a plot of land big enough to provide it with the necessary means of subsistence. Collective labour had necessitated joint ownership of the

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<sup>1</sup> Frederick Engels, *Anti-Dühring*, p. 194.

means of production, but individual labour engendered private ownership.

Private ownership, as well as the expanding commodity exchange, played the decisive role in the disintegration and demise of the primitive-communal mode of production. They were also the reason for the emergence of slavery. The first source of slaves was inter-tribal wars. Then, when an individual's labour acquired the ability to create more means of subsistence than he required for himself, it became profitable not to kill prisoners of war, but to make them work as slaves. Since the slave's labour did not, however, bring in enough surplus product to allow the slave-owner not to participate in the production process, production was still based on the labour of the free person and the members of his family, while the labour of slaves played a subsidiary role. This was so-called patriarchal slavery.

As the property inequality increased, the rich men turned not only prisoners of war, but also members of their own communes into slaves, if they fell into debt. Thus, the first ever division of society into classes occurred: slave-owners and slaves. Relations of exploitation of man by man] appeared, and the primitive-communal system gradually gave way to a class society. The state emerged. Engels wrote: "The gentile constitution had outlived its usefulness. It was burst asunder by the division of labour and by its result, the division of society into classes. Its place was taken by the *state*."<sup>1</sup>

The primitive-communal mode of production was replaced by the slave-owning socio-economic system—the first exploitative class system. From that time onwards, the entire history of mankind, right up to the building of socialism was one of class struggle.

When the primitive-communal system disappeared, its survivals persisted for a long time in the world. They are even felt today sometimes. In certain countries of Africa, for example, vestiges of clan and tribal relations are still encountered. Small subsistence economies, extended family and neighbour-communal relations, remnants of clan and tribal ties, the power of tribal leaders—tribalism, still exist as survivals. In some African states, developing in a

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<sup>1</sup> Frederick Engels, "The Origin of the Family, Private Property and the State", in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, Progress Publishers, Moscow, 1973, p. 326.

capitalist direction, the relations of tribalism often exert a negative impact on socio-economic life.

The imperialist powers and transnational corporations (TNCs) consciously support such survivals of the primitive-communal system in order to maintain their own domination and continue plundering the young developing countries, keeping their peoples in bondage, ignorance and poverty. In this way, the imperialists are trying to tie the liberated countries closer to themselves, in order to gain control over their natural resources and use their territory for strategic purposes. To overcome the survivals of primitive-communal relations is a vital task facing the peoples of the developing countries.

## 2. The Slave-Owning Mode of Production

At the turn of the fourth and third millennia B.C. a slave-owning mode of production took shape in Egypt, and then in Assyria, Babylon and other countries. The slave-owning society developed as a result of the disintegration of the primitive-communal system, within the heart of which many elements of the new mode of production emerged, including private ownership of the means of production, patriarchal slavery, and so on.

The slave-owning system was the first ever class socio-economic formation, the main antagonistic classes being the slave-owners and the slaves. A state emerged as the power organ of the slave-owners. The slave-owning mode of production achieved the peak of its development in Ancient Greece and Rome.

Slavery is the most crude and most inhuman form of oppression of man by man. The main productive force—the slaves—not only did not own any means of production; they were themselves the actual property of the slave-owners and were considered simply as live implements of labour. In Rome, the slave was called a “talking” instrument in contrast to a “lowing” instrument—cattle—and to inanimate implements of labour. Slaves were exploited in the grossest and most perverted forms. They were treated worse than cattle. They were whipped to work, and were punished most severely or even killed for the most minor misdemeanour. The slave-owner was not held responsible for killing a slave. He appropriated the entire product of slave labour. The slave received the absolute minimum, just enough to survive,

to prevent him from dying of starvation and enable him to continue working for the slave-owner. Diodorus Siculus, who lived in the first century B.C., wrote: "There is no indulgence, no forbearance for the sick, the feeble, the aged, for woman's weakness. All must, forced by blows, work on until death puts an end to their sufferings and their distress".<sup>1</sup>

The main branches of production in the slave-owning society are crop-growing, cattle-breeding and crafts. By this time in human history, the second major social division of labour had taken place—crafts had separated into an independent branch. Craftsmen, in contrast to farmers, produced most of their output not for personal consumption, but for exchange. The division of crafts from agriculture was thus a major precondition for the emergence and development of commodity production.

In slave-owning society, material production made a certain step forward in its development. The old implements of labour were gradually improved and new ones appeared. In agriculture, use was made of the harrow, pitchfork, sickle, pick, and then the plough; the smith's bellows, the potter's wheel, the loom, the hand millstone appeared; new branches of production took shape: the mining of iron ore, gold, silver, the production of arms, clothing, jewellery, and so on. The predominant form of labour organisation was inherited from primitive society—simple co-operation of labour, based on the direct coercion of the slaves. There was a slow rise in labour productivity and the slaves made huge constructions with their bare hands: the pyramids, sphinxes, temples, theatres, canals, aqueducts, etc.

The slave-owners led a parasitic way of life and did not engage directly in productive labour. Individual representatives of this class at that time studied mathematics, astronomy, and other sciences, the practical application of which facilitated human progress to a certain extent. It was during the period of the slave-owning system that science began to take shape as a special sphere of human activity. During this period architecture, art and sport developed.

Crafts and trade, becoming increasingly separated from farming, were concentrated in specific settlements, situated mostly at crossroads and water junctions. This was how towns began to grow up and become distinguished from villages, and how the differences between them emerged.

<sup>1</sup> Diodorus Siculus, *Historische Bibliothek*, lib. 2, p. 13, cited from Karl Marx, *Capital*, Vol. I, p. 226.

The basis of the relations of production of the slave-owning system was complete ownership by the slave-owners of all the material conditions of production (the land, implements and objects of labour) and of the producer himself—the slave. The essence of the basic economic law of slave-owning society consisted in the objective need for and possibility of the production of a surplus product for parasitic consumption by the slave-owners by means of the direct physical (non-economic) coercion of the slaves to work and of their rapacious exploitation.

The entire mass of output produced by the slaves belonged to the slave-owners. The distribution of the meagre and very coarse foodstuffs that the slaves received usually depended on how difficult their work was and the nature of the jobs they carried out, roughly in the same way as cattle were fed.

The rapacious exploitation of the slaves led to the rapid wearing out of their labour power and a high mortality rate. At the same time, the development of production increased the demand for slaves and it was constantly necessary to find new ones to replenish their ranks. This could not be achieved through their reproduction, for the slaves did not usually have families. The army of slaves was partly supplemented by ruined small producers, who were transformed into slaves through the system of debt bondage. The chief source of new slaves, however, was wars. Not only prisoners of war were made into slaves, but also a considerable part of the population of conquered lands. During this period, wars meant systematic robbery on land and sea; they became a regular and particular sort of industry, geared to seizing slaves, cattle and treasure.

The main force for waging wars was peasants and craftsmen, who served as troops and bore the entire tax burden on their shoulders. As a result of competition from large-scale production, based on cheap slave labour, however, the peasants' and craftsmen's economies were ruined. This undermined the economic, political and military might of the slave-owning states. Victories gave way to defeats, and the source of more and more cheap new slaves dried up, so a general decline in production set in.

The slave-owning mode of production concealed within itself deep and insuperable contradictions that led it into crisis and, in the final count, to its end. The slave-owning economic system hampered the development of the productive forces: the slaves had no vested interest in labour. Since



there were no material incentives to labour, they spoiled and broke tools like barbarians. For this reason, the most primitive and unwieldy implements of labour were used. Production technology remained at a very low level. The chief motive power was the physical strength of slaves and cattle. Slavery turned labour into a slave activity, i. e. one beneath the dignity of free men. The opposition that emerged under the slave-owning system between mental and physical labour became increasingly serious, and this undermined the stimuli to any further development of the productive forces.

The main antagonistic contradiction of slave-owning society, between slaves and slave-owners, and the related deep contradictions between large-scale production of the slave-owners and the small economies of free peasants and craftsmen, between mental and physical labour, between town and village, prepared the demise of this society. An objective need for and inevitability arose of the slave-owning relations of production being replaced by other production relations that would change the condition of the chief productive force of society—the slaves.

When the large estates based on slave labour went into decline, small farms became more profitable. By the 2nd and 3rd centuries B.C., the owners of big estates (*latifundia*) in Rome had begun to break them down into small plots and give them to the slaves and poor free peasants, who had lost their land, to cultivate. These two groups turned into dependent labourers—*coloni*, forced to work and hand over a substantial part of their produce from the land to the landlords. The *coloni* system emerged.

The *colonus* rented a small plot and was virtually tied to the land of the big landlord. He became the central figure in farming. *Coloni* were not slaves, but neither were they completely free: they could be sold together with their plots, their marriages were not recognised by law and were considered, like marriages between slaves, as simple cohabitation. The *coloni* were the forerunners of the serfs.

The aggravation of the economic contradictions led to an intensification of the class struggle waged by the slaves and all the poor people against the slave-owners. There were many major slave uprisings in history. In 137 B.C., there was a slave rebellion in Sicily; at the same time, there was a mass uprising of slaves and the free poor in Asia Minor led by Aristonicus.

In 73 B.C., a great slave uprising broke out under the leadership of the Roman gladiator Spartacus. Soon, all of Southern Italy was in turmoil. In 72 B.C., Spartacus's army was already a mighty force of 120,000. The rebels inflicted a number of serious defeats on the Roman legions and put fear into the hearts of the ruling classes of the Roman Empire. In 71 B.C., the uprising was harshly put down. Six thousand slaves were crucified along the road from Capua to Rome.

The aggravation of the class struggle, in which all strata of the population subject to exploitation took part against the slave-owners: the slaves and coloni, free peasants and small craftsmen, and the enslaved people of the provinces, shook the slave-owning system; invasions by foreign tribes also speeded its end. The slave-owning system was replaced by the feudal mode of production.

The survivals of slavery and slave-owning relations lived on even under capitalism. In the 18th and 19th centuries, the capitalist powers—Britain, France and others—exported almost 100 million slaves from Africa. There were about 200 ships from Liverpool alone that made regular trips with this “live commodity” to America. Slave labour was used extensively on the cotton plantations in the south of the USA. Slave-trading and the use of slave labour were widespread in the colonies of all the imperialist powers. The survivals of slave-owning relations can still be seen in certain developing countries. At present, according to the British Anti-Slavery Society, there are 100 million people in the world who are full slaves, without any rights. In Haiti, for example, things reached such a pitch in the early 1980s that the dictator Jean-Claude Duvalier was trading in his own subjects. Every year he sold 20,000 people, for 100 dollars a head, to the planters in the nearby Dominican Republic. Systems similar to slavery and permitting Africans to be compelled to work are also widespread in racist South Africa. So-called peonage, a system of semi-slave dependence of peasants on big landlords, is a major survival of slavery.

A resolute struggle against the vestiges of slave-owning exploitation and in general against any oppression of man by man is one of the main tasks, facing the peoples that are setting out on a course of freedom and independence. This struggle by the developing countries receives comprehensive support from the USSR and the other socialist countries, as well as all progressive mankind.

### 3. The Feudal Mode of Production

Feudalism was the second mode of production in human history based on exploitation of man by man. Its emergence was an inevitable stage in the development of society. It arose on the ruins of the slave-owning system, within which the preconditions and elements of feudalism were already created. The feudal mode of production lasted for a long time: in China, for instance, the feudal system lasted over two thousand years. In the countries of Western Europe, it existed from the fall of the Roman Empire (5th century) to the 17th century in Britain and the 18th in France. In Russia, feudalism lasted from the 9th century till the abolition of serfdom in 1861. For a number of historical reasons, the peoples of Central and Eastern Europe, Russia, a number of African countries, including Ethiopia, advanced to feudalism directly from the primitive-communal mode of production, bypassing the slave-owning system. In Western Europe, feudalism took shape as a result of the interplay of two processes: the fall of the Roman slave-owning state, on the one hand, and the disintegration of the clan system among the victorious tribes (the Germans, Gauls, Slavs and others), on the other.

Under feudalism, the productive forces developed further and the means of production—the objects and implements of labour—improved. In agriculture, the iron plough, harrow and other tools came into widespread use. Individual branches of farming, such as viticulture, cotton-growing, vegetable- and fruit-growing, expanded considerably. Cattle-breeding improved and became more intensive. The three-field cultivation system became widespread. Wine-making, butter-making and the production of animal products were further developed. Blast furnaces appeared, the smelting and working of metals improved considerably, the waterwheel was used in metal production, the strip loom was created, clocks and compasses were invented, paper production and printing began, a new type of sea-going vessel (the caravel) was built, distinguished by greater mobility and manoeuvrability, and so on.

The basis of feudal relations of production was the feudal lord's total ownership of the land and partial ownership of the peasants. "Big landed property", Marx noted, "was indeed the foundation of medieval, *feudal society*."<sup>1</sup>

<sup>1</sup> Karl Marx, "The Trial of the Rhenish District Committee of Dem-

The relations of landed property were inseparably linked with personal dependence. Graphically, the feudal system would appear like a huge pyramid: at the bottom are the masses of serfs who, with their labour, fed all the parasites of feudal society; a little higher are the craftsmen, the working people of the towns. Above them come the lower nobility, priests, merchants and moneylenders. Higher still are princes, marquises, dukes, bishops and cardinals. The pyramid is topped by the king or tsar, to whom everyone in the state was subordinate and on whom they were all dependent. He was omnipotent.

On the basis of landed property there arose a hierarchy of feudal lords dependent on one another. The very name "feudalism" came from the form of landed property characteristic of it: the feud is a piece of land handed over by one feudal lord (seigneur) to another (vassal) to pass on by inheritance, on the condition that the latter fulfils certain obligations—i. e. for service. The social system based on landed property in the form of the feud came to be called feudalism.

The most widespread and complete form of personal dependence of peasants on feudal lords (landlords) was serfdom, the non-economic coercion of the peasants. The feudal lord owned all the land, but part of it he used for his own purposes, while the peasants were allowed to use the rest. The direct producer was tied to the land, which belonged to the class of feudal lords. The peasant ran his economy with the help of his own means of production, and thus enjoyed a certain freedom and had some interest in labour, which ensured the further development of production. The peasant, who cultivated the plot of land allocated to him, was also compelled to work for the feudal lord and had no right to leave his land.

Consequently, the combination of labour power with the means of production was accomplished under feudalism by means of the allocation of land to the producer, and sometimes of other means of production, and the establishment of the peasants' personal dependence on the landlord (feudal lord).

Feudal production was conducted on a subsistence basis. The peasants were engaged not only in agriculture, but also in the processing of their produce, spinning, weaving, the manufacture of footwear, domestic items, construction and so

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ocrats", Karl Marx, Frederick Engels, *Collected Works*, Vol. 8, Progress Publishers, Moscow, 1977, p. 326.

on. Typical of the feudal system was simple repetition of the process of production without any marked increase in its scale over a long period of time. Peasant labour reproduced products that went to satisfy the personal consumption requirements of the feudal lords, as well as the conditions for the subsequent continuation of the production process. The peasant had to carry out work that ensured uninterrupted production: repair tools, replace old or worn-out tools with new ones, build up stocks of seed, keep draught animals, and so on.

The working time of the serf was visibly divided into necessary and surplus. During the necessary working time, the peasant created on his holding a product that provided means of subsistence for himself and his family. During the surplus working time, mostly on the land of the feudal lord, he created a surplus product that was appropriated without compensation by the feudal lord.

The surplus product created by the peasants' surplus labour was appropriated by the landlord in the form of *feudal ground (land) rent*, which included the entire surplus product and part of the necessary product created by the serfs. This reflected the specific form of feudal exploitation of the peasants. Thus, the basic economic law of feudalism consisted in the production of surplus product, created by the exploitation of dependent peasants and appropriated by the feudal lord in the form of feudal land rent.

Feudal rent went through three stages of development: labour rent, rent in kind and money rent. Labour rent, or *corvée*, was the initial, elementary form of feudal land rent. It was called labour rent since the peasant used his own cattle and usually his own tools to work the landlord's fields and fulfil other labour services, in return for the use of his plot of land.

Rent in kind or quit rent meant that the peasants had to supply the feudal lord with a certain quantity of grain, cattle, fowl, or other agricultural produce, as well as home-made items. Thus, the size of the quit rent in grain (not counting other levies) at the end of the 15th and beginning of the 16th centuries in Russia was usually a third of the harvest. This form of rent increased somewhat the peasant's interest in the results of his labour, thereby raising the economic initiative of the direct producers.

Feudal money rent is a transmuted form of rent in kind, when the peasant pays a certain amount of money instead

of produce. It is no longer enough for him just to produce output on his plot; the produce has to be sold, transformed into money and then handed over to the landlord. Money rent was the final form of feudal land rent and the transition to it heralded the beginning of the disintegration of feudalism.

As commodity exchange grew, crafts developed further and separated once and for all from farming. They became production for the market, usually carried out in urban settlements.

The population of towns consisted mainly of artisans and merchants. In order to protect themselves against excessive exploitation and oppression on the part of feudal lords, the craftsmen united into shops, as a rule, including craftsmen of one particular speciality. Only skilled craftsmen were full members of the shops, and they had a large number of apprentices and trainees under them. The shops strictly regulated all the conditions for the production and sale of the commodities: they set the length of the working day, determined the number of trainees and apprentices, the volume and quality of the output produced, market prices, and so on. The richest inhabitants of the towns were merchants and moneylenders.

The first signs of new capitalist production appeared in the towns. As a result of the great geographical discoveries at the end of the 15th century, in particular of America, the sea-route to India, and so on, a world market gradually started to take shape, the volume of trade increased, and this speeded up the disintegration of the feudal mode of production, and the development of commodity-money relations, which penetrated quite deeply into the economy not only of the towns, but also of the villages.

The main antagonistic classes in feudal society were the feudal lords and the serfs. The dominant class was the feudal lords. They ran the state and constituted the highest stratum, enjoying broad political and economic privileges. Alongside the nobility, who occupied the leading position, another major landlord was the Church and the priesthood. The serfs, who made up the overwhelming majority of the population under feudalism, had no political rights and constituted the lowest stratum.

The peasants waged an irreconcilable struggle against the feudal lords and feudal exploitation, against serfdom. Peasant uprisings played a significant role in shaking the foundations of feudalism and speeding its end. In the 14th

century, peasant rebellions broke out in England under Wat Tyler and France (the Jacquerie). In the 15th century, peasant wars broke out in Bohemia under Jan Hus. The 16th century was marked by a broad peasant movement in Germany under the leadership of Thomas Münzer. The biggest peasant uprising in Russia, from 1667 to 1671, was headed by Stepan Razin and grew into a peasant war of tremendous scale. Another mighty rebellion took place in 1773-1775 under Yemelyan Pugachev.

As feudalism developed, the contradictions intensified between the subsistence nature of feudal production and the growing commodity economy. Feudal relations of production began to hold back the development of the productive forces. The peasantry, oppressed by feudal exploitation, was unable to increase agricultural output, since the productivity of serf labour was very low. A consequence of the domination of the system of non-economic coercion was a low, routine level of technology. In the towns, the rise in the craftsman's labour productivity also encountered serious obstacles: shop regulation and so on. All these factors objectively required the establishment of new relations, liberated from the bonds of feudalism.

In the age of the feudal system, simple commodity production, i.e. the production of goods intended for exchange, gradually expanded. It was based on private ownership of the means of production and personal labour. There was fierce competition between the producers of commodities, and this led to their stratification into rich and poor in both town and countryside. At the same time, the merchants began directly to subordinate the peasants' and craftsmen's production. Initially, the merchant acted as middleman in the exchange of commodities, but later on he began to buy up commodities on a regular basis from petty commodity producers, to supply them with raw materials and advance them loans. Thus, small producers became economically dependent on the merchant. The next step by the merchants (merchant's capital) was to gather the ruined artisans in one place, where they worked as wage labourers. Thus the merchant became an industrial capitalist.

Within the heart of feudalism capitalist relations of production emerged in both town and countryside. The elimination of feudalism became an historical necessity.

The dawn of the capitalist mode of production became known as the primitive accumulation of capital. It was based

on the alienation of the producers from the means of production, which above all meant the mass ruin of the peasantry, the taking of their land, together with their liberation not only from the means of subsistence, but also from personal dependence on the feudal lords. This process was essentially the same everywhere, though in some countries there were clearly defined specific features. In Britain, for example, the landlords organised pasture for sheep, seized common land, evicting the peasants from it and fencing it off ("The sheep ate the people"). At the same time, very harsh laws were passed against the deprived peasants, forcing them to sell their labour power to the capitalists and work in the latter's enterprises from morn to night for a miserly wage. Punishment for the "disobedient" included whipping, branding, torture and even death.

In addition to the ruin of the direct producers, the organisation of mass robbery and violence towards them, the primitive accumulation of capital was accompanied by the enrichment of a small circle of people, the accumulation in their hands of substantial wealth, necessary for organising capitalist enterprises. Such wealth was accumulated in the most iniquitous manner. "Capital," Marx noted, "comes dripping from head to foot, from every pore, with blood and dirt."<sup>1</sup> The most merciless vandalism was used in the plunder of overseas territories, accompanied by massacres of the local population, their violent eviction from the land of their ancestors, and the spread of the slave-trade. The acceleration of the primitive accumulation of capital was also furthered by the state itself, not only with the help of draconian laws against the deprived, but also military contributions, a system of protectionism in foreign trade policy, a growth of public debts and levies on the population, and so on and so forth.

It is now several centuries since feudalism collapsed in many countries, but the vestiges of feudal relations remain in both developed capitalist and developing states. For instance, the system of share-cropping is quite widespread. This means that the owner of the land receives part (right up to half) of the harvest in the form of land rent. The landlord in this case receives not only the entire surplus product, but also a substantial part of the necessary product.

Feudal relations survive in many liberated countries,

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 712.



where semi-feudal labour services are widespread. Before the anti-feudal revolution of 1974 in Ethiopia, 23 million rural poor engaged in subsistence farming. The overwhelming majority of Ethiopian peasants had no land of their own and were forced to rent it from landlords in return for up to three-quarters of the meagre harvest. The development of this country in a socialist direction and the major social transformations there have created the basis for destroying the feudal order. All the land has now been handed over to the peasants, to those who actually work it.

In the south-western part of Togo, the rent in kind is still widespread. It is called "*dibi ma dibi*", which is translated as "you eat a bit, and I'll eat a bit". Under this rent, the plot of land is given to the tenant for the cultivation of perennial crops (coffee trees, cocoa palms, and so on). When they begin to bear fruit, the owner reclaims from a half to two-thirds of the plot.

The final elimination of the vestiges of feudalism is one of the major tasks of the national liberation movement. The feudal basis may collapse under pressure from the struggle for economic liberation from imperialism. Only profound agrarian transformations, and a broad peasant, democratic movement can wipe out the survivals of feudalism, which are hampering the development of the productive forces in the young, liberated countries.

#### Revision Exercises

1. What expresses the essence of the relations of production in primitive-communal society?
2. Why, under the primitive-communal system, was there no exploitation of man by man?
3. Give the reasons for the disintegration and collapse of the primitive-communal mode of production.
4. Define the content of the relations of production under the slave-owning system.
5. Under what conditions did private property, classes, the state and exploitation of man by man appear?
6. What were the factors behind the collapse of slave-owning society?
7. What is the essence of feudal relations of production?
8. What led to the collapse of the feudal mode of production?

## Part one

# THE CAPITALIST MODE OF PRODUCTION

### SECTION I

## THE GENERAL FOUNDATIONS OF THE CAPITALIST MODE OF PRODUCTION

The capitalist mode of production, as we have already explained, began to take shape within the heart of the feudal system; it replaced feudalism. Capitalism is based on private ownership of the means of production and exploitation of wage labour. Under capitalism, society is divided into two main antagonistic classes: the class of capitalists (the bourgeoisie), who own the means of production and exploit the toiling people, and the class of proletarians (the proletariat), who are deprived of the means of production and means of subsistence, and so are compelled constantly to sell their labour power to the capitalists. Capitalism is the last exploitative system in the history of mankind.

In the course of bourgeois revolutions, the motive force behind which was the working people, feudal society was overthrown. The bourgeoisie triumphed and established their own domination, abolishing the feudal order under the slogans of "Freedom, equality and fraternity". At the very dawn of capitalism, however, it turned out that, in this society, equality was unthinkable, while freedom and fraternity were empty words. Power was transferred completely into the hands of the capitalists, and feudal exploitation was replaced by capitalist exploitation.

Capitalist society passes through two stages of development: pre-monopoly capitalism and monopoly capitalism, called imperialism. Both periods are included in a single capitalist mode of production; they have one and the same economic basis, general laws and contradictions, and a common goal: to make as much profit as possible on the basis of exploitation of wage labour. There are, however, differences between pre-monopoly capitalism and imperialism.

Pre-monopoly capitalism dominated in Britain, France, Germany and certain other states until the end of the 19th

century, developing more or less smoothly; there was free competition, the competitive struggle for maximum profits being waged unhindered between capitalists.

Scientific analysis of pre-monopoly capitalism on the basis of the principles of dialectical materialism was first carried out by Marx and Engels. They made a comprehensive investigation of the economic structure of capitalism, the reasons for, and mechanism of, its emergence and development. The general results of the study of the economic essence of capitalism were set out by Marx in his famous work *Capital*, which he spent forty years writing. Marx went through mountains of material, creatively comprehended and critically reassessed everything that human genius had created over the previous centuries.

*Capital* is a work on an encyclopaedic scale, in which a vital picture of the capitalist formation is revealed. It gives an analysis not only of the economic system—the “skeleton” of capitalism—but also all its other aspects, including the political superstructure, ideology, class antagonism, and so on. In other words, the “skeleton” was filled out with flesh and blood, and this naturally made Marx’s immortal work even more significant.

At the end of the 19th century and the beginning of the 20th, capitalism was passing through its highest stage of development—imperialism. The task of studying it on the basis of Marxist economic theory was fulfilled by Lenin, who analysed the new phenomena in the development of capitalism, formulated the main economic features of imperialism, and showed the chief qualitative changes that had taken place in the way the capitalist economy functioned during this period. He created a genuinely scientific theory of imperialism. His work “Imperialism, the Highest Stage of Capitalism”, written in 1916, is a creative development of Marx’s economic teaching. Imperialism is characterised by the fact that free competition made way for monopoly. Imperialism is the last stage of capitalism, when its contradictions reach their extreme. Lenin defined it as monopoly, parasitic, decaying and moribund capitalism, the eve of the socialist revolution.

A study of the capitalist mode of production from the angle of the logic and history of its development should begin with the pre-monopoly stage of capitalism, when the chief distinguishing features of this mode of production took shape.

## Chapter Three

### COMMODITY PRODUCTION. COMMODITY AND MONEY

Following the principles of dialectical materialism, Marx studied capitalism and its production relations in the process of their establishment and development. It is certainly no chance, therefore, that he began his analysis with a description of simple commodity production, which historically preceded capitalist commodity production. This starting point for the research is logical, too, since the commodity is the elementary economic cell of the bourgeois system. In order to study, for example, the living organism, the composition of its cells needs to be known. Capitalist society acts as an enormous accumulation of commodities. Everything is bought and sold, even the people's labour power becomes a commodity. The relations between people in society take the form of relations between commodities; the commodity reflects the internal economic links of capitalism and it includes, in embryo, the contradictions that grow into the basic contradiction of capitalism.

Historically, the commodity precedes money, and this—capital. Moreover, simple commodity production, based on personal ownership of the means of production, came before capitalist commodity production. This is why a study of the capitalist mode of production should begin with commodity and commodity production.

#### 1. A General Description of Commodity Production

##### The Concept of Commodity Production and Its Emergence

Commodity production is the production of products not for personal consumption, but for sale and market exchange. A certain product is made and then exchanged for another on the market. The seller sells a thing in order to acquire some other product he needs. Lenin pointed out that "By commodity production 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."<sup>1</sup>

<sup>1</sup> V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, 1977, p. 93 (here and hereafter Progress Publishers, Moscow).

The output of products for exchange had arisen even during the decay of the primitive-communal system and has already existed for five to seven thousand years. It also took place under the slave-owning system and under feudalism, but was only of secondary importance at that time. The dominant form was the subsistence economy, with society consisting of a mass of homogeneous economic units, each of which carried out all jobs, from obtaining various types of raw material to their processing for personal consumption?

Capitalism eliminates the subsistence economy and commodity production becomes dominant, reaching its highest development. Under capitalism, almost all the products of labour become commodities and enter consumption only through sale and purchase.

Two conditions are required for the emergence of commodity production: 1) a sufficiently developed social division of labour, with the production of different products divided between individuals or groups of people (some, for example, engage in crop-growing, others in livestock-breeding, and yet others, artisans, in producing cloth, footwear and so on, yet another group makes machinery, instruments, etc.); 2) the economic isolation of producers as owners, for instance, in the form of private ownership of the means of production. Under these conditions, the producers and consumers are linked on the market through the exchange of products, their sale and purchase.

There are two basic types of commodity production, based on private ownership of the means of production—simple and capitalist.

#### The Common Features of, and Differences Between, Simple and Capitalist Commodity Production

Simple commodity production is production by small private producers, while capitalist commodity production is production when the owner of the means of production—the capitalist—exploits the labour of wage labourers. Simple commodity production is of the same type as capitalist; they share the same economic basis—private ownership of the means of production. Both simple and capitalist commodity production are characterised by a lack of organisation, anarchy of social production and competition.

At the same time, there are fundamental differences be-

tween simple and capitalist commodity production. Under simple commodity production, the means of production belong to the direct producer, under capitalist—to the capitalist. Simple commodity production is based on personal labour of the commodity producer and the members of his family, while in capitalist production wage labour is exploited. The ultimate goal of simple commodity production is to satisfy the commodity producer's own requirements. Capitalists produce for the sake of profit, and appropriate a substantial part of the product of the unpaid labour of others, without compensation.

The similarities and differences between simple and capitalist commodity production determine the dual nature of the petty commodity producer himself. On the one hand, he is a toiler, but on the other—an owner. As an owner, under capitalism, he tries to go up in the world and get rich. To this end he is willing, if possible, to make his money at the expense of others. As a toiler, however, he is cruelly exploited by the capitalists and there is nothing in the future for him except ruin.

Under certain social conditions, simple commodity production serves as the point of departure and basis for the emergence of capitalist production. There are two such conditions. First, private ownership of the means of production and second, the transformation of labour power into a commodity. Given the second condition, commodity production and exchange acquire a general character. In Lenin's words, the exchange of commodities is "the most ordinary and fundamental, most common and everyday *relation* of bourgeois (commodity) society".<sup>1</sup>

Now let us look at the commodity and its chief features.

## 2. The Commodity and the Labour That Creates It

### The Commodity and Its Properties

The commodity is, above all, a thing that, thanks to its properties, satisfies certain human requirements. Yet not everything is a commodity. For example, air satisfies a human requirement, is necessary for life, but it is not a commodity. Commodities are things on which human labour is expended, yet even these are not always commodities;

<sup>1</sup> V. I. Lenin, "On the Question of Dialectics", *Collected Works*, Vol. 38, 1976, p. 358.

in a subsistence economy products are made that go directly for consumption. These are not commodities. Only products that proceed from production to consumption through exchange and the market are commodities. Briefly, a commodity is a product of labour produced for exchange.

Each commodity possesses two properties: first, it has the ability to satisfy a given human requirement; second, it must be exchanged for other things. Aristotle used the example of sandals that can either be put on and worn or exchanged for other goods.

A thing's ability to satisfy a human requirement is called its *use value*. The usefulness of a thing makes it a use value. A use value may either directly satisfy a personal requirement or serve as a means for producing material means of existence. For example, bread, oil and meat satisfy the requirement for food; a dress, coat, suit and underwear—that for clothing; gas and wood—the requirement for fuel, and so on. Machines, raw materials, instruments and other implements of labour serve for the production of material goods.

Use values form the material content of the wealth of any society. Under the conditions of commodity production, however, by being exchanged for other useful things, a use value becomes the bearer of exchange value.

*Exchange value* is a commodity's ability to be exchanged in specific quantitative proportions for other products. If, for example, in the ancient world an axe was exchanged for 5 kg of wheat or two pelts, this proportion expressed its exchange value.

The equating of goods to one another presupposes their objective equality before exchange. The basis of the equality and comparability cannot be their use value, since the use values of commodities cannot be compared. They are qualitatively different. Commodities are equated with one another by something equal they have in common. This is human labour.

Commodities are the products of human labour. Labour expended on the production of commodities forms their *value*. "If then", Marx writes, "we leave out of consideration the use value of commodities, they have only one common property left, that of being products of labour... When looked at as crystals of this social substance, common to them all, they are—values."<sup>1</sup>

<sup>1</sup> Karl Marx, *Capital*, Vol. I, pp. 45-46.

The more labour is spent in the manufacture of a commodity, the greater its value, but this amount is not written anywhere on the commodity. The value of the commodity is revealed only in exchange, through exchange value. This is why the value of the commodity is inseparable from the form in which it is manifested—exchange value.

The value of a commodity is a social category; it cannot be seen, but it makes itself felt every time people exchange one commodity for another, when one commodity is equated to another. Consequently, value is the relation between two people in a material covering. Or, as Marx put it, “the product being exchanged is a commodity. But it is a commodity merely by virtue of the *thing*, the product being linked with a *relation* between two persons or communities, the relation between producer and consumer.”<sup>1</sup>

Both properties of the commodity—use value and exchange value—are two sides of the commodity. Without use value there can be no value. Yet there is a contradiction in the unity of these two aspects of the commodity: as a use value the commodity is intended for consumption, as a value—for sale.

#### Concrete and Abstract Labour

The dual essence of the commodity is a result of the dual nature of the labour of the commodity producer. The labour that creates a use value is spent in a specific, deliberate form; it is called *concrete labour*. For example, the result of the tool-maker's labour is an instrument, that of the baker's—bread and that of the tailor's—a suit. Concrete labour is characterised by the following features: it is useful labour that produces a use value, a qualitatively specific use value.

There are many thousands of concrete types of labour, but they all have one thing in common—expenditure of the energy, muscles, nerves and brain of a person, i.e. of human labour power in general.

The labour of the commodity producer, considered as the expenditure of human labour power in general, is called *abstract labour*.

On the market, during exchange, the specific forms taken by the commodity as a result of the multiple form of

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<sup>1</sup> Frederick Engels, “Karl Marx, *A Contribution to the Critique of Political Economy*”, in Karl Marx, *A Contribution to the Critique of Political Economy*, Progress Publishers, Moscow, 1977, p. 226.



concrete labour are left out of account. The commodities are equated with one another as crystals of a qualitatively homogeneous abstract labour.

In simple and capitalist commodity production, labour is private, since it is based on private property. At the same time, it acts as *social labour*, since it is carried out under the conditions of the social division of labour.

There is a profound inner contradiction between private and social labour. It reflects the contradiction between use value and value. It is antagonistic (irreconcilable) even during simple commodity production. Under competition, some commodity producers get rich, while others are ruined and die out. Under the conditions of capitalism, this contradiction becomes more and more acute; it develops into a contradiction between the social character of production and the private capitalist form of appropriation, which will be discussed below.

#### The Magnitude of the Value of the Commodity

Since the value of a commodity is created by labour, the magnitude of the value is measured in the quantity of labour included in the commodity. The natural measure of labour is working time: an hour, day, week, etc. Different quantities of working time are spent on producing not only different, but also homogeneous products. The quantity depends on the implements of labour, the staff available, the workers' professional skills, and so on.

The time spent by an individual worker on producing a given commodity is called *individual working time*. The value of a commodity is determined, however, not by the individual labour input, but by the *socially necessary labour*, or *socially necessary working time*. Socially necessary working time may be described as working time spent on the manufacture of the product under average conditions of production obtaining in society. As a rule, socially necessary working time is determined by the conditions of production, under which the biggest mass of commodities of the given type is produced.

Let us assume that the vast majority of boots supplied to the market is produced at a labour input of 5 hours a pair, in which case this is the socially necessary working time. Whatever the individual expenditure of labour by a given producer to make boots of the same quality—4 or

8 hours, the market will recognise only a 5-hour labour input. Under such conditions, it is the commodity producers whose individual working time is less than the socially necessary who will find themselves in the most profitable position, since having spent, say, 4 hours making a pair of boots, they receive in return a commodity worth 5 hours of labour. On the other hand, the commodity producer who spends 8 hours making the boots loses 3 hours of labour on each pair.

The value of the commodity changes alongside the socially necessary time for its production. The latter depends on the *productivity of labour*, which is measured by the quantity of the commodity created over a given amount of time. The productivity of labour depends on a number of factors, above all the level of development of the implements of labour. Of tremendous significance is the skills of the commodity producer, the level of development of the technology and natural conditions.

The productivity of labour and the value of each unit of commodity are inversely dependent on each other. If the productivity of labour grows, the value of the commodity falls. In contrast, if the productivity of labour drops, the value of the commodity goes up. In other words, the value of the commodity changes in direct proportion to the quantity of socially necessary labour expended and in inverse proportion to its productivity.

The labour of one worker may differ from that of another in terms of its intensity. The *intensity of labour* means the input of human energy per unit of time. The more intensively the worker works and the greater his expenditure of vital forces, the greater will be the total sum of the value of the product manufactured. Since, however, he produces a greater amount of output over the same period of time, the labour input per unit output does not, as a result, fall, so the value of this unit remains the same.

Consequently, given a rise in the intensity of labour, there is an increase in the quantity of commodities produced, of the mass of labour embodied in them (i.e. their total value) while the value of a unit of output remains unchanged.

The value of a commodity is influenced by the degree of complexity of labour. *Skilled* and *unskilled* labour are two types of labour, distinguished according to their complexity. The labour of the worker not requiring special initial train-

ing is *simple* (unskilled) labour (loaders, auxiliary workers and so on). Labour requiring special training is *complex* (skilled) labour (turners, fitters, electricians and the likes). Complex labour creates more value per unit of time than does simple labour. Complex labour acts as simple labour raised in degree or multiplied. "A commodity", Marx writes, "may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone."<sup>1</sup>

The equating of different types of labour, of labour of different skill levels to a single measure—abstract labour in commodity production based on private ownership, takes place spontaneously on the market during the sale of the commodity. It should be recalled, however, that the value reflects the relations of production between the commodity producers, the mutual exchange of their activities, but on the surface of things, these relations act as relations between things.

### 3. The Development of the Forms of Value.

#### The Emergence of Money.

#### The Essence and Functions of Money

##### Forms of Value

The value of a commodity is created by the labour spent on its production. The value of the commodity contains not a single atom of natural substance. Thus, no matter how much we may study or handle the commodity, its value cannot be directly observed. The value cannot be comprehended by the sense organs. In every commodity it is only the use value that is easily observable and visible, while the value remains elusive and concealed.

The value of a commodity acts as the equalisation of products to one another in the process of exchange, i.e. through exchange value, which is the only possible form of expression of value. Thus, the value of the commodity cannot be expressed directly in terms of working time; it is expressed through the medium of another commodity. For example, one goat = 40 kg grain, one axe = 20 kg grain. Here grain serves as the means for expressing the value of an axe and a goat. The first equation states that equal quantities

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 51.

of labour are spent on the production of 40 kg of grain and of one goat. The commodity, which expresses its value in terms of another commodity (in our example the axe, the goat), is in the relative form of value. The commodity, the use value of which serves as a means for expressing the value of another commodity (the grain), is in the equivalent form.

Over the millennia during which commodity exchange developed, exchange value assumed the following forms: 1) elementary or accidental; 2) total or expanded; 3) general and 4) money. Each of these forms marked a new stage in the development of commodity production.

What is the elementary (single) or accidental form of value? This form existed when the social division of labour was still in embryonic form, when exchange was random in character. The quantity of products exchanged was limited. One product was exchanged directly for another and expressed its value only in one commodity. For example, 1 axe = 20 kg grain.

With this form of value, when exchange was random in character, exchange relations were virtually independent of the value of the commodities. One example is provided by the Brazilian Indians, who made an obviously unprofitable exchange for themselves with the men who sailed with Magellan (16th century). "For a king of diamonds, which is a playing card, they gave me 6 fowls and thought that they had even cheated me," recalled Antonio Pigafetta, one of the participants in the expedition.

As the social division of labour deepens, the quantity of products put out for exchange increases. Exchange becomes more and more massive. Thus, tribes of herdsmen, roaming from place to place, were able to enter into exchange with other tribes. Cattle regularly appeared on the market and were exchanged for other products. The higher degree of development of exchange engendered a new form of value, which is called total or expanded. It is expressed in the following fashion:

$$1 \text{ goat} \quad \left\{ \begin{array}{l} = 40 \text{ kg grain or} \\ = 2 \text{ axes or} \\ = 20 \text{ metres of linen or} \\ = 3 \text{ grammes of gold and so on} \end{array} \right.$$

In contrast to the elementary or accidental form, in the total or expanded form of value one commodity is expressed in terms of the use values of many commodities, each

of which plays the role of an individual equivalent. Thus, in order to say how much one goat is worth, all the commodities on the right hand side of the given equation must be listed.

As exchange became a vitally necessary process, the complications involved in it increased. For example, the seller of an axe needs a goat, while the seller of the latter does not need an axe, but a ball of wire; in turn, the owner of the ball of wire does not need a goat but an axe, and so on. Over time, from among the mass of commodities, some one commodity comes to stand out as being in the greatest demand, and then all the other commodities begin to express their values in terms of this. The commodity that serves as the expression of the value of many other commodities is called the *universal equivalent*, i.e. it is of equal value for all other commodities. When the universal equivalent appears, a transition takes place from the expanded form of value to the general form of value, which can be expressed thus:

$$\begin{array}{l}
 40 \text{ kg grain} \\
 \text{or } 20 \text{ m of linen} \\
 \text{or } 2 \text{ axes} \\
 \text{or } 3 \text{ g gold} \\
 \text{and so on}
 \end{array}
 \begin{array}{l}
 = \\
 = \\
 = \\
 = \\
 =
 \end{array}
 \left. \vphantom{\begin{array}{l} 40 \text{ kg grain} \\ \text{or } 20 \text{ m of linen} \\ \text{or } 2 \text{ axes} \\ \text{or } 3 \text{ g gold} \\ \text{and so on} \end{array}} \right\} 1 \text{ goat}$$

The appearance of the general form of value meant that exchange began to break down into two independent acts: first, any given commodity was exchanged for the equivalent commodity, and then the commodity-equivalent—for the commodity required by the consumer. Initially, the role of the universal equivalent was not attached to any one particular commodity (in some places it was cattle, in others—felts, salt, tobacco, beads, and so on).

The fact that various commodities fulfilled the role of the universal equivalent complicated the development of exchange and conflicted with the requirements of the growing market. This contradiction was resolved by the role of the universal equivalent being gradually attached to the precious metals—silver and gold. At the same time, the general form of value grows into the money form of value. This may be expressed as follows:

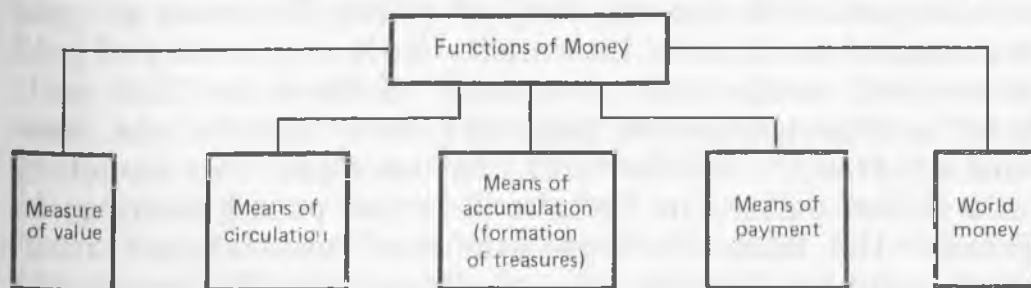
$$\begin{array}{l}
 40 \text{ kg grain} \\
 \text{or } 20 \text{ m linen} \\
 \text{or } 2 \text{ axes} \\
 \text{or } 1 \text{ goat} \\
 \text{and so on}
 \end{array}
 \begin{array}{l}
 = \\
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 = \\
 = \\
 =
 \end{array}
 \left. \vphantom{\begin{array}{l} 40 \text{ kg grain} \\ \text{or } 20 \text{ m linen} \\ \text{or } 2 \text{ axes} \\ \text{or } 1 \text{ goat} \\ \text{and so on} \end{array}} \right\} 3 \text{ g gold}$$

The fixing of the money form to gold—the appearance of money—became possible because gold had previously acted as an ordinary commodity in relation to other commodities. The equivalent form of value “merges” with the value of gold, to which the role of the universal equivalent gradually becomes attached. The use of precisely this metal was conditioned by the fact that gold is, in its properties (homogeneity, divisibility, durability and a high value), the best suited to the role of the universal equivalent. In this way, *money* is the commodity that fulfils the role of the universal equivalent. It is allocated the social role of expressing the value of all other commodities. When money appeared, all commodities began to measure their value in terms of it. On the one hand, there is money as the direct and universal embodiment of value, on the other—all other commodities. Money, like any other commodity, expresses the social relations between people in the process of production and exchange. At the same time, simple exchange became exchange through the medium of money.

### The Essence and Functions of Money

Money emerges spontaneously in the process of the historical development of commodity production and exchange. It was the development of the forms of value that led to the emergence of the money form of value and money itself. The essence of money is manifested most fully in its functions as the measure of value, a means of circulation, means of hoarding (the formation of treasure), means of payment and world money (Fig. 2).

Fig. 2



Let us consider each of these functions in turn.

Money's function as a measure of value is manifested in the fact that money acts as the universal equivalent.

Money expresses the value of all other commodities. In order to exchange the products of labour, their value must be measured in terms of a commodity that itself has a value. That commodity is gold.

Money as a measure of value expresses the quantity of socially necessary labour embodied in commodities. In order to establish the value, it is enough to mentally equate the commodity to money, i.e. to decide how much it is worth. In other words, the function of a measure of value is fulfilled by money as imaginary, ideal money.

The value of a commodity, expressed in money terms, is the *price of the commodity*. But the price of the commodity corresponds to its value only when supply and demand coincide. Demand is the social requirement for the commodity expressed in money. Supply is usually taken to mean the quantity of commodities that can be supplied to the market. If demand does not correspond to supply, prices will inevitably diverge from value. Price may fall if the value of the commodity drops or that of gold rises. On the other hand, they will rise if the value of the commodity goes up or the value of gold falls.

A measure of value is a social function, since the expression of the value of commodities in gold conceals the reduction of all types of concrete labour to abstract labour. This function typifies a profound contradiction of commodity production, based on private property. Constant fluctuations of commodity prices around their value, taking places as a result of competition and anarchy of social production, lead to the ruin of the mass of small commodity producers, the enrichment of a handful of major proprietors and a deterioration in the condition of the working people.

The function of money as a measure of value should not be confused with the standard of price. The mass of gold is measured in terms of its weight. A given quantity of gold is accepted as the unit of measure of its mass. This unit, fixed by the state as the monetary unit, is called the *standard of price*. In the USA, for example, the monetary unit is the dollar, in Britain it is the pound sterling, in France—the franc. For convenience of measurement, monetary units are divided into smaller parts: 100 cents to the dollar, 100 centimes to the franc, 100 pence to the pound sterling, and so on. The monetary unit, divided into smaller monetary units, serves for measuring and expressing the prices of all commodities.

Money's second function is as a means of circulation. Until money appeared, elementary commodity exchange took place, with one commodity being bartered for another. Schematically, this process may be depicted thus: commodity-commodity ( $C-C$ ). Once money appeared, the exchange of one commodity for another was replaced by the sale and purchase of commodities with the help of money. The formula for this is: commodity-money-commodity ( $C-M-C$ ). Here money is playing the role of intermediary in the exchange of commodities and fulfilling the function of the medium of circulation of commodities. In order for it to fulfil this function, cash is required, because here the real exchange of commodities for money and money for commodities is taking place.

One specific feature of the function of money as the medium of circulation is that money is constantly present in the sphere of circulation. Money is transferred from the hands of the purchasers to those of the seller, in order that the latter, now as a purchaser, might hand it over once again to another seller. In other words, money fulfils the given function transiently, not remaining in the hands of any individual commodity producer, but passing from hand to hand.

Initially, in the exchange of commodities, money acted in the form of ingots of gold and silver. But this created a number of difficulties. They had to be weighed every time, broken down into small pieces, the quality assessed, so the bars of gold and silver were gradually replaced by coins minted by the state itself.

Gold coins were in constant use, so they were gradually worn down and their weight decreased. Rubbing from hands, bags, pockets, purses and boxes wore the coins away, leaving one atom of gold here, one there and thus, polished by their roamings round the world, they increasingly lost their internal content. Thus over thirty years in circulation, a gold coin loses 1,5 to 2 per cent of its weight. Yet it remains in circulation and successfully fulfils the role of intermediary between purchaser and seller, for, in this case, the latter does not care whether he receives full-value or less than full-value money for his commodity: he is going to use the money anyway to acquire another commodity that he needs of the same value as the commodity that he himself has sold. This makes it possible to replace full-value money with substandard coins. Bronze coins began



to be put into circulation alongside gold ones. Moreover, the state sometimes enforced a cut in the gold content of the national monetary unit. The goal of this state policy was ultimately to reduce the purchasing power of money and redistribute the national income in the government's favour. Metallic circulation gives direct rise to *paper money* with an enforced exchange rate set by the state within its own country.

Paper money first appeared in China back in the 12th century. It began to be issued in North America in 1690, in France in 1716, and in Russia in 1769. Now paper money circulation prevails in all countries.

Paper money is purely nominal tokens, symbols of value to replace full-value gold money in its function as a medium of circulation. Paper money can fulfil this function alright, provided no more is issued than required for commodity turnover in gold money. If more is issued, the purchasing power of paper money will begin to fall and the prices of commodities to grow.

Excessive paper money issues, leading to its depreciation, is called *inflation*. This is used by the bourgeois state to transfer government outlays to the shoulders of the working people, for increasing the profits of the exploiters through a drop in the standard of living of the working population.

The mass of gold or paper money in circulation is conditioned by the law of money circulation discovered by Marx. According to this law, the quantity of money necessary for circulation is determined by the sum of the prices of commodities, divided by the velocity of the circulation of equal monetary units. This may be expressed by the formula:

$$\text{amount of money} = \frac{\text{sum total of commodity prices}}{\text{the velocity of money circulation}}$$

$$\text{or } M = \frac{P}{MC}$$

The sum total of commodity prices (P), for example, may be 100 billion francs a year, the velocity of money circulation (MC)—50 circuits and consequently the amount of money equals

$$\frac{100 \text{ billion francs}}{50} = 2 \text{ billion francs.}$$

It is easy to understand that the amount of money required for circulation depends on the sum total of the prices of the commodities in circulation and on the velocity at which money circulates. The faster money circulates, the less of it is required for circulation, and vice versa.

The third function of money is a means of hoarding. Money settles in the hands of its owners, is accumulated and "petrifies in the form of treasure" when, for a variety of reasons, the process of circulation ceases. In other words, hoards are money taken out of circulation, in which case the money is in the form of full-value, real money, i.e. gold bars, gold and silver coins, and items made from precious metals. This function of money spontaneously plays a substantial role in the regulation of money circulation. If commodity turnover comes to a halt, part of the gold leaves circulation, but when commodity circulation grows, this gold returns to circulation.

As commodity circulation develops, the function of money as a means of payment also arises. Commodities may be sold with payment deferred as a debt, on credit, or on debtor's obligations, called bills of exchange or promissory notes. In this case, the transfer of the commodity out of the hands of the seller into those of the purchaser takes place without any payment being made. The money must be paid by a certain date and when this date arrives, the money is transferred from the purchaser to the seller. Here, money is fulfilling the function of a means of payment. It also fulfils this function in the payment of taxes, wages, pensions, grants, and so on.

Considering the function of money as a means of payment, the formula given above for the amount of money needed for circulation changes: it now acquires the following form:

$$M = \frac{P - C + PD + Cl}{MC},$$

where  $C$  is the sum total of commodities sold on credit;  $PD$  is payments due;  $Cl$  is total clearings and  $MC$  is the average number of money turnovers; i.e. given the velocity of the turnover of money, the sum total of the means of circulation and means of payment functioning in society will equal the sum total of commodity prices for sale, minus the sum total of the prices of commodities sold on credit, plus the sum of payments due, minus the sum of total clearings.

The law of money circulation is common to all socio-economic formations in which commodity-money relations exist.

Money serves both internal trade and international commodity turnover. In the latter case, it functions as world money. It is the precious metals that serve as real world money. In this function money fulfils the following purpose: it is a universal means of payment, a universal means of purchase, when it is used to pay for commodities purchased in other countries for cash, a universal embodiment of social wealth, and so on.

All money's functions are organically interlinked and express, in various forms, the essence of money as the universal equivalent.

#### 4. The Law of Value Is the Economic Law of Commodity Production

##### The Law of Value

The law of value has operated as long as commodity production has existed—at least six thousand years. It appeared at the time of the decay of the primitive-communal system. The law of value operates in any society, in which there are commodity relations. It is a general law of commodity production.

The essence of the law of value is that the exchange of commodities takes place in accordance with the quantity of socially necessary labour spent on their production. In other words, the law of value means that commodities are exchanged one for another at value, i.e. the commodities exchanged contain equal amounts of socially necessary labour. The sale and purchase of commodities at value, at equivalent, is a law.

In practice, however, the price (the monetary expression of value), may, under the influence of supply and demand, be above or below value. The less of a commodity is available on the market, of course, and the more the demand for it exceeds the supply, the higher its price will be, and vice versa. Each commodity producer strives to make more commodities than his competitor. No one really knows the social requirements for a given commodity, so supply very rarely coincides with demand.

Let us assume that, in some branch (footwear, textile, and so on), more commodities are produced than the pur-

chasers require—supply then exceeds demand, and the prices of these commodities gradually fall to below value. The producers of these commodities suffer a loss and cut back on production. Some time later, however, there is a shortage of commodities and the demand for them increases, in which case prices begin to go up again and this creates the conditions for an expansion of production in the given branch.

Through the mechanism of market prices, through their fluctuations around value, the law of value acts as a spontaneous regulator of commodity production; from time to time it spontaneously establishes a certain equilibrium between the branches and types of production. Although, however, this equilibrium is, in fact, extremely unstable and incomplete, it still makes the functioning of all production possible.

The law of value promotes the development of the productive forces, for it encourages commodity producers to reduce their individual outlays on the manufacture of commodities and to raise the productivity of labour. The fact is that the value of a commodity, as we have already noted, is determined by the socially necessary inputs of labour. Those commodity producers who use more advanced technology produce their commodities with less than the socially necessary inputs. The sale of the commodities takes place, however, at prices corresponding to the socially necessary labour, so these commodity producers receive extra money and get rich. Under the threat of ruin, the law of value induces other commodity producers to improve their technology, raise their productivity of labour and thus develop society's productive forces.

Under certain conditions, the law of value leads to the emergence and development of capitalism. Spontaneous fluctuations of prices around value inevitably spell ruin for the mass of small commodity producers; their transformation into miserable proletarians, deprived of the means of production and forced to hire themselves out to work for the owners of enterprises. At the same time, a small number of commodity producers get rich and become capitalists. In other words, the operation of the law of value brings a stratification of commodity producers into bourgeoisie and proletariat, and relations of capitalist exploitation emerge.

Consequently, the law of value fulfils quite specific functions in commodity production, based on private owner-

ship of the means of production: it acts as the spontaneous regulator of commodity production, is the motive force behind the spontaneous development of the productive forces of society; it furthers the stratification of the commodity producers and, under given historical conditions, this law constituted the basis for the spontaneous growth of the simple commodity economy into the capitalist.

#### Revision Exercises

1. What are the common features and distinctions between simple and capitalist commodity production?
2. What are the properties of a commodity?
3. What is concrete and abstract labour?
4. What determines the magnitude of the value of a commodity?
5. What is the essence of money? What are its functions?
6. What is the law of value and how does it operate under the conditions of commodity production, based on private ownership of the means of production?

#### Chapter Four

### CAPITAL AND SURPLUS VALUE. WAGES UNDER CAPITALISM

The teachings on capital and surplus value reveal the essence of the capitalist mode of production, the secret of capitalist exploitation. Lenin called the theory of surplus value the cornerstone of Marx's economic teachings. It is precisely this problem that occupies the central place in Marxist-Leninist political economy.

#### I. The Transformation of Money into Capital. Labour Power As a Commodity

##### The General Formula for Capital

Money is the final product of simple commodity circulation and, at the same time, the first form of the manifestation of capital. Money, however, is not capital in itself; it becomes capital only under certain historical conditions. Under simple commodity production, of course, commodity circulation is expressed by the formula  $C-M-C$ . Here money is acting as an intermediary in the exchange of com-

modities and is spent once and for all. The aim of the exchange of commodities is clear. The peasant, for example, sells grain in order to buy material with the money he receives, so money is not capital here.

The movement of money as capital, or the general formula for capital is expressed by another formula,  $M-C-M$  (money-commodity-money). It begins with the purchase of a commodity and ends with its sale. Here money is not spent, but merely advanced as capital. "He lets the money go, but only with the sly intention of getting it back again."<sup>1</sup>

The final goal of the movement  $M-C-M$  is money.

The formula  $M-C-M$  seems pointless and meaningless if the owner of the money gets back the same amount of money as he pays out. There will only be a point if the capitalist receives a larger sum of money than he has advanced. Thus, the general formula for capital may be given in the following form:  $M-C-M'$ , where  $M'$  is  $M + \Delta M$ , i.e. the initially advanced sum plus a certain increment, which Marx called surplus value.

Consequently, as it moves, money grows, acquiring the ability to "lay the golden egg", bring in surplus value and thereby become capital.

Self-growing value, or value bringing in surplus value is called *capital*.

The question arises as to where the increase in money comes from and what the source of surplus value is. Some bourgeois economists believe that the increment in value takes place in the process of circulation itself.

This is not, however, the case, for in the sphere of circulation there is an exchange of equivalents, of equal values. Let us assume that all sellers manage to sell their commodities at, say, 10 per cent more than their value. Then, when they become purchasers, they must pay the sellers the same 10 per cent. In this way, that which the commodity owners gain as sellers, they lose as purchasers. Yet the entire class of capitalists acquires surplus value.

Where does the surplus value arise if all commodities are sold and purchased at value?

Considering the material elements, the commodity and money in the formula  $M-C-M'$ , the increment in value may only occur as a result of changes taking place either in the money or the commodity. Yet we know that money

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 147.

cannot, in itself, change its value and give an increase. This means that the source of the growth of value should be sought in the commodity.

On the market the capitalist finds a commodity, the use value of which possesses the unique property of being able to produce a value greater than its own. This specific commodity is the ability to labour, or *labour power*.

#### Labour Power as a Commodity, Its Value and Use Value

Labour power is the totality of physical and intellectual abilities at man's disposal, which he uses to produce material goods. In any society, labour power is a necessary element of production, but only under capitalism does it become commodity. Two conditions are created for this: the owner of the labour power is personally free and, at the same time, deprived of means of production and subsistence.

In slave-owning society, for example, the slave could not sell his labour power, for he himself was somebody else's property. Neither was the serf the owner of his labour power, as he was personally dependent on the feudal lord. Only under capitalism does the worker receive personal freedom. Marx noted that "for the conversion of his money into capital, therefore, the owner of money must meet in the market with the free labourer, free in the double sense, that as a free man he can dispose of his labour-power as his own commodity, and that on the other hand he has no other commodity for sale, is short of everything necessary for the realisation of his labour-power".<sup>1</sup>

As we have already clarified, any commodity has value and use value. The value of the commodity labour power is determined by the quantity of working time necessary for its production. Labour power is a special commodity, since its bearer is a person who, in order to live and work, must eat, drink, wear clothes and rest. In order to produce this commodity, the worker must be provided with means of existence, and in order to obtain these, he needs a certain amount of money. This means that the worker must receive, in exchange for the labour power he sells to the capitalist, sufficient money to purchase the necessary quantity of material goods.

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 166.

Moreover, the process of production requires a constant inflow of new labour power, so the value of the commodity labour power includes the values of the consumer goods required by the worker's family.

The worker must have experience and knowledge of a given branch of labour. Outlays on acquiring professional skills, i.e. on training, are also included in the value of labour power. The more skilled the worker is, the higher the value of his labour power. Moreover, the working person must satisfy his intellectual requirements: watch films, read newspapers, and so on. Outlays on satisfying intellectual requirements are also included in the value of his labour power.

Thus, the *value of labour power* is the value of a given sum of vital goods necessary for the existence of the worker and his family, and for the professional training of the worker.

Capitalists usually buy labour power at a price below its value and thus increase their profits. The value of labour power expressed in money terms is the *price of labour power*. Under capitalism, it takes the form of *wages*.

Labour power as a commodity also has use value, which consists in the ability of wage workers to create new value, greater than the value of the labour power itself. It is precisely for the purpose of using this ability that, to create surplus value, capitalists hire workers.

The source of surplus value is the labour of wage workers, some of which is appropriated without recompense by capitalists who purchase labour power.

Now let us analyse how surplus value is created.

## 2. The Production of Surplus Value

### The Specifics of the Labour Process Under Capitalism

In bourgeois society, the unification of labour power with the means of production takes place through the market, where the capitalist acquires labour power and means of production. The process of labour consists in a capitalist's consumption of the labour power of the wage worker and it is characterised by two specifics: first, the worker works under the control of the capitalist and the labour process is carried out for the capitalist. The capitalist decides exactly what is to be produced, in what quantity and



by what method. Second, the commodity produced in the course of the production process belongs to the capitalist. These specifics of the labour process under capitalism turn the labour of the workers into forced labour.

Capitalist production is dual in character. On the one hand, it is the creation of use values; on the other, it is the increase in value or the creation of surplus value.

This duality of production is ultimately based on the dual character of the wage worker's labour. The concrete labour of the worker creates new use values and transfers the value of the means of production consumed to the commodities created. At the same time, the abstract labour creates a new value, which includes the equivalent of the value of the labour power and surplus value, which the capitalist appropriates without recompense. Marx wrote that "the property therefore which labour-power in action, living labour, possesses of preserving value, at the same time that it adds it, is a gift of Nature which costs the labourer nothing, but which is very advantageous to the capitalist".<sup>1</sup> The capitalist is interested in surplus value, the source of his wealth.

### The Production of Surplus Value

The aim of capitalist production is to create surplus value. The process of its production takes place as follows. Let us assume that the capitalist has a spinning mill, in which one worker produces an average of 200 kg of yarn in the course of a 10-hour working day. For its production, raw and other materials, and electricity to a sum of 200 dollars are required. The wear and tear on means of labour in the manufacture of this quantity of output costs 4 dollars. In all, the capitalist's outlays on the means of production thus total 204 dollars. The capitalist also spends money purchasing labour power, the daily value of which is 6 dollars. This means that his total outlays amount to 210 dollars. Let us assume that the worker fully reproduces the daily value of his labour power (6 dollars) in five hours, while over the remaining five hours he creates 6 dollars' worth of surplus value.

In our example, the owner of the factory spent (204 + 6) dollars on the production of 200 kg of yarn, and received a product with a value of 216 (204 + 12) dollars. His money

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 200.

was transformed into capital, the difference between the value of the commodity produced and the capitalist's outlays on its production ( $216 - 210 = 6$  dollars) also constitutes the surplus value received by the capitalist from the exploitation of one worker.

Surplus value is value created by the labour of the worker and appropriated without recompense by the capitalist. Even if the capitalists purchase means of production and labour power at their value and sell the commodities produced also at their value, they still obtain surplus value from the labour of the wage workers.

The fact that capitalists receive surplus value means that the wage workers' working day breaks down into two parts: necessary and surplus working time. In the course of the necessary working time, they create the necessary product, i.e. the product that, in value terms, is equal to their labour power. During the surplus time, the workers produce surplus product, the value of which now constitutes the excess above the value of their labour power, which forms surplus value.

Returning to our example, the division of the working day into necessary and surplus working time will appear thus: the working day = 10 hours = 5 hours (necessary working time) + 5 hours (surplus working time).

The labour of the worker spent in the course of the working day is correspondingly divided into necessary and surplus labour.

The production and appropriation by capitalists of surplus value is the main aim of capitalist production. This is the basic economic law of capitalism. "Production of surplus-value is the absolute law of this mode of production,"<sup>1</sup> Marx wrote.

The basic economic law of the capitalist mode of production unmasks the secret of capitalist exploitation, makes it possible to understand and explain all the profound processes and phenomena inherent in capitalist society. It shows that the workers serve as a means for producing surplus value and that, for the capitalist, they are no more than human material, suitable for exploitation. The law of surplus value expresses the relations of exploitation of wage workers by capitalists. The relations between labour and capital, between workers and the bourgeoisie, are the

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 580.

basic production relations under capitalism. The operation of the law of surplus value is responsible for the growing competition and anarchy of production under capitalism, the deteriorating condition of the toiling masses, the increase in unemployment, and the deepening and exacerbation of all the contradictions of capitalism.

### 3. Capital and Its Component Parts

#### The Essence of Capital

Bourgeois ideologists put forward the idea that any social wealth, means of production or things in themselves are capital. Thus, in their opinion, the bow and arrow in the hands of primitive man were just as much capital as the machine belonging to the capitalist. Hence they draw the conclusion that capital is an eternal category, that it always has been and always will be. Is this the case?

Money and means of production only become capital when they are private property and are used for the exploitation of workers, when they are used to obtain surplus value. *Capital is value bearing surplus value, or self-expanding value.* Capital is the relations of production between the capitalists, who own the means of production, and the wage workers, deprived of any means of production and compelled to sell their labour power to the capitalists.

In order to clarify the essence of capital and the mechanism of capitalist exploitation, of major significance is Marx's division of capital into constant and variable capital. This division allows us to pinpoint the source of surplus value and explain how capital exploits wage labour.

#### Constant and Variable Capital

When beginning production, the capitalist spends part of his capital on building factory premises, on machinery, raw and other materials and fuel. The size of this capital, embodied in the means of production, does not change in the process of production; it is merely transferred to the commodities produced as they are used. The part of the capital that was spent on the means of production and does not change its size in the process of production is called *constant capital*, which is represented by the letter *c*.

The other part of the capital, which is spent on the pur-

chase of labour power and changes its value in the production process, is called *variable capital* and represented by the letter  $v$ . Surplus value is represented by the letter  $m$  (from the German word *Mehrwert*—surplus value). The value of a commodity created in a capitalist enterprise may be presented as  $W = c + (v + m)$ , where  $c$  is the transferred value, and  $(v + m)$  is the newly created value. Surplus value is part of the newly created value minus the equivalent of the value of the labour power.

The division of capital into constant and variable shows that the source of surplus value is not all capital, but only its variable part. This means that the enrichment of the capitalists is only possible by means of the exploitation of wage workers.

#### Rate and Mass of Surplus Value

The mass of surplus value appropriated by the capitalist is an absolute magnitude. Its relative magnitude, or the degree of increase in variable capital, is determined by the ratio of surplus value to variable capital. This ratio, expressed in percentage terms, is called the *rate of surplus value*.

Representing the rate of surplus value with the letter  $m'$ , we get the ratio  $m' = \frac{m}{v} \cdot 100\%$ . Here is an example.

Let us assume that the daily value of labour power and the surplus value created in the course of the day are 10 dollars each;  $m'$  will then be  $\frac{10 \cdot 100}{10} = 100\%$ .

The rate of surplus value  $m'$  may be expressed by the ratio of the various parts of the working day (surplus time and necessary time) or the various shares (in significance) of the expended worker's labour (surplus labour and necessary labour).

$$\begin{aligned} \text{Then } m' &= \frac{\text{surplus time}}{\text{necessary time}} = \frac{\text{surplus labour}}{\text{necessary labour}} = \\ &= \frac{5 \text{ hours}}{5 \text{ hours}} \cdot 100 = 100\%. \end{aligned}$$

Hence it is clear that the rate of surplus value shows how much free, unpaid labour the worker gives to the capitalist for each unit of necessary labour. The rate of surplus

value is therefore called the rate of exploitation. Marx noted: "The rate of surplus-value is therefore an exact expression of the degree of exploitation of labour-power by capital".<sup>1</sup>

As capitalism develops, the rate of surplus value grows. Thus, in 1909, it was 130 per cent in US manufacturing, but it is now over 300 per cent.

Although the rate of surplus value is an exact expression of the degree of exploitation of the worker, it does not reflect the absolute scale of exploitation. The latter is determined by the mass of surplus value. If we represent the mass of surplus value by the letter  $M$ , the surplus value created by one worker by the letter  $m$ , the variable capital advanced for purchasing just labour power by  $v$ , and the total sum of variable capital by  $V$ , the formula for the mass of surplus value assumes this form:

$$M = \frac{m}{v} \cdot V.$$

The mass of surplus value depends on the number of workers exploited and the degree of their exploitation.

How does the capitalist achieve an increase in the mass of surplus value or a step-up in the exploitation of the workers?

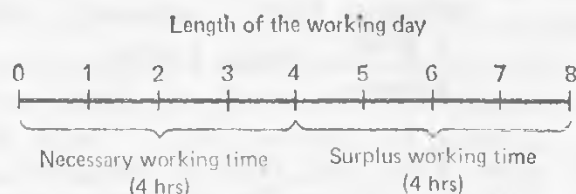
#### 4. Two Ways of Increasing the Degree of Exploitation of the Working People

##### Absolute Surplus Value

Capitalists use two basic methods to raise the degree of exploitation of the workers. The first consists in a direct lengthening of the working day. The *working day* is the time the worker spends out of every twenty-four hours working in the capitalist enterprise.

Let us assume that the working day is eight hours long, four of these hours being necessary time and four of them—surplus time. Let us illustrate this with a graph (Fig. 3).

Fig. 3



<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 209.

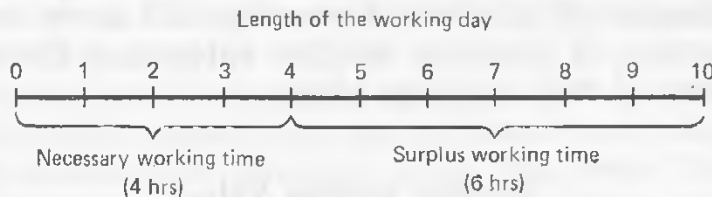
In this case, the rate of surplus value or the degree of exploitation is:

$$m' = \frac{4 \text{ hours}}{4 \text{ hours}} \cdot 100 = 100 \%$$

If the necessary working time remains constant, an increase in the length of the working day will mean an increase in the surplus working time and the degree of exploitation. Let us assume that the working day is extended from 8 to 10 hours, then surplus working time will be not 4, but 6 hours.

Let us illustrate this graphically (Fig. 4).

Fig. 4



Calculating according to the formula:

$$m' = \frac{6 \text{ hours}}{4 \text{ hours}} \cdot 100 \% = 150 \%$$

we find that the rate of surplus value has risen by 50 per cent.

The surplus value received from the extension of the working day in excess of the necessary working time is called *absolute surplus value*. The production of absolute surplus value constitutes the basis of capitalist exploitation. The capitalists' thirst for surplus value is unlimited; they strive to extend the working day to the extreme. If it were possible, the exploiters would force the workers to work 24 hours a day. But this is not possible, since a certain part of the day must be spent resting, sleeping and eating. This sets the physical limits to the working day.

In addition, there are also moral limits to the working day, for the worker needs time to satisfy his cultural and social requirements. Since, however, both sets of limits to the working day are elastic, under capitalism the working day may last from 8 to 16 hours or more.

The struggle for a cut in the working hours is an inseparable part of the proletariat's class struggle. It developed first in Britain. This struggle became particularly resolute

after the Geneva Congress of the First International and the workers' congress in Baltimore in 1866 had put forward the slogan of the struggle for an eight-hour working day. The struggle waged by the working class resulted in most capitalist countries introducing legislation to limit the working day. At present, the average length of the working week in the leading capitalist countries is 40-46 hours.

Yet the capitalists increase the production of surplus value not only by directly lengthening the working day, but also by raising the intensity of labour.

How do they achieve this?

A rise in the intensity of labour means that, over the same working time, the worker spends more vital energy and, therefore, creates more value and more surplus value.

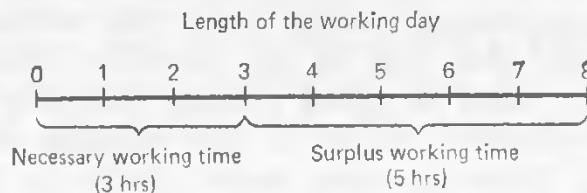
Consequently, a lengthening of the working day, a rise in the intensity of labour and overtime all serve to increase the production of absolute surplus value and the degree of exploitation of the working class.

#### Relative Surplus Value

The second way to increase surplus value is, given a constant length of the working day, to cut the necessary working time, which leads to an increase in the surplus working time.

Let us assume that the necessary working time is cut from four to three of the eight hours in the working day. Then the surplus time will rise, correspondingly, to five hours. Let us illustrate this graphically (Fig. 5).

*Fig. 5*



The rate of surplus value is calculated according to the formula:

$$m' = \frac{5 \text{ hours}}{3 \text{ hours}} \cdot 100 = 166 \%$$

Consequently, a one-hour cut in the necessary working

time means a 66 per cent rise in the degree of exploitation in the given example. The surplus value received by increasing the surplus working time through a cut in the necessary working time is called *relative surplus value*.

How does the capitalist manage to cut the necessary working time and increase the relative surplus value? Let us recall that the necessary working time is determined by the value of labour power, which depends on the value of the means of subsistence. If their value falls, the worker spends less time working for himself and more for the capitalist.

A drop in the value of the worker's means of existence results from a growth in the productivity of labour in branches producing consumer goods for the working people. This leads to a reduction in the value of labour power and, consequently, in the necessary working time, and to a rise in the relative surplus value.

The factors operating to reduce the value of labour power also include the widespread use of female and child labour. Working women and children earn their own living, their labour being remunerated at a very low level. At present, forced child labour is most widespread in the countries of Asia, Africa and Latin America: in Thailand (where there are over a million working children), in South Korea, in Taiwan, Hongkong, and the Philippines. Child labour is also used extensively in Italy, and the USA. This naturally reduces the value of adult labour power and serves to increase relative surplus value.

Relative surplus value grows alongside the historical development of the forms of the co-operation of labour, presupposing the workers' joint participation in one and the same labour process or various processes that are interconnected in a specific way. Under capitalism, its first and simplest form was simple co-operation, during which all the wage workers, without any machines, used the most primitive tools or even managed without them, to fulfil exactly the same jobs (wood-cutting, ploughing, loading, and so on). Even this allowed the capitalists to raise the overall productivity of labour, cut labour inputs and material outlays on the manufacture of output and increase surplus value.

A more developed form of labour co-operation was the manufactory based on artisan technology and the division of the labour functions of workers in the process of produc-



tion. Manufactories began to spread in the mid-16th century. They were organised in two main ways: 1) workers of one trade were concentrated in a workshop, the work being divided up among them into individual, sometimes extremely narrowly specialised, operations; 2) workers of different trades worked in the workshop, carrying out the production operation one after another, right up to the issue of the final product. The manufactory sharply increased the degree of exploitation of the workers and turned them into partial, specialised workers, tied to the fulfilment of one and the same or several similar operations.

In the last third of the 18th century, the manufactory began to be replaced by the factory—a form of capitalist organisation of production that was based on the use of various types of machine. It is the most developed form of capitalist labour organisation in existence today. Under this system the worker becomes an extension of the machine. “In the factory,” Marx wrote, “we have a lifeless mechanism independent of the workman, who becomes its mere living appendage.”<sup>1</sup> Having sharply raised the productivity of labour and thus cut the outlays necessary for the production of the workers’ means of consumption, which to a considerable extent determine the value of the workers’ labour power, machine production allowed the capitalists to increase relative surplus value substantially, while at the same time creating broad opportunities for raising the intensity of labour and involving women and children in production.

One variety of relative surplus value is *excess* (extra) *surplus value*. Capitalists gain it by applying new technology, production techniques or other methods for improving production and thereby achieving a rise in the productivity of labour that leads to a drop in the individual value of commodities compared with their social value. Since market prices are regulated by social value, these capitalists receive not only the usual surplus value, but also an additional one. This is maintained until the other capitalists reduce the value of their own commodities in the same proportion. The socially necessary expenditures of labour are equalised and the excess surplus value disappears.

It reappears, however, whenever more sophisticated methods for organising production and the latest scientific and

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 398.

technological achievements are applied. Excess surplus value is thus the difference between the individual and the social value, which is appropriated by those capitalists who introduce technical innovations in their enterprises before the others do. Excess surplus value is not received by the entire class of capitalists, but only by individual capitalists, and even then only temporarily, not all the time. This is why capitalists are interested in keeping the "secrets" of their production, in order to gain as much excess surplus value as possible.

All modes of production of surplus value are geared to increasing the exploitation of the workers, and lead to a deepening and exacerbation of the antagonistic contradiction between labour and capital.

## 5. Wages Under Capitalism

### The Essence of Wages

The theory of surplus value reveals the essence of wages as a means for stepping up the exploitation of workers and masking this exploitation.

At first glance, it might seem that the worker's wages are payment for his labour: the worker receives wages after completing the entire labour process, not after the end of the necessary working time; the size of his wages is set in correspondence with the quantity of time worked or the amount of output produced. This is what creates the illusion that the worker sells his labour and that the capitalist pays for all this labour. Bourgeois theoreticians present this apparent situation as reality and, on this basis, claim that the worker's wages are payment for his labour, that workers receive full compensation for their labour and that there is no exploitation.

In fact, the capitalists purchase not the workers' labour, but their ability to work, i.e. their labour power. Why, then, cannot the worker's labour be a commodity?

First, labour as the process of the productive consumption of labour power, taking place in the sphere of production, begins once the worker has already sold his labour power. When, in the process of production, labour power is combined with means of production, labour and its results belong not to the worker, but to the capitalist.

Second, labour creates value, but itself has no value.

The assumption that labour is a commodity and has value is absurd. Value is labour embodied in commodities and if labour itself possessed value, it would work out that labour was created by labour.

Third, if the capitalist paid for the worker's labour in full, no surplus value would be created.

The essence of wages is that, under capitalism, they are transmuted (i.e. concealed) form of value and the price of labour power as a commodity. Marx wrote: "Wages are not what they *appear* to be, namely, the *value*, or *price*, of *labour*, but only a masked form for the *value*, or *price*, of *labour power*."<sup>1</sup>

#### The Forms of Wages

The essence of wages under capitalism is directly manifested in their forms. There are two main forms, time wages and piece wages. All other wage systems are merely varieties of these two forms.

*Time wages* are the form when the size of the worker's payment depends on the actual amount of time worked (hour, day, week, month). The unit of measurement of the payment for the worker's labour is the hourly rate, the price of the working hour or the "price of labour". The "price of labour" is defined as the ratio of the daily value of labour power to the number of hours in the working day.

Thus, the "price of labour" =  $\frac{\text{average daily value of labour power}}{\text{average length of the working day}}$

Let us assume that the daily value of labour power is 4 dollars and the working day is eight hours long. The price of labour will then be  $\frac{4 \text{ dollars}}{8 \text{ hours}} = 50 \text{ cents an hour}$ .

Two conclusions may be drawn from these calculations: 1) given the length of the working day, the "price of labour" changes in direct proportion to changes in the value of labour power. For example, the daily value falls to 3 rather than 4 dollars, so the "price of labour" is  $\frac{3 \text{ dollars}}{8 \text{ hours}} = \frac{300}{8}$

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<sup>1</sup> Karl Marx, "Critique of the Gotha Programme", in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, p.23.

= 37.5 cents an hour, instead of the previous 50 cents an hour; 2) given the value of labour power, the "price of labour" changes in inverse proportion to changes in the length of the working day. The daily value of labour power is 4 dollars, but the working day is lengthened to 10 hours; the "price of labour" is now  $\frac{4 \text{ dollars}}{10 \text{ hours}} = \frac{400}{10} = 40 \text{ cents}$ .

A drop in the "price of labour" means a rise in exploitation.

Time wages are profitable for the capitalists, since a rise in the productivity and intensity of labour brings an increase in production and higher profits.

*Piece wages* are determined by the quantity of items or parts produced per unit time. They are a modified form of time wages.

Piece wages are, superficially, the value and price of the product of labour. It looks as if the worker sells not his labour power, but the product of his labour. Piece wages are measured by the quantity of output produced by the worker or the number of operations fulfilled by him. A work norm or quota is set on the basis of the work done by the most skilled and strongest workers, i.e. the number of items they produce in the course of the day, and a rate for each article. For example, the number of units produced in a day is established, then the daily value of the labour power is divided by this number. With a daily value of 4 dollars and an eight-hour working day, and with a shift output rate per day of 80 units, the rate per unit will be  $\frac{4 \text{ dollars}}{80} = 5 \text{ cents}$ .

Piece wages are used extensively by capitalists to step up exploitation, for they constitute a means for raising the intensity of labour. In an attempt to gain a high wage, the worker works full out and raises his output.

The capitalist then reduces the unit rate, the result being that the rate and mass of surplus value go up again.

On the basis of time and piece wages, a number of sweating systems of payment arise. Their aim is to increase the degree of exploitation and conceal it even more. Modern sweating systems are based on the system invented by the American engineer Frederick W. Taylor, under which a high output rate was set on the basis of analysis of a time study. Higher rates are set for fulfilment and overfulfilment of this output rate, and low "punitive" ones for underfulfilment. Lenin assessed the system as follows: "The Taylor system... like

all capitalist progress, is a combination of the refined brutality of bourgeois exploitation and a number of the greatest scientific achievements.”<sup>1</sup>

The Ford sweating system of payment, a step-up in the exploitation of the workers by speeding up the movement of conveyors, pursues the same goal, that of squeezing the maximum labour out of the worker. Previously, for example, a conveyor moved at a speed of 2 metres a minute, but now it is speeded up to 4 metres a minute. The worker has to work more intensively, spend more of his energy, but wages remain virtually the same or rise only negligibly. Under this system, many workers are completely worn out and dismissed by the age of 40 to 50.

Other modern wage systems include “profit-sharing”, “bonus system” and so on. The profit-sharing system, for instance, presupposes the receipt, on top of the basic wage, of an additional one, distributed at the end of the year as a “share of the profits” of the enterprise. In fact, the worker’s wages still do not exceed the value of his labour power, since the main current payments are set at a lower level.

“Bonus systems” envisage the payment of a supplement to the basic wage for overfulfilment of the output rate, for higher quality output, and so on. With its help, the workers are urged to work more and more intensively, without full compensation for the rise in their labour inputs.

The American labour economist Florence Peterson points out that, since the system of “profit-sharing” came into existence, payments to workers under the system have constituted about 2 per cent of the participating companies’ wage funds.

By using modern wage systems, the capitalists attempt to create the illusion that the working people and the capitalists have common interests, and to split the working class and so dampen the class struggle.

#### Nominal and Real Wages

At the first stages of the development of capitalism, the worker was rarely paid his full wage in money. Often the capitalist kept a factory shop selling foodstuffs and consumer goods, and the workers bought all they needed

<sup>1</sup> V. I. Lenin, “The Immediate Tasks of the Soviet Government”, *Collected Works*, Vol. 27, 1977, p. 259.

there, usually, goods low in quality and high in price. At the end of the month or season, the proprietor of the factory settled his accounts: how much the worker had earned and how much he had taken in goods. The usual outcome was that the worker had no or only very little money coming to him. Nowadays this system remains in only certain developing countries. In almost all developed capitalist countries money wages predominate.

Wages, expressed in money terms, are called the *nominal wage*. This gives no indication, however, of the standard of living, which also depends on the price level for the goods and services consumed. A better idea of the condition of the worker is given by the *real wage*—the quantity of goods and services that can be purchased for the nominal wage after taxes and other deductions have been subtracted.

In the years following the Second World War, wages in the developed capitalist countries rose somewhat. At the same time, however, there has been a countertendency for them to fall, since prices have been rising along with taxes, and so on. The real wage is determined using an index of the cost of living. Thus, if, in the base period, the worker needed to pay 1,000 dollars for goods and services essential for his existence, but a few years later the same goods and services cost him 1,200 dollars, the cost of living index will be  $\frac{1,200}{1,000} \cdot 100 = 120\%$ . In order to determine the

movement of the real wage, the nominal wage should be divided by the cost of living index. Let us assume that, over several years, the nominal wage goes up from, 1,000 to 1,100 dollars, i.e. to 110 per cent, while the cost of living index has gone up 120 per cent. In this case, the real wage index will be  $\frac{110}{120} \cdot 100 = 91.7\%$ . The nominal wage has

thus gone up by 10 per cent, but the real wage has fallen by 8.3 per cent. Hence it is clear that, at the given level of prices for goods and services consumed by the workers, the real wage changes in direct proportion to changes in the nominal wage and in inverse proportion to those in the price level (or the cost of living). If the nominal wage and the price level change at the same time, the movement of the real wage will depend on the correlation between the index of the nominal wage and the cost of living indexes.

For the purpose of raising the degree of exploitation, the capitalists discriminate in the payment for the labour

of women and children and foreign workers. As a rule, female labour is paid at a much lower rate than male. For example, in West Germany, female workers receive, on average, 30 per cent less than men for the same job, and in Italy—20 per cent less. In the USA, the wages of working women stand at only 60 per cent of those of men. This alone allows American businessmen to save tens of billions of dollars a year. In Japan, the ten million women employed in industry and trade receive only half the wages of men for the same jobs.

Discrimination in the payment for labour is suffered by millions of foreign workers in a number of West European countries, as well as by the overwhelming majority of the coloured population of the USA. According to US data, the average income of a black family is only 54 per cent of that of an average white one.

In the Republic of South Africa, Negroes receive only a tenth or an eighth of the wage of a white worker for the same job, and in Namibia only a twentieth.

Discrimination in the payment for labour is one of the major means used for raising the rate and mass of surplus value and increasing the exploitation of the working people.

#### Revision Exercises

1. What is the general formula for capital and how does it differ from that for commodity circulation?
2. Describe the commodity "labour power".
3. Where and how is surplus value created?
4. What methods are there for increasing the degree of exploitation of the workers and surplus value?
5. What are wages under capitalism? How do they conceal the exploitation of the working people?
6. What are the chief forms of wages?
7. What are nominal and real wages?

#### Chapter Five.

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

In a course on political economy, the topic of capital accumulation is of extreme importance, for it explains how surplus value is transformed into capital and how capital

accumulation affects the condition of the workers and leads to a deterioration in their lives. This substantiates the economic necessity of the socialist revolution, and its objective and subjective preconditions.

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

### Reproduction and Accumulation of Capital

The production of material goods, as we have already discovered, is a necessary condition for people's lives. In order for society to exist, means of survival must be produced constantly and uninterruptedly. This constant renewal and repetition of the production process is reproduction. Production and reproduction are always social in character. In any society, alongside the reproduction of material goods, there is always reproduction of labour power and the corresponding relations of production.

There are two types of reproduction: simple and extended. Simple reproduction means that the production process is repeated from one year to the next on a constant scale. Under extended reproduction, the production process is carried out on a growing scale. Capitalism is characterised by extended reproduction, the basis and main component of which is simple reproduction.

Under the conditions of simple capitalist reproduction, all the surplus value produced by the wage workers is spent on the capitalists' personal consumption. Let us assume, for example, that the capitalist has advanced a capital of 10,000 dollars, of which 8,000 are spent on constant capital ( $c$ ) and 2,000 on variable capital ( $v$ ). Assuming that the rate of surplus value ( $m'$ ) is 100 per cent, the mass of surplus value ( $m$ ) will be  $\frac{m' \cdot v}{100} = \frac{100 \cdot 2,000}{100} = 2,000$  dollars.

The value of the commodity produced (supposing that the entire constant capital is included in the value of the commodity) is  $W = c + v + m = 8,000 + 2,000 + 2,000 = 12,000$  dollars. These 12,000 dollars consist of the 10,000 dollars of capital advanced initially, plus the surplus value created by the workers in the process of production during the year.

Let us further assume that, during the next year, the capitalist once again invests 10,000 dollars and all the 2,000 dollars of surplus value are used for his own personal



consumption. The same happens in subsequent years.

If the capitalist did not appropriate the surplus value, all the capital advanced would, in time, be used for his personal consumption. In our example, the capitalist spends 2,000 dollars a year on his personal consumption. Since the capital advanced initially was 10,000 dollars, in five years there would be no capital left. This does not happen, however, because the money spent by the capitalist on his personal consumption is the surplus value he has appropriated. Hence, it is clear that, whatever the source of the initially advanced capital, in the course of simple capitalist reproduction, over a certain period of time, the capital becomes the value created by the labour of workers and appropriated without compensation by the capitalist.

In its essence, capital is the surplus value appropriated by the capitalist. When, therefore, the working class expropriates the capitalists during the socialist revolution, the workers are regaining what they created with their own labour, but the capitalist took it away from them. Consequently, the removal of private capitalist property from the hands of the exploiters is a historically just act.

Extended capitalist reproduction presupposes the return of part of the surplus value into production through the purchase of additional means of production and labour power, i.e. part of the surplus value is used by the capitalist as income, while the other part is used as capital, or *accumulated*. *The reconversion of surplus value into capital is the accumulation of capital.*

Let us take a typical example to illustrate extended capitalist reproduction.

Let us assume that the capitalist advances a capital  $AC$  of 100,000 dollars ( $c=80,000$  and  $v=20,000$  dollars); during the first year, given  $m'=100$  per cent, he receives  $m=20,000$  dollars. Assuming that, during the next year, the capitalist spends half of the total of 20,000 dollars of surplus value on himself and the other 10,000 dollars on increasing his capital, and that he spends money in the same proportions (4:1) on constant and variable capital as in the capital initially advanced ( $80c+20v$ ), then a year later his capital will appear as follows:  $AC=110,000$  dollars,  $c=88,000$ ,  $v=22,000$  dollars. During the next year, with  $m'=100$  per cent, the capitalist will receive a surplus value  $m=22,000$  dollars. The total value of the commodities produced  $W=c+v+m=132,000$  dollars. Thus the scale of production in

thousands of dollars will be as follows:

Year 1:  $80,000 c + 20,000 v + 20,000 m = 120,000$  dollars

Year 2:  $88,000 c + 22,000 v + 22,000 m = 132,000$  dollars

Year 3:  $96,800 c + 24,200 v + 24,200 m = 145,200$  dollars.

The insatiable thirst for appropriating surplus value results in the capitalist constantly extending the scale of his production. Moreover, competition forces each capitalist, under threat of ruin, to improve his technology, and expand production. At the same time, however, there is an increase in the mass of surplus value spent on the capitalists' personal consumption. For example, some families of millionaires own several homes, expensive yachts, dozens of luxury cars and aircraft.

The service personnel of one of the many country homes belonging to the American millionaires the Rockefellers consists of 350 people. The well-known American Du Pont de Nemour family owns over 500 different makes of car.

Now let us consider how extended capitalist reproduction takes place and the factors influencing the scale of accumulation.

Extended capitalist reproduction requires: additional means of production, additional means of existence for the workers newly drawn into production, and additional labour power. The source of additional means is the surplus product produced in the preceding period of time. Under simple reproduction, the entire surplus product is embodied in means of consumption for capitalists, but under extended reproduction part of the surplus product must consist of means of production, while another part of means of existence for the workers and a third part of means of consumption for capitalists.

The additional means of production and means of existence for the workers come from the surplus product created in the previous period of time, while the additional labour power is provided to the capitalists by the working class. As a result of combining the additional labour power with the additional means of production, extended reproduction takes place. The accumulated part of the surplus value has to break down into the purchase of means of production and the hiring of labour power, i.e. into constant and variable capital, otherwise capitalist extended reproduction is impossible.

What are the factors that affect the scale of capital accumulation? They include, above all, the degree of exploi-

tation of the working people. The higher it is, given the same capital, the greater is the mass of surplus value created and the larger the amount of capital accumulation. This is obvious. Given  $m' = 100$  per cent, it is just accumulation; given  $m' = 300$  per cent, it is three times over. All methods of production of absolute and relative surplus value are used to increase  $m'$ , i.e. all means for increasing exploitation, as well as a reduction of wages to below the value of labour power.

A major factor influencing the scale of accumulation is the growth of labour productivity. Since a rise in labour productivity in industries producing means of existence for the workers leads to a drop in the value of labour power, variable capital of the same scale can result in the movement of a larger mass of live labour.

Moreover, the growth of labour productivity makes means of production cheaper (the cost of machinery, equipment and so on), and this makes it possible to apply constant capital more effectively and on a larger scale. Finally, the scale of accumulation is affected by the total amount of capital advanced. Given a constant degree of exploitation, the mass of surplus value depends on the number of workers exploited at any one time, while the number of workers depends primarily on the size of the functioning capital and its division into constant and variable capital.

Now the question arises as to how the accumulation of capital affects the conditions of the proletariat. In order to answer this question, we must first introduce the concept of the "*organic composition of capital*".

### The Organic Composition of Capital

In its make-up, capital may be considered from two angles. In its physical-material form, capital consists of means of production and labour power. The ratio of the mass of means of production used in production and the number of workers required to operate these means of production is called the *technical composition of capital*. In value terms, capital is divided into the value of means of production (constant capital) and the value of labour power (variable capital). The ratio of the value of constant capital to the value of variable capital is called *the value composition of capital*.

There is a close connection between the technical and value compositions of capital. As a rule, a change in the

technical composition of capital that occurs as a result of advances in technology, leads to a change in the value composition of capital, too. This organic link between the value and technical compositions of capital is expressed by the *organic composition of capital*. The organic composition of capital is the value composition of capital, since it is determined by its technical composition, and reflects changes in the latter. Consequently, a form for expressing the organic composition of capital may be the ratio of constant to variable capital, expressed by the formula:  $\frac{c}{v}$ .

If, in some capitalist undertaking, means of production to a value of 800,000 dollars and labour power worth 200,000 dollars are used, the organic composition of capital there is 4:1.

As capitalism develops, and the accumulation of capital increases, there is a continuous rise in its organic composition. Thus in 1889 it was 4.6:1 ( $c=8.3$  billion dollars,  $v=1.8$  billion dollars) in US manufacturing, but at the beginning of the 1970s the ratio was 7.3:1 ( $c=515$  billion dollars,  $v=70$  billion dollars).

It is easy to see that a rise in the organic composition of capital leads to a relative drop in its variable part: the share of variable capital in all capital falls relatively. In other words, as production develops, there is a faster increase in the mass of raw materials, machines, instruments and equipment compared with the growth in the amount of labour power used in production. For example, if the former organic composition of capital is taken arbitrarily to have been  $c:v=1:1$ , this means that half the capital went into constant capital and half into variable capital, i.e. on the purchase of labour power; after a few years  $c:v=2:1$ , then two-thirds of the capital goes into means of production and only a third into hiring labour power; then  $c:v=7:1$ , with six-sevenths going into constant capital and only a seventh into variable capital, and so on.

Hence, it is clear that, as the organic composition of capital grows, there is an increase in the demand for means of production ( $c$ ) and a relative drop in that for labour power ( $v$ ), which means that, as the total numbers of the proletariat go up and the productive power of its labour increases, many workers are unable to find application for their labour. Some of the working people are not needed by capitalist production, and a surplus working population is

created—*an industrial reserve army of labour*.

The existence of mass unemployment is conditioned by the operation of the internal laws of the capitalist mode of production. As the scale of social capital increases, the absolute size of variable capital also goes up. Its increase, however, under the impact of technical progress is inevitably accompanied by a growth of the organic composition of capital, engendering a drop in the share of variable capital in the total mass. In as far as the demand for labour power is determined by the size of variable capital, a reduction in its share entails a relative fall in this demand. Moreover, the greater the organic composition of capital, the lower the demand for labour power. The demand for labour grows more slowly than the size of social capital.

At the same time, the development of capitalist production is accompanied by a continuing rise in the amount of labour offered on the market. Competition on the part of capitalist enterprises leads to the ruin of small producers in both town and countryside. Deprived of their own means of production, they are forced to seek paid work. In capitalist production, women and adolescents are drawn into capitalist production on an ever growing scale, for their wages are below those of adult males. The supply of labour power also increases as a result of the natural working population increase. At the same time, in connection with the use of more productive technology and a rise in the intensity of labour, the capitalists dismiss some of the workers, who then swell the ranks of the unemployed and also increase the supply on the labour market.

Unemployment rises particularly fast during crises. During revivals it drops somewhat.

The presence of an industrial reserve army of labour is an inalienable feature of capitalism. It “is an indispensable attribute of the capitalist economy, *which could neither exist nor develop without it*”.<sup>1</sup>

The presence of the industrial reserve army furthers the rise in the degree of exploitation of the working people. The capitalists use the threat of unemployment to cut wages, lengthen the working day, increase the intensity of labour, and so on.

As capitalism develops, at the stage of imperialism, the

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<sup>1</sup> V. I. Lenin, “A Characterisation of Economic Romanticism” *Collected Works*, Vol. 2, 1977, p. 181.

industrial reserve army of labour becomes a constant, chronic army of unemployed people. In 1984, the army of the unemployed in the developed capitalist countries numbered over 35 million.

The formation and growth of the industrial reserve army of labour is a specific law of population inherent in the capitalist mode of production. This law runs: the working population, by producing the accumulation of capital, produces growing quantities of means that make it relatively surplus population.

The relative overpopulation in the capitalist countries takes different forms. There are three main forms: *floating*, *latent* and *stagnant*. Let us look at each of these in turn.

The *floating* form of overpopulation consists in the workers who have temporarily lost their jobs being repeatedly drawn into the process of production, only to find themselves once more outside the factory gates. They are drawn into production when reproduction expands and new enterprises are opened, and they are cast out again when production is cut, new machines introduced, enterprises are closed down, etc. The unemployed are mainly unskilled workers. The capitalists choose strong young workers from among the industrial reserve army of labour, although recent years have seen an increase in unemployment even among school-leavers.

*Latent* overpopulation is the form most characteristic of rural areas, so it is often called agrarian overpopulation. A rise in the organic composition of capital in agriculture entails a drop in the demand for labour power in the countryside. The peasants are ruined *en masse*, and big capitalist farms become consolidated. Smallholders in the countryside, often owning only miserable plots of land, hold on to them, living on the verge of starvation in the hope of saving the situation. Virtually the only thing they have left is their labour power, i.e. they become proletarians.

In the developing states, for example in Africa, the share of the surplus labour resources in the countryside stands at 50 per cent, reaching even 70 per cent of the working population in some countries. The eviction of these people into the towns leads to the formation of groups of people, deprived of any means of subsistence and doomed to chronic unemployment, because of the narrow labour market and their lack of skills. In Indonesia, the agricultural overpopulation embraces over 10 per cent of the pop-

ulation. It also reaches tremendous proportions in a number of Latin American countries.

*Stagnant overpopulation* includes the part of the working class that is employed extremely irregularly. Many workers can find work only from time to time.

This lowest level of the unemployed consists of people of three categories (leaving aside vagrants, criminals, prostitutes, pimps, and so on): 1) able-bodied people that have not worked for a long time and live on charity; 2) orphans and children, with no incomes or means of subsistence; 3) cripples, the sick, and the aged.

Relative surplus population, the army of the unemployed, of "surplus" people, is an inevitable result of the accumulation of capital, an inevitable companion of capitalism.

## 2. The General Law of Capitalist Accumulation

### The Essence of the General Law of Capitalist Accumulation

The deterioration in the position of the working class and the rise in unemployment are a result of the operation of the laws of the capitalist mode of production and are determined by the mechanism of capitalist accumulation. Marx discovered and scientifically substantiated the law that he called the general law of capitalist accumulation. The essence of this law is that a growth of wealth at one pole of bourgeois society—that of the capitalists—inevitably leads to a rise in the numbers of the proletariat and in the torment of forced labour, unemployment and poverty, at the other—that of the working people. Marx formulated this law thus: "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 ratio to its torment of labour. The more extensive, finally, the lazarus-layers of the working-class, and the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation.*"<sup>1</sup>

<sup>1</sup> K. Marx, F. Engels, *Works*, Vol. 23, p. 659 (in Russian).

The general law of capitalist accumulation is, deep down, conditioned by the operation of the basic economic law of capitalism—the law of surplus value. It is the pursuit of surplus profit that leads to the accumulation of wealth by the bourgeoisie. The bourgeoisie strives to increase its incomes primarily by raising the degree of exploitation of the employed workers, so the accumulation of capital and the deterioration of the position of the proletariat are two inseparable aspects of capitalist society. ¶

The deterioration in the position of the working class under capitalism takes place in the form of a relative and an absolute deterioration.

#### The Relative and Absolute Deterioration in the Position of the Proletariat

Under capitalism, the position of the proletariat deteriorates relative to the position of the bourgeoisie. Marx noted that “the condition of the workers ... *worsens* relatively in the same ratio as the general wealth increases, i.e., as capital is accumulated”.<sup>1</sup>

Specific indicators of the relative deterioration in the conditions of the working class are the drop in the workers' share of all the new value created, of the national income, which is a result of a rise in the degree of exploitation and the rate of surplus value. The workers' share also falls in the aggregate social product, which is the gross material product manufactured by society over the year. For example, in the USA the workers' share of the national income is now about 40 per cent, while fifty years ago it was 54 per cent; low-income families, making up 10 per cent of the population of the country, receive only 1 per cent of the incomes, while high-income ones, the top 10 per cent of the population, receive 30 per cent of the incomes. In France, before the Second World War the wages of factory and office workers constituted 50 per cent of all the newly created product, but this share has now dropped to 34 per cent. Those parts of the national income and the aggregate social product going to the capitalist class grew correspondingly.

The position of the working people is deteriorating not only relatively: the general law of capitalist accumulation engenders a tendency towards an absolute deterioration in

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<sup>1</sup> Karl Marx, *Theories of Surplus Value*, Part III, Progress Publishers, Moscow, 1975, p. 335.



the material condition of the working people, too. What does this mean?

The absolute deterioration in the condition of the proletariat is expressed in a growth of "physical poverty" and of poverty in the social sense.

Physical poverty means undernourishment and even actual starvation of the broad population, bad living conditions, extremely limited opportunities for satisfying the elementary requirements for clothing and domestic items, and a high death rate. A substantial part of the working population in the developing countries of Asia, Africa and Latin America are in a state of physical poverty. Thus, 60 per cent of the population of Latin America suffer from chronic hunger. In the capitalist world, according to UN data, there are about 800 million people who are either starving or systematically undernourished. Almost 30 to 40 million people die from hunger every year.

The main factors behind the tendency towards an absolute deterioration of the condition of the working class under capitalism are the increase in the industrial reserve army of labour, the growth of unemployment and the drop in real wages.

A major factor behind the absolute deterioration of the condition of the working people is economic crises, when enormous masses of people become unemployed.

The absolute deterioration in the condition of the working people is characterised by an excessive intensity of labour, and a rise in industrial injury and various professional diseases, which leads to the unreplenished expenditure of the workers' vital forces. At present, for instance, in all the capitalist countries the number of accidents at work is increasing, many of them being a result of exhaustion. In the USA, for instance, over 10 million industrial accidents happen every year, in West Germany—3 million, in Italy—1.5 million and in France—1.3 million. In France, 25 per cent of absences from work are connected with nervous complaints resulting from the growing intensity of labour, while the figure in Britain is 30 per cent. In the USA, 10 per cent of industrial workers suffer from nervous complaints. As a result of the low standard of labour safety measures in the USA, about 15,000 workers die in enterprises every year and over two million are injured.

Owing to the tremendous growth in housing rents, many workers' families live in accommodation unsuitable for

housing, in basements, attics and city slums. Slum areas occupy 20 per cent of the entire housing space in American cities, and 33 per cent of the total US population live there, the result being that they account for 60 per cent of the tuberculosis victims. The Americans themselves write that the slums are growing like a cancer, usually encircling the business quarters of the cities, and are fairly rapidly expanding, spreading their terrible infection.

In the capitalist world, poverty is increasing in the social sense—there is a growing discrepancy between the rising level of requirements and the actual level of consumption of essentials by the working people. In spite of a certain rise in wages and the level of consumption, achieved in the course of the proletariat's class struggle, the standard of living of most factory and office workers in the developed capitalist countries remains below the officially recognised poverty level.

In the USA, 30 million people, even according to official data, live in poverty. Heart diseases are four times more common among the poor, and nervous and psychiatric complaints—six times. The mortality rate before the age of 35 is four times higher.

Such, in short, are certain factors behind the absolute deterioration in the condition of the working people in the capitalist countries.

### The Historical Trend of Capitalist Accumulation

The point of departure for capitalist accumulation was the expropriation of the commodity producer, the enforced deprivation of the broad masses of the peasants and craftsmen of the means of production. As a result of this expropriation, small private property, based on personal labour, was ousted by big capitalist property, based on exploitation of wage labour.

In the course of the accumulation of capital, the *concentration and centralisation of capital* gain in intensity.

The concentration of capital means its increase by means of the capitalisation of surplus value, while its centralisation means the concentration of many individual capitals in the hands of one or a group of capitalists. The concentration and centralisation of capital are inseparably linked with the concentration of production, i.e. production is increasingly concentrated in a comparatively small number of big and

very big enterprises. At the same time, the social division of labour develops and the social character of production gains strength.

The chief means of production and output produced are concentrated in the hands of a small part of society—the class of capitalists. In this way, during the course of capital accumulation, the contradiction between the social character of production and the private capitalist form of appropriation—the chief contradiction of capitalism—intensifies. It reflects the antagonism between the productive forces and the relations of production under capitalism, which predetermines the inevitable demise of the capitalist mode of production.

The increasing capitalist socialisation of production means the development of the objective material preconditions for the transition to a more progressive social system—communism. At the same time, not only the objective but also the subjective conditions are created for the end of capitalism and the transition to the new social system.

The accumulation of capital is accompanied by a rise in the degree of capitalist exploitation and its scale, a growth of the proletariat, the social force that becomes stronger and stronger and more and more organised within the capitalist system. The working class comes increasingly to realise that the only way to get rid of exploitation and acquire rights is the revolutionary destruction of capitalism.

The preparations and development of the objective and subjective preconditions for the revolutionary transition from capitalism to socialism constitute the historical trend of capitalist accumulation. Marx wrote: “Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself... Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. Thus integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.”<sup>1</sup>

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 715.

Marx's foresight concerning the historically transitory nature of the capitalist mode of production is completely supported by subsequent events. In the Soviet Union, a developed socialist society has been built, the world system of socialism has taken shape and is developing, and many of the developing countries are today confidently following a socialist orientation. The general crisis of the world capitalist system is deepening. The collapse of capitalism cannot, however, take place automatically; it is only possible as a result of an active political struggle by the working class, of a socialist revolution.

It is the working class that is called on to fulfil the historic, global task of replacing the capitalist mode of production with socialism. It is carrying out this mission in close unity with all working people and the exploited masses, as well as the national liberation movement.

#### Revision Exercises

1. What are simple and extended reproduction?
2. What factors affect capital accumulation?
3. What is the organic composition of capital?
4. What is the essence of the capitalist law of population? Name the forms of relative overpopulation.
5. What is the essence of the general law of capitalist accumulation?
6. What do the relative and absolute deterioration of the condition of the workers mean?
7. What are the objective and subjective preconditions for the socialist revolution that take shape during the accumulation of capital? What is its historical trend?

#### Chapter Six.

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

In the foregoing chapters we have studied the nature of capitalist exploitation, the production and appropriation of surplus value, and the relations between the workers and industrial capitalists. In bourgeois society, however, there are also other groups of exploiters: the merchant bourgeoisie, the owners of loan capital, big landowners.

They all participate jointly in exploiting the working class and divide up among themselves the surplus value created by the working people in the sphere of material production. The reasons for the existence of the different groups of exploiters lie in the very essence of capital, in its constant movement.

## 1. The Circuit and Turnover of Capital

### The Circuit of Capital

Surplus value is only created when capital is constantly on the move, when the means of production and labour power combine and function in union with each other. If this movement is halted, and the labour process in the capitalist enterprise stopped, no new value or surplus value will be created. Capital, Marx wrote, "can be understood only as motion, not as a thing at rest".<sup>1</sup>

How does the movement of capital take place?

The movement of capital begins with the capitalist purchasing the necessary means of production and labour power. Capital in the sphere of commodity circulation passes through the first stage of its movement. As a result, it proceeds from its money to its productive form. With  $Lp$  representing labour power and  $Mp$  the means of production, the first stage of the movement of capital may be depicted thus:

$$M - C \begin{cases} / Lp \\ \backslash Mp \end{cases}$$

At the second stage, the production of commodities takes place. Their value will be greater than that of the commodities purchased for their production ( $Mp$  and  $Lp$ ) by the magnitude of surplus value. The movement of capital at this stage is given by the formula:

$$C \begin{cases} / Lp \\ \backslash Mp \end{cases} \dots P \dots C'$$

At this stage productive capital becomes commodity capital.

<sup>1</sup> Karl Marx, *Capital*, Vol. II, Progress Publishers, Moscow, 1974, p. 108.

Finally, at the third stage, capital returns to the sphere of circulation, where the commodities produced are sold and surplus value caught. Here capital is in money form. This stage may be expressed thus:

$$C' - M'$$

All three stages of the movement of capital follow this formula:

$$M - C \begin{cases} M_p \\ L_p \end{cases} \dots P \dots C' - M'$$

With the money he receives (the sum of which is greater than that originally advanced), the capitalist again purchases means of production and labour power, and the movement of capital is repeated once more. The consistent conversion of capital from one form to another and its transition through three stages is called the *circuit of capital*. The circuit of capital breaks down into two stages of circulation and one stage of production, the decisive role belonging to the stage of production, since this is when surplus value is created.

As capitalism develops, capital in commodity form and capital in money form become increasingly isolated and act as independently functioning *merchant's capital* and *loan capital*, to which different groups of the bourgeoisie correspond—the merchants and bankers.

#### The Turnover of Capital. Fixed and Circulating Capital

The movement of capital is not confined to a single circuit. Circuits follow one after another, are renewed and repeated. The circuit of capital, defined not as an individual act, but as a periodically repeated process, is called the *turnover of capital*.

The time during which capital completes its turnover consists of production time and circulation time. Depending on the character of production and the structure of capital, the turnover time of different capitals will vary. Thus, for capital employed in textile production it is shorter than for capital employed in the production of digitally-controlled machine-tools. Each capitalist has a vested interest in the capital he advances passing through the three stages and returning to him to bring him surplus value as fast as

possible, so that it can be reinvested. The faster the turnover of the capital, the more surplus value is created.

In order to understand how this happens, we need to clarify the composition of productive capital, its division into *fixed* and *circulating* capital.

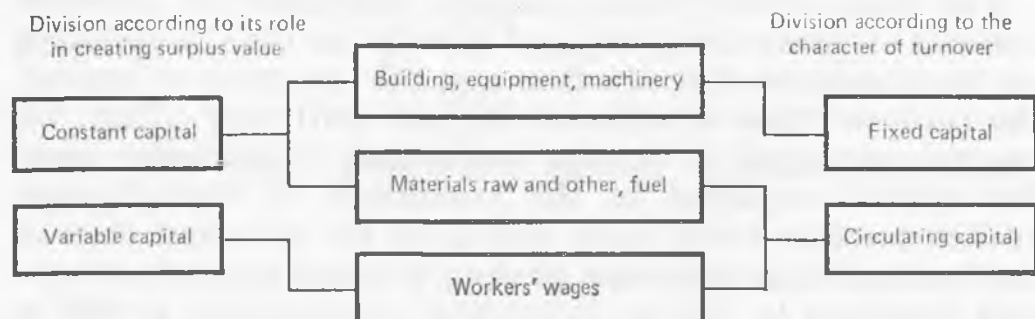
*Fixed capital* consists of the components of productive capital (buildings, machinery, equipment and so on) that take part in their entirety in production, but transfer their value to the finished product in parts and return to the capitalist in money form in parts. The reimbursement of the value of the wear and tear on fixed capital (i. e. a specific share of it) is called *depreciation* or *amortisation*. For example, every year out of the ten that a drill operates, a tenth or 10 per cent of its value is transferred to the commodity produced, and this makes up the depreciation fund.

Raw and other materials and fuel are used up completely in each production cycle. Their value is returned to the capitalist immediately after the commodity is sold. For instance, if a capitalist has purchased 1,000 kg of cotton and the worker has turned it into yarn, the entire value of the cotton is transferred completely to the yarn. This part of productive capital, the value of which is included in its entirety in the product, is called *circulating capital*.

Variable capital is also part of circulating capital. Although labour power does not transfer its value to the product, it does create new value, and in the mode of its turnover variable capital does not differ from the circulating part of constant capital. The division of capital into fixed and circulating conceals the role of variable capital as the only source of surplus value. Variable capital acts in this case merely as part of circulating capital.

The differences in content in the division of capital into constant and variable, and into fixed and circulating, may be illustrated by Fig. 6.

Fig. 6.



It is quite clear from the schema that the division of capital into fixed and circulating conceals the source of surplus value and veils the relations of exploitation of workers by capitalists.

#### The Effect of the Turnover of Variable Capital on the Annual Mass and the Rate of Surplus Value

Capitalists have a vested interest in speeding up the turnover of capital. Why? Let us assume that the capitalist has 200,000 dollars' worth of variable capital. If the rate of exploitation is 100 per cent and the variable capital completes, within the composition of circulating capital, two turnovers a year, 400,000 dollars' worth of surplus value will be received each year. Assuming that the capitalist manages to achieve four turnovers of variable capital a year, with the same degree of exploitation he will get 800,000 dollars' worth of surplus value.

The annual rate of surplus value will be the greater, the more turnovers variable capital makes. It is equal to the total sum of surplus value received over the year, divided by the size of the variable capital advanced.

Acceleration of the turnover of capital makes it possible, with the same variable capital, to hire and exploit a larger number of workers and receive a growing amount of surplus value during the year. This is the main reason for the capitalist's interest in speeding up the turnover of capital.

## 2. Average Profit and the Price of Production

### The Cost of Production and Profit. The Rate of Profit

The value of any commodity produced in a capitalist enterprise has three parts:  $W=c+(v+m)$ , where  $c$  is the value of constant capital (part of the value of machinery, buildings, the value of raw materials, fuel, and so on used in the given production process and transferred to the product created),  $v$ —the value of variable capital and  $m$ —surplus value. The capitalist spends (advances) his capital (in the form of constant and variable capital) on purchasing means of production and labour power.

The sum total of constant and variable capital ( $c+v$ ) or the capitalist's outlays constitute the capitalist *cost*



of production, which is less than the value of the commodity ( $W$ ) by the amount of the surplus value  $m$ .

This may be expressed by the formula:

$W = k + m$ , where  $k$  is the capitalist cost of production.

The difference between the value of the commodity and the cost of its production for the capitalist takes the form of a sort of income, as *profit* on the capital he has spent. The impression is thus created that all capital brings in profit. Surplus value takes the form of profit, i.e. an excess of the sale price of the commodity over the capitalist cost of production.

*Profit is surplus value that appears as an increment to the total capital advanced.* This is why Marx called profit a converted form of surplus value. In the form of profit, surplus value loses any visible connection with its source—variable capital.

The value of the commodity may now be expressed by the formula:  $W = k + p$  where  $k$  is the cost of production and  $p$  is profit.

Profit is the chief goal of capitalist production. The capitalist will do anything to increase his profits. He is interested in a rise in both absolute profit (its mass) and its rate.

The degree of profitability of a capitalist enterprise is measured by the *rate of profit*. The rate of profit is the ratio of surplus value to the total capital spent, expressed in percentage terms. For instance, if the capital advanced ( $k$ ) is equal to 400,000 dollars (320,000  $c$  + 80,000  $v$ ), and the surplus value ( $m$ ) over the year is 80,000 dollars, the rate of profit ( $p'$ ) will be:

$$p' = \frac{m}{k} \cdot 100\% = \frac{80,000}{400,000} \cdot 100\% = 20\%.$$

The rate of profit differs fundamentally from the rate of surplus value. In one and the same enterprise, the rate of profit will always be less than the rate of surplus value, since the latter is the ratio of surplus value to variable capital only. In this case, the rate of surplus value is:

$$m = \frac{m}{v} \cdot 100\% = \frac{80,000}{80,000} \cdot 100\% = 100\% \quad (\text{while the rate of profit is } 20\%).$$

The rate of profit obscures the essence of capitalist exploitation and the role of the wage worker in the creation of the capitalist's income.

The rate of profit depends mainly on two factors: the rate of surplus value (or degree of exploitation) and the organic composition of capital. A step-up in the exploitation of the workers raises the rate of profit. Thus, given  $m' = 100\%$ , there will be one rate of profit, such as the 20 per cent in our example, but with  $m' = 300\%$ , it will be three times higher, i. e. 60 per cent.

How does a change in the organic composition of capital affect the rate of profit? At equal degrees of exploitation of the workers, the rate of profit is the higher, the lower the organic composition of capital, and vice versa. This may be illustrated by the following example:

$$\begin{aligned} 500c + 500v + 500m; & p' = 50\%; \\ 700c + 300v + 300m; & p' = 30\%; \\ 900c + 100v + 100m; & p' = 10\%. \end{aligned}$$

The amount of capital invested in all cases is the same—1,000 units, and the rate of surplus value is also constant—100 per cent, but the rate of profit differs, because the organic composition of capital is different in each of the three cases.

The speed of the turnover of capital also affects the rate of profit: *ceteris paribus*, the rate of profit is directly proportional to the number of turnovers of capital and inversely proportional to the turnover time.

The rate of profit is the motive force behind capitalist production. Marx quoted from an article in a British journal: "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, not a risk it will not run, even to the chance of its owner being hanged."<sup>1</sup>

#### Average Profit and Production Costs

In order to achieve a high rate of profit, capitalists wage a fierce competitive struggle. Competition is the struggle between private businessmen for maximum profit, for the most favourable conditions for capital investment.

As Engels put it, competition is the fullest expression

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 712.

of the "battle of all against all" waged in capitalist society.<sup>1</sup>

Under capitalism there is intra-industry competition and inter-industry competition. What does this mean?

*Intra-industry competition* is the struggle between capitalists producing similar output for the most profitable sale of commodities and the receipt of additional profit. The conditions of production within an industry differ, of course, and the individual value of the commodities produced also differs. Yet all commodities of the given type are sold at a single price, set on the basis of the social value of the industry's product. For this reason, those capitalists with better production conditions and lower outlays receive additional profit, while those with worse production conditions and higher outlays go bankrupt.

The competitive struggle within an industry and the pursuit of additional profit prompt the capitalists to introduce new technology, to improve production and raise the productivity of labour. As a result, there is a rise in the organic composition of capital.

*Inter-industry competition* is the competitive struggle waged between capitalists producing different output for more profitable capital investment. This form of competition results in the rates of profit in different industries equalising.

Let us assume that there are three branches of production with equal capitals, but different organic compositions of these capitals. In tabular form we thus get:

Branch of production	Capital	$m'$	Surplus value, $m$	Value, $W$	$p'$ (rate of profit)
Tanning	$70c + 30v$	100%	30	130	30
Textile	$80c + 20v$	100%	20	120	20
Engineering	$90c + 10v$	100%	10	110	10
	$240c + 60v$	100%	60	360	20

From this table, it can be seen that, when the commodities are sold at value, the capitalists receive 30 per cent profit in the first industry, 20 per cent in the second and 10 per cent in the third. In the tanning industry, the cap-

<sup>1</sup> Frederick Engels, "The Condition of the Working-Class in England", in Karl Marx, Frederick Engels, *Collected Works*, Vol. 4, Progress Publishers, Moscow, 1975, p. 375.

italists enjoy a rate of profit treble that in engineering. In this case, the capitalists in the engineering industry will move their capital into tanning, in order to obtain maximum profit. This flow of capital will engender a change in the ratio of supply to demand and a divergence of prices from value. In other words, as a result of the outflow of capital there will be a drop in production, a reduction in the supply of commodities and a rise in prices, and consequently a heightening of the rate of profit. In those industries with an initial high rate of profit, there will be an inflow of new capital, with the result that production here will expand, the supply of commodities will go up, prices fall and, consequently the rate of profit drop. Then capital will once more flow into other industries where the rate of profit is high. This process will continue until the rates of profit equalise at the average rate of profit, and this leads to all the surplus value produced in society being converted into a common profit fund for the class of capitalists, out of which each of them receives a share proportional to the amount of capital he has invested. The average rate of profit is equal to:

$$p'_{av.} = \frac{m \text{ (total surplus value)}}{(c + v) \text{ (total capital advanced)}} \cdot 100.$$

The law of the average rate of profit explains the common class interest of the capitalists in stepping up the exploitation of the working class. "Capitalists", Marx noted, "form a veritable freemason society vis-à-vis the whole working-class, while there is little love lost between them in competition among themselves."<sup>1</sup>

The equalisation of the different rates of profit to the average rate of profit means that, under capitalism, commodities are sold not at their true value, but at the *price of production*, which is made up of the cost price of capitalist production, plus the average profit on equal capitals—

$$c + v + p_{av.}$$

Consequently, commodities are sold not at value, but at the price of production. This does not mean, however, that the law of value is violated. Some capitalists sell their commodities at prices above value, while others at

<sup>1</sup> Karl Marx, *Capital*, Vol. III, Progress Publishers, Moscow, 1974, p. 198.

lower ones, but all capitalists, taken together, receive the full value of commodities, and the profit of the entire class of capitalists coincides with the total mass of surplus value produced in society. On the scale of all society, the sum of the price of production is equal to the sum of the value of the commodities, while the mass of profit equals the total mass of surplus value. Thus, in capitalist commodity production, the law of value operates through the prices of production.

### The Law of the Tendency of the Rate of Profit to Fall

As technical progress develops, the share of variable capital in the total capital advanced falls, while the organic composition of capital increases, leading to a drop in the average rate of profit. Marx called this phenomenon the law of the tendency of the average rate of profit to fall.

The word "tendency" indicates the general direction in which the development of a particular phenomenon proceeds.

The question arises as to why this law reveals itself only as a tendency. It turns out that there are a number of factors counteracting the drop in the average rate of profit. They include, primarily, the rise in the degree of exploitation of wage workers, the increase in labour intensity, and the drop in wages to below the value of labour power. They also include the falling price of the components of constant capital, as a result of the growth in labour productivity in industries producing means of production. Foreign trade also plays an important part. The export of output at raised prices and imports at ones below those of similar output produced in the country became one additional source of income for capitalists. In this, the chief role is played by non-equivalent exchange with developing countries. The drop in the average rate of profit is also countered by the growth of capital exports, which makes it possible to raise the total incomes of the class of capitalists (of this individual country) by repatriating some of the profit made on it abroad.

The operation of the law of the tendency of the average rate of profit to fall does not mean that capitalists receive a smaller mass of profit. By increasing the volume of the capital they advance, capitalists increase the mass of the profit they appropriate.

The constant striving to expand production in order

to compensate for the drop in the average rate of profit by the mass of profit aggravates the contradictions of capitalism. Thus, in their striving to hold back the drop in the average rate of profit, capitalists do everything they can to step up the exploitation of the workers, and this aggravates the contradiction between labour and capital to the extreme. The chief goal of capitalism—the receipt of maximum profit—comes into increasingly sharp conflict with the means for achieving it.

The law of the tendency of the average rate of profit to fall shows the historically transitory character of capitalism and the inevitability of it being replaced by socialism.

### 3. Commercial Capital and Commercial Profit

#### The Essence of Commercial Capital

Surplus value is created in the process of production by wage labour and is appropriated primarily by industrial capitalists. Part of surplus value, however, is received by other groups of exploiters, including commercial capitalists.

Commercial capital functions in the sphere of exchange and is a separate part of industrial capital, fulfilling the function of its commodity form. Industrial capitalists sell their output to the merchant, who brings it to the consumer. The function of commercial capital consists in deriving surplus value from acting as intermediary in the exchange of commodities. The form of the movement of commercial capital is purchase for the sake of selling at a profit ( $M - C - M'$ ).

#### The Source of Commercial Profit

Commercial profit is the part of surplus value that the industrial capitalist leaves the merchant for his services in selling commodities. Although no surplus value is created in trade itself, commercial capital brings its owner the same profit as the industrial capitalist receives. The principle of "equal profit on equal capital" still operates. If the rate of commercial profit were below that of industrial profit, merchants would abandon trade and transfer their capital to industry. Vice versa, too, if the rate of commercial profit were above that of industrial profit, industri-

alists would be drawn into trade. Under the conditions of competition, capitals spontaneously move from the sphere of production into that of circulation and back again, thereby equalising the rates of profit.

Superficially, commercial profit appears as the difference between the sale price of these commodities for the consumer and the purchase price paid for them by the merchant to the industrial capitalist. In this connection, it seems as if commercial profit is obtained from the sale of commodities by commercial capitalists above their value, but this is not, in fact, the case.

The mechanism by which commercial profit is obtained is this: commercial capitalists purchase commodities from industrial capitalists below value and sell them at value. Let us assume that the entire industrial capital advanced consists of  $720c + 180v$  ( $AC$ ); rate of surplus value  $m' = 100\%$ ; the value of the fixed capital is assumed to be transferred in its entirety to the product in the course of the year. The value of the total product will then be equal to  $W = c + v + m = 720c + 180v + 180m = 1,080$ , while the rate of profit will be  $p' = \frac{m}{AC} \cdot 100 = \frac{180m}{900(c + v)} \cdot 100 = 20\%$ .

Additional capital, let us say of a hundred monetary units, however, is required for selling commodities, and this sum is advanced by merchants. In this case, the entire advanced capital  $AC = 900 + 100 = 1,000$ , then the average rate of profit is  $p' = \frac{180}{1,000} \cdot 100 = 18\%$ . These 18 per cent

constitute the average rate of profit that arises as a result of the participation of commercial capital in the distribution of surplus value and serves as a measure of the profitability of both industrial and commercial capital. The profit of the industrialist will then be:

$$p = \frac{900}{100\%} \cdot 18\% = 162. \text{ The profit of the merchant will be } p = \frac{100}{100\%} \cdot 18\% = 18.$$

Industrialists sell their output to merchants at the price of production, but below the value of the commodities, i. e. in our example, the price at which industrial capitalists sell their commodities to merchants is equal to  $900AC + 162p = 1,062$ . The price at which commercial capitalists sell the commodities to the consumer is  $900AC + 162p + 18p = 1,080$ , where  $18p$  is commercial profit.

Hence it is obvious that the appearance of commercial capital engenders a new division of the value of the commodity, which breaks down into the cost of production, industrial profit and commercial profit. Commercial capital participates in equalising surplus value to average profit, though it does not participate in its production.

By assuming the form of commercial capital, surplus value is concealed even more, since the merchant takes no part at all in production. The false impression is created that commercial profit arises in trade itself, though, in reality, it is part of the surplus value created in production.

#### 4. Loan Capital and Interest

##### The Essence of Loan Capital and Its Sources

During the development of capitalism, not only commercial capital, but also money capital, separates off from industrial capital.

*Loan capital* is money capital advanced as a loan for a specific period of time and bringing in interest. Interest is part of the profit given by the industrial or commercial capitalist to the money capitalist for the loan.

The movement of loan capital may be expressed by the formula  $M—M'$ . This movement does not include either the process of production or the circulation of commodities. It comes down to the movement of money, money being advanced as a loan in order, after a given period of time, to return to its owner with an increment. Here the exploitation of the working people is totally concealed, as is the fact that the loan capitalist receives his share of surplus value created by the workers in the sphere of production. Loan capital is the most parasitic form of capital.

What are the sources of the formation of loan capital?

The sources of the formation of free money capital lie in the actual conditions of the circuit of industrial capital. If, for example, the industrialist sells his finished commodity once a month, but purchases raw materials once a quarter, he has idle money on his hands for three months. If the capitalist accumulates money for restoring the worn-out part of fixed capital, he, too, has temporarily free sums of money. These will be spent on purchasing new equipment



only in several years' time. At another time, the need arises for money, for instance, if the capitalist has not yet managed to sell his commodity by the time he needs to buy raw materials. It works out that, at one and the same time, one capitalist will have a temporary surplus of money capital, while another has a need for it. Temporarily free money capitals are invested in banks, where funds that accumulate are then advanced for the temporary use of capitalists in need of money in return for a specific payment, i.e. a given *rate of interest*.

Another source of loan interest is surplus value. Loan capital is put into circulation: in the sphere of production, the workers create surplus value that appears in a converted form of profit; the latter breaks down into two parts: loan interest appropriated by the capitalist and the profit of enterprise appropriated by the functioning capitalist. Let us give an example. The capitalist has been advanced a loan of 100,000 dollars by the bank. Given a 20 per cent average rate of profit, the mass of profit on this capital will be 20,000 dollars. Out of this profit, the industrial capitalist will pay, say, 3 per cent. This means that he will pay the bank 3,000 dollars, while the remaining 17,000 dollars constitute his profit of enterprise.

What determines the rate of interest or its level? The rate of interest is the ratio of the sum of the interest to the amount of the loan. The interest itself is part of profit, but how and in what proportions the profit will be divided between the loan capitalist and the functioning capitalist is determined entirely by competition, and the demand for and supply of money capital. The maximum possible rate of interest is the average rate of profit, but at such a level of interest there would be no point in the industrial capitalist resorting to a loan. The minimum rate of interest can in no way be determined and may possibly approach zero. Then, however, there would be no point in granting loans. The general historical tendency of the rate of interest is towards a gradual fall. First, this is due to the drop in the average rate of profit itself, interest being a part of this profit. Second, the level of interest drops because, as capitalism develops, the supply of loan capital goes up and the mass of free money capitals steadily grows.

## Capitalist Credit. Banks and Banking Profit

The movement of loan capital takes place in the form of *credit*. There are two main types of capitalist credit: *commercial* and *bank*.

Commercial credit is credit in the form of commodities, advanced by industrial and commercial capitalists to one another. Thus, the manufacturer receives credit on materials and machinery while he himself advances the finished commodity on credit to the wholesale merchant, and the latter—to the retailer. Capitalists loan one another commodities on the basis of a debt obligation or *promissory note*, not just their word. Such notes actually emerged on the basis of commercial credit. The promissory note is a written obligation by one person to pay another a certain sum of money by a given date.

Banker's credit is money loans that loan capitalists advance to industrial and commercial capitalists. It is the function of banks and other financial institutions.

Loans on the security of land, buildings or other constructions are called mortgage credit. Consumer credit consists of loans advanced on the security of domestic items (pawnbroker's), as well as purchases of various consumer goods on credit and hire purchase.

Under capitalism, consumer credit often furthers the deterioration of the condition of the working people. A fairly high rate of interest is charged on it. Goods sold on credit usually have inflated prices and if the loan is not paid back on time, the capitalists reclaim the commodities sold to the consumer on credit without reimbursing any money already paid.

It is the banks that act as intermediaries between capitalists in money credit and payments. They turn idle money capital into active, i. e. bearing profit, collect all and various money incomes, putting them at the disposal of the class of capitalists.

The chief function of the banks is to accumulate money and advance it in the form of loans. The aim of these activities is to reap a profit. Banking profit is the difference between the interest charged on the loan by the bank and the interest it pays out on deposits. It is one of the converted forms of surplus value created by wage labour. Bankers, like industrial capitalists, participate in the exploitation of the working class.

## Joint-Stock Companies

As big capitalist production grows, *joint-stock companies* are formed. The joint-stock company is an undertaking in which capital that belongs not to a single capitalist, but a group of them is invested. The combined capital of the company is formed from the contributions of its members (shareholders) through the acquisition of special securities—shares.

A *share* is a security testifying to the investment of a given amount in the capital of the joint-stock company. The shareholder has the right to receive the profits of the enterprise in proportion to the amount of capital he invested, i. e. corresponding to the number of shares he has purchased. The income paid out on shares is called the *dividend*. Everyone who purchases an ordinary share is officially a co-owner of the enterprise and has the right to vote at the general meeting of shareholders, which is the supreme body of management of the joint-stock company. The number of a shareholder's votes depends on the number of shares he holds.

Shares are bought and sold on special security markets: on stock exchanges and in banks. The price of shares or the quotation rate is determined by two magnitudes: the size of the dividend, which is the income on the share, and the rate of loan interest. The initial or nominal price of the share has no significance here. Let us assume that a dividend of 10 dollars is paid on shares with a nominal price of 100 dollars, while loan interest in the bank is 5 per cent. The stock-exchange price of this share is 200 dollars. Why? Because, by depositing 200 dollars in bank, an income of 10 dollars would be received; by purchasing this share for 200 dollars, a dividend of 10 dollars may be expected.

Joint-stock companies may temporarily attract other people's funds by issuing securities. *Securities* are debt obligations to the effect that the purchaser has advanced a loan to the joint-stock company. A set rate of interest is paid on these.

The joint-stock companies are controlled by those who own most shares, the controlling block of shares. The *controlling block of shares* is the number of shares that ensures the owner actual domination in the joint-stock company. The owners of the controlling block of shares formally decide all questions by a majority vote at the general meeting

of shareholders: they elect the board of the company, appoint the directors of enterprises, set the size of dividends, and so on.

Alongside loan capitalists, there exists another group of exploiters—landowners. Landowners occupy a special place in capitalist society, since they own one of the chief means of production—the land. They also receive their share of the total mass of surplus value. This part of surplus value assumes the form of *capitalist land rent*.

## 5. Land Rent

### Capitalist Land Rent

In bourgeois society there are still big landowners who do not themselves engage in agricultural production, but hand over the land to capitalist tenant farmers and receive a particular sort of payment for it in the form of land rent. Capitalist land rent is the part of surplus value appropriated by the landowner who leases the land to the capitalist tenant farmer.

The capitalist tenant farmer invests his capital in agricultural production: he purchases means of production and hires workers who, with their labour, create surplus value. This surplus value falls mainly into the hands of the capitalist tenant farmer, who divides it into two parts: one part is his profit, equal to the average profit on invested capital; the other part is the excess above the average profit, which is appropriated by the landowner.

Capitalist land rent expresses the relations of production between the three classes in bourgeois society: wage workers, capitalist tenant farmers and landowners.

Land rent exists in two main forms: *differential* and *absolute*. The existence of these forms of rent is connected with the dual nature of monopoly: monopoly of the land as an economic object, which engenders differential rent, and the monopoly of private ownership of the land, which engenders absolute rent.

### Differential Rent

In agricultural production, plots of land that differ in terms of fertility are used, and this allows the capitalists who apply their capital on the best plots to constantly

receive additional profit. In industry, the price of the commodity is determined by the average conditions of production, but in agriculture it is determined by the conditions of production on the worst plots of land. The fact is that, in agriculture, the quantity of naturally good and medium plots of land cannot be increased; they are limited in area. The demand for agricultural output in society is greater than the quantity produced on the best and medium plots, so worse plots of land are also cultivated. The price of production of the agricultural produce is determined by the conditions of production on the worst plots of land, since the output from the best and medium land does not cover demand.

Differential rent is the excess of surplus value above average profit, received on farms operating under the most favourable conditions. Its source, however, is not the land itself, but the labour applied to the best and medium land. There are differential rents I and II. Differential rent I is formed on the best and medium-quality land (in terms of fertility), as well as on plots situated close to the market. An excess of profit may also arise as a result of the additional investment of capital in the form of the use of artificial fertilisers, new machinery and land-improvement work. In this case, the surplus forms differential rent II.

Let us consider, as an example, the formation of differential rent I according to fertility. Let us assume that there are three plots of land, differing in fertility, on which an equal capital of 100 dollars per hectare is spent. Moreover, on the worst plot (A), the grain harvest is 10 centners a hectare, on the medium plot (B)—12 centners, and on the best land (C)—15 centners. Assuming that the average rate of profit is 20%,  $p_a = 20$ , the price of production of the output for all the plots will be  $100 + 20 = 120$  dollars. The individual price of the production of one centner of grain will be  $\frac{120 \text{ dollars}}{10 \text{ centners}} = 12$  dollars on plot A,  $\frac{120}{12} = 10$  dollars on plot B and  $\frac{120}{15} = 8$  dollars on plot C. The social price of production of one centner of wheat is 12 dollars. Since all the grain is sold at this social price of production, the capitalist who farms plot A will receive 12 dollars per centner from the sale of his grain, giving  $12 \times 10 = 120$  dollars, the one who farms plot B—12 dollars  $\times$  12 centners = 144 dollars and the farmer on plot C gets 12 dollars  $\times$  15 cent-

ners=180 dollars. Moreover, only the costs of production are covered on plot A:  $100+20=120$  dollars. On plots B and C excess profit is created of  $144 - 120=24$  dollars and  $180 - 120=60$  dollars respectively. This additional profit takes the form of differential rent I, and becomes the income of the landowner.

Let us illustrate this with a table:

Quality of land	Capital invested	Average profit	Produce, centners,	Individual price of production		Social price of production		Extra profit (differential rent)
				all the produce	1 centner	1 centner	all the produce	
A	100	20	10	120	12	12	120	—
B	100	20	12	120	10	12	144	24
C	100	20	15	120	8	12	180	60
				360			444	84

Apart from differential rent, the landowner also receives absolute rent.

### Absolute Rent

Under capitalism, the land is the private property of individuals. So, in order to apply capital in agriculture, the landowner's permission is required. The monopoly of private ownership of the land precludes the free flow of capitals from industry into agriculture, so the individual rates of profit do not equalise at any common level. Overall, more surplus value is produced for equal capital in agriculture than in industry, since the organic composition of capital is lower in the former. The difference between the value of agricultural produce and the social price of production forms *absolute rent*. The reason for the existence of absolute rent, paid on each plot of land, is the monopoly of the private ownership of the land. Big landowners receive a constant tribute from society. As a result, the working people have to pay inflated prices for agricultural produce.

On the basis of private ownership of the land, the purchase and sale of land takes place. Plots of land have certain prices, but the price of land differs from the prices of ordinary commodities. The land is a boon of nature,

not a product of labour. Even so, it assumes a commodity form. It is purchased and sold. The land is deprived of any value, but has a price. What determines the price of the land? The purchase of land means the purchase of the right to receive land rent, an income. The price of land is based on land rent, i. e. the land acquires a price because it brings in rent. The greater the rent provided by the plot of land, the more money a purchaser will pay for it, so the higher the price of the land will be. A second factor affecting the price of land is the rate of loan interest. The purchaser of land always compares rent with loan interest, which he may receive from putting his money in a bank. The price of the land is equal to the sum of money that, if advanced as a loan, would bring in an annual income equal to the rent received from this land.

Let us assume that the plot of land brings in 200 dollars rent. The rate of loan interest is 4 per cent. The purchaser thinks as follows: how much money must be deposited in a bank to receive an income of 200 dollars. The answer is given by the ratio  $\frac{x}{100} = \frac{200}{4}$ ;

$$x \text{ (the price of the land)} = \frac{200 \cdot 100}{4} = 5,000 \text{ dollars.}$$

From this it follows that the price of the land is capitalised land rent. It is equal to the sum of the money capital bringing in an annual income of the same amount as the rent. As capitalism develops, the price of land goes up in connection with the growth of rent and drop in the rate of loan interest.

Marx's teaching on the conversion of surplus value into a form of profit, on the existence of its forms: industrial and commercial profit, interest and land rent, shows that the only source of incomes for all groups of the bourgeoisie and landowners is the labour of wage workers, creating surplus value. Just as the moon receives its light from the sun, so all incomes of the bourgeoisie come initially from the surplus value created by wage workers.

#### Revision Exercises

1. What are the circuit of capital and the stages capital goes through in its movement?
2. Define capital turnover. What is the difference between constant and variable, fixed and circulating capital?

3. What are the capitalist cost of production, profit and the rate of profit?
4. How do the average rate of profit and the price of production take shape?
5. Describe the law of the tendency for the rate of profit to fall.
6. What are commercial capital and commercial profit?
7. What are loan capital, loan interest and profit of enterprise?
8. What is the essence of capitalist land rent?
9. How do differential rents I and II form?
10. How does absolute land rent take shape?

#### Chapter Seven.

### REPRODUCTION OF SOCIAL CAPITAL AND ECONOMIC CRISES

Under capitalism every entrepreneur strives to obtain maximum profit; he invests his capital in the branch of industry and produces the commodities that will help him achieve this. As a result, capitalist production develops spontaneously, anarchically, and this ultimately leads to economic disruptions, crises and instability. Lenin noted: "Capital organises and rationalises labour within the factory for the purpose of increasing the exploitation of the workers and increasing profit. In social production as a whole, however, chaos continues to reign and grow, leading to crises when the accumulated wealth cannot find purchasers, and millions of workers starve because they are unable to find employment."<sup>1</sup>

Economic crises constitute a serious warning to capitalism of its inevitable demise.

#### I. The Reproduction of Social Capital

##### Social Capital and the Aggregate Social Product

The totality of all individual capitals in their organic interconnection and interdependence is called social capital. The social division of labour means that individual

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<sup>1</sup> V. I. Lenin, "The Taylor System—Man's Enslavement by the Machine", *Collected Works*, Vol. 20, 1977, p. 153.



capitalists manufacture different commodities, while also linking them and making them dependent on one another.

The production of cars, for example, depends on deliveries by other enterprises of various machine-tools, equipment, metal, rubber, fuel and other materials. The circuit of each individual capital is closely interwoven with that of the multitude of other individual capitals, and their movement, taken together, forms the circuit of all social capital and characterises the process of its reproduction.

As a result of the process of social production, the aggregate social product is created which appears as a given mass of commodities. In value terms, the aggregate social product breaks down into three parts: the constant capital spent, the variable capital spent and surplus value. The first part is the value of the means of production used up during the production process and transferred by the concrete labour of the workers to the newly created product. The second and third parts together form newly created value.

The aggregate social product in its material form is divided into two groups of commodities: means of production and consumer goods. Hence all social production breaks down into two departments: Department I—the production of means of production and Department II—the production of consumer goods. This division is based on the principle of the economic purpose of the product. The product of the first department goes for production purposes; that of the second is used for personal consumption.

What conditions are required for selling the aggregate social product and ensuring the uninterrupted renewal of the social production process, i. e. social reproduction?

#### **The Conditions of Realisation Under Capitalist Simple Reproduction**

Under simple reproduction, as we have already discovered, the process of production is repeated in its former volume, and the entire surplus value goes for the personal consumption of capitalists.

Let us now consider a schema giving an arbitrary idea of the realisation of the total social product in value and physical terms. Assuming the value of the constant capital, expressed, for example, in millions of dollars, to be 4,000

in Department I and the value of the variable capital to be 1,000 and the respective figures for Department II to be 2,000 and 500, given a 100 per cent annual rate of surplus value, in a year's time the aggregate social product will consist of the following parts:

$$\text{Department I: } 4,000c + 1,000v + 1,000m = 6,000$$

$$\text{Department II: } 2,000c + 500v + 500m = 3,000$$

$$\text{Total: } 6,000c + 1,500v + 1,500m = 9,000.$$

In Department I, the total annual product is equal to 6,000. It consists of output intended for production purposes: equipment, machinery, raw materials, fuel and so on. The total annual product of Department II is 3,000, consisting of personal consumption items: food, clothing, footwear, housing, and so on. The aggregate social product is 9,000.

Now the question arises as to where the workers and capitalists get their consumption items, where the capitalists get their means of production, and how the output produced covers all these requirements and makes it possible to expand production.

In order to renew the production process, the capitalists of Department I must replace their constant capital in both physical and value terms. They realise it partly (4,000) within their own department. They are left with an unsold product of 2,000 which, in physical terms, consists of means of production. The output of Department I must be converted into articles of consumption of workers and capitalists. This part of the product is sold only in Department II. The capitalists of Department II replace their constant capital in physical terms by exchanging articles of consumption for means of production from Department I ( $Iv + Im$ ) = 1,000 + 1,000, exchanged for II = 2,000*c*. In Department II, 1,000 ( $v + m$ ) are exchanged within the department. All this may be set out in the following schema:

$$\text{I } [4,000c] + [1,000v + 1,000m] = 6,000$$

$$\text{II } [2,000c] + [500v + 500m] = 3,000.$$

The arrows indicate the decisive condition under simple capitalist reproduction—the equation I ( $v + m$ ) = II*c*. Newly created value in the first department must be equal to the constant capital in the second department.

Departments I and II are closely interconnected and

provide each other with a market. The exchange of commodities created in Departments I and II is mediated by money. The money put into circulation by the capitalists of Department I make their turnover in order to serve the multiple acts of trade in the means of production of Department I and the articles of consumption of Department II.

Moreover, even under simple reproduction, there are potential opportunities for economic disturbances and economic crises. Any sale must be followed by a purchase. Yet this does not always happen. Multiple gaps between acts of sale and purchase may entail the emergence of acute market disproportions.

For "ideal capitalist reproduction", money is not an element of true reproduction. The functioning of money capital and money circulation complicates capitalist realisation, however, and constitutes one of the factors making crises inevitable under capitalism.

#### The Conditions of Realisation Under Capitalist Extended Reproduction

Extended reproduction or accumulation is characteristic of capitalism. In order to increase production, either an existing enterprise must be expanded or a new one built, and additional labour power must be hired. Hence it is clear that, for extended reproduction, it is necessary for Department I to produce more means of production than are required for the simple replacement in Departments I and II of worn-out machinery and equipment and materials used up. This reveals the dependence of Department II on Department I. Department II can only increase its production if it is supplied with additional means of production by Department I.

How is capitalist extended reproduction carried out? Let us look at our schema again, introducing a few changes: the organic composition ( $c : v$ ) in Department II is now 2:1 instead of 4:1, while the total sum of capital in this department is taken as 2,250, with an annual surplus value rate in both departments still of 100 per cent.

Thus, the capital is distributed between the two departments as follows:

$$\begin{array}{l} c : v = 4:1 \quad \text{I } 4,000c + 1,000v = 5,000 \\ c : v = 2:1 \quad \text{II } 1,500c + 750v = 2,250. \end{array}$$

By the end of the first year, the aggregate social product will be:

$$\begin{array}{l} \text{I } 4,000c + 1,000v + 1,000m = 6,000 \text{ (means of production)} \\ \text{II } 1,500c + 750v + 750m = 3,000 \text{ (articles of consumption)} \end{array}$$

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Total: 9,000

Let us assume that half the surplus value ( $500m$ ) in Department I is accumulated. Since the organic composition does not change (4:1), these  $500m$  break down into  $400c + 100v$ . Then, the constant and variable capital in Department I increases in this proportion. The annual product of Department I will thus, at the end of the first year, appear as follows:  $4,400c + 1,100v + 500m = 6,000$ . The replacement of the constant capital spent ( $4,000c$ ), as well as its increase through the capitalisation of part of the surplus value ( $400c$ ), takes place by means of mutual exchange between the branches of Department I. As a result of these inter-industry exchanges, the greater part of the product of Department I ( $4,400c$ ) is realised. The remaining part of the product of this department ( $1,100v + 500m$ ) in its physical form consists of material components of productive capital. It is exchanged for the consumer goods of Department II. I  $1,600$  ( $1,100v + 500m$ ) is realised in Department II and reimburses II  $1,500c$  and, in addition,  $100c$  that are converted into additional constant capital accumulated in Department II. It is obvious that, having increased the size of the constant capital by 100 units, the capitalists of Department II must advance additional variable capital of 50, given the organic composition of 2:1. The remaining part of the product of Department II is realised within this same department, just as it is under simple reproduction.

The realisation of the social product produced by the end of the first year and the purpose of its main components may be illustrated thus:

$$\begin{array}{l} \text{I } (4,000c + 400c) + (1,000v + 100v) + 500m = 6,000 \\ \text{II } (1,500c + 100c) + (750v + 50v) + 600m = 3,000, \end{array}$$

where the aggregate social product = 9,000 (I 6,000 + II 3,000) and the advanced capital = 7,250 [I ( $4,000c + 1,000v$ ) + II ( $1,500c + 750v$ )].

In the second year, consequently, the production will

be carried out on an expanded scale. The capital with which production was begun in the first year was 7,250 units, but by the beginning of the second year it amounts to 7,900 units  $[7,250 + I (400c + 100v) + II (100c + 50v)]$ . Correspondingly, there is also an increase in the value of the aggregate social product:

$$\begin{aligned} I & 4,400c + 1,100v + 1,100m = 6,600 \\ II & 1,600c + 800v + 800m = 3,200. \end{aligned}$$

The aggregate social product will be 9,800 by the end of the second year.

During the realisation of the product of the second year, the exchange of its component parts between the departments may be written down as follows:

$$\begin{aligned} I & (4,400c + 440c) + (1,100v + 110v) + 550m = 6,600 \\ II & (1,600c + 160c) + (800v + 80v) + 560m = 3,200 \end{aligned}$$

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$$\text{Aggregate social product} \qquad = 9,800$$

Similar calculations may be continued for the third, and subsequent years of production.

What conclusions are prompted by analysis of extended capitalist reproduction?

The first and decisive condition for extended reproduction is  $I (v + m) > IIc$ , i.e. the sum of the variable capital and surplus value of Department I must be greater than the constant capital of Department II. In our example,  $I (1,100v + 1,100m) > II (1,600c)$ .

Under extended reproduction, the volume of production in Department I must be greater than the value of the constant capital consumed in both departments. The annual product of Department I must contain all the necessary components both for replacing and for expanding the constant capital of both departments, i.e.  $I (c + v + m) > Ic + IIc$ .

This is the second condition for extended capitalist reproduction.

The third condition is that the newly created value in Departments I and II must be greater than the value of the total product of Department II.

$$I (v + m) + II (v + m) > II (c + v + m).$$

In other words, more material benefits must be produced

every year than are consumed, so that part of the newly created value may be used to increase production.

Analysis of the schemata of the reproduction of social capital indicates that the economic law of extended reproduction consists in the faster growth of the production of means of production (i. e. Department I) than the production of articles of consumption (Department II). In this context, Marx notes that capitalist society, in contrast to the society of primitive men, "employs more of its available annual labour in the production of means of production ... which are not resolvable into revenue in the form of wages or surplus-value, but can function only as capital".<sup>1</sup>

The theory of realisation clarifies the conditions required for the normal course of simple and extended capitalist reproduction, but it in no way asserts that these conditions always exist in reality under capitalism. On the contrary, under capitalism these conditions are constantly being violated. The indicated ideal conditions for simple and extended capitalist reproduction are only possible given specific strict proportions between Department I and II, between the branches and types of production. But to attain and maintain such proportions, given private capitalist property, is an unfulfilled dream.

Given the dominance of competition and anarchy of production, no one knows precisely the requirements of the market. So certain necessary correlations between industries and within each industry are established spontaneously, through violations of the proportions, which inevitably leads to a tremendous waste of material and human resources.

## 2. The National Income

### What Is the National Income?

The national income is part of the aggregate social product and represents the annual result of the expenditure of live labour by workers in material production. If, for example, the value of the aggregate social product is 200 billion dollars, and the value of the means of production used up—120 billion dollars, the national income is 80 billion dollars (200 billion—120 billion).

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<sup>1</sup> Karl Marx, *Capital*, Vol. II, p. 442.

The national income has both value and material forms. In value terms, it is the totality of live labour expended, expressed in variable capital and surplus value, or the sum of the value newly created in the branches of material production. In its physical form, the national income consists of articles of consumption and means of production intended for expanding production.

The national income is created by the labour of people engaged in the sphere of material production. Under capitalism, its sources are: the labour of wage workers employed in material production; the labour of the production and technical intelligentsia servicing production, and the labour of small commodity producers. The size of the national income depends primarily on the number of people employed in material production and the productivity of their labour. A major factor in the growth of the national income is savings of constant capital.

The national income and its distribution are of tremendous importance for describing the process of social reproduction and determining the standard of living of the various classes in society.

#### Distribution and Redistribution of the National Income

The distribution of the national income has a class character under capitalism. During its distribution, the capitalists reimburse the wage workers in the form of wages for the value of their labour power. Surplus value is distributed between various groups of capitalists in the form of profit, commercial profit, loan interest and land rent.

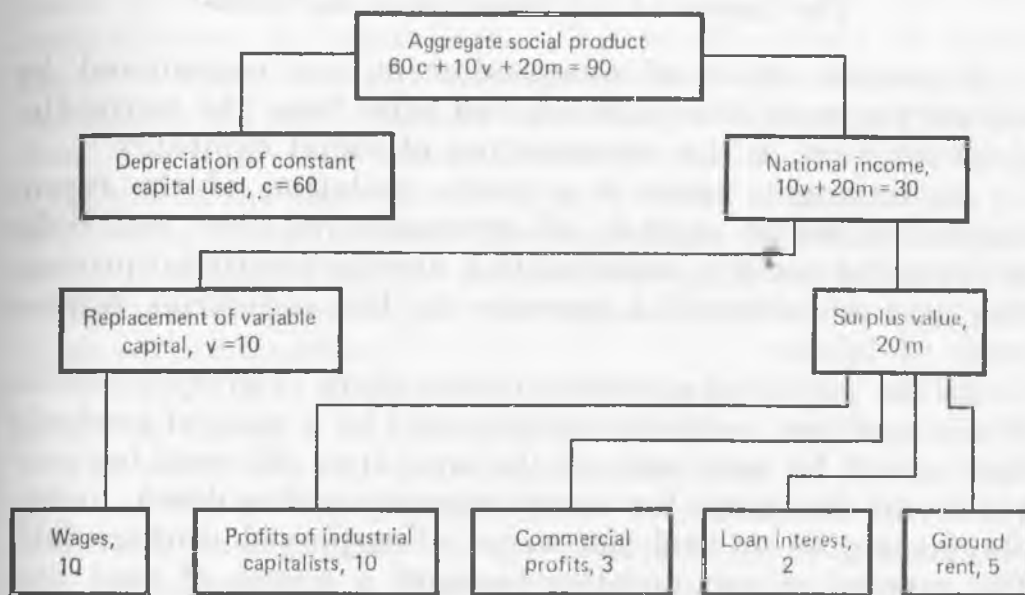
The distribution of the national income may be shown by the following diagram (in billion dollars) (Fig. 7).

As capitalism develops, the inequality in distribution increases, this being reflected in a drop in the share of the working class and a rise in that of the bourgeoisie in the national income.

Under capitalism, distribution of the national income is supplemented by its redistribution, as a result of which the production incomes of workers in the non-productive sphere and additional incomes of capitalists are formed. They take shape mainly through the budgets of capitalist states and payment for services.

The chief source of revenues into the state budget is

Fig. 7



taxes levied on the population. The working people, who receive a wage as a result of the initial distribution of the national income, pay a tax on it to the state. In the USA and Britain, for example, taxes make up over 90 per cent of the state budget revenues. Moreover, in the USA 40 per cent and in Britain—over 45 per cent of the national income is redistributed through the budget. In capitalist countries, taxes help the exploiters to become even richer.

One major expenditure item in the state budget is militarisation of the economy, payment for military orders, and the arms race. Most of the means spent for military purposes in one way or another fall into the hands of the biggest capitalist corporations. The smaller part of budget allocations is used on education, health care and other social needs.

After distribution and redistribution, the national income is finally directed into the personal consumption of the exploiting classes, of the workers in material production and those in the non-productive sphere, covering non-productive military outlays, capitalist accumulation and so on.

Distribution, redistribution and use of the national income in bourgeois society has a class character and pursues the goal of enriching the exploiters.



### 3. Economic Crises

#### The Essence of and Main Reason for Crises

Economic crises of overproduction are engendered by the very system of capitalism and arise from the contradictions inherent in the reproduction of social capital.

An economic crisis is a sharp violation of the reproduction of social capital, all economic relations and links in capitalist society, reflected in a drop in industrial production and a substantial increase in the industrial reserve army of labour.

In the period of economic crises, there is overproduction of commodities, markets are saturated by a mass of products that cannot be sold and, at the same time, the working people are in dire need, for many enterprises close down, unemployment goes up and the wages of employed workers fall. The surplus of commodities becomes a source of need and deprivation for the broad masses of the working people. There are far more commodities than the population can buy.

Economic crises are inevitable because of the main contradiction of capitalism : between the social character of the production process and the private capitalist form of appropriation of the results of production.

Capital unites the labour of many, many people, binding them with innumerable economic fetters, and makes production increasingly social in character. The results of the labour of millions of workers are, however, appropriated by a handful of exploiters.

The main contradiction of capitalism engenders a number of derivative contradictions, including that between the relatively organised nature of production in individual enterprises and the anarchy of production on the scale of society as a whole. In individual capitalist enterprises, the single will of the entrepreneur dominates. The pursuit of profit and competition force each capitalist to establish order in his enterprise, to control the work of individual links, and implement strict organisation. In capitalist society as a whole, however, anarchy of production holds sway, for private property excludes the possibility of planned organisation of all social production.

The anarchic nature of the capitalist economy engenders disproportions in all spheres of social production, and this leads directly to economic crises.

Another reason for the crises is the contradiction between production and consumption, arising from the basic contradiction of capitalism. This contradiction is manifested in the following: the conditions of production under capitalism do not coincide with the conditions of realisation. The unbridled accumulation of capital is expressed in a growth of the mass of use values—means of production and articles of consumption. The conditions of realisation are such, however, that the market cannot keep up with the expansion of production; it cannot absorb the enormous mass of commodities.

Why? First, because effective demand for consumer goods on the part of the workers is limited by the value of labour power ( $v$ ) and not only cannot exceed it, but is usually even lower. Capitalism strives to reduce the broad population's consumption to the minimum, to a range of the most vital essentials. Hence the contradiction between production and consumption, which consists in national wealth growing while poverty increases, the productive forces of society growing faster than the people's consumption. Marx stressed: "The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses."<sup>1</sup>

Consequently, the diverse contradictions of capitalist reproduction—the contradiction between the growth of production and the relative lag of effective demand, the chaotic nature and disproportions of the capitalist economy, the contradiction between production and consumption—serve as the direct reasons for the crises of overproduction. All these contradictions derive from the chief contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation. This contradiction, accompanying capitalism from its cradle to its grave, serves as the basis for economic crises, making them inevitable.

#### The Capitalist Cycle and Its Phases

Capitalist crises of overproduction used to occur every 8-10 years, but now come every 4 or 5. The first industrial crisis developed in England in 1825. The 1847-1848 crisis, which enveloped the USA and a number of European coun-

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<sup>1</sup> Karl Marx, *Capital*, Vol. III, p. 484.

tries, was the first world economic crisis of overproduction.

Capitalist production can only develop cyclically, that is, with periodically repeated sharp recessions, accompanied by large-scale destruction of productive forces. The period of time from the beginning of one economic cycle to the beginning of the next is called the industrial cycle.

The cycle consists of four phases: crisis, depression, recovery and boom.

The *crisis* is the phase of the cycle during which the contradictions of capitalist reproduction manifest themselves particularly vigorously and destructively. The crisis is characterised by overproduction of commodities so that they cannot be sold, a rise in unemployment, a drop in wages, stock-exchange collapse and the like.

During the crisis, a substantial share of the productive forces are destroyed. The storm of the crisis obliterates smaller capitals, cleaning the market for bigger, better equipped enterprises that can adapt to the changing market conditions and make the costs of production correspond to the lower price level. Some of the commodity stocks are destroyed, some of them absorbed at lower prices. The crisis hits the working people hardest, especially the working class; millions of workers find themselves on the streets, doomed to dire need.

Gradually the transition from crisis to *depression* takes place. During the phase of depression (stagnation), there is no further drop in production, but the capitalist economy remains stagnant. The volume of production is below the pre-crisis one, the prices of commodities are even lower, and profits are not high either. Unemployment and wages remain at roughly the same level as during the crisis. Gradually, the preconditions are created for the transition to the next phase of the cycle—*recovery*.

Recovery is characterised by the fact that enterprises still in existence after the crisis begin to renew their fixed capital and gradually to expand production. In this phase of the cycle, production and trade are already rising. In terms of volume and the quantity of commodities produced, production draws close to the level achieved on the eve of the crisis, and then overtakes it.

The advance of capitalist industry beyond the pre-crisis level of production volume signifies the transition from the recovery phase to the next one—*boom*.

Capitalists begin once more to expand their enterprises

and production, putting growing masses of commodities on to the market. The rising price level boosts the growth of production, which increasingly outstrips the rise in effective demand, with the result that overproduction gradually develops, sometimes concealed. More and more surplus commodities accumulate. The concealed disease develops within the economic organism. The capitalist economy again races towards crisis, and then the cycle is repeated once more.

Capitalist production has an overall tendency to grow, but with constant breaks. Engels described the movement of the phases of the cycle graphically, noting that "the stagnation lasts for years; productive forces and products are wasted and destroyed wholesale, until the accumulated mass of commodities finally filters off, more or less depreciated in value, until production and exchange gradually begin to move again. Little by little the pace quickens. It becomes a trot. The industrial trot breaks into a canter, the canter in turn grows into the headlong gallop of a perfect steeplechase of industry, commercial credit and speculation, which finally, after break-neck leaps, ends where it began—in the ditch of a crisis. And so over and over again."<sup>1</sup>

In this way, the development of capitalist production takes place not smoothly, but through sharp fluctuations, rises and falls. This cyclical development of capitalist production is a result of the growing contradiction between the productive forces and relations of production; it shows that capitalism itself puts obstacles to development and advances inexorably towards its demise.

### Agrarian Crises

Economic crises of overproduction are characteristic of the entire system of capitalism; they embrace not only industry, but also agriculture. Crises of overproduction in agriculture are called agrarian crises.

They are specific in that they are usually protracted in character. This is because the monopoly of private ownership of the land hampers the free flow of capitals, and this prevents the mass renewal of fixed capital in agriculture and delays the exit from the agrarian crisis. Moreover, during a protracted agrarian crisis, small commodity producers continue to produce and put commodities on the

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<sup>1</sup> Frederick Engels, *Anti-Dühring*, p. 327.

market even at a loss. At the cost of any deprivations and backbreaking labour, the small peasant strives to expand production in order to accumulate the means for paying rent, taxes and debts.

The main burden of agrarian crises falls on the poorest strata of the peasantry. They ruin small farmers, whose incomes fall catastrophically. In a number of cases, the prices of agricultural commodities do not even cover outlays on harvesting and transporting the produce. The destruction of foodstuffs and means of production assumes an unprecedented scale. It is well known that, in crisis years, wheat and cotton have been burned, cattle have been slaughtered and made into fertiliser, milk has been poured into rivers; hundreds of thousands of sacks of coffee, cocoa and other valuable products have been dumped in the sea, thousands of hectares of mature trees on rubber plantations and in orchards have been felled, and so on.

Economic crises of overproduction clearly show the historical unviability of capitalism, which is unable to cope with modern productive forces and has become a brake on the development of mankind. Economic crises show the need for a revolutionary replacement of capitalism by socialism, eliminating the contradictions of the bourgeois system and opening up unlimited scope for the development of the productive forces and the progress of human society on Earth.

#### Revision Exercises

1. Describe the aggregate social product in its value and physical forms.
2. What are the conditions for realisation under capitalist simple and extended reproduction?
3. What is the class essence of the national income under capitalism?
4. Name the main reasons for economic crises of overproduction.
5. What are the phases of the industrial cycle? Describe them.

## SECTION II

### IMPERIALISM—MONOPOLY CAPITALISM

At the end of the 19th century and the beginning of the 20th, new phenomena emerged in the capitalist mode of production that led to the growth of capitalism into imperialism. Under the impact of scientific and technical progress, this period saw a rapid growth of industry, mainly the branches of Department I. In metallurgy, for example, new methods for smelting steel began to be used, such as the Bessemer, open-hearth, and Thomas methods; new sorts of engine became widespread, including internal combustion engines, steam turbines and electric motors; new industries developed: the oil, chemical, electrical engineering; new modes of transport and communications also appeared. Major technical and structural shifts took place in industry, and this accounted for the growing significance of big enterprises. The branches of heavy industry grew rapidly and became predominant. World steel output, for instance, increased 56 times from 1870 to 1900, the amount of oil extracted rose 25 times and that of coal 3.5 times. Production was rapidly becoming increasingly concentrated, a process that took on a special spurt after the world economic crisis of 1873. The joint-stock form of company became widespread.

The tremendous growth of the productive forces changed substantially the conditions of the competitive struggle between capitalist enterprises; big and very big capitalists came out on top and many small and medium businessmen went broke. Economic crises of overproduction became more frequent, their destructive force increased and unemployment grew.

In his work "Imperialism, the Highest Stage of Capitalism", Lenin analysed the new phenomena in bourgeois so-

ciety and showed that, at the turn of the 20th century, free competition capitalism was entering a new stage of development to become monopoly capitalism—*imperialism*. Lenin gave a classic definition of imperialism, revealed its economic essence and identified the five main features of imperialism: 1) concentration of production and capital, taken to such a high degree that it created monopolies, which played the decisive role in the economy; 2) a merging of banking capital with industrial and the creation, on this basis, of finance capital and a financial oligarchy; 3) the export of capital, in contrast to that of commodities, acquires particular significance; 4) international monopolistic unions of capitalists are formed, and these divide up the world among themselves; 5) the territorial division of the world by the biggest capitalist powers is completed.

All the economic features of imperialism are inseparably interlinked; they are aspects of the monopolisation of the capitalist economy and the domination of the monopolies. Imperialism may be briefly described as *monopoly capitalism*. At the same time, Lenin showed that imperialism is the continuation of all the chief features of capitalism: the private ownership by capitalists of the means of production is retained, the relations of exploitation of wage workers by capitalists, the form of distribution under which the wealth of a handful of exploiting monopolists increases and the condition of the enormous overwhelming majority of oppressed working people deteriorates, all remain in force. Under imperialism, the economic laws of capitalism continue to operate: the basic economic law—the law of surplus value, the general law of capitalist accumulation, the law of competition and anarchy of production, and others. The operation of all these laws does, however, acquire certain specific features and qualities in the period of imperialism.

Imperialism is not a new mode of production, but the final stage in the development of capitalism, decaying and moribund capitalism, when all the objective and subjective preconditions for its replacement by socialism reach maturity.

**THE CHIEF ECONOMIC FEATURES OF IMPERIALISM**

**1. Concentration of Production and Monopolies**

**Concentration of Production**

In the age of the domination of free competition, the play of prices on the market led to some capitalists going broke, while others became richer and expanded their production. Competition inevitably led to concentration of production. An ever growing part of the productive capacity, the labour power employed and the output produced was concentrated in big enterprises that triumphed in the competitive struggle. In other words, the concentration of production and capital gained intensity.

As a result of the concentration of production, the significance of the multitude of small enterprises dropped, while a small number of big and very big ones, applying the latest achievements of scientific and technical progress and the benefits of large-scale production, began to play the decisive role.

Analysing the concentration of production according to data for the USA and Germany over the first decade of the 20th century, Lenin showed the following: in the USA, the number of enterprises with an annual output of a million dollars or more increased from 1,900 in 1904 to 3,060 in 1909. Furthermore, there was an increase in the concentration of labour power: in 1904 these enterprises employed 26 per cent of all workers, but in 1909—31 per cent. These enterprises produced 38 per cent of the total industrial output in 1904 and 44 per cent in 1909. The share of the 200 biggest enterprises in the total assets of US industry is now roughly 60 per cent, an increase of over 10 per cent since 1950.

The concentration of production and capital created the objective possibility and necessity of the formation of monopolies. This is because, under capitalism, the large scale of enterprises and their high technological level themselves bear a tendency towards monopoly, for the losses incurred from the competitive struggle between such enterprises reach tremendous proportions, and competition becomes particularly risky. Under such conditions, it is more convenient for big capitalists to come to mutual agreements,



and deals between several big enterprises become more profitable, for they make it possible to maintain high prices for commodities and to reap maximum profits.

In this context, Lenin stressed: "The rise of monopolies, as the result of the concentration of production, is a general and fundamental law of the present stage of development of capitalism".<sup>1</sup>

Consequently, the economic basis for the emergence of monopolies is provided by the concentration of production and capital, which has achieved a high degree of development.

#### The Essence and Forms of Monopoly

A monopoly is a large capitalist company or association of companies that enjoys the possibility of restricting competition, setting high prices and receiving monopoly profit.

The establishment of monopolies took place in several stages: 1) in the 1860s and 1870s, the highest maximum stage of development of free competition. Monopolies were no more than hardly discernible embryos; 2) after the crisis of 1873. A broad period of the development of cartels, but they were still the exception. They were not yet stable; 3) the boom at the end of the 19th century and the crisis of 1900-1903. Cartels became one of the foundations of the economy in general.

The simplest form of monopoly in industry is the short-term price deal. The participants in such an agreement are obliged to observe fixed sales prices over a given period of time. Most such agreements are not, however, stable (pools, rings, corners).

*Cartels* and *syndicates* are more stable.

A *cartel* is an association of a number of enterprises in which the participants retain their production and commercial independence. The subject of the agreement between them may be the shares of the cartel members in the total volume of output, sales prices, the distribution of sales markets, the division of profits, and the like.

A *syndicate* is an association of a number of enterprises producing similar output, a single marketing agency being

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<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, 1977, p. 200.

organised for selling the output and purchasing raw materials. Here only commercial independence is lost.

A *trust* is a union of capitalists on a higher basis. On joining a trust, the enterprise loses its independence totally, in both trade and in production. The owners of the enterprises become shareholders of the trust and receive dividends according to the number of shares they possess. All the trust's activities are carried out under the control of its board.

The most developed form of monopoly association is the *concern*. Concerns are associations of formally independent enterprises in different branches of the economy. The core of the concern usually consists of the holding company, which engages in the purchase of controlling blocks of shares in various industrial, commercial, transport and other companies. The enterprises making up the concern remain legally independent, but in practice all their business is at the disposal of the group of big capitalists at its head.

Trusts and concerns became widespread in the USA, Britain, France, Japan and other capitalist countries.

The aim of monopoly associations is to ensure monopolies maximum profits on the capital invested by them. By grasping a large part of production, monopolies are able to dictate market prices and establish their domination over the market.

### Monopoly and Competition

The formation of monopolies and the establishment of their domination in the economies of capitalist countries in no way signifies the elimination or weakening of competition. On the contrary, competition becomes fiercer, appearing in new forms and acquiring harsher methods. As Lenin wrote, monopolies "which have grown out of free competition, do not eliminate the latter, but exist about and alongside it, and thereby give rise to a number of very acute, intense, antagonisms, friction and conflicts".<sup>1</sup>

The forms of competition in the age of imperialism are extremely diverse. A fierce struggle is waged between monopolies, within monopolies, and between monopolies and non-monopolised enterprises. However big a monopoly may be, it cannot swallow up or ruin all the producers in

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<sup>1</sup> Ibid., p. 266.

the given industry. Alongside the monopoly, there usually exist non-monopolised "wild" enterprises, so-called outsiders. While competing fiercely with one another, the outsiders at the same time compete with the monopolies. In these competitive struggles, it is usually the big monopolies that triumph, destroying or taking over the "wild" enterprises.

The struggle between the monopolies takes place both within one industry and between industries. Within one and the same industry, monopolies fight for sales markets, sources of raw materials, a larger share of production and, ultimately, maximum profits.

There is also competition within monopolies between the owners of capital for the most profitable positions. The forms of competition within a monopoly are determined primarily by the character of the monopoly agreement. Thus, the participants in a cartel or syndicate fight for the most profitable sales markets and a larger share of production. In trusts and concerns, the struggle is over controlling positions, controlling blocks of shares and the distribution of profits.

Under the domination of monopolies, competition becomes particularly fierce and rapacious. In addition to the economic method, the monopolies often resort to actual force: the burning or blowing up of enterprises, the hiring of gangsters to murder their strongest competitors, industrial espionage, blackmail, to name but a few.

#### Monopoly Price and Monopoly Profit

Monopolies compete for monopoly profit, which includes the average profit received by all capitalists, additional profits received as a result of the use of technical achievements, and a specific monopoly superprofit, which emerges as a result of the setting of monopoly high prices on the commodities produced by the monopolies and monopoly low prices they pay for the equipment, machinery, raw materials, commodities and so on that they themselves require.

As a rule, the gross profits of monopolistic associations are double or treble those of non-monopolised enterprises.

The main sources of the monopolies' superprofits are the surplus value created in their enterprises, cuts in wages to below the value of the wage workers' labour power, part of the surplus value created in non-

monopolised capitalist enterprises, exploitation of the small commodity producers in town and countryside and of the peoples of developing countries.

The chief source of this profit is the profit reaped from the sale of the monopolies' own output at monopoly high prices. All strata of the population suffer from the oppression of monopoly capital. Lenin stressed that the monopolies' oppression of the broad population "becomes a hundred times heavier, more burdensome and intolerable."<sup>1</sup>

## 2. Finance Capital and the Financial Oligarchy

### The Concentration of Capital and Banking Monopolies

The concentration of production and the formation of monopolies in industry inevitably leads to a concentration of capital in banking and the creation of banking monopolies. "We shall only have a very insufficient, incomplete and poor notion of the real power and the significance of modern monopolies", Lenin wrote, "if we do not take into consideration the part played by the banks."<sup>2</sup>

The concentration of production in industry engendered similar processes in banking. Big industrial, commercial, transport and other enterprises did not want to deposit their free funds in small banks, not big enough to guarantee the security of big deposits. Neither did small banks have sufficient assets to advance credit to big enterprises. The need arose for big banks based on a concentration and centralisation of banking capital.

The concentration of banking capital means a growth of the capital of banks through an increase in their own capitals, as well as the attraction of a larger mass of deposits into the banks. The chief indicators of this process are, on the one hand, an increase in the total sum of the money resources controlled, and, on the other, a growth in the amount for each bank on average.

Centralisation of banking capital means an increase in the size of banks through the merging of the capitals of a number of banks. This takes place either through the forcible takeover of small banks by big ones, or through

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<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", p. 205.

<sup>2</sup> Ibid., p. 210.

the voluntary merging of several banks into one bigger joint-stock bank. As a result of the concentration and centralisation of banking capital, the number of banks drops, their money resources grow, and the share of big banks in the total sum of banking capitals increases.

Banking monopolies formed at the beginning of the 20th century, but the concentration and centralisation of banking capital is still going on today. The following data indicate the concentration of banking capital: in Germany, at the end of 1913, the nine leading banks had about 5 billion marks in deposits out of a total sum of 10 billion marks. In 1924, the number of leading banks dropped to seven, and in 1931 there were only four left. In the FRG the Big Three are the successors of these four biggest prewar banks: the Deutsche Bank, the Dresdner Bank A. G. and the Kommerz Bank.

In Britain, the branches of all banks numbered about 7,000 in 1910. Of these, the four biggest banks had from 447 to 689 branches, many of them being considerably bigger than branches of their competitors, in some instances even in comparison with individual independent banks. At present, the four biggest banks control 90 per cent of all the bank deposits in the country.

In the USA, in 1900 there were 10,382 banks with assets of 10,785 million dollars, in 1940—15,017 banks with assets of 80,213 million dollars. Consequently, over forty years the number of banks went up by only 50 per cent, while banking assets increased eight-fold, and grew particularly quickly in the biggest banks. At present, the ten biggest American banks account for a quarter of all the bank resources. The policy of deregulation pursued by the American Administration at the moment leads to a further concentration of banking capital in the USA.

Banking monopolies, like industrial ones, certainly do not remove competition. On the contrary, the competition between banks in the age of monopoly capitalism is extremely fierce. Banking monopolies compete with outsider banks and with one another, and there is even competition within the banking monopolies themselves.

Having concentrated enormous funds in their hands, the banking monopolies go far beyond purely credit operations. They purchase the shares of existing enterprises and participate in setting up new firms, thereby becoming co-owners of industrial companies. At the beginning of the

20th century, the banks grew from being modest payment intermediaries into omnipotent monopolists.

At the same time, big industrial capitalists began to buy up the shares of banking monopolies. As a result of the mutual purchases of industrial shares by banks, and banking shares by industrial monopolies, property becomes interwoven, as do the related rights of ownership between banking and industrial monopolies. This mutual penetration of banking and industrial capital leads to the emergence of finance capital, which infiltrates into all spheres of capitalist enterprise and subordinates to its interests the entire economic life of the capitalist countries.

#### Finance Capital and the Financial Oligarchy

*Finance capital* is monopolistic industrial capital that has merged with monopolistic banks. 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 that concept."<sup>1</sup>

Finance capital is concentrated in the hands of the financial oligarchy—a small upper crust of the bourgeoisie, predominating over all branches of the economy and playing the decisive role in the economics and politics of the developed capitalist states. In the USA, there are 20-25 big financial oligarchy groups, in Britain—7-10, in Japan—5-10, and in the FRG—5. In the USA, one per cent of the population owns almost 70 per cent of all the shares. The biggest American financial oligarchy groups include the Morgans, with a controlled capital of 250 billion dollars; the Rockefellers—160 billion; the Mellons—50 billion dollars, and so on.

The US economist Ferdinand Lundberg writes, for example: "It has been abundantly shown that the members of a small coterie, comparable in relative size to the owning class of the Banana Republics and other unbenign policies, own and control all important economic enterprises in the United States."<sup>2</sup>

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<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", p. 226.

<sup>2</sup> Ferdinand Lundberg, *The Rich and the Super-Rich. A Study in the Power of Money Today*, Bantam Books, New York-Toronto-London, 1968, p. 295.

The activities of finance capital are clearly international in character. Thus, one of Britain's biggest financial groups, Cowdrey-Morgan Grenfell, is so closely tied to the Morgan family in the United States that, in essence, they form a single group Cowdrey-Morgan Grenfell-Morgan (USA). The might of the international associations of financial tycoons is characterised, for instance, by the fact that, in 1982, just three international banking groups (Orion, European Banks International, Associated Banks of Europe) owned property worth several hundred billion dollars, which is equal to the aggregate national product of each of such countries as Britain, Italy, and Canada.

The domination of the financial-monopoly group is exercised with the help of "personal unions" and the "participation system".

The essence of the "*participation system*" consists in a big financier or group of tycoons holding the controlling block of shares or otherwise controlling the head joint-stock company, which is the "mother-company". This mother-company acquires the shares of other joint-stock companies and, once it gains the controlling block of shares, it dominates over its dependent subsidiaries or daughter companies; these dominate over grand-daughter companies, and so on. By means of this system of participation, the financial bosses have enormous capitals at their disposal. They can control various capitalist associations with a capital ten or more times greater than their own. The system of participation can be imagined as a pyramid, topped by the biggest financiers. Thus, in the FRG, 20 per cent of all participation in the country's 75 biggest joint-stock companies belong to the Deutsche Bank alone. In all, it controls about a third of all the joint-stock capital in the FRG.

Control over the whole pyramid of companies and enterprises is not a goal in itself for the financial tycoon. It allows him to oust competitive monopoly groups and reap high monopoly profits from all the enterprises under his control.

The domination exercised by the financial oligarchy is also ensured by *personal union*. What does this mean? The essence of personal union is that the same people head banking, industrial, commercial and other monopolies. Big bankers become directors or board members of industrial monopolies, while the heads of industrial companies become the chairmen or members of the boards of banks.

In the USA, for example, the 200 biggest industrial and transport corporations share directors with the 40 biggest commercial banks, 20 investment banks and 30 insurance companies; 75 per cent of the directors of the biggest British companies combine the functions, sitting on several boards at once. Over half of the British biggest 100 companies are united in this way. In the FRG, a quarter of all the places on the supervisory councils of the 400 leading West German companies belong to bankers, especially representatives of the three biggest banks—the Deutsche Bank, Kommerz Bank and Dresdner Bank A. G.

Personal union is established not only between banks and industry, but also between finance capital and the bourgeois government. In the imperialist countries, this is manifested most clearly in the *military-industrial complexes*. These complexes constitute unions of the military-industrial monopolies and the government machinery and reactionary military circles. The military-industrial complexes make extensive use of personal union to whip up the arms race and ensure enormous military profits for the financial oligarchy.

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

#### **The Export of Capital**

Before imperialism, the chief form of economic links between countries was foreign trade and the export of commodities. Under the domination of finance capital, world trade is continually expanding, but it is the export of capital that is of the greatest significance.

What are capital exports? They are defined as the movement of capital belonging to the monopolies and financial oligarchy of one country to other countries, for the purpose of raising monopoly profits, strengthening the economic and political positions of the monopolies in the struggle for foreign markets, and expanding the sphere of imperialist exploitation.

As the monopolies developed, the capitalist countries experienced an intensification of the contradiction between the growth of capitals and the opportunities for their profitable investment within the country, which entailed the formation of a relative "surplus" of capital and the need to



export it. True, such capital is "surplus" only from the viewpoint of the limited opportunities for its sufficiently profitable investment for the monopolies in their own country. This "surplus" could, of course, be used to raise the people's standard of living, and eliminate unemployment and poverty in the capitalist countries. The monopolists are interested in only one thing, however—maximum profits. They strive to invest their capital where they will receive the highest rate of profit. At the beginning of the 20th century, it was most profitable to invest in the economically less developed countries, where profits were usually high, since there was little capital available there, the prices of land were comparatively low, as were wages, raw material was cheap and competition less fierce. All the conditions were available in the colonies and semi-colonies for the most profitable application of "surplus" capital.

When "surplus" capital formed and the need arose to export it, the possibility of doing so also appeared. By the beginning of the 20th century, the majority of countries had been drawn into the system of world capitalism: the main railway lines had been laid, and this made it possible to bring raw materials to the ports faster, the transportation of mass freight over large distances became profitable by sea, and so on.

The export of capital is carried out in two main economic forms—as productive and loan capital. The export of productive capital takes place when the monopolies build industrial enterprises in other countries and set up subsidiaries—"daughter" firms or mixed companies there, in which local capital is also involved. In this case, the export of capital brings the monopolies profits of enterprise.

If the capital is exported in the form of foreign loans, which the bank or industrial monopoly advances to the government or capitalists of some other country, the capital takes a loan form and brings the monopolies income in the form of interest.

It is usual to define two types of capital export: private and state. The private export of capital is carried out mainly by the biggest monopoly associations, while state exports are the sphere of the capitalist governments of the USA, Britain, France, the FRG, Japan, etc.

Large sums, as a rule in loan form, are exported by international, mainly inter-governmental organisations, specially set up for this purpose. They include the Internatio-

nal Bank for Reconstruction and Development, the International Monetary Fund and others.

The mass of capital functioning abroad can grow not only through increased export, but also as a consequence of reinvestment, which is the capitalisation of part of the surplus value received in the country in which the given capital is invested.

The export of capital has certain consequences for the exporting and the importing countries. Capital exports to developing countries affect the development of capitalism with all its inherent features and contradictions. There is a sharp increase in the exploitation of the working people, the plunder of natural resources, and the ruin of small producers. Under the impact of foreign capital, the development of the economies of developing countries is one-sided, distorted. It is mainly the extractive industry and agricultural production for export that develop. At the same time, these countries' working class grows and the class consciousness of the working people increases.

For the capital-exporting countries, the consequences consist in constant receipt of surplus value from outside in the form of profit from overseas enterprises or interest on loans, and in more favourable conditions for foreign trade being created. The export of "surplus" capital may, however, have an adverse effect on the economy of the capital-exporting country by reducing capital investment in that country, engendering a drop in the number of jobs, an increase in unemployment and a fall in the working people's standard of living. At the same time, in the countries exporting capital there is a growth of the parasitic rentier stratum of society, these being people who live on their incomes from foreign capital investments.

As Lenin put it, the export of capital is "parasitism raised to a high pitch", since capital, being, in fact, the result of the appropriation of the unpaid labour of wage workers in the capital-exporting country, serves when it is exported, especially to economically underdeveloped countries, as a means for exploiting the working people in the host countries, and for plundering their natural wealth and resources. The export of capital is an instrument for keeping the peoples of the economically backward countries on the rails of capitalist development.

Capital exports became a typical and mass phenomenon only at the turn of the present century. From the early

1870s up to 1914, Britain's foreign investments rose from 15 to 75-100 billion francs, and France's, from 10 to 60 billion, while Germany's foreign investment almost quadrupled from just 1902 to 1914. These three countries received at least 8-10 billion francs a year from their overseas investments. "A sound basis," Lenin wrote, "for the imperialist oppression and exploitation of most of the countries and nations of the world, for the capitalist parasitism of a handful of wealthy states!"<sup>1</sup> Not only many capitalists living on their incomes from overseas investments, but also whole countries were transformed essentially into rentier states.

The export of capital from the leading European countries had characteristic features at the turn of the present century. Britain, for instance, invested primarily in its colonies ("colonial imperialism"); France preferred to export capital in loan form ("usury capitalism"), while Germany sent its funds mostly to other European countries and America.

After the Second World War, new specifics appeared in the export of capital as a consequence of the consolidation and development of the world socialist system and the collapse of the colonial system of imperialism.

A major specific of the export of capital is increasingly uneven exports and the transformation of the USA into the chief financial exploiter of the capitalist world. Thus, the total sum of all American direct capital investment abroad at the beginning of the 1980s exceeded 200 billion dollars, which was almost 65 per cent of the total of all direct investment made by the developed capitalist countries abroad, while at the end of the 1930s, the USA accounted for only 30 per cent of world capital exports. At the same time, the chief regions for the investment of private American capital became Western Europe, Japan and Canada, mainly in the most advanced branches of industry: the petrochemical and motor industry, electronics, radio engineering and so on. A substantial share of the American capital goes also to developing countries in Asia, Africa, and Latin America.

In recent years, there has been a considerable step-up in the export of capital from a number of West European countries and Japan, the USA itself being the subject of the intensive investment by their monopolies.

<sup>1</sup> V.I. Lenin, "Imperialism, the Highest Stage of Capitalism", p. 242.

One specific of the export of capital since the last war is that, among the capital-importing countries, the share of the economically developed ones is growing. They accounted for about 70 per cent of the total sum of direct overseas capital investment in the early 1980s. This reorientation of the main flows of capital exports was connected with the collapse of the colonial system of imperialism, on the one hand, and the increasing opportunities for profitable investment in the developed capitalist countries under the impact of the scientific and technological revolution, on the other.

Another feature of capital exports is the tremendous growth of the export of state capital. Foreign state loans bring in substantial interest, ensure more favourable conditions for the export of private capital and the reaping of maximum profits by the monopolies of the capital-exporting countries.

The export of state capital pursues, however, mainly political goals. In supplying part of their budgetary funds to developing countries, the governments of imperialist powers are striving to protect the capitalist system, set up military bases in the host countries and draw them into military-political alliances, directed against the socialist countries and the national liberation movement.

Capital is exported by many imperialist countries, each striving to export it to the regions where it is most profitable to invest. This leads to fierce competition between not only the capitalist monopolies, but also the imperialist powers, and exacerbates inter-imperialist contradictions,

#### International Monopolies and the Economic Division of the World

The monopolies in the capitalist countries are striving for undivided sway on the home market. They have divided up this market among themselves and artificially hold up prices, thereby reaping enormous profits. In order to keep prices high, the monopolies try to isolate the home market from foreign competition by means of a variety of protectionist measures. At the same time, the monopolies strive to seize and subordinate foreign markets, where they compete with the monopolies of other countries. Concentration of production goes beyond the bounds of the national market and reaches such a high level that a substantial part of

the worldwide capitalist production of many key products is concentrated in the hands of a small group of huge companies. In order to soften the destructive consequences of competition, the biggest companies conclude various sorts of agreement among themselves, designed to divide up the world market, as a result of which international cartel-type monopolies appear. These also build their own enterprises in other countries. The export of capital furthered the growth in the number of international monopolies. Lenin wrote: "As the export of capital increased, and as the foreign and colonial connections and 'spheres of influence' of the big monopolist associations expanded in all ways, things 'naturally' gravitated towards an international agreement among these associations, and towards the formation of international cartels."<sup>1</sup>

International monopolies are very big monopolies that function on the scale of whole regions or the entire capitalist world.

Monopolies that are international in their activities can be divided into two groups. The first group includes ones belonging primarily to the capitalists of a single country; the second group consists of monopolies belonging to those of two or more countries. The most common form of international monopoly at the present time is the transnational corporation (TNC), which may be described as a huge capitalist company, primarily national in its capital, and participating in the international process of production, realisation of surplus value, and in the economic division and redivision of the capitalist world for the sake of maximum profits.

Enterprises belonging to TNCs already produce almost a third of the gross national product of all capitalist countries. According to some estimates, at the end of the century they will account for 50 per cent of the GNP created within the bounds of the world capitalist system. Currently, about 500 TNCs have a turnover of a billion dollars or more. For example, the American motor concern Ford has subsidiaries in thirty countries. The British monopolies British Petroleum and others, the West German Hoechst, Siemens AG and others, and the Dutch concern Philips are all transnational corporations. The expansion of these monopolies is based on their production abroad.

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<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", p. 246.

The club of the biggest international monopolies is led by American international corporations. In 1983, about half of the 50 biggest industrial monopolies in the capitalist world were based in the USA. Over some five or six years, the billionaire monopolies in the USA saw almost a trebling of their sales. Some American businessmen consequently assert, and with some justification, that they have created a sort of huge empire, on which the "sun never sets".

The TNCs currently play an important role in the economies of the capitalist world. They are able to occupy substantially more profitable positions in the competitive struggle, to organise specialisation and co-operation of production on an international scale, draw additional incomes from various international operations, monopolise technical innovations, and so on.

The biggest international monopolies divide up the world in economic terms. Yet this economic division of the world does not eliminate the struggle between monopolies for sales markets, spheres of influence, sources of raw material or competition. On the world market there are also outsiders operating; they do not belong to the international monopolies, but compete with them. Within international monopolies there is competition for the most favourable conditions of production and sales, and so on.

The struggle between the international monopolies inevitably leads to an intensification of the contradictions of capitalism, and of the struggle between the imperialist states for a redivision of the world.

The economic division of the world between the international monopolies was accompanied by its territorial division between the imperialist powers. The monopolies and their agents in governments considered it as one of the main means for consolidating their positions both within their own countries and in the international arena.

#### **The Territorial Division of the World and the Struggle for Its Redivision**

In the period of transition to imperialism, the seizure of colonies took on a new spurt. From 1876 to 1914 inclusively, the Great Powers seized about 25 million square kilometres of colonial territory, i.e. 50 per cent more than the aggregate territory of the metropolitan countries. The biggest seizures were made by Britain and France; about 85

per cent of colonial territory and 84 per cent of the colonial population came under the control of these two countries. During this historical period, the territorial division of the world seemed to have been completed, with no "free" land remaining. The only way to acquire territory was to take it off its former owner. The USA, Germany and Japan began colonising somewhat later, so managed to seize fewer colonial possessions. Yet these states, having higher growth rates, had substantially increased their shares of the world capitalist economy by the beginning of the 20th century. The changed balance of power prompted the capitalists of these countries to engage in the forcible redivision of colonial possessions.

The struggle for the territorial redivision of the world was the reason for the First and Second world wars.

Under imperialism, the formation of the world capitalist economic system was completed, this process being based on the dependence of weak countries on strong ones, on domination and subordination. The economic and territorial division of the world in the age of imperialism led inevitably to the formation of colonial empires based on merciless exploitation of the peoples of the colonies and dependencies by the metropolitan countries.

### The Colonial System of Imperialism

The colonial system of imperialism included colonies, semi-colonies and dependent countries, oppressed and exploited by the imperialist powers. It constituted a system of economic, political and legal relations, based on the monopoly capital of the metropolitan countries exploiting the peoples of the economically backward ones.

What is a colony?

A *colony* is a country deprived of state, political independence and used as a sales market for commodities, a source of cheap raw materials and labour power, a sphere of profitable investment of surplus capital, and a military-strategic base.

*Semi-colonies* and *dependent countries* formally retain their political independence, but in fact (in view of their economic dependence), they are subject to merciless exploitation by the imperialist powers.

The colonial system of monopoly capitalism was a vast system of colonial slavery, embracing a large part of the

world population. It combined exploitation based on direct coercion with forms of economic bondage.

The recent national liberation revolutions destroyed the colonial system of imperialism in its classic form. In the 1970s, the elimination of colonial empires was virtually completed, and nowadays 0.3 per cent of the world's population lives in colonies which occupy 0.7 per cent (about a million square kilometres) of the dry land. Former colonialism has been replaced by *neocolonialism*, however.

Many countries that have achieved political independence are under the economic domination of the international monopolies. As before, the key positions in their economies in many cases remain in the hands of foreign monopolies. The former colonial empires have been replaced by private empires of extractive, oil, foodstuff and banking international monopolies, which have cast their nets over many regions of the capitalist world.

A struggle against imperialism and for complete liberation from neocolonialism is being waged by the peoples of Asia, Africa and Latin America.

#### 4. The Historical Place of Imperialism

The historical place of capitalism was defined in its main features by Marx, who showed the historically limited nature of capitalism and the inevitability of its collapse, and the necessity of its replacement by socialism. Lenin developed and concretised these propositions, showing that imperialism was the stage in the development of capitalism when its revolutionary overthrow is inevitable. Imperialism is a particular historical stage of capitalism. It is specific in that imperialism is monopoly capitalism, parasitic or decaying capitalism; moribund capitalism. This definition by Lenin gives an exhaustive description of imperialism's place in history. In relation to capitalism as a whole, imperialism acts as moribund capitalism, as the eve of the socialist revolution.

##### Imperialism—Monopoly Capitalism

In its economic essence, imperialism is monopoly capitalism. Its chief feature is monopoly domination. This, in the final count, determines the place of imperialism in history.



Imperialism is the continuation and development of the same capitalist mode of production; the laws and contradictions inherent in capitalism also operate under imperialism. Yet they have more destructive consequences and possess specific features connected with the transition from the domination of free competition to that of monopolies, as a result of which certain changes have taken place in the actual system of capitalist relations of production.

Lenin identified four main results of monopoly. First, the concentration of production establishes the domination of monopolies in the sphere of production and the sale of commodities. Second, the domination of monopolies leads to them seizing the main raw material sources. Third, the concentration and centralisation of banking promote a further consolidation of the omnipotence of the monopolies. The banks become huge monopolists, the financial oligarchy establishes its domination over the economic and political institutions of bourgeois society. Fourth, monopoly grows out of colonial policy.

Monopolies, uniting huge enterprises, combining the labour of hundreds of thousands of people, take over sales markets and sources of raw materials. The social division of labour deepens and the capitalist socialisation of production gains in strength. Huge capitals are concentrated in the hands of a few groups of very big capitalists—industrialists and bankers. The enormous wealth created by the working people is appropriated by a small handful of financiers. All this exacerbates to the extreme the chief contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation of the results of production. Capitalism at its monopoly stage has become a reactionary force, holding back the progress of human society.

In this connection, Lenin wrote that, in the age of imperialism, the productive forces of society no longer fit within the narrow bounds of capitalist relations of production, which increasingly conflict with the level of development and character of the expanded productive forces. These relations must and will inevitably be eliminated by a socialist revolution.<sup>1</sup>

The historical place of imperialism consists precisely in the fact that it is the highest and last stage of capitalism.

<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", pp. 302-03.

### Imperialism—Parasitic or Decaying Capitalism

Imperialism is not only monopoly capitalism, but also parasitic, decaying capitalism. This is its second specific. "Monopolies, oligarchy, the striving for domination and not for freedom, the exploitation of an increasing number of small or weak nations by a handful of the richest or most powerful nations—all these have given birth to those distinctive characteristics of imperialism which compel us to define it as parasitic or decaying capitalism."<sup>1</sup>

The chief reason for and basis of the parasitism and decay of capitalism is monopoly domination. On the market, monopolies often gain monopoly profits by raising monopoly prices, rather than by cutting production costs, and this reduces their incentives to introduce new technology and tends to slow down technical progress. Monopolies buy up all patents on new technical inventions, not in order to apply them in production, but in order to prevent their competitors from using them.

In certain periods, in individual industries and given countries, however, production and technology may develop fast, since they may ensure advantages in competition and thus the receipt of superprofits. In the age of imperialism there are two opposing trends in operation: the tendency towards stagnation and decay, engendered by monopolies, and the trend towards the development of technology and a growth of the productive forces, connected with competition.

Capitalist monopolies strive to use the latest scientific and technological achievements in the sphere of nuclear power and space exploration, in the development of chemicals, automation of production, and so on, not so much for peaceful purposes, as for creating mass means of destruction. The development of science and technology acquires a distorted, militaristic character. The monopolies turn the achievements of human reason against mankind itself.

Finance capital uses the fruits of the scientific and technological revolution to increase profits and step up the exploitation of the working people. Lenin wrote: "On all sides, at every step one comes across problems which man is quite capable of solving *immediately*, but capitalism is in the

<sup>1</sup> Ibid., p. 300.

way. It has amassed enormous wealth—and has made men the *slaves* of this wealth. It has solved the most complicated technical problems—and has blocked the application of technical improvements because of the poverty and ignorance of millions of the population, because of the stupid avarice of a handful of millionaires.

“Civilisation, freedom and wealth under capitalism call to mind the rich glutton who is rotting alive but will not let what is young live on.”<sup>1</sup>

The decay of capitalism is clearly observed in the growth of the stratum of capitalist rentiers, living on the interest from their capital. These capitalists are isolated from production. The management of enterprises is in the hands of hired management personnel. Capitalist rentiers are the owners of shares and securities, living off “strips of paper”. In the USA, in 1900, 14 per cent of the rich were rentiers, in 1982—almost 30 per cent. Today in the USA about a third of the members of the capitalist class are not even formally connected with production and live without making any contribution at all. The incomes of this parasitic stratum of society run into tens of billions of dollars.

The parasitism of the capitalist mode of production is manifested most clearly in the militarisation of the economy, in the expenditure of an increasingly substantial part of the national income on the production of armaments. Militarisation diverts enormous material resources from productive consumption. By the early 1980s, the annual military outlays of the NATO countries were already close to the 300 billion dollar mark. They are continuing to rise rapidly.

In the USA, an enormous nuclear missile potential has been created, sufficient to destroy all life on Earth many times over. Yet American imperialism continues to whip up the arms race, by developing more and more new and increasingly destructive instruments of death.

A large number of monopolies, participating in the production of armaments, have a vested interest in the growing militarisation of the capitalist economy. Modern vampires, sucking the vital juices of the peoples, they levy a heavy tribute on society, and pump enormous sums into their safes every year.

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<sup>1</sup> V. I. Lenin, “Civilised Barbarism”, *Collected Works*, Vol. 19, 1980, p. 389.

The growing militarisation of the economy fulfils a specific function in the reproduction of social capital. By consuming material, money and human resources in a non-productive way (in other words, simply destroying), it serves as a sort of safety-valve, delaying the onset of crises of overproduction. This is but a temporary, unreliable safety-valve, however. Militarisation of the economy prepares the ground for new and even more serious explosions and disruptions, and exacerbates the contradictions inherent in capitalism. In an attempt to resolve them and overcome internal difficulties, imperialism resorts again and again to the wanton method of whipping up the arms race. Militarism reveals the parasitism and decay of imperialism particularly clearly.

The decay of capitalism is manifested in the monopolies' inability to make use of the available productive forces, provide work for the unemployed and load productive capacity to the full. In 1982, the loading of productive capacity in the USA was: 81 per cent in the electrical engineering industry, 83 in the chemical, 84 in general engineering; 40 per cent of the production apparatus stood idle in metallurgy. The numbers of the unemployed are increasing in the capitalist world. In 1984, they numbered 35 million in the developed capitalist countries alone. Chronic unemployment means constant under-use in the capitalist countries of society's chief productive force—the working people.

One form of manifestation of the parasitism of monopoly capitalism is the way it acts as a brake on economic progress in the developing countries, whose interests are alien to the monopolies. The aim of the latter is to reap maximum profits at the expense of the states that have only recently won their independence and which they see as a major source of superprofits, a sphere of intensive exploitation of labour power and natural resources, and a growing sales market for the commodities they produce.

The monopolies are only interested in the development of the young independent countries in as far as this is reflected in the profitability of their own operations. Often, the conservation of economic backwardness and the existence of reactionary political regimes provide them with more favourable conditions for exploiting these countries' labour and natural resources. The progressive dynamic economic and political development of the newly-liberated

countries undermines the domination of foreign monopoly capital there.

The monopolies of the imperialist states still control many industries in the developing countries. Thus, in Brazil, they control 100 per cent of the motor vehicle production, in Peru—almost 90 per cent of the production of industrial rubber goods, in Mexico almost 70 per cent of the chemical industry. Their monopoly position in the economies of developing countries may be manifested in the most diverse forms, but everywhere they strive to eliminate or subordinate local competitors, using such methods as direct take-overs, dumping and discriminatory prices, blocking access to new production techniques, and the like. The suppression of local producers, the creation of all sorts of obstacles to the development of genuinely independent national economies in the developing countries, the unbridled striving to get rich at their expense bear clear testimony to the parasitic nature of imperialism.

One particular manifestation of the decay and parasitism is the emergence of an opportunist trend in the working-class movement. Monopoly superprofits serve as a source for bribing a small part of the working class, creating a so-called labour aristocracy, which, with the support of the bourgeoisie, might seize the command posts in the trades unions and other organisations of the working class. Alongside petty-bourgeois elements, it poses a serious danger for the working-class movement and serves as a social support for reactionary forces. By splitting the ranks of the working class, the labour aristocracy prevents it from uniting its forces in the struggle against imperialism. The USA provides the clearest example of this, for there, as William Forster wrote, US imperialism has managed to bribe and corrupt the leaders of the mass working people's organisations on an unprecedented scale, as a result of which the working-class movement has been temporarily infected by bourgeois ideology and some of the working class have left the political revolutionary struggle.

Objectively, the bribing of the upper echelons of the working class is a means for maintaining outdated capitalist relations of production.

Imperialism is characterised by a turn from bourgeois democracy to political reaction in both home and foreign policy. The domination of the monopolies brings reaction in the spheres of ideology and culture, too.

The parasitism and decay of monopoly capitalism testify that capitalism has outlived itself historically and that it must be replaced by another, progressive system—socialism.

### Imperialism—Moribund Capitalism

The third characteristic feature of imperialism is that it is moribund capitalism, the eve of the socialist revolution. This means that imperialism is historically transient in character. Lenin wrote: "The epoch of capitalist imperialism is one of ripe and rotten-ripe capitalism, which is about to collapse, and which is mature enough to make way for socialism."<sup>1</sup>

Under imperialism, the process of the maturing of the material and subjective preconditions for the socialist revolution is completed.

Imperialism brings the contradictions of capitalism to the extreme. There is a sharp intensification in the contradictions inherent throughout the age of capitalism; at the same time, new contradictions emerge and develop.

Above all, the main contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation—gains in intensity. The intensification of this main contradiction exacerbates the struggle between labour and capital. Finance capital steps up the exploitation of the workers, setting monopoly high prices on consumer goods, and widening the gap between the value of labour power and wages. The answer to the intensification of exploitation is provided by a step-up in the revolutionary struggle of the proletariat and a substantial growth of the strike movement. The struggle of the working class develops in the economic and political spheres.

Under imperialism, not only the contradiction between the bourgeoisie and the proletariat intensifies to the extreme, but also that between the financial oligarchy and all other strata of the nation. Imperialism comes into conflict with the vital interests of mental and physical workers, various social strata, nations and countries. Increasingly broad masses of the working people, social movements and

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<sup>1</sup> V. I. Lenin, "Opportunism and the Collapse of the Second International", *Collected Works*, Vol. 22, p. 109.

whole nations rise up against imperialism. This creates the conditions for the unification of all democratic forces in a single anti-monopolistic stream, under the leadership of the working class.

Imperialism exacerbated the contradictions between the metropolitan countries and colonies to such an extent that the colonial system collapsed. A large number of former colonies set out on the path of independent political and economic development. The striving of imperialism to impose its will on them and retain the discriminatory, exploitative character of economic relations in a neocolonial form leads, however, to strengthening of the contradictions between the developing countries of Asia, Africa and Latin America and the former metropolitan countries.

The biggest monopolies wage a very fierce struggle among themselves for high monopoly profits, sales markets, sources of cheap raw materials and profitable spheres of investment. As a result of the conflict of interests between the monopolies, the contradictions between the imperialist powers grow sharply.

Such are the chief contradictions that transform imperialism into moribund capitalism, but this does not mean that capitalism itself will leave the historical arena without a socialist revolution. By exacerbating all the contradictions of capitalism to the extreme, monopoly capitalism brings the proletariat up to socialist revolution, making this virtually inevitable. The historical victory of the socialist revolution, first in Russia, and then in a number of countries of Europe, Asia and Latin America, is clear confirmation that imperialism is moribund capitalism.

#### The Law of Uneven Economic and Political Development

The uneven development of individual enterprises, branches of production and countries is inherent in capitalism in general. This uneven development is a result of competition and the anarchy of capitalist production. Previously, however, in the period of its pre-monopoly development, capitalism developed more or less smoothly, without any sharp leaps and upheavals. At that time, there was plenty of free territory in the world that the capitalist powers had not yet divided up between themselves. Capitalism could develop in breadth, and the interests of the various capitalist countries did not conflict sharply, while some coun-

tries overtook others only over a long period of time.

It was a different matter under imperialism. The rapid development of science and technology and the concentration of enormous capitals in the hands of the monopolies made it possible for the imperialist countries to overtake one another in a comparatively short time. The countries that set out later on the path of capitalist development, but had more advanced technology and more progressive methods of production at their disposal began rapidly catching up with and overtaking the old capitalist states.

The uneven development began to proceed in leaps. Some countries forged rapidly ahead, while others lagged far behind. Thus, up until the 1870s, Britain came first in the world in terms of industrial production, followed by France. In the course of about 10 years, the USA outstripped France and, in another ten, left Britain behind, to take first place in industrial production. During the same period, Germany overtook France to take third place after the USA and Britain. At the beginning of the 20th century, Germany overtook Britain and came into second place behind the USA.

In connection with this, a struggle broke out for a redivision of the already divided world. As a result of the sharp changes in the balance of power, the capitalist world splits into hostile groups, and this leads to major military conflicts between the imperialist powers and to imperialist wars.

The increasingly uneven economic development of the capitalist countries in the age of imperialism was closely linked with the uneven nature of their political development.

The increasingly uneven economic and political development of capitalism at the stage of imperialism creates new conditions for a proletarian socialist revolution, for the break-up of the world capitalist system at its weakest individual links. Proceeding from the specifics of imperialism and, in particular, the operation of the law of the increasing unevenness of economic and political development under imperialism, Lenin came to the conclusion concerning the possibility of socialism triumphing initially in a few, or even a single, capitalist country and the impossibility of its victory in all countries simultaneously. Moreover, the given country did not have to be the most developed in industrial terms.



The experience of the Great October Socialist Revolution and of the socialist revolutions in a number of other countries confirmed Lenin's conclusion that the unevenness of economic and political development makes the victory of socialism possible initially in a few, or even in a single, capitalist country. Hence it is obvious that the working class in a given country should not wait for the onset of a revolutionary situation on a worldwide scale, but can and must proceed boldly in overthrowing capitalism in its own country, as soon as the objective and subjective preconditions are ripe for this. Thus, Lenin's teachings on the possibility of the victory of socialism in a single country stimulates the revolutionary energy of the proletariat, inspiring it to storm capitalism.

#### Revision Exercises

1. List the main economic features of imperialism.
2. What is capitalist monopoly and what are its forms?
3. What are finance capital and the financial oligarchy?
4. What is the essence of the export of capital and its chief forms?
5. Describe the economic and territorial division of the world in the age of imperialism and the struggle for its redivision.
6. What was the colonial system of imperialism and what role did the colonies play in the age of imperialism?
7. What is the historical place of imperialism?
8. What are the chief manifestations of the parasitism and decay of capitalism in the age of imperialism?
9. What is the essence of the law of the uneven economic and political development of capitalism in the age of imperialism?

#### Chapter Nine.

#### THE GENERAL CRISIS OF CAPITALISM

In the 20th century, the capitalist world entered an age of tremendous economic and social upheavals. The general crisis of capitalism began. This crisis embraced the entire system of capitalism and all its aspects: its economy, politics, ideology, and international relations; all components

of both the basis and the superstructure. The age of the general crisis of capitalism covers an extended historical period that saw the beginning of an irreversible process, that still continues today, that of the revolutionary overthrow of capitalism, of the "collapse of capitalism in its entirety and the birth of socialist society".<sup>1</sup>

## 1. The Essence and Stages of the General Crisis of Capitalism

### The Essence and Main Features of the General Crisis of Capitalism

The historical process of the revolutionary replacement of capitalism by socialism throughout the world constitutes the essence of the general crisis of capitalism. The general crisis of capitalism was triggered by the First World War (1914-1918) and the victory of the Great October Socialist Revolution (November 7, 1917). The proletariat of Russia, in alliance with the toiling peasantry and under the leadership of the party of Communists headed by Lenin, overthrew capitalism in a sixth of the world, established its own power and started to build socialism. This opened up a new age in the history of mankind, its chief content being the transition from capitalism to socialism throughout the world. This is an age of struggle between two opposing social systems, of socialist and national liberation revolutions, the age of the collapse of imperialism and the elimination of the colonial system, the age of the transition to a socialist course by more and more peoples, of the triumph of socialism and communism throughout the world.

The chief features of the general crisis of capitalism are: the split of the world into two opposing socio-economic systems—the socialist and the capitalist—and the struggle between them; the crisis of the colonial system of imperialism, developing into its decline and final collapse; the intensification of the internal and inter-imperialist contradictions of capitalism, a strengthening of economic instability and stagnation; a deepening of the crisis of bourgeois policy and ideology, imperialism's loss of its undi-

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<sup>1</sup> V. I. Lenin, "Extraordinary Seventh Congress of the R. C. P. (B.), March 6-8, 1918. Report on the Review of the Programme and on Changing the Name of the Party, March 8", *Collected Works*, Vol. 27, 1977, p. 130.

vided sway over the majority of mankind and a contraction of the sphere of capitalist exploitation.

Since its beginning, the general crisis of capitalism has gone through two stages and is now passing through a third.

The first stage lasted right up until the Second World War. The Second World War and the socialist revolutions in a number of countries of Europe and Asia initiated the second stage of the general crisis of capitalism. In the second half of the 1950s capitalism entered a new stage, the third stage of its general crisis, which developed under peaceful conditions of rivalry and struggle between socialism and capitalism.

#### The First Stage of the General Crisis of Capitalism

The first stage of the general crisis of capitalism is characterised primarily by the victory of socialist revolution initially in one country—Russia, the split of the world into two systems—the socialist and the capitalist—and the struggle between them. The October Revolution laid the foundations for releasing mankind from the exploitative system, embodying the ideas of scientific communism in reality, and exerted a very profound impact on the entire subsequent course of world history. It opened up the age of the universal revolutionary renewal of the world.

The Soviet land made use of the advantages offered by socialism to eliminate the country's age-old backwardness in a historically short period of time and turn it into a mighty industrial power.

Do you know what the country was like before the Revolution? Tsarist Russia produced, per capita, only a 13th-14th of the quantity of the main types of industrial output produced in the USA, only an 11th-12th of the amount produced in Britain and a 10th of Germany's output. Russia smelted 4 million tonnes of pig iron and the same amount of steel, and extracted 10 million tonnes of oil. In agriculture there were over 20 million small, fragmented peasant holdings with the most backward and primitive tools, such as 7.8 million hoes and over 2 million wooden ploughs. More than 60 per cent of all the farmland belonged to landlords, the tsar's family, monasteries and rich peasants (kulaks). The population of tsarist Russia, especially on its outskirts, was almost totally illiterate.

It is difficult to imagine the tremendous difficulties that

the Soviet people had to overcome and what an enormous heroic feat was required to bring the country into second place in the world and first in Europe by 1937 in terms of the volume of gross output. The Soviet Union's share in world production was no longer 4 per cent, as it had been in 1914, but almost 10 per cent.

At the first stage of the general crisis of capitalism, the crisis of the colonial system of imperialism began. Under the influence of the Great October Socialist Revolution, the national liberation movement developed in the colonies; an uprising occurred in Korea and revolutionary demonstrations in India (1919), a bourgeois-national revolution in Turkey (1920) and a revolution in Mongolia (1921); a persistent, anti-imperialist, anti-feudal struggle began in China. A substantial upsurge of the national liberation struggle was observed in Morocco, Syria, Indonesia, the Philippines, and the countries of Latin America.

During the first stage of the general crisis of capitalism, all the contradictions inherent in imperialism grew in intensity. The capitalist world was hit three times by worldwide economic crises of overproduction (1920-1921, 1929-1933, 1937-1938). The Great Depression of 1929-1933 was particularly grave: industrial production in the capitalist world dropped by 36 per cent, and in the USA by 46.2 per cent over 1929.

In the second half of 1937 a new economic crisis set in but it was interrupted by the outbreak of the Second World War.

The Second World War, prepared for by the imperialist forces, was unleashed by the bloc of fascist states—Hitler's Germany, Japan and Italy. The war ended in the total defeat of the fascist aggressors, the Soviet Union having played the decisive role in this. This led to a further change in the balance of power between socialism and capitalism in favour of the former, and to the second stage in the general crisis of capitalism.

### The Second Stage of the General Crisis of Capitalism

The second stage of the general crisis of capitalism began during the Second World War, as a result of new socialist revolutions in Europe and Asia. Victory over fascist Germany and militarist Japan weakened the entire chain of imperialism, and several countries in Europe and Asia broke

away from capitalism. The fundamental feature of the second stage is the formation of the world socialist system, the community of countries linked by a common economic and socio-political system.

The capitalist world has had to make room for the socialist one. At the first stage of the general crisis of capitalism, the socialist countries (the USSR and Mongolia) accounted for only 17 per cent of the territory and 9 per cent of the population of the world, but at the second stage, the world socialist system occupied 26 per cent of the territory, on which 35.2 per cent of the world population lived.

Using the tremendous advantages of the socialist system, the Soviet Union and other socialist states rapidly developed their own economies. In 1950, the socialist countries produced roughly 20 per cent of world industrial output, but in 1960 their output was 6.8 times greater than in 1937, while the capitalist countries had increased their output by less than 2.5 times.

Socialism's expansion beyond the frontiers of one country and its transformation into a world system do not constitute the only feature of the second stage of the general crisis of capitalism. At this time, the crisis of the colonial system was deepening further and eventually led to its collapse. Moreover, the collapse of the colonial system of imperialism was distinguished by extremely rapid rates. In 1945, the colonial population of Asia and Africa numbered 730 million people, on a territory of 36.7 million square kilometres. At the beginning of 1957 there were only 145 million people living in colonies, with an area of only 23 million square kilometres. Such large countries as India, Indonesia, Burma, Sri Lanka, the Sudan, Morocco, Tunisia, and others began their independent development.

The next distinguishing feature of the second stage of the general crisis of capitalism was a further intensification of the instability of the capitalist economy. Twice (in 1948-1949 and 1953-1954), the USA suffered economic crises of overproduction. The development of both countries and industries became more and more uneven and the chronic underloading of production continued to increase. The decay of capitalism was manifested most clearly in the militarisation of the economies of many imperialist countries, above all the USA. Militarisation became one of the means for stimulating the growth of production and for imple-

menting the anti-crisis regulation of the economy. Moreover, the US militarists set the goal of changing the balance of power in favour of capitalism by making intensive preparations for a nuclear war against socialism. But these plans were an utter failure.

### The Third Stage of the General Crisis of Capitalism

One specific feature of the third stage of the general crisis of capitalism, which continues to this day, is that it did not arise in connection with a world war, but in a situation of rivalry and struggle between the two systems and a change in the balance of power increasingly in socialism's favour.

Bourgeois ideologists assert that the socialist world links the collapse of capitalism only with wars, in which it is supposedly interested as a means for destroying the capitalist system and ensuring the triumph of socialism. This is pure slander. Lenin himself wrote: "Such a 'theory' would be completely at variance with Marxism, for Marxism has always been opposed to 'pushing' revolutions, which develop with the growing acuteness of the class antagonisms that engender revolutions."<sup>1</sup>

The development and aggravation of the general crisis of capitalism take place primarily as a consequence of the intensification of the internal contradictions of the capitalist mode of production, which imperialism seeks to resolve by means of the nuclear arms race. A world military conflict under present-day conditions, when missiles with nuclear warheads can reach any continent in minutes and lay waste vast territories, would mean the death of hundreds of thousands of people, and the transformation of the treasures of world civilisation into ruins and ashes.

At the third stage of the general crisis of capitalism, Cuba set out on the socialist path; it was the first American socialist state. Socialist Vietnam was formed. Kampuchea, Afghanistan, Ethiopia and Laos all declared their goal to be the building of a free socialist society. A number of countries adopted a socialist orientation.

The chief features of the third stage of the general crisis

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<sup>1</sup> V. I. Lenin, "Strange and Monstrous", *Collected Works*, Vol. 27, pp. 71-72.

of capitalism are manifested in the following: the world system of socialism is becoming the decisive factor in the development of human society; the colonial system of imperialism has suffered a total collapse; new features have emerged in the development of modern imperialism, striving to adapt to the conditions of the struggle between the two socio-economic systems, to the demands of the scientific and technological revolution, and to the intensification of social contradictions. Modern imperialism is characterised by a considerable strengthening of state-monopoly capitalism. The development of the capitalist economy has become even more unstable, and crises of overproduction are more destructive and deep.

Let us take a brief look at these chief features of the third stage of the general crisis of capitalism.

The main motive and transforming force today is the world socialist system. The economies of the socialist countries are developing incomparably faster than those of the capitalist ones. From 1950 to 1982, industrial production in the socialist countries increased almost 15-fold, while the figure for the capitalist countries was less than four-fold.

The consolidation and development of the world socialist system changed the balance of power in the world arena. Now it is no longer imperialism, with its aggressive policy, but socialism, with its ideals of peace and progress, that constitutes the decisive factor in world development. Imperialism has lost forever its monopoly in solving world affairs, and has ceased to be the dominant force in the international arena.

At the third stage of the general crisis of capitalism, the colonial system of imperialism collapsed. The elimination of the colonial regimes in the former colonies and semi-colonies does not mean, however, that the imperialists have resigned themselves to losing their former dominance. Many of the liberated countries are still subjected to economic exploitation and political pressure by imperialism, which is doing its best to retain its opportunity to exploit the peoples of these countries, using more concealed and refined methods.

The tasks that currently face the liberated countries are entangled and multifaceted: consolidating the political independence they have gained, creating an independent national economy, and overcoming the backwardness

inherited from the past. All this can be achieved only on the path of progressive social development and by means of a consistent struggle against imperialism, and alliance with the socialist countries and the international working-class movement.

The third stage of the general crisis of capitalism is characterised by a further weakening of all the positions of imperialism, violent economic disturbances, which exacerbate all the contradictions inherent in capitalism and engender new points of dissent and conflicts between the imperialist countries.

At the third stage of the general crisis of capitalism the capitalist economy became considerably more unstable. Imperialism has, during this period, already suffered four deep world economic crises of overproduction: in 1957-1961, 1970-1971, 1974-1975 and 1980-1982. The 1974-1975 economic crisis of overproduction was the deepest since the Great Depression in terms of the drop in production. It affected all the chief centres of the world capitalist economy and all spheres of life in capitalist society. For the developed capitalist countries as a group, industrial production dropped by 10.7 per cent, but in the USA the figure was 15.3 per cent, in Italy—13 per cent, in France—14.8 and in Japan 20.2 per cent. In the countries of Western Europe, the drop in production lasted an average of 12 months, but in Japan it continued for fifteen. Unemployment in the developed capitalist countries reached a very high level. According to UN data, at the end of 1975 there were over 15 million unemployed in the developed capitalist states.

The 1974-1975 crisis was made particularly destructive by the fact that it interwove with the energy and raw material crises, which were reflected in an acute shortage of raw materials, a rapid rise in the prices of raw materials and oil, and then of many other commodities, and in restrictions on the consumption of energy. Moreover, at this time the capitalist world was suffering a financial crisis—a deep disruption of the entire monetary and financial system and of international settlements. Inflation reached a scale unprecedented in peacetime. All this was a heavy burden on the shoulders of the toiling masses and exacerbated all the social contradictions of capitalism.

From 1980 to 1982, the capitalist world was hit once more by a protracted, worldwide, economic crisis, which for



some countries (such as Britain) proved to be the worst in half a century. In three years, industrial production in the developed capitalist countries dropped by an average of 7 per cent, including by 9 per cent in the USA. The crisis entailed a substantial growth of unemployment, which reached 10-11 per cent of the able-bodied population in both the USA and Western Europe. This level of unemployment had not been observed once over the previous four decades. At the end of 1983, the army of the unemployed, in spite of certain signs of an economic revival, stood at 34 million people in the industrially developed capitalist countries, i.e. it had doubled since 1975.

At the third stage of the general crisis, capitalism's development became even more uneven. During this period, the share of the USA in the industrial production of the developed capitalist countries dropped, while that of Japan rose sharply. In the early 1980s, Japan, which had been in sixth place in the world in 1950, overtook Italy, France, Britain and the FRG to come into second place behind the USA in the capitalist world in terms of industrial production. Britain, which had been in second place in 1950, dropped back to fifth place.

The transformation of world socialism into the decisive factor in the development of human society, the clear demonstration of the fundamental advantages of socialism over capitalism, the collapse of the colonial system of imperialism, and the increasing unevenness of the development of the imperialist countries—all this furthered a growth of both the internal contradictions of imperialism and inter-imperialist conflicts. By the beginning of the 1970s, the main centres of imperialist rivalry had taken clear shape: the USA, Western Europe (the Common Market countries) and Japan.

As a result of the deepening of the traditional contradictions of capitalism and under the impact of the rapidly developing scientific and technological revolution, at the third stage of the general crisis of capitalism new forms of contradictions appeared, including:

—the contradiction between the exceptional opportunities offered by the scientific and technological revolution and the obstacles raised by capitalism to the use of the achievements of this revolution in the interest of society. Hence the increasingly frequent economic crises, the chronic underloading of the production apparatus,

the unprecedented growth of inflation and unemployment;

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

—the intensification of the contradictions between the national economic mechanisms of individual countries and the requirements of the development of the world capitalist economy as a whole.

The ideological-political crisis of bourgeois society has gained in intensity. Within the ruling circles of the imperialist states, the struggle is intensifying, the decline of intellectual culture is continuing, and crime is increasing. The revolutionary-democratic, anti-war and anti-imperialist movement is assuming an increasing scale.

All this testifies to the crisis of the capitalist system of relations, based on exploitation of man by man, to the fact that imperialism must relinquish its place to a more just and progressive social system—socialism. Yet capitalism will not leave the historical stage voluntarily in any country; for its elimination, the revolutionary activities of the broad popular masses are required, under the leadership of the working class and its vanguard—the Marxist-Leninist party. This has been proved convincingly by both the theory and practice of the world revolutionary movement.

## 2. State-Monopoly Capitalism

### The Emergence and Essence of State-Monopoly Capitalism

The deepening of the general crisis of capitalism is accompanied by the development of state-monopoly capitalism.

State-monopoly capitalism unites the power of the monopolies with that of the state in a single mechanism for the purpose of enriching the monopolies, suppressing the working-class movement and the national liberation struggle, saving the capitalist system and unleashing aggressive wars. Its emergence and development are linked with the domination of the monopolies, finance capital and the financial oligarchy.

State-monopoly capitalism is not some new stage of capitalism, differing from imperialism, or "superimperialism". It is merely a stage in the development of imperialism it-

self. State-monopoly capitalism is a continuation of imperialism; it is organically linked with it; all the signs, features, properties and laws of imperialism are inherent in it, too. It does, however, possess a number of specifics identifying it as a special form of imperialism. The essence of state-monopoly capitalism reflects the merging of the forces of the monopolies with the bourgeois state apparatus, and the subordination of this apparatus, the increasing intervention by the state in the economic life of society, primarily in the interests of the big monopolies. State-monopoly capitalism, as Lenin put it, is something centralised, calculated, controlled and socialised.

The economic basis for the emergence and development of state-monopoly capitalism is provided by the concentration of production and the colossal monopolisation of capital, growing under the dominance of the monopolies. In the USA today just three to five of the biggest companies concentrate a quarter of the volume of production in the chemical and food industries, a third of the production of non-ferrous metals, paper, electronics, textiles, pig iron and steel, two-fifths of the motor vehicles, synthetic rubber, tobacco goods, packaging materials, and so on.

The high concentration of capital and production, and the accelerated scientific and technological revolution strengthen the domination of financial groups.

On the basis of the unprecedented monopolisation of capital, the comprehensive socialisation of production gains momentum. Production becomes increasingly social, but appropriation remains private. The social means of production remain the private property of a small number of monopolies, and this, in turn, exacerbates the main contradiction of capitalism between the social character of production and the private capitalist form of appropriation. A situation is created in which the production complexes sometimes serve several countries, while remaining the private property of billionaires.

The contradictions become so acute that the existence of monopolies and capitalism itself are threatened. By combining the power of the state with that of the monopolies, state-monopoly capitalism attempts to save capitalism. The bourgeois state makes active use of the monopolies for reaping monopoly high profits by means of the merciless exploitation of the broad toiling masses. Thus, in the USA, the profits of the monopolies increased by 50 per cent during the 1970s,

while the real wages of the workers dropped by almost a fifth. At the pinnacle of American society there are about 4,500 very rich men, each with an annual income of over a million dollars. Meanwhile, 32 million people—14 per cent of the population—live below the official poverty line.

The decisive role in the mechanism for uniting the power of the monopolies and the state is played by the very big financial groups and special class organisations of monopolists, whose activities are not advertised but kept strictly secret. The broad public knows nothing about them. In the USA, the National Association of Manufacturers is just such an organisation; it unites 18,000 corporations, but it is run by just a few dozen of the biggest monopoly billionaires, which carry out most of the business. The leadership of the NAM takes decisions that determine the outline of the USA's economic and political development policy. Americans who are well informed on the political affairs of their country note that when this association wants a law passed by Congress, the latter does exactly what it is told to do.

In other countries such organisations include: the Bundesverband der Deutschen Industrie in the FRG, the Confederation of British Industry in Britain, the Conseil National du Patronat Français in France, the General Confederation of Italian Industry (Confindustria) in Italy, and so on. These organisations play a tremendous role in both the economic and political affairs of their countries.

State-monopoly capitalism is designed to save the capitalist system, the power of the biggest monopolies, to maximise profits by stepping up the exploitation of the working class, and robbing the broad populations of their own and other capitalist countries.

### The Main Forms of State-Monopoly Capitalism

In the domestic economies of the capitalist countries, state-monopoly capitalism assumes the following main forms: 1) state-monopoly ownership and state (public) enterprise; 2) state-monopoly regulation of the economy and economic programming; 3) state redistribution of a substantial share of the national income; 4) militarisation of the economy.

Let us consider each of these forms briefly.

State-monopoly ownership applies to property belonging to the class of capitalists in the person of the bourgeois state, which opposes the working class as an "aggregate capitalist". Engels wrote: "The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of the productive forces, the more does it actually become the national capitalist, the more citizens does it exploit."<sup>1</sup>

The state-monopoly form of capitalist ownership of the means of production emerged in two ways—through the acquisition of property paid for out of the state budget and through the nationalisation of individual enterprises and whole branches of industry and transport, as well as the acquisition by the bourgeois state of some of the shares of monopolistic enterprises.

Usually the bourgeois state nationalises enterprises and industries that are not very profitable, and as a rule does so to the benefit of the monopolies. The private capital thus released moves into more profitable branches of production. In Britain, at the end of the 1970s, the aerospace and ship-building industries were largely nationalised. In France, in the early 1980s, the country's leading banks, iron and steel trusts, a number of the biggest monopolies in the electrical engineering and other industries, were transferred, either partially or totally, into the hands of the state. Nationalised enterprises bring in a guaranteed income to the former shareholders as compensation and interest. In Britain and France, for instance, such payments have amounted to hundreds of millions of pounds and francs every year. They have allowed some of the former owners to gain control over even larger capitals than before nationalisation. When state enterprises become profitable, they are often returned to their private owners. Thus, in Britain in the 1980s, previously nationalised enterprises have to a considerable extent been reprivatised.

In some imperialist states, so-called mixed companies are set up. Private businessmen hold big blocks of shares together with the state. The result of mixed enterprise is always one and the same: the state assumes the risk, while most of the profits go to private capital.

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<sup>1</sup> Frederick Engels, *Anti-Dühring*, p. 330.

The economic links between state enterprises and monopolies are constructed in such a way that the latter receive the commodities produced in the state sector at low prices, thereby increasing their profits. In France in the mid-1970s, for example, gas produced by the state company Gas de France was sold to local authorities and institutions at almost three times the price paid by private companies. As a result of just the difference in prices, four of the biggest state companies in France: Gas de France, Electricité de France, Charbonage de France and Société Nationale des Chemins de fer Français "presented" private companies with 15-20 billion francs and suffered losses of 8-10 billion francs, which were covered by the state budget.

State-monopoly regulation of the economy consists of intervention by the state in the economic life of the country, with the aim of stabilising capitalist reproduction, implementing anti-crisis measures, and creating the best possible conditions for the monopolies to receive high monopoly profits.

The bourgeois state, for example, carries out "anti-crisis" regulation by means of purchasing, credit and financial policy. In a number of countries, it buys up 15-20 per cent of the gross national product at inflated prices. The growth of state purchases creates a more or less stable market for the biggest monopolies, allowing them to increase their profits. A major means for regulating the economy is state investment, which influences the general state of the market in the country. A rise in investment engenders a demand for equipment, machinery and other commodities. The state invests mainly in arms factories and new industries connected with scientific and technological progress: the electronics, aerospace, nuclear power and other industries.

State-monopoly regulation as a whole exerts a certain impact on the state of the economy and the structure of production, but does not and cannot save the capitalist economy from crises, depression and sharp drops in the growth rate.

The redistribution of a substantial share of the national income in favour of the monopolies through the state budget is a major feature of state-monopoly capitalism. Under contemporary conditions, an increasing part of the national income in the capitalist countries is concentrated in the hands of the bourgeois state. Previously, the state drew 5-10 per cent of the national income into the budget, but

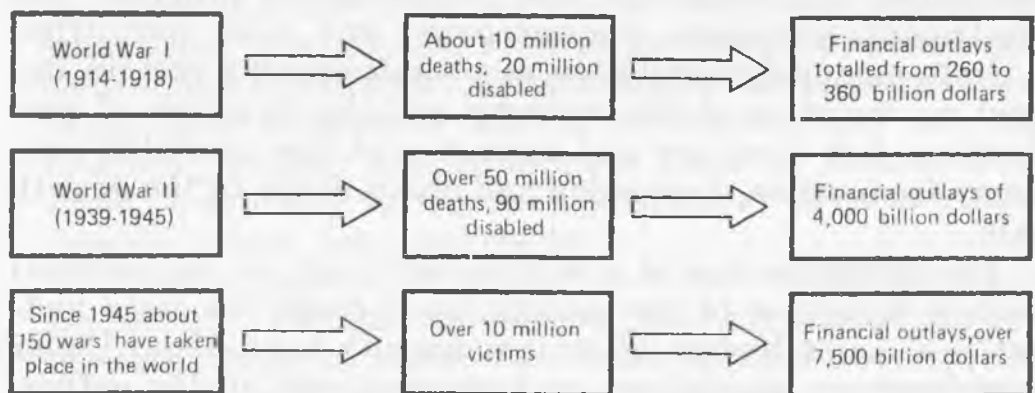
the figure in many developed countries is now from 25 to 55 per cent. The redistribution of the national income in favour of the monopolies takes place through an expansion of the state market, on which the monopolies sell their commodities, the setting of inflated prices on commodities purchased from the monopolies, an increase in subsidies, a heightening of the interest paid on public loans, and so on.

One of the characteristic forms of state-monopoly capitalism is militarisation of the economy. State-monopoly capitalism extends the arms race and the production of military output to an unprecedented scale. It nourishes the military-industrial complex—the union of the biggest military-industrial monopolies, reactionary political forces and the top brass.

The mighty militaristic complex swallows up a substantial share of the national incomes of the bourgeois states. State purchases of armaments reach astronomical figures. The arms race is a real shower of gold for the biggest monopolies. The lion's share of the military allocations in, for example, the USA goes to 10-15 of the biggest monopolies: Boeing, General Dynamics, Grumman, Lockheed, McDonnell-Douglas, Northrop, Rockwell International, United Technologies, and others.

Preparations for war and wars themselves lead to the destruction of the productive forces, and to considerable human sacrifice, which in the economic sense, as Marx put it, is the same as throwing part of one's capital into the water (Fig. 8).

*Fig. 8*



These data show just how much militarisation, stimulated by state-monopoly capitalism, costs mankind. The

imperialists, above all those of the USA, have now initiated a new round of the arms race in nuclear and other weapons of mass destruction. These pose a fatal threat to life on Earth, a threat of the destruction of human civilisation.

### State-Monopoly Capitalism and Creation of the Material Preconditions for Socialism

The development of state-monopoly capitalism objectively means preparation of all the material preconditions for the new communist mode of production. The huge social productive forces of today objectively require social management of production, social forms of appropriation and a transition to socialism. State-monopoly capitalism promotes the socialisation of production. With the help of the system of state-monopoly capitalism, a small number of financial groups in the imperialist countries, have established their control over the main part of their national wealth.

In fact, state-monopoly capitalism creates the material, technical, scientific and organisational preconditions for social management of the economy. Since, however, under imperialism private property dominates in the form of monopoly and state-monopoly property, capitalist individual and group property (i.e. that belonging only to the class of capitalists), the production process is carried out in the interests not of society as a whole, but primarily of its bourgeois elite. The nationalisation and centralised use of a growing part of the national income, economic intervention by the state in capitalist reproduction, the creation of an enormous apparatus for regulating the economy and the state-monopoly measures for doing this—all these are different aspects of the vast socialisation of production.

As a result, “state-monopoly capitalism is a complete *material* preparation for socialism, the *threshold* of socialism, a rung on the ladder of history between which and the rung called socialism *there are no intermediate rungs*”.<sup>1</sup>

State-monopoly capitalism is the highest stage of the capitalist socialisation of production. The private-capitalist form does not correspond to this content. By means of

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<sup>1</sup> V.I. Lenin, “The Impending Catastrophe and How to Combat It”, *Collected Works*, Vol. 25, 1977, p. 363.



a socialist revolution, state-monopoly capitalism is replaced by a new, more progressive mode of production, the communist organisation of human society.

### **3. The Collapse of the Colonial System and the Development Courses of the Liberated Countries**

The main factor intensifying the general crisis of capitalism is the collapse of the colonial system of imperialism, which is the second phenomenon in terms of its historical significance after the formation of the world socialist system. As a result of the victory of the anti-colonial liberation revolutions, at the beginning of 1983 there already existed 115 new states, including 50 independent ones in Africa.

Over 70 per cent of the population of the capitalist world lives in liberated countries, where 75 per cent of all its raw material resources are concentrated. Yet these countries account for only 15-16 per cent of the industrial production, 25 per cent of the exports and about 50 per cent of the agricultural production of the capitalist world. The imperialist powers, headed by the USA, continue to rob the peoples of the young developing states and to hold them in a vise of poverty and ignorance. Over the last 30 years, they have exported from these countries as much real wealth as the old colonial countries stole from them in the course of their 300 years of dominion.

In spite of the fact that the developing countries have achieved political independence and freedom, imperialism has not resigned itself to defeat. Now, following the collapse of the colonial system, the imperialists are continuing to plunder the natural riches and exploit the labour of the populations of the liberated countries, though they are now forced to operate in a more cunning and refined way, to conceal their actions more carefully.

#### **The Crisis, Disintegration and Demise of the Colonial System of Imperialism**

The economic basis of the deep crisis of the colonial system of imperialism was provided by the intensified contradiction between the imperialist bourgeoisie of the metropolitan countries and the peoples of the colonies and dependencies. The crisis of the colonial system of imperialism

was initiated by the Great October Socialist Revolution, which lit the bright flame of struggle for happiness and progress by the deprived and oppressed peoples. In connection with this, Jawaharlal Nehru, one of the leaders of the Indian national liberation movement, wrote: "I had no doubt that the Soviet revolution had advanced human society by a great leap and had lit a bright flame which could not be smothered, and that it had laid the foundations for that 'new civilization' towards which the world would advance."<sup>1</sup>

The crisis of the colonial system of imperialism, as already noted, is a major feature of the general crisis of capitalism. At its first stage, a number of major revolutionary uprisings occurred in the colonies and semi-colonies, and a persistent struggle for national sovereignty and freedom began to be waged by the peoples of the countries dependent on imperialism.

The Second World War and the worldwide historic victory of peaceloving forces over the shock forces of imperialism—Hitler's Germany and militarist Japan, were followed by the disintegration of the colonial system of imperialism. The German, Italian and Japanese colonial empires broke up. Britain, France, Holland and Belgium, weakened by the war, could no longer deal with the national liberation struggle in their own colonies and were forced to recognise the state sovereignty of a whole number of countries in Asia and Africa.

The disintegration of the colonial system of imperialism gained momentum in the 1960s to develop into its universal collapse. Given the general weakening of imperialism, the successful development of the world socialist system, and the mighty upsurge of the working-class and democratic movements, under the blows dealt by the anti-imperialist, national liberation revolution, the elimination of the colonial system set up by capitalism for oppressing peoples is now virtually complete.

The collapse of the colonial system of imperialism was a result of the growth of the national liberation movement, of the resolute struggle waged by the peoples for their freedom and national sovereignty. In the struggle for national liberation, the colonial peoples relied, as they still do, not only on their own strength, but also on the support they receive from the socialist countries and all revolutionary forces.

<sup>1</sup> Jawaharlal Nehru, *The Discovery of India*, New York, 1946, p. 17.

The winning of state sovereignty and political independence constitutes a major stage in the struggle by the peoples of the former colonies and dependent countries. The establishment of political independence does not, however, mean total elimination of dependence on the imperialist states. As Lenin noted, "economic 'annexation' is *fully* 'achievable' without political annexation and is widely practised".<sup>1</sup>

The peoples of Asia, Africa and Latin America, having won political independence, realised that this alone did not liberate them completely, for, without true economic independence, these countries cannot substantially raise their material and cultural levels. The struggle for economic independence in the liberated countries is now developing in two directions: against economic and cultural backwardness and against the attempts of the imperialist countries to delay the establishment of an independent economy in the developing countries.

### Neocolonialism

Neocolonialism is a whole system of economic, political, military and other relations of exploitation of the young national states by imperialism, which takes advantage of their economic backwardness and their inequitable, dependent position in the world capitalist economy. The aim of neocolonialism is at all costs to prevent the new states from pursuing a truly independent domestic and foreign policy, to hamper the creation of an independent national economy, to hold these countries within the bounds of the world capitalist system, prevent them from orienting themselves on socialism, and keep them as raw material appendages, profitable spheres of investment and sales markets.

What are the methods used by neocolonialism?

One of the widely used methods of neocolonialism is the export of capital, especially state capital, which allows the imperialist state to maintain and even strengthen the economic dependence of the capital-importing country. The export of state capital is carried out usually in the form of "aid", "gifts" and loans, while the international monop-

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<sup>1</sup> V. I. Lenin, "A Caricature of Marxism and Imperialist Economism", *Collected Works*, Vol. 23, 1974, p. 44.

olies, in the guise of furthering the industrialisation of these countries, set up their subsidiaries there, investing capital in profitable key branches of the economy. Thus, from 1967 to 1980, direct foreign investment in the African states (excluding South Africa) rose from 6.6 to 20 billion dollars. Moreover, preference was given to countries rich in oil and other natural resources (Nigeria, Gabon, Zaire, and others), as well as to states that had adopted a course of encouraging capitalist relations and going into partnership with foreign capital (the Ivory Coast, Kenya, Senegal). The average rate of profit on the investments made by the Western monopolies in Africa was more than 50 per cent higher than the average for the capitalist world as a whole.

The "aid" extended by the West to the developing countries is designed so that the recipient, having spent it, is compelled to ask for more. Moreover, this "aid" is often granted at quite high interest rates, thereby making many developing countries even more financially dependent. Their total foreign debt at the beginning of 1985 exceeded 1,000 billion dollars. These countries spend a large part of their currency revenues from exports merely to pay off debts and the interest on them. In the 1980s, for a number of countries, the volume of obligations on paying off foreign debts has exceeded the total value of their export revenues, by 22 per cent in Brazil, 29 per cent in Mexico and 79 per cent in Argentina.

The US imperialists also use the tested neocolonialist method of setting up puppet dictatorships in the developing countries by bribing military and political figures, plots, state coups, and the murder of progressive leaders. When the popular masses rise up against their corrupt rulers, the imperialists, on the pretext of defending "freedom and democracy", try to put down the liberation movement, often even resorting to direct intervention. Examples of such actions are provided by the barbaric years-long war waged by American imperialism in Vietnam (1964/65-1973) and the USA's invasion of Grenada in 1983.

The methods of neocolonialism also include the organisation of associations of former colonies and metropolitan countries through which the imperialists intend to keep the developing countries within the sphere of influence of the former metropolitan countries. For example, in the 1960s, France organised a "community" of its former colonies:

the Republic of Chad, Senegal and others. This allowed France to some extent to maintain its economic positions in its former colonies.

The imperialists strive to draw the former colonies into aggressive blocs and other reactionary international unions, attempting to instigate friction, conflicts and splits between them.

Neocolonialism, as implemented by the imperialists, is geared to holding back the socio-economic development of the liberated countries, adapting their economies to the needs of monopoly capital, and subordinating these countries to their own interests. The imperialists are dissatisfied with the growing independence of the liberated countries. They use a variety of ways and means to tie these countries to themselves, in order to dispose more freely of their natural wealth and use their territory for their own strategic purposes.

#### The Socio-Economic Structures in the Liberated Countries

The economies of the developing countries are distinguished by being multistructured. A structure in this sense is a sector of a country's economy, representing a specific type of economy. In the liberated countries there are, as a rule, the following main structures: small commodity production, the patriarchal economy, private economic capitalism, a public sector, and co-operative production. In many countries (such as those of Africa), the communal (patriarchal) structure still exists, usually in the tribal-clan form. This structure is gradually developing into the small commodity structure, represented by the economies of the peasants and craftsmen, based on small-scale private property and personal labour.

All these structures are often only weakly interlinked, and this holds back economic and social progress, making management of the economy difficult, the class structure more complex, and so on.

In many countries, the private capitalist structure is growing. International monopolies have a vested interest in the development of capitalist forms of economy, as well as in conservation of the traditional, backward socio-economic structures, which they use to strengthen their own power.

The majority of the developing countries are agrarian in character, with agricultural production, carried out partly

by ancient methods, predominating. Thus, almost 67 per cent of the population of Africa live and work in the countryside; 80 per cent of the total population of North Africa and 90 per cent of that in Tropical Africa are engaged in agriculture.

Industry in the developing countries is only weakly developed, for which the imperialists are to blame. It is represented primarily by the extractive and fuel industries. The extractive industry is oriented on the foreign market. On average, about 60 per cent of the value of all exports from the African countries consist of mineral raw materials, fuel and metals. As a rule, engineering and other progressive industries are weakly developed in these countries. At the beginning of the 1980s, their heavy industries were producing only a thirtieth of the per capita output of the developed capitalist countries, their metal-working industries—a fiftieth and chemical industries—a seventeenth.

The imperialist powers, having no interest in the rapid economic development of the liberated countries, continue to rob their peoples, removing enormous funds through non-equivalent exchange and profits from capital exports. Moreover, the national bourgeoisie, the feudal upper crust and the top bureaucrats transfer large sums—tens of billions of dollars—into the banks of the developed capitalist countries. The dominant classes of the less developed countries spend even larger amounts for non-productive purposes, above all on luxuries. Landlords, feudal lords, money-lenders and speculators spend unproductively about a third of all revenues coming from agriculture in the countries of Asia, Africa and Latin America.

Many billions of dollars are spent on non-productive military outlays and importing armaments. From 1960 to 1970, the military expenditure of, for example, the African countries trebled, while arms imports went up tenfold.

The import of arms to the developing countries leads, in most cases, to the exhaustion of their already extremely limited currency resources, which might have been spent to speed up the development of their industry and agriculture. If the money currently spent for military purposes, above all on the purchase of American armaments, was used in the civilian branches of the economy, many problems involved in the socio-economic development of the liberated countries might be resolved more quickly.

## The Two Development Courses of the Liberated Countries

After gaining political independence, the peoples of the liberated countries have the choice of two development courses: the capitalist and the non-capitalist, or revolutionary-democratic.

For the countries where capitalist relations come to dominate, the course of development is tortuous. It is extremely difficult for them to overcome their economic dependence on the imperialist powers. These countries continue to lose a large share of their national income; they have restricted rights to dispose of a substantial part of their resources for developing their national economies. Various crisis phenomena and the intensification of the socio-economic contradictions in the capitalist world have a detrimental effect on the economic development of the countries following a capitalist course.

Many developing countries have chosen a socialist orientation. There are now about 150 million people living in these, which have a total area of over 12 million square kilometres. The largest number of socialist-oriented countries is to be found in Africa, where they account for 30 per cent of the territory and almost 25 per cent of the population. A number of African states—Algeria, the People's Republic of the Congo, have already accumulated 15 years' experience of development according to a socialist orientation.

In spite of certain specifics, each of the developing countries following a socialist orientation bends its efforts in basically common directions. These are: gradual worsening of the position of the imperialist monopolies, the local big bourgeoisie and feudal lords; provision of the command posts in the economy to the state and a transition to planned development of the productive forces; encouragement of the co-operative movement in the countryside; a rise in the role of the toiling masses in the life of society, a gradual strengthening of the state apparatus with local personnel, loyal to the people; an anti-imperialist foreign policy.

In the socialist-oriented countries, enterprises belonging to international monopolies are nationalised. This measure is fully justified, for the property of the monopolies is capitalised surplus value, created by the peoples of the colonial countries. Nationalisation has been successfully carried out, for instance, in Algeria and other countries. In Algeria, 90 per cent of industrial output is produced in

state-owned enterprises. In Ethiopia, all big private enterprises and most medium-sized ones have been nationalised.

Nationalised enterprises, as well as ones built by the state, become state property. The public sector of the socialist-oriented countries includes banks, enterprises in the extractive and manufacturing industries, foreign trade, infrastructure establishments, and so on. The share of state property in the production of the national income in the socialist-oriented countries reached 30-50 per cent or more in the early 1980s, and, moreover, there was a stable tendency for the role of the public sector to rise gradually in production, capital investment, employment and the development of the progressive branches of the national economy.

In the majority of these countries, the public sector is a force directed against imperialism, feudalism and private property spontaneity in the economy. It plays a progressive role, since it makes it possible to control and use the material, financial and labour resources in the general national interests, and accelerates and raises the level of economic development.

One of the chief directions in the development of the socialist-oriented countries is industrialisation, which means an increase in the role of industry in the national economy, modernisation of existing industrial projects and the creation of new ones, and the transfer of all branches of the economy, including agriculture, on to a modern technological basis. This does not mean, however, that all countries, big and small, must create a universal industrial complex. They may evidently concentrate on developing the particular industries that are most efficient and necessary for the given country. In Algeria, for example, new plants and factories are being built to use local raw materials, and the infrastructure is being developed. The incomes of the nationalised oil and gas industry are used extensively for the country's economic progress. In the People's Republic of the Congo, the growth rate of industrial production reached 12-17 per cent per annum from 1970 to 1980.

One major direction in the development of the socialist-orientated countries is agrarian transformations carried out in the interests of the broad peasant masses and the development of the co-operative movement according to democratic principles. The elimination of the old forms of land-ownership and the outdated forms of farming connect-



ed with them, the transfer of the land to the peasants, the technological retooling of agricultural production, the development of co-operation and state farms, open up the way for a rise of agriculture and the economy in general and for elimination of the poverty of the toiling peasants.

In Ethiopia, for example, a tremendous amount of work has been carried out in the sphere of land-ownership and land use. About 25,000 peasants' associations, uniting over 5 million people, have been set up in the country. All the land that previously belonged to the aristocracy and landlords has now been handed over to the peasants. The top posts in the associations are held by former poor peasants. Wage labour is prohibited in the countryside, and peasant production co-operatives are being set up, the land and tools being united for collective use.

Radical agrarian transformations in the peasants' favour make it possible to develop the productive forces in the countryside and to find an effective solution to these countries' food problems, as well as to supply the people with the main foodstuffs.

The very rich experience of the Soviet Union and the other socialist countries exerts a tremendous revolutionary impact on the development of the socialist-oriented states. According to J. Nyerere, a prominent public figure, socialism based on collective ownership of the means of production is the only system that serves well the economic purposes of the developing countries, the only alternative they have in their efforts to achieve economic independence.

#### **Co-operation Between the Socialist and the Liberated Countries**

The economic links between the socialist and the liberated countries are a new type of economic relations, based on equitable, mutually beneficial co-operation and assistance in overcoming economic backwardness. Particularly close relations have been established between the socialist countries and the liberated states that have chosen a socialist orientation.

A major place in co-operation belongs to the economic and technical assistance rendered by the socialist countries, their aid in training local personnel, financial support, and so on. At the beginning of the 1980s, the USSR and the other socialist countries belonging to the CMEA were car-

rying out economic, scientific and technological co-operation with 90 developing countries. By the beginning of 1983, the socialist countries had helped in the construction of over 4,500 industrial and agricultural enterprises and in the training of over a million experts. The mutual trade turnover stood at more than 25 billion roubles.

One important form of co-operation between the socialist states and the developing countries is equitable and mutually beneficial trade, based on long-term inter-governmental agreements. The USSR has lifted all duties on imports from developing countries. The main part of Soviet exports of machinery and equipment goes to developing countries. Moreover, these exports include the best-quality machines, specially adapted to the specific climatic conditions in the given country.

The socialist states advance the developing countries long-term credits for 10-12 years at 2-2.5 per cent annual interest. The economic assistance offered by the socialist states is not accompanied by any political or other demands, but is used to raise the economies and culture of the developing countries. About two-thirds of the assistance rendered by the socialist countries goes for developing the national industries of these countries. Credits advanced by the socialist countries differ fundamentally from the "aid" offered by the imperialist states. The socialist countries do not participate in the management or the profits of the enterprises they helped to build. They willingly share their experience of economic development, free of charge. The USSR and the other socialist states construct whole industrial complexes on favourable terms, thereby helping the peoples of the developing countries to achieve economic independence.

In expanding and deepening their foreign economic links with liberated states of Asia, Africa and Latin America, the Soviet Union and the other CMEA members proceed from the Leninist principle that "these peoples are turning to us for help, and are becoming more and more aware of the economic necessity of an alliance with Soviet Russia against international imperialism".<sup>1</sup>

The Soviet Union co-operates broadly with the developing countries of Africa. At the beginning of 1983, the USSR

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<sup>1</sup> V. I. Lenin, "The Eighth All-Russia Congress of Soviets, December 22-29, 1920. Report on Concessions Delivered to the R. C. P. (B.) Group at the Eighth Congress of Soviets, December 21", *Collected Works*, Vol. 31, 1982, p. 477.

had concluded inter-governmental agreements on economic and technological co-operation with over 30 African states. On this continent, the construction with Soviet assistance is envisaged of over 500 projects, of which 300 are already in operation. The annually expanding co-operation on agreement with African countries has spread to the key sectors of their national economy, the sphere of material production.

With Soviet assistance, 130 different educational establishments, including 17 higher educational institutions and 90 study centres for vocational and technical training, have been set up in Africa. In the Soviet Union, the number of African students has risen to 12,000. Each year, the USSR allocates 3,000 grants for students from Africa. More than 5,000 African engineers and technicians have been trained in Soviet enterprises. Co-operation is expanding in the training of skilled personnel for educational centres created with Soviet assistance in Algeria, Angola, Libya, Nigeria and many other countries. Centres already in operation have trained about 200,000 skilled workers for such key industries as metal-working, engineering, the mining and oil industries, the building industry, power engineering, and so on,

Governed by the ideas of internationalism, the USSR and the other socialist countries render comprehensive assistance to the developing countries in their struggle for political and economic independence, and against the arbitrary sway of the imperialist monopolies. The courageous struggle waged by the peoples of the former colonies and semi-colonies against imperialism, colonialism and neocolonialism is actively supported by the world socialist system, which renders them political and economic assistance, and, when necessary, helps them strengthen their armed forces and defence potential. The union of the forces of socialism and the national liberation movement is a major precondition for success in the struggle against imperialism, for freedom, national independence and social progress. Lenin noted that the socialist revolution "will not be solely, or chiefly, a struggle of the revolutionary proletarians in each country against their bourgeoisie—no, it will be a struggle of all the imperialist-oppressed colonies and countries, of all dependent countries, against international imperialism".<sup>1</sup>

<sup>1</sup> V. I. Lenin, "Address to the Second All-Russia Congress of Communist Organisations of the Peoples of the East", *Collected Works*, Vol. 30, 1977, p. 159.

### Revision Exercises

1. What are the essence and stages of the general crisis of capitalism?
2. What are the chief features of the general crisis of capitalism and how are they manifested at its third stage?
3. What is the essence of state-monopoly capitalism?
4. Describe the chief forms of state-monopoly capitalism.
5. What do the crisis, disintegration and collapse of the colonial system of imperialism mean?
6. What is the essence of neocolonialism?
7. What courses of development are open to the developing countries? Describe them.

part two

**SOCIALISM—THE FIRST PHASE  
OF THE COMMUNIST MODE OF PRODUCTION**

The subject-matter of the political economy of socialism consists of the relations of production, economic laws and categories of the socialist system (the relations between people in socialist society with respect to production, distribution, exchange and consumption). This science studies primarily the labour links between producers, united by social ownership of the means of production. Marx called the political economy of socialism “the political economy of labour” as opposed to the “political economy of capital”.

Chapter Ten.

**THE ECONOMIC LAWS OF THE EMERGENCE  
AND ESTABLISHMENT OF SOCIALISM**

**1. The Necessity of and Laws Governing  
the Period of Transition from Capitalism to Socialism**

**The Necessity and Inevitability of the Period of Transition  
from Capitalism to Socialism**

The transition from capitalism to socialism is inevitable, necessary and irreversible; it is irreversible because the material and social preconditions for the transition to a more progressive social system mature within the framework of the capitalist system.

The transition from capitalism to a new system is impossible without a “leap”, a social upheaval, the essence of which consists in the replacement of capitalist with social ownership of the means of production. This upheaval is carried out by means of a socialist revolution and involves fundamental political and economic transformations, leading

to the destruction of capitalism and the building of socialism. Marx stated categorically: "*Socialism* cannot be realised without *revolution*. It needs this *political* act insofar as it needs *destruction* and *dissolution*."<sup>1</sup>

The socialist revolution, which may be peaceful or non-peaceful, acts as the motive force in history, differing from all previous social revolutions, including the bourgeois. The fundamental differences between them are contained in the following. The aim of the socialist revolution is to eliminate private ownership of the means of production and replace it with social ownership, and to destroy all forms of exploitation of man by man; the bourgeois revolution merely replaces one form of private property and one form of exploitation (feudal) with another (capitalist). Socialist relations of production cannot arise within the heart of capitalism, while capitalist relations of production take shape spontaneously and develop in the form of a structure within the heart of feudalism; and, finally, the socialist revolution is merely initiated by the winning of state power, while the bourgeois revolution is terminated by this.

The essence of the socialist revolution consists in eliminating capitalist relations of production and replacing them with new, socialist ones in the course of a specific historical period. The socialist revolution is not a one-time act, but a whole period in the history of society. In alliance with the toiling peasantry, the proletariat not only has to win political power, but also to remove all the means of production from the exploiters, restructure the economy on the basis of social property, draw the broad toiling masses into managing the national economy, carry out a cultural revolution and raise the people's standard of living.

#### The Essence of the Transition Period from Capitalism to Socialism

For the revolutionary transformation of capitalism into socialism, a historical period of transition is necessary, during which all the forms of private ownership of the means of production are finally eliminated to be replaced by social ownership, precluding any oppression of man by man and closing all channels for a revival of exploitation.

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<sup>1</sup> Karl Marx, "Critical Marginal Notes on the Articles 'The King of Prussia and Social Reform. By a Prussian'", in K. Marx, F. Engels, *Collected Works*, Vol. 3, Progress Publishers, Moscow, 1975, p. 206.

The classics of Marxism-Leninism proved scientifically that the building of communism would consist of three objectively conditioned, historically inevitable phases: transition period, the phase of socialism, the phase of communism.

Lenin graphically described these stages as:

“I. Long labour pains.

“II. The first phase of communist society.

“III. The highest phase of communist society.”<sup>1</sup>

The period of transition from capitalism to socialism Lenin described as “long labour pains”.

The period of transition from capitalism to socialism begins with the proletariat establishing its political domination and ends with the full victory of socialism, the creation of a socialist economy. In the USSR, the period of transition lasted from about 1917 to 1937, i.e. 20 years. In the socialist countries of Europe, the length of the transition period differed, depending on the level of development of the productive forces, the degree of socialisation of the means of production, national and historical traditions, and so on.

The economic content of the period of transition consists in the total destruction of bourgeois relations of production, the building of a socialist economy, and the creation of the material and technical base for socialism. These complex tasks are fulfilled under the conditions of a fierce class struggle between new-born socialism, which is consolidating its positions, and overthrown capitalism, which is dying out. This struggle is waged according to the principle of “who wins?”.

The period of transition from capitalism to socialism is obligatory for every country carrying out a socialist revolution.

#### The General Laws of the Transition Period

The revolutionary practice of building socialism in the USSR and the other socialist countries has confirmed that the period of transition from capitalism to socialism has a number of general laws that are obligatory for all countries building a socialist society.

What are these chief general laws? They include the following: a socialist revolution in one form or another,

<sup>1</sup> V. I. Lenin, *Complete Works*, Vol. 33, 5th Russ. ed., 1962, p. 185.

during which the old state machine of the exploiters is broken down and one variety of dictatorship of the proletariat, acting in alliance with other strata of the working people, is established; elimination of exploiting classes and all forms of exploitation of man by man; the socialist socialisation of the means of production and the establishment of socialist production and other social relations in both town and countryside; the familiarising of the toiling masses with cultural values and the accomplishment of a cultural revolution.

At the same time, the presence of general laws presupposes the possibility and necessity of the creative consideration of the variety of national and specific historical features in which this revolutionary process is accomplished. These specifics are manifested in the concrete methods and rates by which the socialist transformations are accomplished. "All nations," Lenin pointed out, "will arrive at socialism—this is inevitable, but all will do so in not exactly the same way, each will contribute something of its own to some form of democracy, to some variety of the dictatorship of the proletariat, to the varying rate of socialist transformations in the different aspects of social life."<sup>1</sup>

It should be stressed once more, however, that there is no way to arrive at socialism getting round the general rules. Divergence from the general rules of the building of socialism and exaggeration of national specifics are detrimental to the building of socialism.

Let us consider the main general laws, beginning with the first and chief one—the establishment of one of the varieties of the dictatorship of the proletariat.

#### Dictatorship of the Proletariat—a Tool in the Building of Socialism

The establishment of the dictatorship of the proletariat is necessary because only the working class can guide the whole mass of the working people in their struggle to overthrow the oppression of capital and build a socialist society. The dictatorship of the proletariat is state management of society, carried out by the working class, which is called on to seize all the factories, plants, banks, railways, schools,

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<sup>1</sup> V.I. Lenin, "A Caricature of Marxism and Imperialist Economics", *Collected Works*, Vol. 23, pp. 69-70.



hospitals, and so on from the bourgeoisie and to establish people's ownership of them. The state power is used by the toiling people also to put down the resistance offered by the exploiters in the country, to defend the gains of socialism from external enemies, and to build a socialist society.

The main and most difficult task facing the dictatorship of the proletariat, however, is not enforcement, but the creation of a socialist economy, so its chief characteristic feature is creative activities. The dictatorship of the proletariat becomes the guiding force behind the economic development of society towards socialism. Its chief functions are economic-organisational and cultural-educational work. As Lenin taught, after seizing power, of great importance is the "positive or constructive work of setting up an extremely intricate and delicate system of new organisational relationships extending to the planned production and distribution of the goods required for the existence of tens of millions of people".<sup>1</sup>

The highest principle of the dictatorship of the proletariat is the alliance of the working class with the toiling peasantry. The guiding and directing force in the system of the dictatorship of the proletariat is the communist and workers' parties. "The dictatorship of the proletariat," Lenin remarked, "would not work except through the Communist Party."<sup>2</sup>

The dictatorship of the proletariat appears in different specific forms in different countries. In the USSR it is reflected in Soviets, in other socialist countries—in the form of people's democracy. In their class nature, tasks and functions, Soviets and people's democracy are of the same type. The differences are reflected only in the specific forms of the political organisation of society and the state structure. The states of people's democracy are specific, as a particular form of dictatorship of the proletariat, partly in that other parties exist there side by side with the Communist Party, and participate in running the country, and a popular front, including democratic parties, trade unions, co-operative organisations, and leagues of young people is created. Another distinction is that some exploiting ele-

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<sup>1</sup> V. I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, p. 241.

<sup>2</sup> V. I. Lenin, "Tenth Congress of the R. C. P. (B.), March 8-16, 1921. Summing-up Speech on the Report of the C. C. of the R. C. P. (B.), March 9", *Collected Works*, Vol. 32, 1977, p. 199.

ments are given the right to vote, while in the Soviet Union these elements were deprived of their franchise, and so on.

In spite of these differences, the chief features of the dictatorship of the proletariat are the same in all countries. Whatever forms it might take, the political power of the working class, headed by the Communist Party, is an essential condition, the chief precondition for the creation of a socialist economy.

### Socialist Socialisation of the Means of Production

A general economic law of the building of socialism is, as we have already stated, the consistent elimination of capitalist property and the socialist socialisation of the means of production.

By carrying out the socialist socialisation of the means of production, the working class, in alliance with other strata of the working people, fulfils enormous tasks: above all, the foundations of the economic might of the exploiting classes are first undermined and then totally removed. The proletariat takes the means of production into its own hands, this being an essential condition for maintaining political power. At the same time, the socialisation of the means of production resolves the chief contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation, and destroys exploitation of the working people. There is only one means for ending exploitation of labour by capital: to destroy private ownership of the implements of labour, to hand over all factories, plants, and mines, as well as other large-scale property, and so on, into the hands of society as a whole and carry out general socialist production. In Soviet Russia, the first step in the socialisation of the chief means of production was the establishment of workers' control in industry. Workers' control is control over all aspects of the production and distribution of output and raw materials. From November 1917 to June 1918, this control was established over the key enterprises in Moscow, Petrograd, Baku, the Ukraine, Byelorussia, Estonia, Lithuania, and so on. Workers' control was a sort of preparation for socialist nationalisation.

Socialist nationalisation is the destruction of private ownership of the chief means of production and their transformation into the property of the socialist state. As a

result of socialist nationalisation, the commanding economic heights are transferred into the hands of the working class. On the initiative of the workers, individual industrial enterprises were nationalised already in 1917. In December 1917, the banks became public property, to be followed by the railways, means of communications, the sea and river fleets. In April 1918, a monopoly of foreign trade was established. In June 1918, in connection with the outbreak of the Civil War, a decree was adopted nationalising all industry.

Socialist nationalisation can be carried out by means of confiscation, or compulsory alienation with compensation, as well as in the form of the gradual transformation of capitalist into socialist property. All the wealth of the exploiting class was created by many generations of the working class, and when the proletariat, in the course of the socialist revolution, takes the means of production away from the capitalists, it is restoring historical justice: that which was created by the labour of the working people must belong to them.

In the socialist countries of Europe, the enterprises belonging to the German and Italian fascists and the big bourgeoisie collaborating with the occupation forces were first confiscated; then enterprises belonging to the middle bourgeois were nationalised by alienation with compensation. It was mainly the property of the middle and petty bourgeoisie who did not collaborate that was purchased.

Another urgent task in the economic sphere is nationalisation of big landlord and capitalist landownership. The agrarian question is solved in two ways: either by means of nationalisation of all the land, which is then handed over as national property for the peasants to use free of charge, or with the help of the distribution of a large part of the land confiscated from the big landlords among rural working people, according to the principle "the land to those who work it".

In the Soviet Union and Mongolia, all the land was nationalised, as the peasant masses themselves demanded. In Cuba, 70 per cent of the land became state property. In other socialist countries only part of the land belonging to big landlords was nationalised, the main mass of the confiscated land being divided up among the toiling peasants.

Nationalisation of the land and its transfer to those who work it initiate the creation of new, progressive social rela-

tions in the countryside and help to transfer the peasantry on to the path of socialism, and strengthen the fraternal union of the workers and peasants.

## 2. Socio-Economic Structures and Classes in the Transition Period. The Contradictions of the Economy in the Transition Period

### The Emergence and Essence of the Socialist Structure

The economy of the period of transition is multi-structural in character. In its content, an economic structure constitutes a form of social economy with a particular type of ownership of the means of production and character of socio-production relations. Lenin wrote that the economy of the transition period could not be called either capitalist or socialist, since elements, particles and fragments of both capitalism and socialism are intertwined within it.<sup>1</sup>

The number of structures and their share in the economy may differ, depending on the specific historical features of the given country. In the USSR, five structures existed during the period of transition: the socialist, small commodity, private capitalist, state capitalist and patriarchal.

As a result of socialist socialisation of the chief means of production and the implementation of a number of other measures, the socialist state creates a new structure of the economy that did not previously exist—the socialist structure embracing factories, plants, banks, transport, state farms, trading enterprises, communications and so on, belonging to society as a whole.

The socialist structure plays the leading role in the economy of the transition period, because this structure unites the key branches of the national economy, has more modern and better technology, and involves the chief contingents of workers, engineers and technicians.

In 1924, in the USSR, the share of the socialist sector in the gross industrial output was 76.3 per cent, and in retail trade—47.3 per cent. In the industries of the European people's democracies, in 1952, the share of the socialist sector was 97.5 per cent in Bulgaria, 91.9 per cent in Hungary, 70.4 per cent in the GDR, 92.1 per cent in Poland, 92.4

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<sup>1</sup> See V. I. Lenin, " 'Left-Wing' Childishness and the Petty-Bourgeois Mentality", *Collected Works*, Vol. 27, p. 335.

per cent in Romania and 96.1 per cent in Czechoslovakia.

The development of the socialist structure leads to the establishment of socialist relations of production.

#### Non-Socialist Structures

The small commodity structure consists of the economies of peasants, craftsmen and artisans, based on private ownership of the means of production (in some countries, such as the USSR and Mongolia, on nationalised land given to the peasants for their use in perpetuity), but not using wage labour. At the beginning of the period of transition, the small commodity structure embraces the majority of the population in many socialist countries. Thus, in the USSR, in the 1923/24 financial year, it accounted for 51 per cent of the gross national product. In the course of the building of socialism, small commodity production is transformed into socialist by means of gradual voluntary co-operation.

The patriarchal structure was represented in the USSR by the subsistence peasant economy. This structure was characteristic of all regions where, at the time of the socialist revolution, there were still elements of pre-capitalist relations. In 1923/24, subsistence peasant economies in the USSR provided 0.3 per cent of the gross product of the whole national economy.

The capitalist structure was represented by the kulak (rich peasant) economies, and industrial and trading enterprises belonging to private businessmen, in which wage labour was used. The objective possibility of this structure existing evolved from the fact that small commodity production spontaneously engenders capitalism. The inevitability of this structure being retained for a certain period of time is also a result of the fact that the socialist state cannot take over all branches of the economy immediately, for initially it lacks the strength, means and personnel to do so. In 1923/24, the private capitalist structure accounted for 8.9 per cent of the gross national product of the USSR.

At first, the socialist state restricts the capitalist structure, in particular the exploitation of labour power, and then pursues a policy of eliminating it.

The state capitalist structure includes concessions, enterprises leased out by the state, and mixed state-private enterprises. In 1923/24, the share of output produced by state capitalist enterprises was only 1 per cent of the USSR's

GNP, and the figure subsequently fell to zero. State capitalism was represented mainly by private capitalist enterprises directly controlled by the Soviet state.

The chief socio-economic structures existing in all the socialist countries during the period of transition were the socialist, small commodity and private capitalist. There were links between the economic structures, resulting from the unity of the reproduction process, and there was a constant exchange of economic activities through commodity-money relations. In as far as all producers counterposed one another as owners and there was a social division of labour, the links between them were established through trade.

#### Classes in the Transition Period

The economic structures of the period were backed up by specific classes.

The three main structures of the transition period were represented by the three main classes: the working class, the peasantry and the bourgeoisie, but the position of each of them had undergone a fundamental change.

The working class changed from being an exploited and oppressed class, as it had been under capitalism, into the dominant, ruling class. It now held state power and the decisive means of production in its hands, organised production and was leader of all the working people.

The toiling peasantry was released from dependence on the big landlords, and received land from the socialist state, as well as protection against exploitation by kulaks. The working class rendered it material and technical, and cultural assistance, advanced various types of subsidy and credit, and gradually put the peasantry on to a socialist development course.

The working class also united around itself all other strata of the working people—the working intelligentsia, craftsmen and artisans in the towns.

The bourgeoisie (small and medium-scale industrialists and merchants, and rich peasants), being deprived of political power, the decisive means of production and part of the capital, ceased to be the ruling class. For a number of years, however, it did retain a certain power, since it was supported by international capital, possessed experience, contacts, and capitals.

The class composition of the Soviet population in 1924 was as follows: factory and office workers made up 14.8 per cent, individual peasants and non-co-operated craftsmen—75.4 per cent, collective-farm peasants and co-operated craftsmen—1.3 per cent, and the bourgeoisie, merchants and rich peasants (kulaks)—8.4 per cent. The ruling class that organised the building of socialism was the working class.

### The Contradictions of the Transition Period

The multi-structural nature of the economy during the period of transition and the presence of hostile classes engender contradictions.

The chief antagonistic contradiction of the transition period is that between socialism and capitalism. Lenin wrote that the period of transition from capitalism to socialism “has to be a period of struggle between dying 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”.<sup>1</sup>

The bourgeoisie uses all opportunities and contacts to restore its dominion. It is even capable of organising armed intervention against the working people. The capitalists resist workers’ control, organise sabotage and subversion. The chief antagonistic contradiction of the transition period is resolved by the working class during the steady development of the socialist economy and the gradual ousting and then elimination of capitalist elements.

During the period of transition in the USSR there also existed non-antagonistic contradictions—between the advanced form of political power—that of the working people—and the backward technical and economic facilities, between the new relations of production and the backward productive forces. The non-antagonistic contradictions also included that between the large-scale socialist industry based on the social property and the small private peasant economy. This contradiction was manifested in the development of socialist industry according to the law of extended reproduction, while the small commodity, individual peasant economy was not always capable of carrying out even simple reproduction.

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<sup>1</sup> V. I. Lenin, “Economics and Politics in the Era of the Dictatorship of the Proletariat”, *Collected Works*, Vol. 30, p. 107.

There were also contradictions between the working class and the peasantry over a number of other aspects of economic policy, in particular the establishment of the price ratio between industrial and agricultural output, the size of taxes, and so on. These contradictions were resolved during the building of socialism by means of measures carried out by the socialist state, designed to strengthen the alliance of the working class and the toiling peasantry.

### 3. The Building of a Socialist Economic System in the USSR

#### Lenin's Plan for Building Socialism in the USSR

The plan for building socialism in the Soviet Union was drawn up by Lenin. Above all, it included the creation of the material and technical base for socialism through industrialisation of the country, as well as the socialist transformation of agriculture and the accomplishment of a cultural revolution. Lenin was deeply convinced of the tremendous organisational strength of worker and peasant power, of the inexhaustible creative potential of the revolutionary masses. He called on the working people to mobilise all their forces to build a firm foundation for socialist society. Lenin elaborated the foundations of economic policy, i.e. the proletarian state's complex of measures for eliminating capitalist elements and ensuring the victory of socialism.

The economic policy in the transition period was geared to strengthening the alliance of the working class and the peasantry, consolidating the dictatorship of the proletariat, developing the country's productive forces, and raising the productivity of labour and the working people's standard of living.

The Soviet state began to pursue this economic policy in the spring of 1918, but subsequently, owing to the imperialist intervention, the Civil War and the state of disruption, it had to go over to the policy of War Communism, when the rear was made to serve the front. During this period, private trade was prohibited and surplus grain requisitioning system was introduced, meaning that agricultural surplus produce was taken from the peasants in order to supply the army and the workers. In view of the difficult conditions during the Civil War and the period of foreign intervention, the Soviet government introduced a system of food rationing and general labour conscription. The War Communism pol-



icy played a vital role in the defeat of the enemies of the revolution during the years of the Civil War and foreign intervention.

The White Guard and interventionists did tremendous damage to the country's economy: the losses amounted to 39 billion prewar gold roubles. Large-scale industry was producing only a seventh as much output as before the First World War, only a twentieth of the amount of steel was smelted, and less than a metre of cotton fabric was produced per capita each year. A fuel crisis arose, transport operated only intermittently, and agricultural output fell by almost 50 per cent. From 1914 to 1920, almost 19 million of the able-bodied population between the ages of 15 and 49 were lost: either they were killed on the front, died from epidemics and starvation, or became invalids. The total numbers of the industrial proletariat fell by more than a half.

Under these difficult conditions, in 1921 the Soviet government adopted the New Economic Policy (NEP), elaborated by Lenin. The transition to the New Economic Policy was initiated by the replacement of the surplus-grain requisitioning system by a tax in kind, which was smaller than the quota formerly requisitioned. Everything the peasants had left after paying the food tax was for them to dispose of at will. The peasant could sell freely his surplus output. This made the peasants interested in increasing their production of agricultural output. Under NEP conditions, private capital could be used in industry and trade. Yet this posed no threat to socialism, for the commanding heights of the economy were in the hands of the state.

NEP envisaged the revival, first, of agriculture, as well as small-scale industry, the restoration of large-scale industry on this basis, the creation of a material and technical basis, the preparation and accomplishment of a socialist transformation in the small peasant economy, elimination of the multi-structural nature of the economy, and guarantees of the victory of socialism throughout the country.

#### The Creation of the Material and Technical Basis of Socialism

The creation of the material and technical basis or the foundations of socialism was one of the chief economic tasks of the transition period from capitalism to socialism. Every new society needs a corresponding material and technical

basis on which to develop progressively. By this category, we mean the production and technical apparatus used in society for creating material wealth. The material and technical basis is characterised by a specific level of development of the material elements of the productive forces, implements and objects of labour.

The material and technical basis of socialism is a highly developed production-technological apparatus, embracing all branches of the national economy and based on social ownership of the means of production. As Lenin put it, "large-scale machine industry and its extension to agriculture is the only possible economic basis for socialism".<sup>1</sup>

The main way of creating the material and technical basis for socialism is socialist industrialisation. This means the development, primarily, of large-scale industry, and a restructuring of the entire national economy on the basis of advanced machine technology. It means, in other words, the transformation of an agrarian country into an industrially developed one and presupposes a change in the structure of social production so that large-scale industry, centred on engineering, becomes its predominant part.

Socialist industrialisation in the USSR had a number of specifics. It was carried out rapidly for the following reasons. First, the private capitalist structure had to be ousted, and this was possible only on the basis of the country's industrialisation. Second, the working people's material and cultural level had to be raised. Third, the Soviet state was, for a number of years, the only socialist state and, naturally, it was constantly under threat of imperialist attack. In order to maintain its independence, a heavy industry capable of producing all types of the latest industrial equipment and means of defence for the country had to be created in the shortest possible time.

A major feature of socialist industrialisation in the USSR was that it began directly with the development of heavy industry and was carried out in a planned way. Capitalist industrialisation begins, of course, spontaneously with the development of light industry. Socialist industry differs fundamentally from capitalist also in the sources of the means for the development of industry. Capitalist industrialisation is paid for by accumulations formed as

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<sup>1</sup> V. I. Lenin, "To the Presidium of the Eighth All-Russia Congress of Electrical Engineers", *Collected Works*, Vol. 33, 1976, p. 49.

a result of exploitation of the working class and peasantry, oppression and robbery of all peoples of other countries, military contributions and foreign loans. Under socialism, the chief sources, however, are accumulations created within the socialist economic system itself, and material resources received by economising. Other sources are profits from foreign trade and the use of the economic advantages of socialism.

As a result of socialist industrialisation and the preferential growth of heavy industry, the Soviet land became an advanced industrial power in only fifteen years. Compared with 1913, in 1940 the USSR's industrial output was 7.7 times higher, including an increase of 13.4 times in the production of means of production and 4.6 times in that of consumer goods. Modern branches of industries and types of production appeared that had not existed in tsarist Russia.

In the USSR, industrialisation created the necessary material basis for consolidating the country's economic independence, the technical reconstruction of all branches of the national economy, and the transfer of agriculture onto socialist lines. It ensured the ousting of capitalist elements in the towns, the victory of the socialist structure in industry and the growth of the working class; it also helped increase its guiding role in society, as well as further strengthen the country's defence capability. Industrialisation of the USSR was a great feat of the working class, of the whole people, who did not spare their strength or resources, and willingly accepted deprivations in order to bring the country out of its backward state.

Soviet experience of industrialisation is used extensively in the world socialist system. The majority of socialist countries are now, in terms of their economic structures, industrial-agrarian countries. They have overcome their technical and economic backwardness in a short period of time. The main indicator of the degree of industrialisation of a country is the share of industry in the national income. Thus, Bulgaria, formerly an agrarian country, is now firmly among the world's industrial countries and produces more every month than it did in the last whole year before the war. In the other socialist countries, however, industrialisation was carried out under more favourable conditions than in the USSR. They had the opportunity to make use of the Soviet Union's experience; industrialisation was

carried out on the basis of mutual assistance between all the socialist countries and with the USSR's help; and wide use was made of the advantages and benefits of the international socialist division of labour.

The international socialist division of labour releases a number of socialist countries from the need to develop all branches of heavy industry and makes it possible for them to concentrate their efforts on those for which the most favourable natural conditions and socio-historical preconditions are available in the given country.

### Socialist Transformation of Agriculture

The creation of the material and technical basis for socialism also includes fulfilment of tasks involved in the transformation of the small commodity peasant economy into large-scale mechanised socialist production.

The plan for the socialist transformation of agriculture was elaborated by Lenin, and he resolved the problem both theoretically and practically at the same time. He proved that the transformation of small, individual economies into a large-scale socialist production requires production co-operation of the peasantry.

Production co-operation is a very complex and tortuous process. The peasant is not only a toiler, but also an owner. Private property instincts had been cultivated in him for centuries. The traditions of individual farming were handed down from generation to generation and acquired the force of habit, deeply embedded in the consciousness and psychology of the peasants. In this difficult situation, it was very hard to find a specific form of socialist transformation of agriculture that would meet the interests of both the peasant and the socialist state, but Lenin managed to do this. This form was co-operation, based on the voluntary alliance of the peasants in a joint economy. This is why the chief principle of Lenin's famous co-operative plan was that it should be strictly voluntary. In this matter coercion would have been extremely harmful; the peasant had to be convinced of the advantages of co-operation and, as the owner in practice, he would better realise the benefit to be derived from joining the co-operative, whether he would be better or worse off. First, it had to be shown that such an alliance would benefit him, and then the peasants could be united.

Another major principle of Lenin's co-operative plan was

consistency and the gradual co-operation of the peasants, the transition from the simplest forms of co-operation to the more complex ones, to production co-operatives. The simplest forms include supply and sales, credit and consumer co-operation, as well as mutual assistance teams and groups. In the mutual assistance teams and groups only the labour is socialised; the land and means of production remain personal property. A more mature form of co-operation was associations for the joint working of the land. Here, all the plots of land belonging to the members of the co-operatives were pooled. The means of production remained private property. The distribution of the associations' incomes was carried out not only according to work done, but also to the amount of land contributed.

The highest form of production co-operative is the agricultural artel, in which the land and the main means of production are socialised, and income is distributed according to the quantity and quality of the labour inputs. In the Soviet Union, agricultural communes also arose, in which all the means of production were socialised, right down to small items and even domestic fowl. This particular form of co-operation was not viable, however, and later these agricultural communes were transformed into collective farms.

A major condition for the success of the socialist transformation of agriculture was that the working class should guide the building of socialism in the countryside. The principle of voluntariness and gradualness in no way means spontaneity and random development. The working class is called on actively to promote the socialist transformation of agriculture not only by means of explanatory and organisational work, but also by rendering specific and effective assistance to the villages in the form of means of production, seed, money, agrotechnical forces, and the like. Such, in brief, are the chief links in Lenin's co-operative plan.

In the Soviet Union, co-operation of peasant economies was carried out in two stages: the first stage (1917-1929) lasted for over ten years. During this period the material and technical foundations were laid down and the peasants prepared for the socialist transformation of agriculture. The peasantry's fundamental turn towards collective farms took place in the second half of 1929, when the second stage began,

that of the transition to mass collectivisation (1929-1937). In 1937, 99.1 per cent of the sown area was already collectivised.

The total collectivisation of agriculture in the USSR meant a radical break in the old social system, and the uprooting of capitalism in the countryside. It constituted a revolution, eliminating petty-bourgeois relations of production in the countryside and replacing them with new, socialist economic relations. This revolution fulfilled three basic tasks in the building of socialism. First, it eliminated the kulaks, the most numerous exploiting class in the country. Second, it transferred the peasant class from the course of individual farming to that of the socialist economy. Third, it gave Soviet power a socialist basis in agriculture, that most extensive and vitally necessary, and yet the most backward branch of the economy.

The experience of collectivisation in the USSR is of incalculable international significance. It facilitates the implementation of agrarian socio-economic transformations on a socialist basis by other countries. In the European socialist countries, co-operatives have been set up in three main forms: first, the lowest form of production co-operative, in which only the labour involved in carrying out individual agricultural jobs was socialised, while the land and the means of production remain the property of the peasants. Examples of the lowest form of co-operation are provided by the associations for the joint working of the land in Romania, production groups in Hungary, and agricultural groups in Poland. The second form is co-operatives in which the main means of production and labour are socialised, but the land is pooled, while remaining private property. This type of co-operative included those with rent in Romania, those in the GDR and Bulgaria. The distribution of the incomes in co-operatives of this type was carried out according to work done and the size of the land contributed. The third form is the type of collective farm on which the land is also common property. This form was applied in Bulgaria in labour co-operatives of farming economies, in Czechoslovakia in integrated agricultural co-operatives, in Hungary in agricultural production co-operatives of the lower and higher forms, and in Romania in collective agricultural units, and so on.

In all the European socialist countries except Poland and Yugoslavia, collectivisation is complete. The socialist

transformations in agriculture have for ever released the rural working people from bondage to rich peasants, from class stratification, ruin and poverty.

### The Cultural Revolution

The widespread introduction of modern technology into industry and agriculture demanded a large number of qualified personnel. Machine production requires, of course, workers of a higher cultural and technical level than production based on manual labour does. The problem of training qualified personnel is solved by the cultural revolution. At the same time, the tasks of the cultural revolution are broader.

The building of a socialist society requires a rise in the general educational level and special training of the broad population and their familiarisation with the treasures of world culture, i.e., the accomplishment of a cultural revolution. This revolution consists of the following measures: elimination of mass illiteracy and low literacy level of the population, inherited from the previous system, the extensive training of skilled workers for all branches of the national economy; the retraining of old specialists and the creation, on a mass scale, of a socialist intelligentsia; a rise in the culture of the formerly oppressed nationalities; the accelerated development of science and a strengthening of its ties with production; the ideological-political and moral education of the working people in the spirit of Marxist-Leninist ideology.

The socialist cultural revolution in Soviet Russia took place under difficult, complex conditions: the country was extremely backward in the sphere of education. Suffice it to say that 75 per cent of the population over the age of 9 were illiterate, and 80 per cent of the children and adolescents had no opportunity to attend school. Lenin said: "There is no other country so barbarous and in which the masses of the people are *robbed* to such an extent of education, light and knowledge—no other such country has remained in Europe; Russia is the exception."<sup>1</sup>

The cultural revolution put an end to this. By 1939, 87.4 per cent of the population of the USSR could read and

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<sup>1</sup> V. I. Lenin, "The Question of Ministry of Education Policy", *Collected Works*, Vol. 19, p. 139.

write. Over the years of the building of socialism in the country, a broad network of secondary and higher educational establishments was created and a mass socialist intelligentsia was formed. In 1913, in pre-revolutionary Russia, there were 190,000 experts with a higher or secondary specialised education employed in the national economy. On the eve of the Great Patriotic War (1941-1945), the number of experts employed in the Soviet national economy was 2,400,000, including 910,000 with a higher education and almost 1,500,000 with a specialised secondary one. In 1940, there were over 1,400,000 machine operators on collective and state farms.

In the course of the cultural revolution, a new man was moulded, educated in the spirit of Marxism-Leninism, of proletarian internationalism, as the conscious creator of a new, socialist life. The Soviet man embodied the qualities that Maxim Gorky, the writer, dreamed about. He said: "I am for the man with will-power, the goal-oriented man that I perhaps myself invented... But now my dreams are being fulfilled. We are seeing a bold, strong, daring man in reality. The people I used to just dream about are now alive, working and doing great things."

The cultural revolution transformed the USSR, released the toiling masses from intellectual slavery and ignorance, acquainting them with the riches of culture accumulated by mankind. The Soviet people soared high to the pinnacles of science, technology and culture.

A socialist cultural revolution also developed in the other socialist countries. Here, too, the tasks of eliminating illiteracy among the population have been fulfilled, a developed system of public education has been created, a mass, new people's intelligentsia has been trained, and major successes scored in the formation of a socialist consciousness among the working people.

The experience of building socialism in the USSR and the other socialist countries provides convincing testimony that the revolution in the sphere of ideology and culture, the communist education of the working people and the creation of a people's intelligentsia constitute component parts of the building of socialism, an essential condition for the establishment and victory of the new social system—socialism.



#### 4. The Victory of Socialism. The Stages in the Economic Maturing of Socialism

##### Elimination of the Multi-Structural Nature of the Economy and the Victory of Socialism

As a result of the revolutionary transformations accomplished in the transition period in the economy, political structure and culture, a new socialist society is created and socialism triumphs. The first ever socialist society in the history of mankind was built in the USSR. Socialist relations of production were established in all branches of the national economy of the USSR. The victory of socialism meant that the socialist structure became a system of the national economy that enjoyed undivided sway. The multi-structural economy was transformed into a single socialist economy. The share of the socialist economy in 1937 was 99.1 per cent of the national income, 99.8 per cent of the gross product of industry, 98.5 per cent of that of agriculture, and 100 per cent of the retail turnover of trading enterprises (including public catering).

The main contradiction of the transition period—that between nascent socialism and moribund capitalism—was resolved in favour of socialism. In town and countryside, socialist ownership of the means of production was fully established and exploitation of man by man and the reasons behind it were eliminated.

In the early 1930s, the foundations were laid for the socialist economy and in the second half of the decade a socialist society was, in the main, built in the USSR.

The victory of socialism in the USSR meant that, as a result of the country's industrialisation, the material and technical basis of socialism was created. As a consequence of the fundamental socio-economic transformations in the national economy, changes occurred in the proportions between its individual branches.

Large-scale machine production became widespread in agriculture, too. The creation of the material and technical basis of socialism brought a tangible growth in the welfare and culture of the people, the working people's living and working conditions improved, the per capita national income rose 3.9-fold from 1913 to 1937, and fundamental changes took place in the social structure of society. The exploiting classes were eliminated and two friendly classes remained in society—the working class and the collective

farm peasantry; a new intelligentsia emerged, loyal to the Soviet people.

The victory of socialism was not, however, complete. At the time, the Soviet Union was the only country to have built socialism; it was encircled by capitalist countries, so the danger remained that bourgeois and landlord order might be restored by the forces of international reaction.

After the Second World War, the situation in the world changed. A number of other countries took the socialist course, too. As a result of the formation and consolidation of the world socialist system, the balance of power in the world arena changed sharply in socialism's favour. There are no longer any forces left in the world capable of restoring the capitalist order in the socialist countries. This means that socialism has gained a final victory. An incomparably high level has been attained both in the national economy and in socialist social relations, culture, the material and cultural welfare of the broad popular masses.

After the completion of the period of transition from capitalism to socialism, the USSR entered the first phase of the communist mode of production—socialism. This phase constitutes an entire historical era in the development of society towards communism, during which socialism passes through stages of maturity.

There are two stages in the phase of socialism: the early stage, during which developed socialism is built, and the stage of developed, mature socialism, during which socialism is constantly improved and gradually develops into communism. The stage of the building of developed socialism in the USSR was longer than the transition period, taking the forty years from 1937 to 1977.

The economy of developed socialism is characterised by the following features: 1) large-scale production and greatly developed productive forces of the country. Nowadays, Soviet industry produces more in a month than it did throughout 1940; 2) the development of the scientific and technological revolution, the introduction of scientific principles for running the economy, the organic unity of the achievements of the scientific and technological revolution with the advantages of the socialist system of economy; 3) the comprehensive and proportional nature of the development of all spheres of the national economy, the transition to its intensive development; 4) the attainment of a high level of social production, which ensures a sharp rise

in the living and cultural standards of the popular masses;  
5) mature relations of production.

The economy of developed socialist society is an integral system of socio-economic ties and relations providing for a rapid and intensive growth, on the basis of the current scientific and technological revolution, of socialist production and the comprehensive development of people themselves, as well as a substantial rise in their standard of living.

At the stage of developed socialism, the social structure of Soviet society has become increasingly homogeneous; the unity and cohesion of all nations and nationalities has gained in strength; the conditions have been created for the active participation of the working people in the development of science, technology and culture; the ideology of Marxism-Leninism, socialist internationalism and Soviet patriotism have become entrenched.

The Constitution of the USSR (1977) fixed legislatively a great historical event—the building of developed socialist society in the USSR. This is a great triumph of the Soviet people.

The creation of developed socialist society in the USSR, and the building of socialism in other countries are of tremendous international significance. The great victory of socialism inspires the working people of the capitalist countries to struggle for their rights, for liberation from the oppression of capital, for progress and peace.

#### Revision Exercises

1. Why is a transition period needed from capitalism to socialism?
2. What are the dictatorship of the proletariat and its forms?
3. What are the general laws and the specifics of the transition period?
4. What economic structures exist and what is their essence?
5. What are the contradictions of the period of transition?
6. What is the material and technical basis of socialism? How is it created?
7. Name the chief economic features of developed socialism.

## Chapter Eleven.

### SOCIAL (PUBLIC) OWNERSHIP OF THE MEANS OF PRODUCTION. THE CHARACTER OF LABOUR. THE BASIC ECONOMIC LAW OF SOCIALISM

#### 1. Social Ownership of the Means of Production: Its Two Forms. Personal Property under Socialism

##### What Is Social Ownership? <sup>5</sup>

The victory of socialism is completed by the establishment of social ownership of the means of production.

What is social socialist ownership of the means of production? Primarily, the means of production belong to the working people; they cease to be a means of exploitation. A common feature in the relations of social ownership is the fact that not a single working person relates to any other as a private owner. All the means of production belong jointly to all the members of society, so the relations that take shape between them are ones of co-owners and co-proprietors of the means of production. The joint owner and the working person merge inseparably. As a result, genuine collectivism, comradely co-operation, and mutual assistance between people, free from exploitation, are established. Lenin wrote that, to establish socialism, "means placing *all* citizens on an *equal* footing with regard to the *means of production* belonging to society as a whole. It means giving all citizens *equal* opportunities of working on the publicly-owned means of production, on the publicly-owned land, at the publicly-owned factories, and so forth."<sup>1</sup>

##### Two Forms of Socialist Ownership and Two Types of Enterprise

Social socialist ownership of the means of production arises, as we can now see, in the transition period from capitalism to socialism. Under socialism it exists in two forms: 1) public national property, i.e. that belonging to the whole people, and 2) co-operative property (in the USSR, in the form of collective farm-co-operative), i.e. that belonging to individual collective farms and co-operative associations.

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<sup>1</sup> V. I. Lenin, "A Liberal Professor on Equality", *Collected Works*, Vol. 20, p. 146.

After seizing political power in the course of the socialist revolution, the working class comes up against two main forms of private ownership of the means of production: large-scale private capitalist property based on exploitation of the labour of others and small-scale private property based on personal labour. The first is expropriated. This cannot be done to the second, since the removal of small-scale private property would mean that the proletariat is striving to become the owner of the means of production to which it has no direct connection and which are created by the personal labour of the small producers.

Public property is formed on the basis of the nationalisation of enterprises belonging to exploiters in industry, transport, sport, means of communications, banks, and so on. Collective farm-co-operative property arises as a result of the merging of small peasant farms into big collective ones, on the basis of the voluntary socialisation of the means of production belonging to them, as well as the unification of small craftsmen and artisans in co-operatives.

In socialist society, the socialist state represents the whole people, reflects and executes its will. Public property thus takes the form of state property. The state protects common ownership of the means of production. State property is characterised in the Constitution of the USSR as "the common property of the Soviet people".

In the Soviet Union, the land and its minerals, water and forests belong exclusively to the state. The chief means of production in industry, construction and agriculture, means of transport and communications, banks, as well as enterprises in trade and the services sphere, the main part of the urban housing fund, and so on, all belong to the state.

A major feature of state property is its indivisibility. No one has the right to demand from the state "his own share" of the public property. State property belongs only to everyone together. The appropriation of public property by individuals is precluded and punished strictly by law.

The next important feature of state property is that it plays the leading role in the economy of socialist society. This is because state ownership covers the chief branches of the national economy, above all industry. Moreover, state property is at a higher level of socialisation; it is the basis of the labour activities of the working class—the most advanced and best organised force of society.

Another form of socialist property, as already stated, is collective farm-co-operative property, which belongs to individual collectives of working people running a social economy. It includes collective farm tools and machinery, tractors and combines, socialised dairy, meat and draft cattle, buildings intended for cultural and domestic purposes, enterprises for processing agricultural raw materials, the collective farm's output, and so on. Collective farm-co-operative property is represented by two main forms of co-operation: production (collective farms) and consumer co-operatives. The second form of property also includes production co-operatives in industry (cottage industry and fishing collective farms), housing construction and country-house building co-operatives.

Both forms of socialist property: state and collective farm-co-operative—are of the same type in their socio-economic nature. They have common features: they belong to one socialist property, making up a common, inseparable whole; there is no exploitation of man by man; in the production of material goods, relations of friendship and mutual assistance are established between people; both forms of property develop in a planned, balanced way and in the interests of the working people.

While being of the same type, they differ from each other in their degree of maturity and level of socialisation of the means of production. State property is a more mature form of socialist property, since it constitutes socialisation of the means of production on the scale of the entire national economy, the whole country, while collective farm-co-operative property belongs to individual collectives. This form is less developed and mature, but very important and necessary.

The existence of the two forms of socialist property is conditioned by the presence of two types of socialist enterprise: state and collective farm-co-operative. In their socio-economic essence these enterprises are of the same type, yet differences exist between them, manifested in the forms of the planning of production, the distribution of output and incomes, the management of production and so on.

State enterprises are the property of the whole people in the person of their state. The means of production, as well as the land on which the enterprise stands and the enterprise as a whole, all belong to the state. In addition,

collective farm-co-operative enterprises are the property of individual collectives of working people. In state enterprises, all the means of production are socialised, while in collective farm-co-operative ones—only the main means of production are, while the secondary ones, used for the running of subsidiary economies, remain the personal property of the collective farmers. State enterprises are managed by the socialist state according to the one-man-management principle, through the state's plenipotentiaries—directors. The management of a collective farm is carried out by the general assembly, the board elected by it, and the chairman of the co-operative. In state enterprises, the state and its economic bodies dispose of the incomes. Factory and office workers receive a wage. On collective farms, it is the co-operatives themselves that dispose of the output and incomes. The incomes of the members of the co-operatives are in kind (especially at first) or money. The income from the collective farmer's household plot goes directly to him.

These differences between state and co-operative enterprises exist, however, within the bounds of one, social, socialist property. The development and consolidation of the two forms of property and the two types of enterprise is the chief task and duty of all the working people in socialist society. Any encroachment on social property undermines or weakens the economic system of socialism, so the constitutions of the USSR and the other socialist countries focus particularly on strengthening and multiplying socialist property, combatting theft and waste of state and social property. On the basis of the two forms of property, the personal property of the working people is created.

### Personal Property

Under socialism, social property includes the means of production and the output produced. Part of this output, consisting of consumer goods, goes to the working people to satisfy their individual requirements. This constitutes personal property. Its source is the labour of the workers in social production. He who works harder shall receive more consumer goods as his personal property and his requirements will be better satisfied. If a person is capable of working but does not wish to do so, he is deprived of

the right to receive consumer goods as his personal property.

Under socialism, personal property created by personal labour cannot be transformed into a source of exploitation of other people, a source of enrichment. In this lies its fundamental distinction from private ownership of the means of production. In this context, Marx and Engels wrote: "We Communists have been reproached with the desire of abolishing the right of personally acquiring property as the fruit of a man's own labour, which property is alleged to be the groundwork of all personal freedom, activity and independence... We by no means intend to abolish this personal appropriation of the products of labour, an appropriation that is made for the maintenance and reproduction of human life, and that leaves no surplus wherewith to command the labour of others."<sup>1</sup>

Personal property includes labour incomes, money savings, domestic items, cultural and household goods, refrigerators, television sets, cars, motorbikes, and so on, in fact everything necessary to satisfy the personal requirements of citizens and their families. In the USSR, for example, 20 per cent of the national wealth consists of the population's personal property.

The growth of the working people's personal incomes furthers the development of their physical and intellectual abilities. The scale of personal property depends on the quantity and quality of labour invested in the social economy. The higher the level of development of this economy, the greater the real incomes of the people working in it and the more commodities they can acquire as personal property. At the same time, the possibility of acquiring more material goods for their incomes raises the workers' material interest in a high productivity of labour, which helps to multiply social property.

Under the conditions of socialism, the fundamental differences between mental and physical work, between town and village have not yet been overcome, so property differences remain—differences in the composition and volume of the citizens' personal property.

One particular form of personal property under socialism is the collective farmer's personal plot, as well as the allotments of factory and office workers, which consist of a

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<sup>1</sup> Karl Marx and Frederick Engels, "Manifesto of the Communist Party", in Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, Progress Publishers, Moscow, 1976, pp. 498, 499.



home, auxiliary buildings, cattle and fowl for personal consumption, and small agricultural equipment required for working the plot. This personal economy is based on the personal labour of the working people and the members of their families.

Personal property, like the ownership of the means of consumption based on labour, is protected by the legislation of the socialist state. The citizens of the socialist countries have the right to dispose as they wish of the items they receive as personal property—to consume, sell or leave them by will.

Labour-based personal property grows constantly as socialist production develops and the welfare of the working people rises.

## 2. The Character of Labour and Economic Interests Under Socialism

### The Specifics of Labour Under Socialism

Labour is a necessary condition for the existence of any society. Under capitalism, however, labour is forced labour for the exploiters, while under socialism it is labour for oneself and the society of the working people. In Lenin's words, only under socialism "for the first time after centuries of working for others, of forced labour for the exploiter, it has become possible *to work for oneself* and moreover to employ all the achievements of modern technology and culture in one's work".<sup>1</sup>

Under socialism there is a fundamental change in the character of labour, i.e. its social nature. This change is a result of socialist ownership of the means of production. Social ownership means that no person or social group can exploit others, that no one can live at the expense of others, that everyone must work.

One distinguishing feature of labour under socialism is its general and mandatory nature and the right of everyone to work. The economic nature of socialism makes labour a necessity for every able-bodied member of society. The principle of "He who does not work neither shall he eat" operates. This means that every able-bodied person is

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<sup>1</sup> V. I. Lenin, "How to Organise Competition?", *Collected Works*, Vol. 26, 1972, p. 407.

obliged to work as his strength and abilities permit. There is no place in socialist society for exploiters or idlers. To labour for the benefit of society is the sacred duty of every Soviet person.

The Constitution of the USSR states: "Citizens of the USSR have the right to work (that is to guaranteed employment and pay in accordance with the quantity and quality of their work, and not below the state-established minimum), including the right to choose their trade or profession, type of job and work in accordance with their inclinations, abilities, training and education, with due account of the needs of society.

"This right is ensured by the socialist economic system, steady growth of the productive forces, free vocational and professional training, improvement of skills, training in new trades or professions, and development of the systems of vocational guidance and job placement."<sup>1</sup>

Socially-useful labour determines a person's position in socialist society, his significance and prestige. Gorky wrote: "It is labour, and only labour, in which a person can be great, and the greater his love of labour, the grander he is himself, the more productive and beautiful his work."

One of the specifics of labour under socialism is that it has acquired a directly social character, is organised in a planned way on the scale of all society. Social ownership of the means of production unites all enterprises into a single economic organism. Socialist society consciously organises labour in a planned way in all links of the national economy. Labour is thus already in production itself socially-organised labour, is directly social in character, and acts as a particle of aggregate labour.

A major specific of labour under socialism is that social ownership of the means of production creates new material and moral incentives to labour. Material and moral incentives are used in socialist society to raise the productivity of labour, and achieve an abundance of material and cultural benefits faster. Bourgeois economists attempt to present labour under socialism as "forced" labour, denying that the new social system engenders incentives to labour. The need to work, in their opinion, is engendered by pri-

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<sup>1</sup> *Constitution (Fundamental Law) of the Union of Soviet Socialist Republics*, Novosti Press Agency Publishing House, Moscow, 1984, Art. 40.

vate property alone. They assert that social ownership of the means of production kills any incentive to work. All these concepts conflict with reality, distorting the character of labour under the conditions of the socialist system. The deep and conscious interest of the working masses in the development of social production, the high moral incentive to labour, are a specific of labour under socialism.

It is characteristic of labour under socialism that it is creative and genuinely humane in character. The chief value is the working man, which is precisely why the socialist state shows such concern for providing worthy working conditions for people, ensuring the maintenance of their health and creating broad opportunities for highly productive and creative work. This makes it possible to advance towards erasing the fundamental differences between mental and physical labour, transforming agricultural labour into a variety of industrial. The measures to improve the working conditions include, in central place, the technical retooling of production.

The scientific and technological revolution under developed socialism leads to the transformation of the conditions and character of labour. Labour activities are organically combined with scientific creativity. Labour becomes a highly efficient, creative process, making the forces of nature serve man and act in people's interests, in the interests of the progressive development of society.

#### Economic Interests Under Socialism

Man's requirements for means of survival constitute a constant material incentive to labour, accounting for people's material interest in labour; in other words, it engenders material interest. Material interests have an objective basis—the objective motives prompting people to act, directly connected with the satisfaction of their requirements and determined by the position of the workers in the system of social production.

Economic interests do not, at the same time, exist outside man, beyond his consciousness. Engels stated that economic relations present themselves primarily as interests.<sup>1</sup>

<sup>1</sup> See Frederick Engels, "The Housing Question", in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 2, Progress Publishers, Moscow, 1976, p. 363.

The establishment of socialist ownership of the means of production and the fact that, under socialism, every member of society is a co-owner of the social property, engenders nation-wide interests. These interests are manifested in the need to satisfy the constantly growing material and cultural requirements of all members of society. This is why people's interests are the highest form of economic interests under socialism. These interests are satisfied on the basis of the development of public property and this depends on the volume and rate of growth of social production. The more output is produced in socialist society, the better the working people's requirements are satisfied. This is why the working people have a material interest in the development of social production.

In socialist society, interests of collectives of enterprises also take shape. They consist in the attainment of the highest possible production results in the given enterprise and the receipt of corresponding remuneration by its work collective. Collective interests are particular in that they are organically combined with those of the people as a whole, since the activities of each enterprise as a component of the system of social production are geared to satisfying public and collective interests.

Finally, the form of economic interests under socialism is personal material interests, which consist in the fuller satisfaction of man's individual requirements. Under socialism, personal interests are inseparably linked with social and collective ones. They have lost the features of the interests of private capitalist enrichment. Personal requirements are better and better satisfied as social production increases, and the degree of satisfaction of personal interests is directly dependent on the results of the labour of each individual, the successes scored in the work of the given collective and the scale of the total social product.

Social ownership of the means of production unites all forms of economic interests into a single whole. Under socialism the rule is: "That which benefits society, must benefit the enterprise work collective and the individual working people, too"; the conditions are created for a harmonious unity of all interests. This is conditioned, above all, by the operation of the basic economic law of socialism.

### 3. The Basic Economic Law of Socialism

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

The basic economic law of each society reflects the main features and links in its economy. In the system of socialist relations of production, the basic economic law of socialism reflects the essence and course of development of socialist production. This law consists in ensuring the fullest well-being and free comprehensive development of all members of society by means of a constant growth and improvement of social production.

The goal of social production and the means for achieving it find their concentrated reflection in the basic economic law of socialism.

#### The Goal of Socialist Production

Socialism changes the goal of production fundamentally, subordinating it to the interests of the working people. Socialist production, the basis for which is provided by social property, is carried out in order to satisfy the material and intellectual requirements of all members of society. In accordance with the requirements of the basic economic law of socialism, article 15 of the Constitution of the USSR declares: "The supreme goal of social production under socialism is the fullest possible satisfaction of the people's growing material, and cultural and intellectual requirements."

Scientific substantiation of the goal of socialist production was provided in the works of the classics of Marxism-Leninism. Engels himself wrote that socialism creates the "possibility of securing for every member of society, by means of socialised production, an existence not only fully sufficient materially, and becoming day by day more full, but an existence guaranteeing to all the free development and exercise of their physical and mental faculties".<sup>1</sup>

Lenin pointed out that the replacement of capitalist society with socialist would be carried out in order to ensure the full well-being and comprehensive development of all its members. In 1918, in a speech to the First Congress of Economic Councils, he said: "Socialism alone will make possible the wide expansion of social pro-

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<sup>1</sup> Frederick Engels, *Anti-Dühring*, p. 335.

duction and distribution on scientific lines and their actual subordination to the aim of easing the lives of the working people and of improving their welfare as much as possible."<sup>1</sup>

The Communist Party of the Soviet Union and the Soviet state subordinate all their activities in developing the national economy of the USSR and socialist culture to the humane goal of achieving the increasingly full satisfaction of the material and cultural requirements of the Soviet people and their comprehensive development.

The standard of living of the people in the USSR is steadily rising. Compared with 1940, the national income in 1982 was 15.1 times higher, per capita real incomes were 6 times higher, the real incomes of collective farmers per capita had grown 7.3 times, and so on.

Housing construction has been carried out in the country on an extensive scale. Capital investment of 87.2 billion roubles was allocated for this purpose, this being more than stipulated in the five-year plan. From 1976 to 1980, a total of 530 million square metres of housing was built. The living conditions of more than 50 million people improved. Now about 80 per cent of the urban population of the USSR live in separate flats. The Soviet Union is rightly called a country of house-warmings. No other state can compare with the USSR in the rate of housing construction. The achievements here are tremendous. Payment for flats in the Soviet Union is among the lowest in the world. The state covers a substantial part of the outlays on housing and municipal services.

In the USSR, public education is universal and paid for by the state. Since 1974 there has been universal secondary education. Society assumes the responsibility for paying a large part of the cost of educating the younger generation. A unified system of pensions has been introduced, pensions being paid by the state and collective farms; the pensionable age here is lower than in most countries: 60 years for men and 55 for women. Medical care, and mother and child care are free of charge. In half a century, the average life expectancy has more than doubled.

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<sup>1</sup> V. I. Lenin, "Speech at the First Congress of Economic Councils, May, 26, 1918", *Collected Works*, Vol. 27, p. 411.

## The Means for Attaining the Goal

The goal and the means for attaining it are objective in character and are fully determined by the economic conditions of the given social system. Under capitalism, the means for increasing the production of surplus value is a rise in the degree of exploitation of wage workers. Under socialism, the increasingly full satisfaction of the growing material and cultural requirements of the people is achieved through a growth and improvement of social production.

Lenin gave a scientific substantiation of the possibility of and need for a constant growth, faster than under capitalism, of social production under the conditions of socialism. He noted that in order to ensure the steady rise in the people's welfare, first of all heavy industry would have to be developed, a new technological basis provided for the national economy, the productivity of labour raised as much as possible and science and technology developed.

Modern social production is now on the threshold of creating a completely automated system of machines, equipped with computers, complete electrification and extensive chemicalisation. It is using new materials and sources of energy, new means of transport allowing space to be used for peaceful purposes, and so on. The latest scientific and technological achievements create favourable opportunities for better satisfying the population's growing demand for foodstuffs and consumer goods. Socialism makes it possible to use the fruits of science and technology for satisfying people's growing requirements and raising the working people's standard of living.

### The Basic Economic Law as the Law of the Movement of Socialism

The basic economic law of socialism is the law of the movement of social production. The motive force of socialism is the growth of national consumption, and the means for achieving this end—the development and improvement of production. Expressing the essence of socialism, the basic economic law shows people the goal of social production—the fullest possible satisfaction of the working people's requirement for means of existence.

It follows from the content of the basic economic law of socialism that the material and cultural requirements must be satisfied to an ever growing degree. This does not

apply to all requirements, but only rational ones, however. These are requirements that, first, correspond to the level of labour productivity achieved and, second, in being satisfied, promote the comprehensive, harmonious development of the individual, meeting the requirements and norms of the socialist way of life.

The basic economic law of socialism is the law of the movement and development of socialist production, distribution, exchange and consumption. It reflects the inner need for continuous development of socialist society. Its operation is geared to achieving an abundance of material and intellectual benefits, creating the preconditions for the transition to their distribution according to requirements, and to the gradual development of socialism into communism.

#### Revision Exercises

1. What is social ownership of the means of production?
2. What forms of property exist under socialism?
3. What are the nature and sources of personal property under the conditions of socialism?
4. What specifics does labour have under socialism?
5. What are the economic interests characteristic of socialism? What are their forms?
6. What is the chief content of the basic economic law of socialism?

#### Chapter Twelve.

### THE BALANCED DEVELOPMENT OF THE SOCIALIST ECONOMY AND ITS PLANNING. THE ECONOMIC ROLE OF THE SOCIALIST STATE

#### 1. The Law of the Planned, Balanced Development of the National Economy

##### The Need for the Planned and Balanced Development of Socialist Production

The law of the planned, balanced development of the national economy is a specific law of the communist mode of production. It reflects an objective need for society to consciously direct and control the movement of social production, distribution, exchange and consumption in a



scientifically substantiated way and to accomplish co-ordinated activities in all links of the economy on the basis of the distribution of aggregate labour power, means of production and the social product created, in the interests of all its members. The law of the planned, balanced development of the national economy emerges as a result of a number of objective factors.

The general material precondition for this is social production organised on the basis of big machine industry. This precondition already exists in bourgeois society, but there it conflicts with the private capitalist ownership of the means of production and the operation of the spontaneous laws of capitalism. Social regulation of production and its planned, balanced nature are, therefore, impossible under capitalism.

A planned, balanced economy appears on the basis of the establishment of social ownership of the means of production, which unites many enterprises and branches of the economy into a single, integral national economic complex. This engenders the requirement for a certain co-ordination of the activities of all economic links, enterprises, economic sectors and so on. In the industry of the USSR, for instance, there are 300 major branches, hundreds of thousands of big enterprises and millions of types of production. This whole complex includes a multitude of multifaceted interlinks, each enterprise, each branch of the economy being a component part and link in the single national economic organism, and specific economic ties are established between them.

Under socialism, labour co-operation expands to the scale of the whole national economy. This takes place on the basis of state ownership of the means of production. The large-scale socialist economy becomes, in Lenin's words, "a single office, a single factory".

The planned, balanced nature of the economy is an objective and characteristic feature of socialist relations of production. The planned, balanced development of the socialist economy, the possibility of and need for social regulation allow the national economy to be managed efficiently, optimal proportions to be established between branches and types of production on a country-wide scale, the productive forces to be rationally distributed, economies of the country's material, labour and financial resources to be ensured, and the development of the economy to be

subordinated to improving the well-being of the working people.

The planned, balanced development of the national economy means, above all, its proportional development, i.e. observance of the proportions (correspondence) between the various sectors of production and spheres of the economy. "Constant, deliberately maintained proportion," Lenin stressed, "would indeed, signify the existence of planning."<sup>1</sup>

Yet planning of the economy includes not only "proportion", as such, but also a specific nature of this proportionality ("constant, deliberately maintained"). Consequently, while not meaning exactly the same thing, planning and proportion are not contradictory either—they are organically interlinked.

#### Proportions in the Socialist Economy

The socialist economy cannot develop unless certain proportions (correlations) are observed in the distribution of labour and means of production between the various parts of the national economy.

Under socialism, the chief proportions include: *general economic* ones (the correlations between production and consumption, the compensation fund and the national income, consumption and accumulation, industry and agriculture, the people's money incomes and the volume of commodity turnover); *inter-sectoral* (the correlations between the interlinked branches of production. For example, the proportions between ferrous metallurgy and engineering, the coal and oil industries, livestock-breeding and crop-growing); *intra-sectoral* (the correlations between the production of different types of output: coke, pig iron, and steel in metallurgy and so on); *intra-production* (between different shops or sectors of production within a given enterprise); *territorial* (the correlations in the development of the branches of the economies of economic regions and so on); *inter-state* (the correlations in the development of the branches of production of the socialist countries belonging to the CMEA and so on).

In this way, there is a wide range of national economic proportions, the constant maintenance of which constitutes a major task facing socialist society.

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<sup>1</sup> V. I. Lenin, "Uncritical Criticism", *Collected Works*, Vol. 3, 1977, p. 617.

The proportions in the socialist economy are objective in character. They are determined by the operation of economic laws. In setting proportions, account is taken of the demands of the basic economic law of socialism, the law of the priority growth of the production of means of production and the other economic laws of socialism, which makes it possible to determine and maintain proportions in all spheres of the economy in accordance with the specifics of the current stage in the building of socialism.

Under socialism, however, partial violations of proportions, so-called disproportions, are not excluded. The reasons for these are two-fold: objective and subjective. The objective reasons for partial disproportions are determined primarily by the degree of development of the productive forces. The modern level of development of the productive forces is such that the socialist economy still experiences a considerable impact of the spontaneous forces of nature, especially in agriculture. Partial disproportions also arise in connection with the fact that the scientific and technological revolution engenders, on the one hand, the emergence and rapid development of new progressive industries and, on the other hand, an end to the production of obsolete machinery, machine-tools, materials, instruments and the like.

The subjective reasons for temporary disproportions include shortcomings in the organisation of production management, miscalculations in planning, and so on.

Socialist society is able to disclose the reasons for the appearance of partial disproportions in good time and eliminate them by redistributing labour, material and financial resources, creating adequate economic reserves as conditions for stable, high rates of economic development and the uninterrupted operation of enterprises. In order to establish and maintain scientifically substantiated proportions of social reproduction, strict accounting is required of social needs. These include the requirements of material production, science and technology, the needs of the people's consumption, education and health care, and the development of culture. Society, in the person of the state and its bodies, studies social requirements, determines their magnitudes, structure and development trends. In accordance with these requirements, the state establishes the level of development of the branches of the national economy and

the development of the production of material goods and services.

In order to maintain planned proportions, economic reserves and stock must be created. Economic reserves may be various: current and incomplete production, insurance and guarantee reserves for ensuring the normal functioning of enterprises during possible breaks in the supply of raw and other materials and fuel, and financial, currency and other reserves.

The economic law of the planned, balanced development of the national economy creates the objective possibility of managing the national economy, economic and social processes in a deliberate, rational and effective way, but this opportunity is not automatically realised. In order to turn it into reality, a deep understanding is required of the operation of the economic law of planned, balanced development and the other economic laws of socialism, and skilful use of these laws in practice, including in the organisation and improvement of planning.

## 2. Planning the Economic and Social Development

### The Essence of Planning

Planning is a specific activity of the socialist state and the working masses to ensure the planned, balanced development of the economy by elaborating state plans for economic and social development, adjusting them and supervising their implementation.

The plans for economic and social development include a system of indicators and a complex of measures for the development of social production in general and for its individual component parts, ensuring the co-ordinated activities of the working people and the solution of the set tasks for the minimum possible labour inputs. These plans contain all the chief parameters for the management of economic and social development; they determine the proportions, directions and rates of development, and include the sum of specific tasks that can and must be fulfilled. Lenin wrote that the plan "is a yardstick, a criterion, a beacon, a landmark, etc."<sup>1</sup>

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<sup>1</sup> V. I. Lenin, "Plan of the Pamphlet *The Tax in Kind*", *Collected Works*, Vol. 32, p. 323.

Socialist planning embraces all branches of the national economy and socio-cultural development. In the national economic plan of the USSR, not only the plans of enterprises and branches of the economy are co-ordinated into an integral whole, but also those of the republics and economic regions, as well as foreign economic links and all aspects of the social development of socialist society.

Under the conditions of developed socialism, planning includes the elaboration of measures for resolving the fundamental tasks of economic and social development, among which are improvement of the material and technical basis of mature socialism, ensurance of the steady development of socialist production for the fullest possible satisfaction of the constantly growing material and cultural requirements of society as a whole and the comprehensive development of the individual. The chief tasks facing socialist planning are to ensure highly efficient socialist production, a growth of labour productivity, a rise in the quality of output, economies and thriftiness, and an acceleration of scientific and technical progress.

Under contemporary conditions, particular attention is focused in the USSR on development of the system of plans, guarantees of the balance of the economy, an intensification of the comprehensive approach, and an orientation of all planning activities on the final national economic results.

### The Chief Principles of Planning

Socialist planning and its organisation, i.e. the process of the preparation, elaboration, confirmation and implementation of state plans, relies on certain principles, which were elaborated by Lenin. The chief planning principles include: the partisan and scientifically substantiated nature of the plans; democratic centralism; the unity and continuity of planning; the organisation, control and testing of plans.

The principle of the partisan and scientifically substantiated nature of planning means that, on the basis of scientific data on the development of socialist society and account of the specifics of each given stage of development, the Communist Party determines the main socio-economic tasks and ways to fulfil them during the plan period. It guides all the work on compiling the national economic plans, organises the working masses for fulfilling and over-

fulfilling the plan tasks, and supervises the course of plan fulfilment.

Planning on a scientific basis must rely on a study of social requirements, elaboration of scientific forecasts of economic processes and phenomena, on comprehensive analysis and assessment of the different variants of engineering and economic solutions, their direct and long-term consequences, on the broad application of computers, and so on.

One of the most important principles of socialist planning is that of democratic centralism, which determines the organisational and guiding role of the state planning centre in reflecting the people's interests, and also presupposes that account be taken of local specifics and the people's initiative applied both in the elaboration of the plan and in the course of its implementation.

The principle of the unity and continuity of planning implies co-ordination of all the plans for branches of the economy, economic regions, and the constituent republics in unity, a combination of current and long-term plans. The planning system in the USSR currently includes: comprehensive programmes for scientific and technical progress for twenty years (broken down into five-year periods); the main guidelines for the economic and social development of the USSR for ten years (by five-year periods), the five-year plan for the economic and social development of the USSR (with an annual break-down) and the annual plan.

The long-term plans include special comprehensive scientific and technical, economic and social programmes, as well as programmes for the development of individual regions and territorial-production complexes. In the USSR, programmes are being successfully implemented for the development of Western and Eastern Siberia, the laying of the Baikal-Amur Railway, industrial and timber complexes in the Soviet Far East, which are called on to meet future national economic requirements for oil, gas, coal, ferrous and non-ferrous metals, timber and other raw materials. Of major significance is the elaboration of the Energy Programme, the Food Programme, as well as programmes for the development of the production of consumer goods and the services sphere, a reduction in the use of manual labour, unskilled and heavy physical labour.

The plans' stability and continuity are ensured by a combination of long-term, five-year and yearly plans.

Control and testing of plan fulfilment is a major prin-

ciple of socialist planning. Control is carried out by the corresponding state bodies, with broad involvement of the working masses. The aim of control and accounting is to clarify how the fulfilment of the plan is proceeding, what difficulties have been encountered, how best to mobilise internal production reserves, and so on. When the plan is confirmed, it acquires the force of law. It must be fulfilled on time, with the minimum possible inputs and best possible results.

### The Balance Method of Planning

In the organisation of planning, a system of balances is used that reflects the multiple forms of economic links between the aspects of social production and the branches of the national economy. With the help of balances, a close co-ordination is ensured of all sectors of the national economic plan. The balances are an instrument for the specific study of economic proportions and their improvement. Any balance consists of two balancing parts: credit and debit. The credit part takes account of all the possible resources, on the scale of the entire state (from production, stocks, imports), while the debit part includes all the outlays in the plan period (for production and construction purposes, for personal consumption, exports, and the creation of reserves). There is a whole system of balances making it possible to determine the dependence of one branch on another, calculate the national economy's requirements for a given product and compare this requirement with available resources.

Thus, physical balances are drawn up for all the chief products of labour, such as metal, machine-tools, coal, oil, grain, butter, and so on, account being taken of the sources of the given product. The data obtained are compared with society's requirements for the given product.

Value balances include the state budget, the balance of the people's incomes and expenditures, and the balance of the national income. These balances reveal and determine the correlations between resources and the demand for them. The labour balance determines the national economy's requirement, by branch, for labour power in general, as well as that for labour power of a specific skill level and trade, and reveals all the main sources from which the required labour power might be supplied to the economy.

The system of balances is completed by the balance of the national economy. It includes the balance of the aggregate social product, the balance of the national income, and the balance of labour, and reflects all the proportions of the national economy.

The improvement of the system and methods of planning is geared to ensuring a comprehensive intensification of social production and a rise in its efficiency.

### 3. The Economic Role of the Socialist State

The economic role of the socialist state is determined primarily by the fact that it represents all the working people and reflects their interests. The socialist state gears its activities to the development and improvement of social production for ensuring fuller satisfaction of the growing material and intellectual requirements of the members of society. Being the owner of the vast majority (90 per cent in the USSR) of the means of production, the state concentrates in its hands the commanding heights in the economy and acts as the chief economic subject of the socialist economy, the organising centre of the country's economic affairs.

The guiding force of the socialist state and socialist society as a whole is the Communist Party of the Soviet Union, which determines the general prospects for the country's development and the strategy of the USSR's home and foreign policy, and guides the great creative activities of the Soviet people, making its struggle to build communism planned, balanced and scientifically substantiated in nature. The economy is the chief sphere of the Party's creative activity; it enjoys the decisive role in improvement of developed socialism and the activities of the socialist state. The economic functions of the Soviet state are fixed in the Constitution of the USSR where, in particular, it states that the state ensures the dynamic, planned, proportionate development of the economy.

The socialist state carries out its economic organisational activities on the basis of a scientifically substantiated economic policy consisting of an aggregate of the scientifically formulated ideas and propositions, long and short-term tasks, goal-oriented actions, with the help of which the economy is run. This policy proceeds from the fundamental interests of the working class and all other groups of the working people; it takes account of the urgent require-



ments of socialist progress and determines the main lines of economic development for the specific economic period.

The activities of the state and its bodies in the sphere of the economy are based on a profound scientific cognition of the economic laws of socialism. It meets the vital interests of the people and meets with the full support of the working masses.

#### Revision Exercises

1. What is the essence of the law of the planned, balanced development of the national economy?
2. Explain the concepts of proportionality, the planned, balanced nature of the economy, and planning.
3. What are the chief principles of planning?
4. Name the main national economic proportions and expand on their objective character.
5. What is the economic role of the socialist state?

#### Chapter Thirteen.

### COMMODITY-MONEY RELATIONS UNDER SOCIALISM

#### 1. The Need for and Essence of Commodity-Money Relations Under Socialism

##### The Need for Commodity-Money Relations Under Socialism

The production of commodities and their circulation reached their highest development under capitalism, when labour power also became a commodity. Under socialism, commodity-money relations remain. What is the explanation for this?

The basis of commodity production is provided, of course, by the social division of labour. Under socialism there is a further deepening of the social division of labour, specialisation and co-operation of production increase, and so on. This fact does not in itself give rise to commodity relations and commodity production; for the emergence and development of commodity-money relations, individual, separate producers who relate to one another as the owners of the goods produced must exist. The isolation of producers under socialism is determined by the existence of the two forms of ownership of the means of production—public and

collective farm-co-operative, and two types of socialist enterprise—state and collective farm-co-operative. It is the economic isolation of the socialist enterprises by form of property that constitutes the chief reason for the retention of commodity-money relations under socialism.

The turnover of the individual parts of the social product can take place only in the form of commodity turnover on the basis of equivalent compensation of outlays, since this product belongs to different, isolated producers. Collective farm-co-operative enterprises sell their output and use the money received in return to purchase the commodities they need from the state (and to some extent from one another). In turn, the state acquires output from collective farms in the form of commodities.

The need for commodity-money relations is also engendered by the specifics of state property. Although state enterprises also belong to the whole people, they are economically independent within the bounds of the single state plan and economic links between state enterprises are mediated through sale and purchase.

The existence of commodity-money relations is also connected with the nature of labour under socialism. There are still fundamental differences between the labour of the worker and the collective farmer, between mental and physical labour, as well as between skilled and unskilled labour, and this creates the need to reduce qualitatively heterogeneous labour to a common measure—abstract labour—in order to assess the results of labour in value form. The level of development of the productive forces and the social consciousness necessitate a comparison of the measure of labour and the measure of consumption. Under socialism, labour has not yet become a primary vital requirement, and the distribution of products is carried out according to the quantity and quality of the labour expended by the worker. Moreover, extensive use is made of the principle of material incentives to labour, which necessitates the application of the principle of equivalency in the exchange of products, material interest and the monetary assessment of the results of labour as the most flexible at present.

Commodity-money relations are objectively necessary in connection with the development of the foreign-economic links of each socialist state with other countries and the development of trade between them.

### The Fundamental Difference Between Commodity-Money Relations Under Socialism and Under Capitalism

Commodity-money relations under socialism differ fundamentally from commodity production under capitalism. They reflect the economic links between people, which are fundamentally new. In what are these differences reflected? Above all, capitalist production, based on private ownership of the means of production, presupposes the transformation of labour power into a commodity, into the object of purchase and sale, of exploitation. Meanwhile, socialist production, based on social ownership of the means of production, precludes the transformation of labour power into a commodity and exploitation of the working people. Under socialism, the land, its minerals, and the forests are not commodities either, and the chief means of production (plants, factories, mines, and so on) are excluded from sale and purchase.

The next difference is that the goal of capitalist production is for the capitalists to reap maximum profits by exploiting the working people; competition, anarchy of production, and crises of overproduction are inherent in it. The goal of socialist production is the increasingly full satisfaction of the constantly growing material and cultural requirements of the working people. Socialist production develops on the basis of a single plan, at a rapid rate, without crises or recessions.

Further, in socialist society the link between enterprises producing commodities is accomplished not spontaneously, but in a planned, balanced way. Under the conditions of capitalism, the commodity producers are "the slaves of the things their hands create"—commodities, but under socialism the producers are the owners of the means of production and, as such, they dominate over the conditions of production and the products of their labour.

Thus, commodity-money relations under socialism are based on social ownership of the means of production and do not include relations of exploitation; they are not universal; they are organised in a planned, balanced way. The production of commodities under socialism is, basically, direct social production of output to satisfy the growing requirements of society as a whole and of each of its members.

## 2. The Commodity and Money Under Socialism

### The Commodity and Its Properties Under Socialism

The properties of the commodity under socialism acquire a fundamentally different socio-economic character from those under capitalism. Lenin himself drew attention to this. In his words, the "manufactured goods made by socialist factories and exchanged for the foodstuffs produced by the peasants are not commodities in the politico-economic sense of the word; at any rate, they are not only commodities, they are no longer commodities, they are ceasing to be commodities".<sup>1</sup>

Under socialism, the commodity is not simply the product of labour designed for exchange: it reflects the new socialist relations of production. It contains no antagonistic contradictions, as it does under capitalism. The movement of commodities is subordinated to the operation of the law of the planned, balanced development of the national economy.

Under socialism, the commodity is produced by socialist enterprises in a planned, balanced way to satisfy the growing requirements of socialist society and enters consumption via exchange.

Under the conditions of socialism, labour power cannot be a commodity, for the workers themselves are the co-owners of socialist property and cannot sell their labour power to themselves. To recognise labour power as a commodity under socialism would be to assert that the working class and other working people of socialist society are separated from the means of production and are not their owners. Such an assertion would, however, distort the very essence of socialist property and its economic content.

All types of finished product are commodities. The output the collective farm sells to the state is a commodity; in this process, a change of ownership takes place. Commodity output sold on the market is also a commodity. All features of commodities are shared by the goods of personal consumption produced at state enterprises. This part of the social product enters the sphere of trade and is sold freely to all members of society. Here, too, we see a change of owners: commodities that were the property of the state become the personal property of individual citizens.

<sup>1</sup> V. I. Lenin, "Instructions of the Council of Labour and Defence to Local Soviet Bodies", *Collected Works*, Vol. 32, p. 384.

The means of production are commodities, too, but they have certain specific features compared with consumer goods. First, a substantial part of the means of production are sold not according to free sale and purchase, but only to enterprises, in accordance with distribution plans. Second, payments for means of production purchased also take place differently from those for consumer goods. Payments are made between state enterprises by written orders through banks. Third, the movement of means of production within the state sector reflects the mutual relations between enterprises, which, though separate, constitute a single state property.

Under socialism, the commodity, as we have already stated, has two aspects—use value and value. In socialist society, social use values interest society as material values capable of satisfying the various human requirements. Use value, a qualitative assessment of the product, acquires a different significance under socialism: now the task is to improve the quality of output, its service-life, usefulness and other properties necessary for the better satisfaction of the working people's requirements.

A rise in the quality of output is of major national economic significance. It means savings on labour and material resources, a growth of export opportunities and, in the final count, better, fuller satisfaction of the requirements of society and of each of its members.

In the practice of socialist economic management, the other aspect of the commodity—value (labour embodied in the commodities) is of major importance. The value of the commodity under socialism reflects new socialist relations of production; it serves as a form of accounting of inputs of embodied and live labour at enterprises producing means of production and consumer goods, which is important in planning, determining the correct proportions in the national economy, accounting, distribution of the social product, and so on.

#### **Concrete and Abstract Labour. The Contradictions of the Commodity Under Socialism**

Under socialism, concrete and abstract labour are different forms of manifestation of directly social labour. So here the emergence of antagonistic contradictions is impossible, as are crises of overproduction. Under socialism, the

labour of the workers is based on social ownership of the means of production and is carried out in accordance with a plan. While labour inputs into the production of output in different branches of production and enterprises are, on the whole, stipulated in advance, the labour embodied in the commodities consequently receives social recognition directly in the production process.

The domination of social ownership of the means of production under socialism eliminates commodity and money fetishism. People predominate over things, the movement of commodities is a result of the planned, balanced development of the national economy: things satisfy the working people's requirements without being a means for exploiting them.

#### The Value of the Commodity

The value of the commodity is determined by the socially necessary labour input, the labour expended under normal production conditions.

The time spent on the production of a unit of output by an individual enterprise is individual working time. It determines the size of the individual value of the commodity. The measure of social value is, however, the socially necessary working time—the average working time spent by enterprises in a given industry producing the main mass of output of the given type. In practice, it takes place as follows. In the plan, the state sets the range of enterprises producing the main mass of a particular product. The outlays of these enterprises act as the socially necessary ones and determine the commodity's value.

#### The Essence and Functions of Money Under Socialism

Under socialism, the retention of commodity-money relations also accounts for the retention of money. All these categories are closely interlinked. When, following the 1917 Revolution in Russia, certain "hotheads" demanded that money be destroyed as a "survival of capitalism", Lenin noted that very many technical and, far more important, organisational achievements would be required before this could be done.

Under socialism, money is a universal equivalent of a particular type. It reflects the socialist relations of produc-

tion; the planned, balanced exchange of commodities is carried out, and the economic links are maintained between enterprises, industries and members of society with its help.

The nature of money and its role in socialist society differ fundamentally from money under capitalism. Under socialism, money has no spontaneous power over people; it serves as a form of expression of part of the social wealth. Every working person who possesses a given sum of money can acquire a certain share of the social product for his own use.

Money under socialism cannot become capital, this being the main feature distinguishing it from money in capitalist society. Under socialism, it acts as a measure of social labour and reflects socialist relations of production, is a powerful economic instrument for the planned management of national economic development, a means of universal accounting and control over production, distribution and exchange of the social product, a measure of labour and a measure of consumption.

The essence of money is revealed more specifically in its functions. Under socialism, money fulfils the following functions: 1) measure of value; 2) medium of circulation; 3) means of payment; 4) means of socialist accumulation and savings of the working people; 5) world money.

As a measure of value, money serves as a measure of the socially necessary labour embodied in the commodities, which is expressed through a specific quantity of the money commodity. This function is manifested in the way the value of commodities is expressed in money and receives the form of commodity prices.

In its function as a measure of value, money (gold) acts ideally. It fulfils this function with the help of the standard of price. The standard of prices in the Soviet Union, for example, is the amount of gold, in weight terms, contained in a single monetary unit—the rouble, which, since January 1, 1961, has been 0.987412 grammes of pure gold.

The function of money as a measure of value under socialism is of major importance for the planning of the national economy, accounting and control of the production and distribution of the social product.

In its function as a medium of circulation, money is called on to help bring the commodities to the consumers. By means of money, the commodity form of value is transformed

into the money form, and the money form into the commodity. In this function, money is not acting ideally but really. Here money is serving as a means for controlling the fulfilment of the plans for commodity turnover, a means by which consumers control production. The planned organisation of commodity turnover under socialism creates the conditions for centralisation of money flows, their measurement and calculation, as well as for control over their movement. The monetary symbols (paper money) issued by the state according to a plan are, under socialism, stable substitutes for gold.

In its function as a means of payment, money operates in all cases when there is a movement of money without a simultaneous movement of commodities in the opposite direction. The use of this function for the payment of the factory and office workers' wages is of particular importance, as in the guaranteed payment for the labour of collective farmers. The use of money in its function as a means of payment also takes place in the payment of pensions, grants, and the like.

All monetary incomes and temporarily free funds of socialist enterprises and organisations are kept in their bank accounts, while the money savings of the working people are concentrated in savings banks. The concentration of all money accumulations of socialist enterprises and a large part of the savings of the working people by the state credit system makes possible their extensive use for the development of the national economy. The use of the money deposited in banks and savings banks for advancing long- and short-term credit means there is a close link between the functions of money as a means of accumulation and as a means of payment.

Under socialism the accumulation of money takes two forms: social accumulation by enterprises and organisations; individual accumulation, i.e. the deposits of personal savings by working people in savings banks, personal insurance, and the hoarding of money in the hands of individuals. In its function as socialist accumulation and the savings of working people, money is used to develop the national economy, and raise the material and cultural levels of the working people.

In international economic turnover, the socialist states use gold as world money or foreign currency bought for gold. The stable gold content of the currencies of the socialist



states serves as the money parity in international transfers.

In economic relations with capitalist countries, the socialist state uses gold as the universal means of purchase and as a universal means of payment. The foreign trade of the socialist countries is based on a monopoly of foreign trade and a currency monopoly, which ensures the possibility and need for planning currency revenues and payments.

### The Law of Money Circulation

The objective conditions of socialist economic management ensure the stability of money under socialism. The socialist state issues money into circulation in strict accordance with requirements, since money turnover, as Lenin put it, is a marvellous test of whether the country's turnover is satisfactory, for when it is not, money becomes nothing more than useless paper. If the quantity of money in circulation is greater than required to provide for commodity turnover, there will inevitably be a rise in prices. In order to prevent this, the volume of production must be increased, the growth rate of labour productivity raised, the quality of output improved, services increased, and so on.

The stability of the money circulation sphere depends directly on a correct correlation between the quantity of paper money in circulation and the requirement for it. Only a planned, socialist economy can maintain just such a correlation.

The law of money circulation discovered by Marx operates under socialism. Let us recall that its essence is that the quantity of money required for circulation is equal to the sum of the prices of commodities, divided by the velocity of the turnover of money units of equal value.

Although the law of money circulation is a general law, its social essence and forms of manifestation differ greatly. Under socialism, it reflects socialist relations and interlinks, is used deliberately by the state in its economic policy. The state determines all the factors that influence the quantity of money, and accordingly elaborates a balance of the money incomes and expenditures of the population, plans the state budget and finances, thereby ensuring a firm basis for the stability of money.

### 3. The Law of Value and Price in Socialist Society

#### The Essence of the Law of Value Under Socialism

Since, under socialism, commodity-money relations are retained, the law of value also continues to operate.

The specific nature of the commodity-money relations in socialist society and the entire economic system of socialist society modify fundamentally the way in which this law operates, compared with its operation under capitalism. In what way does the law of value under socialism operate differently from under capitalism? First, together with the limitation of the sphere of commodity relations under socialism, the sphere of operation of the law of value is also limited. Since, in socialist countries, labour power is not a commodity, the law of value cannot determine the level of wages. Second, under capitalism, on the basis of the law of value wage labour is exploited while, under socialism, there is no place for exploitation. Third, in the capitalist economic system the law of value is a regulator of production. In socialist society the law of value is not a regulator of production and does not determine the scale or rate of production. This law occupies a subordinate place in relation to the basic economic law of socialism and the law of the planned, balanced development of the national economy. Fourth, the operation of the law of value is different in its very nature. Under socialism, it does not operate spontaneously, as a blind, destructive force; it is understood by society and used in a planned way in the interests of that society.

The operation of the law of value in socialist production is manifested primarily in the need to take account of the socially necessary labour inputs. The fact that the price is based on social, not individual, value means that an enterprise in which the individual labour inputs are above the socially necessary level is in an unprofitable position when it comes to selling its output, and vice versa. Thus, the operation of the law of value stimulates the growth of labour productivity, and a reduction in labour inputs into the production of a unit of output.

#### The Foundations of Price Formation

The operation of the law of value is manifested primarily in the movement of commodity prices, in price formation.

Prices are set by the state in such a way that they reflect the socially necessary labour inputs, ensure reimbursement of outlays on production and circulation and provide a certain profit to each normally functioning enterprise. This is where the objective operation of the law of value is reflected.

Prices, of course, may fluctuate either side of value, which allows the state to influence the demand for and supply of commodities, by regulating the correlation between them. Raised prices are used to stimulate the production of high-quality products, new technology, goods in short supply, and so on. The introduction of new technology is encouraged by prices that make its use profitable to the consumer and its production to the producer.

The prices of consumer goods are determined considering the need to make the most important goods and services available to all the working people. In the USSR, for example, reduced prices are set for children's goods and medicines. The state reduces prices when economically justified on the basis of a growth of labour productivity and a drop in production costs.

Under socialism, the price fulfils, above all, the function of accounting, i. e. the planned reflection of the size of value. Price also acts as a means for redistributing incomes, as a material incentive to improve production, and for establishing a given correlation between supply and demand. Price is a powerful lever of economic management in the hands of the socialist state.

#### Revision Exercises

1. What are the specifics of commodity-money relations under socialism?
2. Why, under socialism, can there be no antagonism between use value and value, between concrete and abstract or between private and social labour?
3. Why cannot money become capital under socialism?
4. What are the chief functions of money under socialism?
5. How is the law of value used under socialism?

## Chapter Fourteen.

### THE PROCESS OF SOCIALIST PRODUCTION. DISTRIBUTION ACCORDING TO WORK DONE

#### 1. The Main Factors of the Process of Production Under Socialism

##### The Material and Personal Factors in Socialist Production

Under socialist conditions, as in any other society, two main factors combine in the process of production: the material and the personal. They act as the bearers of socialist relations of production. The process of their combining is accomplished on the basis of socialist ownership of the means of production, which allows the members of society to regulate the exchange of substances between themselves and nature in a rational, planned way, and to carry this out with the minimum inputs of efforts and means.

The material factor is the means of production operating in the form of *productive assets*. In their economic content, productive assets take two forms: 1) public (state) and 2) collective farm-co-operative. Both forms are of the same type, since they share the same basis—social property. Yet there are differences between them, resulting from the degree of socialisation of the means of production.

In the character of their movement, productive assets are divided into fixed and circulating. Fixed productive assets consist of the value of the means of labour; they participate for a long time (in the course of several circuits) in the production process and, as they are worn out, transfer their value to the product in parts, while retaining their physical form. Circulating productive assets are the value of the objects of labour; they are consumed in the course of a single circuit, and change their physical, material form, transferring their value in its entirety to the product produced.

The USSR possesses tremendous fixed productive assets. From 1970 to 1983 alone, these assets grew by more than 160 per cent to reach a value of over 1.5 trillion roubles. The natural basis of the production process is natural resources. Nature is the only basis and source of resources for people's vital activities. The socialist countries have declared and are now implementing a highly humane programme of economies of energy, fuel and raw materials, a thrifty

attitude towards everything that man receives from nature. The obligations involved in protecting natural resources are fixed in the Constitutions of the socialist countries.

The decisive role in the production process is played by the immediate producer himself, the working man, possessing certain specific knowledge, skills and know-how. It is the labour and skill of the worker that constitute the point of departure for the production of material goods.

Under socialism, labour power loses the character of a commodity and acts in its natural quality as the aggregate of people's physical and intellectual abilities, applied in the labour process. At the same time, socialist society sees labour power not only as a totality of biological, physiological human properties, but also as man's professional and personal ability to function, i. e. as a social magnitude. The bearer of labour power, the worker, together with other working people, is the owner of the means of production, who freely applies his labour power in his own personal interests and the interests of society as a whole.

Under socialism, the functioning of labour power is characterised, above all, by a total absence of exploitation; the use of labour power acquires a directly social character; labour power functions in a planned, balanced way. Socialism ensures full employment of the entire able-bodied population, the most rational use of labour resources, and always precludes unemployment as a social phenomenon. Consequently, the relations of the hiring of labour power, consisting in the planned inclusion, by state enterprises, of factory and office workers in the production process, are not relations of sale and purchase of labour power.

Under the conditions of socialism, the reproduction of labour power has a special character and constitutes a very complex and multifaceted process. It includes the following aspects: constant maintenance and systematic restoration of man's ability to work; a quantitative growth and qualitative changes in the composition of the workers in socialist production; the planned distribution of workers between the spheres of application of social labour, by economic and geographical regions, sectors of the national economy and individual enterprises, and within them; the creation of a system of training and raising the production and technical qualifications of the working people.

Reproduction of labour power in socialist society is connected with the development of the individual personality

and cannot be confined within the narrow bounds of recompense for the expenditure of labour power, as is the case under capitalism. The subordination of production to the provision of the full well-being and free, comprehensive development of all members of society creates the conditions for the continuous growth of the population and an increase in labour resources. The socialist state accomplishes the planned training of personnel and ensures a continuous rise of their cultural level and technical knowledge.

#### The Character of the Combination of Labour Power and Means of Production Under Socialism

Under socialism, there also arises a fundamentally new combination of the personal and material factors of production; the participants in the production process are directly connected with the means of production. Under socialism there is no class or specific social group or stratum to monopolise these means of production or appropriate the products of labour created in the process of production. The combination of the two factors of production takes place on the basis of social property, which makes it possible to unite labour on the scale of socialist society as a whole.

The relations between the workers and the productive assets change fundamentally. The latter do not counterpose the working people as some alien, or hostile force, do not dominate over them. On the contrary, the participant in the process of socialist production dominates over the means of production, applying them in creating material goods that go to satisfy his own requirements and those of his society. The new relations between live and embodied labour exert an active influence on the development and improvement of labour power itself, lead to a growth in the role of the working people, their creative labour in the improvement of production, facilitate the fuller revelation of the personalities of the working people and the comprehensive development of their abilities and talents. The process of production means co-operation of labour—the joint activities of workers free from exploitation and united in a planned way on the scale of all society.

Characteristic features of socialist co-operation of labour are its broad scale, determined by social property; a high level of concentration of production; conscious labour discipline; a combination of one-man management with broad

participation by the working people in the management of production; socialist emulation.

Co-operation of labour under socialism engenders a new labour discipline, which is the free and conscious discipline of the working people themselves. The economic basis of this discipline is provided by the domination of the whole people's property, based on large-scale machine industry. Large-scale, planned, organised machine production requires strict observance of order, co-ordinated activities of all members of the enterprise collective and of the enterprise's individual sections. Lenin pointed out the need to observe the strictest labour discipline as one of the chief conditions for socialist labour co-operation. He stressed that consolidation of the new foundations of labour discipline would be a protracted process, and that a merciless struggle would be needed against idleness, disorder and anarchy. The chief method for strengthening socialist labour discipline is that of convincing people, of fostering a communist consciousness in them. A major role is also played by the system of material incentives to workers for good results in their work.

The scale and nature of labour co-operation in the process of socialist production objectively account for the need for and possibility of scientific management, which is the planned organisation of the joint work of collectives of working people in the interests of all members of society. Management of production under socialism is accomplished on the basis of the principle of democratic centralism, a combination of one-man management with the broad creative participation of the members of the collective in management.

#### Socialist Emulation

The creative activities of the participants in production are manifested most fully in the development of socialist emulation. Marx linked emulation with labour co-operation. He said that, in most productive jobs, social contact itself gives rise to emulation and a sort of stimulation of vital energy, increasing the individual productive power of people.<sup>1</sup> Socialism created, for the first time ever, the possibility of applying emulation on a truly broad and mass scale, of drawing a genuine majority of the working people

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<sup>1</sup> Karl Marx, *Capital*, Vol. I, p. 309.

into the arena of work where they might show themselves at their best, develop their abilities, reveal their talents, which constitute an untapped spring in the people and which capitalism crushed and suffocated in their thousands and millions.

In the USSR, socialist emulation has always been a powerful means for developing the creative initiative of the popular masses, raising the productive forces, and improving socialist relations of production. It is truly popular and country-wide in character, and unprecedented in scale. In 1983, over 110 million people took part in it.

Socialist emulation, organised according to the principles of publicity and comparability of results, the study and dissemination of advanced experience, and comradely mutual assistance by the participants in the emulation, is an effective factor in raising the efficiency of social production and instilling a communist attitude to labour.

## 2. Aggregate Labour of Socialist Society

### Aggregate Labour

The process of production is carried out as the realisation of the aggregate labour of society. All types of socially useful activity are divided into two spheres: material production—the production of products of labour, and non-material production—the production of services. The decisive sphere in the life of society is that of material production, since here material wealth is created. The development of this sphere is the basis, too, for the expansion of the sphere of non-material production, which serves the fuller satisfaction of people's requirements (health protection, education and culture, and the like). Also inherent in socialist society is a tendency towards a rise in the share of workers employed in the sphere of non-material production. In the USSR, 11.7 per cent of all the workers engaged in the national economy were employed in this sphere in 1940, while the 1983 figure was 26.6 per cent.

Socially organised labour expended in the sphere of material production and creating material wealth is, under socialism, socially necessary and productive labour. The labour in the other spheres is also socially necessary; it is socially useful labour.

The size of the outlays of aggregate labour in society is determined by the number of workers employed in social



production, the intensity of their labour, and the length of working time.

Socialist society is interested in saving working time and making rational use of it. After all, the less working time is required to produce material wealth, the more time remains for the comprehensive development of the individual and the richer society becomes.

### The Working Day Under Socialism

Working time is measured specifically by the length of the working day. The working day is the natural measure of labour. The term is applied to the part of the day during which each able-bodied person participates in aggregate social labour. Under the conditions of socialism, the working day characterises the quantity of labour expended and the specific form of relations between society, the collectives of working people and individual workers. The content of these relations is determined by social ownership of the means of production, excluding exploitation of man by man. The limits of the working day are set by the state and regulated by law. In the USSR, the length of the working week is 39.4 hours on average.

The length of the working day is closely linked to the intensity of labour. Intensity is the degree of tension of labour in the production process, which is determined by the correlation of the quantities of expended and restored vital energy of the worker over a given period of time. The average social intensity of labour takes shape depending on the development of technology, the working conditions and reproduction of labour power. Under socialism, a socially normal labour intensity is established. This means a degree of labour tension that is not detrimental to people's health, ensures efficient use of technology and working time, favours the development of the physical and mental abilities of the worker, the retention of his working ability, and the harmonious development of the individual.

### Non-Working and Free Time

Under developed socialism, the possibility is created of cutting working time, and a reduction in the length of the working day increases non-working time. *Non-working time* breaks down into time connected with work (commuting,

lunch-breaks, training, and so on); and time spent on house-work and services for oneself (cooking, shopping, child-care, house-cleaning, and so on); time required for satisfying physiological requirements and restoring the physical ability to work (sleep, eating, care of oneself, and so on) and free time, or time for leisure, rest.

Of these, the most important for the development of the individual is *free time*. True, the development of the individual is also accomplished during the labour process itself, during working time. In the process of production, within the work collective, a person's physical and intellectual abilities are revealed. Within the bounds of working time, however, the possibilities for comprehensive development of the working people and a rise in their educational level are limited. Substantial opportunities for improving a working man's personality are created by free time, which, in Marx's words, provides scope for the full development of each person's productive forces, which means those of society, too.<sup>1</sup>

#### The Dual Character of the Labour Process. Necessary and Surplus Product

The process of socialist production is the unity of the labour process with the process of the creation of value. For this reason, the process of socialist production is dual in character: on the one hand, it is the process of the creation of many diverse use values for production and personal consumption, on the other, it is that of the formation of value. Meanwhile, the process of the production of value under socialism proceeds in a specific way, the decisive impact being exerted by social ownership of the means of production.

The mechanism of the creation of value in the process of production under socialism is such: as a result of the planned combination of personal and material factors, the value of the means of production used up is transferred to the product of labour and newly expended labour is added, that is, in the process of production live labour increases value, adding a new value that has just been created to the value of the means of production expended. Thus, the

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<sup>1</sup> See Karl Marx, *Grundrisse der Kritik der politischen Ökonomie*, Foreign Languages Publishing House, Moscow, 1939, p. 595.

process of the formation of value under socialism is carried out as a result of two interconnected and mutually conditioned economic phenomena: the transfer of the value of the means of production used up and the creation of new value.

In socialist society, all the labour of the workers in the sphere of material production breaks down into necessary and surplus labour, which is measured, correspondingly, by necessary and surplus working time. Necessary working time is the time during which the necessary product is created, while the labour expended during this period is necessary labour. Surplus working time is the time during which the surplus product is created, and the labour expended during this period is surplus labour.

The necessary product is intended for satisfying the requirements of the participants in the production process and of the members of their families. In its physical form, it consists of a mass of diverse means of consumption, forming the fund of means of survival. A qualitative specific of the necessary product under socialism is that it is intended not only for restoring the labour power used up, but also for the comprehensive development of the individual, his intellectual and physical abilities. In other words, the framework and structure of the necessary product under socialism are expanded, since the living conditions of the worker become richer, and the greater vital requirements are increasingly fully satisfied. The expansion of the economic bounds of the necessary product under socialism is conditioned by the goal of socialist production and the operation of the basic economic law of socialism.

The surplus product under socialism serves to satisfy the general requirements of all members of society. The surplus product here does not go to a class of proprietors, but to all the working people, and to them alone. In its physical form, the surplus product appears as means of production and consumer goods. The means of production are used for the further expansion of social production, the supplementing of state reserves, the development of the material basis of the non-productive sphere, the strengthening of the country's defence capability, the development of science and social management. The means of consumption are used for satisfying the requirements of the workers in the non-productive sphere, students, the non-able-bodied, and so on. Under socialism there is no antagonistic contradiction between the necessary and the surplus product. They both belong

to society as a whole, and serve the goals of raising the standard of living of all members of society.

### **3. The Steady Growth of the Productivity of Social Labour**

The classics of Marxism-Leninism attached primary significance to raising the productivity of labour, as a necessary condition for the development of the productive forces and the transformation of social relations. Lenin said that labour productivity was the final count, the most important, the main thing for the victory of the new social system, that a rise in labour productivity constituted one of the fundamental tasks of the building of socialism, for otherwise there could be no final transition to communism.

Labour productivity is closely linked with the efficiency of social production. The chief ways of increasing the efficiency of social production are: improvement of the implements and means of labour, economies of raw and other materials, and other means of production, rational use of productive assets and labour resources, improvement of the quality of output, improvement of the management, planning and organisation of production, and so on. Yet the chief line in raising the efficiency of social production is scientific and technological progress, thanks to which the possibility is created of economising on live labour and implements of labour, on objects of labour and natural resources. Scientific and technological progress makes possible a radical transformation of production methods, creation of fundamentally new, highly productive implements of labour, and progressive materials; it gives rise to new branches, ensures unprecedented opportunities for raising the efficiency of all production activities and a growth of the productivity of social labour.

### **4. Distribution According to Work Done. The Social Consumption Funds**

Under socialism, the chief form of distribution of the means of consumption is distribution according to work done.

#### **The Need for Distribution According to Work Done Under Socialism**

Distribution according to work done in socialist society is primarily a result of the fact that the means of production

have become the property of the people, and the capitalist economic system has been replaced by production according to a plan, in the interests of all members of society. Marx stressed that, under socialism, the "individual producer receives back from society—after the deductions have been made—exactly what he gives to it".<sup>1</sup>

Why, under socialism, are the means of existence distributed according to work done rather than needs? Because the productive forces have not yet reached a high enough level to ensure an abundance of material wealth and because labour has not yet become a primary vital requirement for the members of society. Distribution according to the quality and quantity of the labour put in by each worker in joint production is the most progressive and just payment under socialism; it eliminates elements of parasitic consumption by declaring the principle of "He who does not work, neither shall he eat" and ensures that all the able-bodied contribute to social production according to their ability. Only under socialism is the just principle of distribution of the material goods according to the quantity and quality of work done possible, since here social property predominates, not exploitation of man by man, and equality is established between all members of society in relation to the means of production.

The *quantity of labour* is expressed in the input of muscular, nervous and mental energy. These expenditures cannot be measured directly, so to assess them the indicator of the length of working time and the working day is used. In addition, the quantity of labour is determined by the indicator of the output of identical product, the level of intensity of labour. The concept of the *quality of labour* includes the complexity of labour, the social significance of the sector where the worker is employed. The complexity of work depends on the degree of qualifications, the level of education, and skills of the worker, for skilled labour is, of course, more productive.

Distribution according to work done is a tremendous step forward in the socio-historical process, since it reflects the social equality of people in relation to the means of production and excludes the possibility of anyone appropriating the results of anyone else's labour. The law of distribution

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<sup>1</sup> Karl Marx, "Critique of the Gotha Programme", in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, p. 17.

according to work done presupposes equal payment for equal work, regardless of the sex, age or nationality of the worker. Equal payment for equal work does not, however, itself ensure complete equality in the distribution of the means of consumption among the members of socialist society.

People are not equal: some are stronger, others weaker; some are married, others single; some have big families, others small, and so on. For equal work, and consequently, equal participation in the social consumption fund, some people will, in fact, be receiving more than others. Here, in essence, we see survivals of bourgeois law: the application of "equal rights" to what are, in fact, unequal people inevitably means the presence of a certain inequality. In Lenin's words: "The first phase of communism, therefore, cannot yet provide justice and equality: differences, and unjust differences, in wealth will still persist, but the *exploitation* of man by man will have become impossible because it will be impossible to seize the *means of production*--the factories, machines, land, etc.--and make them private property."<sup>1</sup> Under full communism, complete social equality will be ensured, and differences in activities and labour will not incur any inequality or privileges in relation to consumption.

The economic law of distribution according to work done is used in the interests of ensuring greater efficiency of socialist production. Distribution according to work done stimulates a rise in the production skills and abilities of the workers, a growth in the productivity of labour, and this leads to an acceleration of the development of socialist production. Distribution according to work done allows a harmonious combination of the personal interests of each worker with those of the enterprise collective and society as a whole. Its consistent implementation in combination with the application of the law of value makes it possible to interest each worker materially not only in the results of his own labour, but also in the more efficient work of the enterprise and of the national economy in general.

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<sup>1</sup> V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 471.

## The Essence of Wages and Their Functions

Distribution according to work done is accomplished under socialism in two forms: in the form of wages in state enterprises and in that of payment for labour in money and partly in kind in co-operatives (collective farms). These two forms of payment result from the presence of two forms of socialist property: state and collective farm-co-operative.

Under socialism, wages differ fundamentally from those under capitalism, where they are determined by the value or price of labour power. Under socialism, labour power is not a commodity, it cannot be bought and sold, so wages do not constitute the value of labour power here. As an economic category, wages under socialism act as the monetary expression of the part of the necessary product created in public enterprises that goes for the personal consumption of the workers, in accordance with the quantity and quality of the labour they have expended in social production.

The socialist state sets the level of wages in a planned way, depending on the rise in the productivity of labour and the size of the net product or national income. The higher labour productivity is, the greater the quantity of material goods at society's disposal, the faster the fund of the personal consumption of factory and office workers rises and, consequently, their wages, too. In the USSR, in 1980, for example, the productivity of labour in industry was 7.69 times higher than in 1940, and wages 5.1 times higher.

Wages fulfil the following main functions: they act as a measure of labour, for different forms of concrete labour are compared by means of wage differentiation; as a measure of consumption, since the size of wages determines the volume of the necessary means of consumption acquired. Wages are used as the chief means for stimulating a growth and improvement of socialist production, and raising the productivity of labour; they are put into action by the socialist state, using the material interest of the workers in the results of their labour. Wages in the hands of the state also serve as a means for the planned, balanced distribution of labour resources between the various sectors of production and economic regions, act as a major factor in raising the cultural and technical level of the working people.

The wage level is directly dependent on the size of the labour input and the results of the labour of each worker; it is directly connected with the degree of his participation

in raising the efficiency of production. Wages must always be earned, and each worker must feel the direct dependence between their level and his own contribution to the production achievements of the work collective.

### The Forms of Wages

Under socialism, two forms of wages exist: time wages and piece wages. Under time wages, the wage level is set according to the actual amount of time worked and the worker's qualifications; under piece wages—to the volume of output of a given quality. Piece wages constitute a modified form of time wages. They are specific in that the labour inputs—length of time worked and intensity of labour—are taken into account through the volume of work done.

Time wages are divided into simple time and time and bonus wages. Simple time wages provide for engineering, technical and office workers to receive a set salary, and workers a wage rate. In production enterprises, this system is not widespread. In the overwhelming majority of cases another system is used there—time and bonus wages, under which the worker may receive a bonus in addition to his salary or wage rate.

With the development of scientific and technical progress, the automation and chemicalisation of production, there is a gradual increase in the role of the time form of wages. Its sphere of operation is steadily expanding. In 1950, 23 per cent of industrial workers were paid time wages in the USSR; the 1982 figure was 50 per cent, including over 97 per cent in the power industry.

Piece wages are payment for labour depending directly on the quantity of output produced or the number of operations carried out per unit time. They are divided into the following systems: direct piece wages, progressive piece wages and piece and bonus wages. Under the direct piece rate system, every job carried out by an individual worker is paid for at one and the same rate. The total earnings of the worker are directly proportional to his output. The more he produces of corresponding quality, the higher his earnings, and vice versa. Under the progressive piece rate system, up to a given level of output, the worker is paid one and the same rate per unit output, but for output produced over and above this, a higher, progressively increasing rate is set. The degree of increase in the rate, depending on the scale on which the set level is overfulfilled, is determined according to a special-



ly established scale. Under piece and bonus wages, direct piece wages are supplemented by bonuses for fulfilment and overfulfilment of the quantitative and qualitative indicators of the work. The indicators for bonuses are: economies of raw materials, fuel, electricity, a cut in production costs, elimination and reduction of losses from the production of sub-standard output, improvement of the quality of output, fulfilment and overfulfilment of the plan, and the like.

As technology and production techniques develop, the system of payment for labour is also improved.

A line of distinction is drawn between nominal and real wages. Nominal wages consist of the sum of money the worker receives in accordance with the quantity and quality of the labour he has expended. Real wages are expressed in the quantity of material goods and services the workers in state enterprises and organisations can acquire for their money earnings. The size of real wages depends on the level of prices of consumer goods, housing rents and payment for other municipal services, the taxes levied on the population, the payment for transport and other services. In socialist countries, real wages are constantly rising.

Payment for the labour of workers of agricultural co-operatives is made out of the personal consumption fund of the given farm, formed from the distribution of its gross income. For this reason, the level of the payment for the labour of the workers of the given agricultural co-operative depends directly on the results of its economic activities during the current year and is less definite and stable than the wage levels in state enterprises and establishments.

At the present time in the USSR, a guaranteed money payment for labour has been introduced on all collective farms according to set norms and rates. It is divided into two parts: the main payment, which averages 88 per cent of the wage fund, and the supplementary payment, constituting 12 per cent of the given fund. The first is paid monthly, the other—at the end of the year. During the 11th five-year plan period (1981-85), the size of the payment for the labour of collective farmers has been made more dependent on the final results of their work, the productivity of labour and quality of output. As labour productivity rises, together with the skills and employment level of collective farmers in social production, the level of the payment for this labour is drawing closer and closer to the wages of workers on state farms.

## The Social Consumption Funds

In addition to distribution according to work done, under socialism there exists distribution of products of personal consumption through the social consumption funds. Socialist society uses these funds to maintain the non-able-bodied, provide for the development of public education, health care, satisfy certain important cultural and everyday requirements of the working people and the like.

Lenin defined the significance of the social consumption funds for satisfying the working people's personal requirements even during the first years of Soviet power as "models for the shoots of communism", which would grow and flourish into full communism. Nowadays in the USSR and the other socialist countries these "shoots of communism" have already grown and flourished into a whole system.

In the socialist countries, the social consumption funds are used for the following purposes: 1) the organisation of free education in all its links, and of medical aid; 2) subsidisation of the housing economy, provision of rest for the working people and education of children 3) the payment of pensions, grants, disablement allowances, allowances to mothers of big families, holiday pay and ante- and post-natal paid leave. The first two are connected with the collective satisfaction of the working people's requirements and are realised in the form of free services and privileges, while the third is linked with the satisfaction of their individual requirements and takes the form of actual money payments.

In the USSR there are three types of social consumption fund: state funds, the funds of individual enterprises, the funds of collective farms. The state consumption fund constitutes roughly 86 per cent of the total volume of the social consumption funds.

The consistent expansion of the sphere of the social consumption funds and the increase in their role, being a factor in the growth and equalisation of the real incomes of the various groups of the working people, at the same time fulfils major social tasks: it promotes the growth of the population, raises the cultural, technical, and general educational level of the workers, furthers the strengthening of the health and increase in the life expectancy of the working people, creates the most favourable conditions for people's work and rest, and provides for their old age.

## Revision Exercises

1. What are the factors of the production process under socialism?
2. What is the essence of the productive assets and how do they differ from capital?
3. What is the nature of the combination of labour power and the means of production under socialism?
4. What is socialist emulation?
5. What factors raise the productivity of social labour?
6. What is the essence of the economic law of distribution according to work done?
7. What forms of wages are applied under socialism?
8. What are the specifics of the payment for labour on collective farms?
9. What is the essence of the social consumption funds?
10. For what purposes are the necessary and surplus product used under socialism and what is their fundamentally new content compared with the analogous categories under capitalism?

## Chapter Fifteen.

### COST ACCOUNTING RELATIONS IN THE SOCIALIST ECONOMY

Cost accounting mediates the planned, balanced organization of the national economy on the basis of the operation of commodity-money relations. It is used by the socialist state to stimulate the economical, thrifty running of the economy of every socialist enterprise—plant, factory, building site, state farm, or collective farm, for the purposes of attaining the best possible final results for the minimum inputs.

#### 1. Cost Accounting

##### The Enterprise (Association) as the First Cost Accounting Link

The primary structural link in the socialist national economy is the socialist production enterprise (association). It acts as an independently functioning economic unit in the country's integrated national economic complex.

The socialist enterprise is, above all, the work collective

or association of workers, free from exploitation and carrying out the planned process of the production of material goods for the purpose of satisfying society's requirements. The participants in the work collective of an enterprise are in relations of economic equality, collectivism, comradely co-operation and socialist mutual assistance.

Each socialist production enterprise is characterised, in the main, by the following features: first, it constitutes a specific production and technical unit and possesses material means and workers; second, the socialist work collective takes shape within it, the direct combination of labour power with the means of production takes place there and a specific type of output is produced; third, the enterprise is a legal person, it has set rights established by the state and fulfils certain obligations to it. In particular, it has to make maximum use of the productive capacities and reserves, strictly observe the regime of economies, introduce the latest achievements of science, technology and advanced experience, progressive rates for the expenditure of raw and other materials, fuel and electricity.

In accordance with the two forms of socialist property—public and collective farm-co-operative, there are two types of production enterprise—state and collective farm-co-operative. Enterprises are distinguished according to their sector—industrial, construction, agricultural, transport, trade, and so on.

Under socialism, the increase in the size of enterprises and rise in the level of concentration, specialisation and co-operation of production take place under the impact of scientific and technical progress. The highest degree of concentration of production in the socialist countries is the formation of production associations (combines), as the chief new cost accounting subdivisions of social production.

In production enterprises, plants and factories, scientific research, design, and other production organisations combine organically into an integrated economic complex. Alongside production associations, there exist scientific-production associations, which include scientific research, design and technological organisations, plants (factories), start-up and organising and other structural units, depending on the tasks facing the given association.

At the end of 1982, the number of production and scientific-production associations in the Soviet Union stood at

over 4,200, combining almost 20,000 production units and independent industrial enterprises. The share of the production and scientific-production associations in the country's total volume of industrial output was almost a half. In the future, associations will become the chief cost-accounting links in the USSR's social production.

In order to explain the essence of cost accounting, this category should be considered using the example of socialist production enterprises.

### The Essence of Cost Accounting

Cost accounting is, at the same time, both an economic category and a method for the planned running of the economy for the purpose of achieving maximum production efficiency.

Cost accounting as an economic category consists of the totality of socialist production relations, including the interlinks between enterprises and the state, enterprises with one another, with individual workers, as well as within the internal links between the sub-departments of the enterprise itself.

The economic relations of the enterprise with the state are vertically structured: according to the fulfilment of state plan tasks and plan norms, the transfer to the state of part of the profits, the financing and crediting of the enterprises by the state. At the same time, each enterprise enters into various relations horizontally—with the suppliers of raw materials and other means of production, with the consumers of its output, with transport organisations, design, scientific research establishments, and so on. These relations are accomplished for the marketing of output and supply of means of production and services; for the exchange of experience and socialist emulation. Economic relations also take shape within the enterprise, between the enterprise and its workers. These relations include the hiring and dismissal of workers, the rating and organisation of labour, the payment for labour and so on.

Cost accounting is based on the use of the entire system of economic laws, particularly the law of economies of labour, the law of distribution according to work done, and the law of the planned, balanced development of the national economy. Cost accounting is closely linked with the operation of the basic economic law of socialism, which, by defining

the goal of social production and the motives behind the development and improvement of production, makes it possible to find specific means for satisfying the growing requirements of the people and providing for their comprehensive development. Cost accounting helps in running the social economy as rationally as possible, improving technical progress, making effective and rational use of the latest technology and equipment, economically utilising raw and other materials and monetary resources, and rationally using natural riches.

### The Principles of Cost Accounting

The organisation of the work of production enterprises on the basis of cost accounting envisages observance of principles ensuring the most economical running of the economy. The major principles of cost accounting are the following: full compensation for outlays and profitability of enterprises; the economic and operational independence of the enterprise; material responsibility of the enterprise and its workers for losses suffered by the state, its partners and customers through non-fulfilment of the quantitative and qualitative indicators of the plan; the material interest of the enterprise work collective in attaining the best possible indicators for economic activities; rouble control over the activities of the enterprise. All these principles are internally interlinked and mutually conditioning.

Let us take a look at each of these principles of cost accounting separately. The full compensation for outlays and profitability of the enterprise are closely linked with the operation of the law of value under socialism, which makes it possible to compare, in money form, the outlays and results of the activities of each production enterprise. The enterprise sells its output at prices set by the state. The income it receives from these sales must cover all its expenditures on the production and marketing of this output. If, after this, the enterprise still has part of the money in hand, this means that it has not only covered its costs, but also made a profit. The difference between the incomes of the enterprise for the output sold and its outlays on producing it constitutes the *profit of enterprise*.

The most important requirement of cost accounting is to ensure the profitable work of each enterprise, to ensure that it does not run at a loss.

Operational and economic independence is expressed in the fact that the enterprise is allocated the necessary quantity of material and monetary means, has an independent balance and its own bank account, is a legal person, has the right to receive credit from the state, and to conclude economic contracts with other enterprises and organisations. The enterprise also carries out the organisation of production and the rational use of the funds at its direct disposal, hires labour power, and decides questions of the scientific organisation of labour. In accordance with the state plan, the enterprise acquires the necessary means of production and sells its output to the clients to which it is linked by contractual obligations.

An economic contract determines the conditions for the delivery, price, dates and payment procedure. Strict and precise observation of contract discipline by the enterprise is one of the chief requirements of cost accounting.

Another principle of cost accounting—that of material responsibility, is closely linked with operational and economic independence. The cost accounting or self-supporting enterprise is materially responsible for its activities. The director, as the head of the enterprise, is also personally responsible for its activities. The enterprise answers for its activities not only to superior economic bodies, but also the other enterprises to which it is linked by economic contracts. If a contract is violated, the enterprise pays a fine, penalties, and so on. The workers also bear material responsibility for the production of sub-standard output and other lapses in their work.

One of the main principles of cost accounting is that of the material interest of each worker and the entire work collective in the results of the enterprise's work. If the state plan is successfully fulfilled, the enterprise's revenues go up and its financial position is improved. The material interest of collectives and their workers in the results of production encourages them to work more economically, to take an interest in the growth of revenues and reduction of inputs, the expansion and improvement of production.

Deductions are made from the profits of self-supporting enterprises to form economic incentive funds. In the USSR these include: the production development fund, the material incentive fund and the fund for socio-cultural measures and housing construction. The production development fund

is also supplemented by depreciation allowances and revenue from the sale of surplus equipment. This fund, together with bank credit, is spent on implementing measures connected with new technology, modernisation of equipment and expansion of production.

The material incentive fund is intended for the payment of current bonuses to the workers, engineers, technicians and office workers of the enterprise, as well as for rewarding workers for the results of the collective's work over the year.

The fund for socio-cultural measures and housing construction is used for improving the cultural, domestic and medical services available to the enterprise's workers, as well as for building and repairing housing, clubs, rest homes and other cultural and domestic facilities.

Cost accounting is inseparably linked with the use of money for controlling the economic activities of enterprises in order to improve their result. The main thing in monetary control is that money should be entered into the enterprise's current account only from the fulfilment of the output plan and sale of output. The current account is the account for the enterprise's incoming and outgoing funds in the bank. If the output and the sales plans are not fulfilled, the enterprise will not have enough funds entering the current account. If it does not fulfil the production plan, it will not gain any profits either, necessary for expanding production, paying into the budget and depositing in the bank for capital construction, capital repairs and paying off loans. Rouble control presupposes systematic analysis of the economic activities of enterprises, verification of plan fulfilment, and revelation of the positive and negative aspects of the work of the enterprise's collective.

Strict observation of cost accounting in an enterprise makes it possible to achieve a correct and reasonable combination of the interests of society as a whole and of each production collective and individual worker.

#### Forms of Cost Accounting

The chief forms of cost accounting are: *cost accounting of the enterprise and production association, intraplant cost accounting, and cost accounting of the branch ministry.*

The principles of cost accounting are applied throughout the economy, but are manifested differently in each of its



links. *Cost accounting of the enterprise and production association* is the initial and basic method for running the economy. It reflects most fully the essence of the socialist method of running the economy and applies its principles most consistently.

*Intraplant cost accounting* is a component part of cost accounting of the enterprise. It constitutes the relations between individual production collectives, between individual workers in the process of the production and distribution of material goods within the enterprise. The organisation of intraplant cost accounting presupposes the elaboration of a system of indicators for the work of individual subsections of the enterprise; co-ordination of the indicators for the work of workshops, sectors, and teams with the plan indicators for the plant as a whole; elaboration of a system of material responsibility and material incentives.

Intraplant cost accounting includes team cost accounting. Self-supporting teams are set additional plan tasks relating to the wage fund, the use of equipment, raw and other materials, fuel, and energy; the forms and size of incentives for economies of these are set, along with mutual obligations of the team and the management. In recent years, teams of a new type—comprehensive and through-process, have been developed. They work according to a single order and are paid according to end results. In such teams, the productivity of labour grows much faster, losses of working time are reduced, material and labour resources are used more economically, new opportunities appear for strengthening discipline, establishing a spirit of true collectivism, mutual exactingness and comradesly mutual assistance. In 1983, in the Soviet Union, there were 1,377 thousand such teams, including about 15.1 million industrial production workers.

A major form of cost accounting is that of the branch ministry, which is the supreme management link in each sector. The aim of ministry cost accounting is to increase its material responsibility to the state, and raise the level of interest in improving the work of all its subordinate enterprises and organisations.

## 2. The Productive Assets of the Enterprise and Their Circuit and Turnover

### Productive Assets and Their Circuit

The material basis for cost accounting relations is provided by the *productive assets*.

In its activities, each socialist enterprise uses material and monetary means that together make up the *productive assets of the enterprise*. These assets as an economic category reflect a specific aspect of socialist relations of production, namely the economic relations between society and the labour collective with respect to the use of the resources at the enterprise's disposal.

Productive assets are divided into *fixed* and *circulating* assets. *Fixed productive assets* (means) include the means of labour, that is machinery, motors, transmission mechanisms, buildings, constructions and so on. Fixed productive assets are not used up immediately during the production process; they serve for a number of production cycles. Their value is transferred gradually to the finished product, in parts. *Circulating productive assets* are consumed in their entirety during each production cycle. Accordingly, they transfer their value *in toto* to the finished product. Moreover, they modify their form during the production process to become new products, satisfying a given social requirement. The circulating assets include: raw and other materials, fuel, incomplete production, etc.

The assets of socialist enterprises include *cash and disposable stocks* (finished but unsold output, monetary means in hand), as well as *non-productive assets* (housing, clubs, stadia, and so on).

The cash and disposable stocks and circulating assets form the *means of circulation*.

The assets of enterprises are constantly on the move, from the sphere of circulation to that of production, then back to the former, i.e., they move in a circle or describe a *circuit*. The productive assets of the enterprise (non-productive assets do not make circuits) go through three stages in their movement, assuming successively different forms. The first stage of the circuit is that the self-supporting enterprise pays money for the raw and other materials, fuel and other means necessary for the production process, and draws the necessary quantity of labour power into the pro-

duction process. The first stage of the circuit is expressed thus:

$$M - C(M_p), \text{ where } M_p \text{ is means of production; } W = \text{wages.}$$

$$\downarrow$$

$$W$$

The second stage of the circuit of productive assets is the decisive one, the most important stage of the circuit, the one of the combination of the productive assets with labour power, its result being the production of finished output (for the given enterprise). The second stage of the circuit may be written:  $P \dots C^I$ , where  $P$  stands for production and  $C^I$  is the commodity created.

The third stage of the circuit is the transformation of the output created during the production process back into money form:  $C^I - M^I$ . Attention should be focused here on the increase in value received as a result of the production process. On completing their circuit, the productive assets return again to their initial form—the money one, becoming quantitatively larger than initially.

There are three functional forms of assets corresponding to the three stages of their circuit: the money, productive and commodity forms.

The money form of assets is expressed by the formula:

$$M - C(M_p) \dots P \dots C^I - M^I$$

$$\downarrow$$

$$W$$

The productive form of assets means that they are found directly in the production process. This form is expressed thus:

$$P \dots C^I - M^I, M - C(M_p) \dots P^I$$

The commodity form of assets may be written as follows:

$$C^I - M^I, M - C(M_p) \dots P \dots C^{II}$$

$$\downarrow$$

$$W$$

*The circuit of productive assets* is a unity of all the three forms of assets: money, productive and commodity.

Under socialism, labour power is not a commodity and does not enter the circuit of assets. Payment for labour is an independent component of the movement of means. It reflects the planned, balanced, and direct inclusion of workers in the production process, workers who are the joint

owners of the means of production and receive a wage for their labour, in accordance with the quantity and quality of it.

The transformation of assets from one form to another and their progress through the stages of production and circulation is called the circuit of assets; it takes place in a normal and rational way if all its stages follow one another without any hold-ups. If the assets are delayed at the first stage, monetary means are not used to the full; if at the second stage—the means of production; at the third—there is an accumulation of unsold commodities. In each enterprise, at each given moment, one part of the assets of the enterprise exists in the form of machinery, equipment and the like, another part as finished output, and yet another as money.

#### The Turnover of Assets

The circuit of the assets of self-supporting enterprises not only passes through three stages, but also recurs repeatedly. When they complete one circuit, the assets repeat their movement over and over again. The circuit of the assets of the enterprise taken not as an individual act, but as a periodically repeated process, is called the *turnover of assets*. This turnover takes place in such a way that, at every given moment, part of the assets are in the sphere of production, and part in that of circulation. The time productive assets spend in the sphere of production constitutes *production time*; that in the sphere of circulation is *circulation time*. Together, the production time and circulation time form the *time of the turnover of assets*.

Production time consists of the following three parts: the *work period*, i.e. the time during which the objects of labour are directly processed during the labour process; production time includes *breaks* in the actual processing of the objects of labour when changes take place in them under the impact of natural processes (physical, chemical, biological). The production time includes time spent by the objects of labour as *production stocks*. Production stocks are made up of raw and other materials, packaging, fuel, spare parts, and purchased semi-finished goods.

The circulation time includes: the time spent by finished output in store; the time during which it is transported to the purchaser; the time during which it is sold, i.e.

transformed from its commodity into its money form; and the time during which new stocks of means of production are acquired for the money received.

An acceleration of the turnover of productive assets exerts a substantial influence on the efficiency with which they are used and has a positive effect on the economic indicators of the enterprise's operation. It shows a rise in the efficiency of production and circulation. The faster productive assets turn over, the more material goods required by society are produced.

### Fixed Assets

The decisive role in the movement of productive assets belongs to *fixed assets*, which constitute the production apparatus of socialist society. They include almost 80 per cent of all the productive assets. In the Soviet Union, from 1970 to 1983 alone, the fixed productive assets grew by 160 per cent, and from 1960 more than 6.4 times. Their value now stands at over 1.5 trillion roubles.

The fixed productive assets are divided into two parts: active (machine-tools, equipment, and so on) and passive (production premises and facilities, etc.). The greater the share of the active part of the fixed assets, the more efficient and progressive they are. The qualitative state of the fixed productive assets is characterised by their structure, the correlation between their active and passive parts. In Soviet industry in 1982, for example, the share of buildings and facilities in the fixed productive assets was 47.6 per cent, that of transmission equipment—10.9 per cent, of machinery and equipment—38.6 per cent, measuring and regulating instruments and mechanisms and laboratory equipment—1.4 per cent, means of transport—2.2 per cent, and miscellaneous—1.5 per cent.

In the process of their productive consumption, the fixed assets are gradually worn out. There are two types of wear—*physical* and moral, or *obsolescence*. *Physical wear and tear* means the material wear on the machinery, equipment and other fixed assets. Physical wear and tear takes place under the impact of two factors: a) the use of fixed assets in production, b) natural forces.

*Obsolescence* of fixed assets is a result of scientific and technical progress and the growth of labour productivity, under which the production of cheaper and more productive

types of equipment leads to obsolescence of means of labour produced earlier. The replacement of obsolete means of labour with new ones is combined with modernisation and improvement of existing ones to bring them up to the modern technical level of production.

The replacement of worn-out fixed assets is carried out by including in the value of the finished output the part of the value of the fixed assets corresponding to their wear (depreciation allowances). Depreciation is the gradual transfer of the value of the fixed assets to the product, in order to cover the cost of their wear and tear and accumulate funds for reproduction of the means of labour. Payments into the depreciation fund depend on the set depreciation rates. The general rate of depreciation consists of two parts: one goes to compensate completely for the fixed assets (renovation), and the other to compensate for them partially (capital repairs and modernisation).

The most generalising indicator of the effectiveness of the use of fixed productive assets is the return on assets, which is determined according to the formula:

$$\text{return on assets} = \frac{\text{value of annual output}}{\text{mean annual value of the fixed productive assets}}$$

The rise in the return on assets is affected by a number of factors, including improvement of the structure of the fixed assets through an increase in the share of machinery and equipment in them and through a cut in the cost of construction, as well as intensification of the use of fixed assets. It is ensured by means of the introduction of progressive production techniques, acceleration of the operation of machinery and equipment, of smelting, apparatus processes, the introduction of scientifically substantiated labour organisation, and improvement of the quality of output.

### Circulating Means

The material bearers of the *circulating assets* are objects of labour. Circulating assets account for a fifth of the value of the productive assets in Soviet industry. The *cash and disposable stocks* include the enterprise's money in hand and finished output. Together, the circulating assets and cash and disposable stocks form, as we have already stated, the *circulating means*, which are constantly on the move,

catering for the requirements of enterprises in the production and sale of output. Indicators of the use of circulating means are the number of circuits and the turnover velocity in days. The number of circuits is determined by dividing the value of the output sold during the year (say, 10 million roubles worth) by the mean annual size of the circulating means (say, 2 million roubles worth). The answer is the number of circuits made by the capital during the year. Turnover velocity in days is determined by dividing 360 days, taken as the year, by the number of circuits.

The indicator of the efficiency with which the circulating means are used is the drop in the material intensity of output—the generalising criterion of the use of raw and other materials. It may be written as the formula:

$$MI = \frac{M}{P}, \text{ where } MI \text{ is material intensity, } M \text{ is the}$$

material components of the circulating assets, and  $P$  is output produced. A drop in material intensity is a major reserve for raising the efficiency of production, since savings on individual types of output by only one per cent in the USSR is tantamount to additional output of about 800,000 tonnes of iron and steel, more than 6 million tonnes of coal, about a million tonnes of cement, and so on.

The turnover velocity of circulating means is one of the chief economic indicators of the work of an enterprise (association): the faster the turnover, the less means is required by the enterprise. The main ways to speed up the turnover velocity of circulating means are: to cut material stocks, reduce production time, and reduce the time for selling the finished output. In the struggle to speed up the turnover velocity of circulating means, also of major significance are a cut in the production time achieved through mechanisation and automation of production, improvement of technological processes, rational organisation of production and labour, and the like.

### 3. Costs of Production and the System of Prices

#### Prime Cost and Its Structure

All the outlays of live and embodied labour for the production of a given output make up the *social costs of production* or the *social value*. Under socialism, commodity-money relations are retained, so the social costs of production take a value form.

The value of output is divided into two parts: the value of the means of production used up and the newly-created value. Newly-created value, in turn, breaks down into value created by necessary labour and that created by surplus labour. All this may be expressed by the formula:  $V = V_p + (V_n + V_s)$ , where  $V$  is the value of the output,  $V_p$  is the value of the means of production used up,  $V_n$  is the value created by necessary labour and  $V_s$  is that created by surplus labour.

The costs of a self-supporting enterprise comprise the totality of inputs of material means (raw materials, fuel, and the like) and necessary labour, expressed in money form and showing what it costs the enterprise to produce and sell its output. The prime cost of production is a monetary expression of the costs of production, the current outlays of socialist enterprises on the production and sale of output. The prime cost includes the part of value corresponding to the value of the means of production used up and transferred to the given product ( $V_p$ ) and the value of the product created by necessary labour ( $V_n$ ). Consequently, prime cost may be written:  $(V_p + V_n)$ .

The prime cost of production is less than its value by the value created by surplus labour ( $V_s$ ).

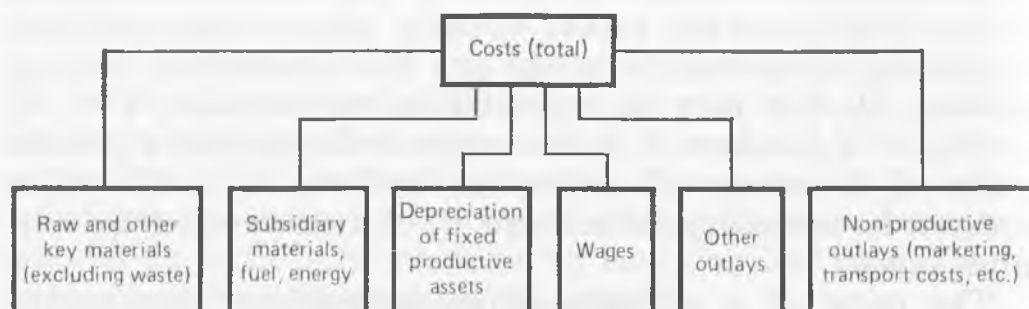
In industry, a distinction is drawn between shop, manufacturing and full costs. Shop cost is only taken into account in certain cases (for example, in spinning and weaving mills making up a textile combine). It includes the shop's outlays on producing its output. Manufacturing costs show the enterprise's outlays connected with the production of output, and characterise the results of its operation. Manufacturing costs include all outlays connected with the manufacture of goods, from the processing of the raw and other materials to the final transfer of the output to the finished output stores.

Full cost includes manufacturing costs, plus outlays on the sale of output, and is a generalising indicator of all the enterprise's operations. (Fig. 9).

The structure of prime cost in different branches of production differs. Depending on the nature of the output and the structure of its prime cost, industries may be divided into labour-intensive, material-intensive, energy-intensive and capital-intensive. Labour-intensive industries include the coal, iron-ore mining, timber and similar industries. The main share of the outlays in these industries



Fig. 9



consists of wages. Material-intensive industries include the textile, tanning, and others. Here the share of outlays on materials and objects of labour is high. The energy-intensive industries are the aluminium industry and branches of the chemical industry, where a large share of costs consist of outlays on energy, and so on.

The prime cost of output is one of the chief indicators of the efficiency of the enterprise's economic activities. For example, a one per cent drop in prime cost throughout the Soviet national economy in 1982 meant over 9 billion roubles. At the stage of developed socialism in the USSR, particular attention is focused on reducing the prime cost of output, increasing the role of this indicator in assessing the activities of enterprises and collectives and in stimulating the work collectives of enterprises and associations.

#### Ways to Cut Prime Cost

A continuous drop in the production costs is a law of the development of socialist production. How is this achieved?

Production costs drop primarily on the basis of a growth of the productivity of labour. All the factors helping to raise labour productivity (improvement of technology and production processes, of labour organisation, and so on) make it possible to cut prime cost. A rise in the productivity of labour is accompanied by savings on live labour and labour embodied in the means of production. Marx wrote that "in proportion to the development of the productivity of labour ... in every aliquot part of the aggregate product the portion representing depreciation of machinery and the portion formed by the newly added labour—both continually de-

crease".<sup>1</sup> Consequently, a rise in the productivity of labour is manifested not only in a cut in the inputs of live labour, but also in a drop in depreciation per unit of output.

Rational use of material resources, raw and other materials, fuel, electricity, and the introduction of new types of material reduce the prime cost of production and raise its efficiency. Thus, the weight of constructions and units, when made from low-alloy steel, of roll-formed sections compared with usual steel is reduced by 15-30 per cent, while if heat-processed rolled stock is used, the drop is 50 per cent. This provides substantial economies of ferrous metals. Of particular significance today are savings of non-ferrous metals. A substantial effect in this is achieved by the extensive replacement of non-ferrous metals by cheaper synthetic materials, which is connected with the development of the chemical industry.

More efficient use of equipment is a major reserve for cutting the prime cost of production. The more productively equipment and other forms of fixed assets are used, the fewer inputs of embodied labour are transferred to the value of each unit of output. Another important source for cutting the prime cost of production is economies of all materials and labour.

A major way of cutting the prime cost is a drop in the price of the managerial apparatus, its strengthening with competent personnel, capable of working to the full under the conditions of the scientific and technological revolution.

#### Net Income and Its Distribution

The lower the prime cost, the higher society's net income, created in the sphere of material production.

In socialist society, the net income differs fundamentally from surplus value under capitalism. Surplus value embodies the surplus labour of wage workers, is used for the enrichment of the capitalists and the furthering of the exploitation of labour by capital. Under socialism, the net income is created by the surplus labour of workers free from exploitation and belongs to society as a whole; it is used to expand and improve production, and satisfy the growing

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<sup>1</sup> Karl Marx, *Capital*, Vol. III, Progress Publishers, Moscow, 1977 pp. 108-09.

material and cultural requirements of the members of society.

In the process of the distribution, the net income of socialist society falls into two parts—the centralised net income of the state and the net income of enterprises. The centralised net income of the state is the part of the net income of society that goes to the state to be used for public needs. In the USSR it is formed from payments from profits (accumulation of part of the net income of enterprises), turnover tax (two-thirds of the money income of the state come from these two revenue items), deductions from wages for social insurance purposes, the income tax levied on collective farms and taxes levied on the population.

One of the chief channels for forming the centralised net income of the state in the USSR consists of payments from the profits of enterprises in the form of payments into the budget. A second major channel is the turnover tax, which constitutes the part of the value of the net income paid into the centralised net income of the state according to fixed rates, included in advance in the price of industrial output. It comes mostly from enterprises in the food and light industries (80 per cent of the total). In recent years, turnover tax has been increasing more slowly than total profits, with the result that the correlation between the turnover tax and payments from profits in the budget revenues has changed sharply in favour of the latter.

Under socialism, profits are a result describing the efficiency of the labour activities of people, free from exploitation, who work in a planned way with the help of social means of production and are themselves the owners of the output produced. At the same time, profits are one of the synthetic indicators of the economic efficiency of socialist production, one of the means used by the socialist state to attain an organic combination of the interests of society, production collectives and individual workers.

The procedure for the distribution of enterprise profits in the USSR is as follows: first, payment is made into the state budget for productive assets and fixed payments, the interest on bank credit is paid off, and economic incentive funds are formed. The remainder of the profit is used to finance centralised investment and pay off credit advanced for investment, the increase in the enterprise's own circulating means is financed, losses from the exploitation of the housing and municipal economy are covered, and the like;

payments are also made into the reserves of higher organisations, and then the free remainder of the profits is paid into the state budget.

What is payment for productive assets? This is the part of the enterprise's profits that is paid into the budget for the use of the fixed productive assets, irrespective of whether the profit plan has been fulfilled. It is set, as a rule, at 6 per cent of the value of the fixed productive assets and rated circulating means. The state takes this money in order to make the enterprises and associations display greater interest in the more rational use of the assets allocated to them and to encourage them to make better use of them.

Fixed payments include payments by enterprises operating under the most favourable conditions, either natural or organisational and technical, and enjoying the lowest production costs. The differential income of enterprises is paid into the state budget at a strictly fixed rate. At present, fixed payments are applied in a comparatively small range of industries: the oil, gas, iron-ore mining, the light and some other industries. The free remainder of the profit is the sum remaining after the payment for assets, fixed payments, and payments into the economic incentive fund, for covering long-term loans and interest on credit have all been deducted.

In 1982, the distribution of the profits of industrial enterprises in the USSR (in percentage terms) was roughly as follows: 59 per cent was paid into the budget, 41 per cent was left at the disposal of the enterprises, including: 17 per cent paid into the economic incentive fund, 9 per cent used to finance capital construction, and 15 per cent for other purposes.

This profit-distribution procedure was established in order to increase the efficiency of social production, ensure a rise in labour productivity and the profitability of self-supporting enterprises.

#### The Profitability of Enterprises

Profitability is an indicator of the efficiency with which an enterprise operates, covering production outlays and receiving profits on top. The rate of the profitability of an enterprise is measured by the enterprise's profit, divided by the prime cost of realised output:

$$PI = \frac{P}{C} \cdot 100 \%, \quad \text{where } PI \text{ is the profitability rate,}$$

$P$  is the mass of profit, and  
 $C$  is the prime cost of output.

If the profit is 2,000 roubles, and the prime cost of output 20,000 roubles, the profitability rate is 10 per cent.

The profitability rate is also determined by comparing the profit with the value of the enterprise's productive assets. It is calculated according to the formula:

$$PI = \frac{P}{A} \quad \text{where } PI \text{ is the profitability rate,}$$

$P$  is the mass of profit, and  
 $A$  is the value of the productive assets.

The first indicator does not fully reflect the efficiency of the enterprise's economic activities—it is virtually unaffected by the degree to which the fixed productive assets are used. The ratio of the profit to the value of the productive assets does, however, reflect the degree to which all the enterprise's resources are utilised, both labour and material. This is why the second indicator is usually the one applied for estimating the enterprise's profitability rate.

There are two factors that work to raise profitability: a drop in prime cost and a rise in quality. Improvement of these indicators depends, in turn, on the organisation of labour, the system for the material incentives to workers, and so on. We have already considered the factors behind a drop in the prime cost; all these factors, while reducing the prime cost, work to raise the profitability of production.

Improvement of the quality of output does not lead directly to a drop in the prime cost of output, for as a rule, this requires additional labour inputs, and the prime cost of output may even go up. This rise is, in many cases, necessary, since a rise in quality is tantamount to expansion of production. Output of higher quality is usually sold at a higher price, which not only covers the additional inputs, but also provides higher profits.

Under socialism, a rise in the profitability of some enterprises does not conflict with the interests of others; on the contrary, it creates the conditions for the accelerated development of the entire national economy. The profitability of enterprises is not subject to spontaneous, chance changes in prices. The planned running of the economy ensures that output is sold at fixed, planned prices, set by the state.

## The System of Prices

Price is, of course, a manifestation of the operation of the law of value and is regulated by it. This means that prices must reflect the socially necessary labour inputs, ensuring compensation for the costs of production and circulation, and providing a certain profit for each normally operating enterprise.

The setting of prices on the basis of social value does not mean that the prices of all goods must coincide with their value. On the contrary, divergences of prices from value are a necessary form of the use of the law of value. A deliberate divergence of the prices of commodities from their value must be economically justified. Prices that are set below value must, as a rule, completely cover the enterprise's production costs and ensure it a certain income. Prices that are set above value have a more mobile limit, but the price must not be (with certain rare exceptions) too far above value, for this would mean too high a level of profitability and would result in the acquisition and use of this given product being very unprofitable for the consumer.

In the Soviet Union, the system of prices includes the following main forms: wholesale prices of enterprise and industry, retail price, and the collective farm market price.

*The wholesale price of the enterprise* is that at which state industrial enterprises sell their output to one another and to marketing organisations in a planned way. The wholesale price of the enterprise includes the prime cost of output and enterprise profit.

*The wholesale price of industry* is the price at which enterprises and wholesale marketing organisations of an industry sell output to state and co-operative trading organisations. The sale of certain means of production and consumer goods also takes place at this price. The wholesale price of industry of means of production includes the wholesale price of the enterprise, the outlays and profit of marketing organisations, while the industrial wholesale price of consumer goods includes, in addition, turnover tax. Wholesale prices are set, on the one hand, to promote the introduction of progressive types of raw material and advanced technology into production and, on the other, to encourage economies of materials that are in short supply. A drop in production outlays constitutes the basis for a drop in wholesale prices.

*The retail price* is the price at which trading organisa-

tions sell commodities to the population. It is made up, in addition to the wholesale price of industry, of a trade mark-up, intended for covering the circulation costs of trading organisations and forming their profits.

In the USSR, the state has consistently pursued a line of ensuring stable state retail prices for the chief foodstuffs and other commodities. The retail prices of bread, bakery and macaroni items, groats, vegetable oil, certain species of fish and some tinned and bottled foods, and sugar have not changed since 1955; those of meat and dairy products—since 1962. The prices of the currently accepted assortment of fabrics, clothing, footwear and many other items in day-to-day use are kept stable, as are those of the main commodities for cultural, domestic and economic purposes, including television sets, radios, tape-recorders, refrigerators, vacuum-cleaners, washing machines and a number of other items. Given the overall rise in wages, this means a growth of real incomes, a rise in the standard of living and well-being of Soviet people.

#### 4. Cost Accounting in Agricultural Enterprises

##### Rent Relations Under Socialism

The chief principles of cost accounting considered above for industrial enterprises also apply to agricultural co-operatives. There are, however, a number of specifics connected with collective farm-co-operative property, rent relations and others that affect cost accounting in agriculture.

In the USSR, private ownership of the land has been eliminated, and it has ceased to be subject to purchase and sale. In this connection, absolute rent has been wiped out. Socialist transformations in Soviet agriculture, carried out in the course of the implementation of Lenin's co-operative plan, relieved the toiling peasantry from exploitation and poverty for ever and made it possible to establish a system of socialist production relations in the countryside. Big agricultural enterprises have now been created that allow agriculture to be developed on the basis of comprehensive mechanisation, chemicalisation, land improvement and so on.

Under the conditions of the socialist system, the limited area of the best land, differences in fertility and natural conditions have remained objective factors, so not only the

best and average land is cultivated, but also poorer plots. Outlays on producing a unit of output naturally differ for land of different quality.

Agricultural enterprises working the best land and running their economy more intensively produce more output per unit area. These farms receive an additional product, which is the material content of differential rent.

A specific of the operation of the law of value in agriculture is that the social value of agricultural produce depends on the conditions of production on relatively poorer land, given average farming conditions. Agricultural produce is sold at social value, determined by the worst production conditions. The difference between the social value of a unit of agricultural produce received from different plots of land constitutes an additional net income, *differential land rent*.

Under socialism, two forms of differential land rent are distinguished—I and II. Differential rent I is additional net income created by the more productive labour on the plots of land that are better in terms of natural fertility and proximity to sales points. Farms cultivating the most fertile land receive more output per hectare for lower production costs, compared with ones using worse land. If the output is sold at the same price, the enterprises situated on the best land receive additional net income—differential rent I, which goes to the socialist state to be used for social needs.

Differential rent II is additional net income arising as a result of an increase in labour productivity in agricultural enterprises running their economies more intensively.

A condition for the formation of differential rent II is an artificial rise in soil fertility. The use of fertilisers and chemicals, the introduction of scientifically substantiated crop rotation systems, tree planting, land improvement, irrigation and a number of other measures increase soil fertility and make it possible to harvest more output per hectare.

In other words, differential rent II comes from an intensification of agricultural production and scientific and technical progress. Lenin wrote that intensification of agriculture meant a technical change in farming, a transition to more advanced systems of cultivation, greater use of artificial fertilisers, improvement of implements and machinery, and an expansion of their use.



The distribution of differential rent II is carried out thus: the part of differential rent II formed as a result of additional inputs of labour and means of production of collective farms remains on the farm for expanding production and paying for the collective farmers' labour. This raises the material interest of collective farms in a further intensification of their work and in an increase in the production of agricultural produce. The other part of differential rent II goes to the state. This part of the rent is removed through the price of agricultural produce and income tax.

#### Cost Accounting on Collective Farms

On collective farms, the purpose of cost accounting is to ensure the production of the largest possible amount of output for minimum inputs of live labour and means of production. The introduction of cost accounting into collective farm production encourages, above all, efficient use of the farm's productive assets. The productive assets of collective farms are divided into fixed and circulating. The former include: production buildings, tractors, transport, draught and meat-and-dairy cattle. The latter include: seeds, fodder, fertilisers, fuel, spare parts for tractors and other machines, and so on. The circulating assets and cash and disposable stocks form the circulating means of collective farms.

The efficiency of a collective farm's activities depends on the turnover velocity of the productive assets, and their rational use. The correct use of fixed assets means elimination of idling of machines and tractors and their most productive functioning; rational organisation of the storage and repair of technology; provision of skilled personnel to operate new technology. Rational use of circulating means leads to an acceleration of their turnover velocity. All this, together, makes it possible to cut the prime cost of collective farm produce.

The prime cost of collective farm produce is the part of value covering outlays on means of production used up and paying for the labour of collective farmers, expressed in money terms. It shows what it costs the collective farm to produce and sell a given output and is calculated as follows: seeds, fodder and other materials produced on the farm are assessed at their production costs, and purchased materials

—at their actual price. The wear and tear of fixed productive assets (tractors, other vehicles, agricultural machinery, and so on) is calculated at the rates set for state farms.

### Revision Exercises

1. What is the essence of cost accounting?
2. What are the principles behind cost accounting?
3. What is the economic content of the productive assets? Define fixed and circulating assets.
4. Write the formula determining the circuit and its three stages.
5. What is the turnover of assets?
6. What are the main ways to increase the return on assets?
7. What is the circulating means of enterprises and what are the ways to make better use of them?
8. What are value and prime cost of the output of a socialist enterprise? What is the structure of the prime cost and the ways to reduce it?
9. What is profit and how is it distributed between the state and the enterprise?
10. What does profitability mean and how is it calculated?
11. What is the system of prices under socialism?
12. What are the specifics of cost accounting on collective farms?

### Chapter Sixteen.

#### SOCIALIST REPRODUCTION. COMMODITY CIRCULATION AND THE FINANCE AND CREDIT SYSTEM

#### 1. Socialist Extended Reproduction

##### The Essence and Main Features of Socialist Reproduction

Socialist reproduction is the planned, balanced, and continuous expansion of the reproduction of the material goods belonging to society, socialist relations of production and the labour power of workers free from exploitation. In the process of reproduction, economic relations take shape between socialist enterprises and workers, between enterprises and branches of the national economy, between society and enterprises, between state and collective farm-co-oper-

ative sectors, between classes, between socialist countries, and so on. Socialist reproduction thus includes the entire complex of socialist economic relations.

Extended reproduction is characteristic of socialism. It differs fundamentally from capitalist reproduction and has its own inherent features. Socialist reproduction is carried out under the conditions of the undivided sway of social ownership of the means of production. The goal of extended reproduction under socialism is to satisfy the material and cultural requirements of all members of society and ensure their comprehensive development.

Socialist reproduction is carried out under the conditions of the planned, balanced development of the national economy, and a steady and rapid growth of production. Society, in the person of the socialist state, is able to cognise the internal links of reproduction, consciously distribute the material, labour and monetary means in a planned way between branches and types of production, and economic regions, to take account of the growing requirements of society, make planned use of the latest scientific and technical achievements and increase the efficiency of the socialist economy.

A characteristic feature of socialist extended reproduction consists of high and stable rates of development of all the key branches of material production. The correspondence of the relations of production to the character and level of the productive forces opens up broad scope of the development of all the phases of socialist production and determines high rates of socialist reproduction, substantially outstripping the growth rate of production in the developed capitalist countries.

In the process of socialist reproduction, the planned, balanced reproduction of the productive forces and the relations of production in their unseparable unity is ensured. The extended reproduction of socialist relations of production means the reproduction and improvement of social ownership of the means of production in its two forms—improvement of the state (belonging to all the people) and collective farm-co-operative forms of socialist ownership of the means of production. It means the reproduction and improvement of socialist relations between people in the process of the production of material and cultural benefits—reproduction of comradely co-operation, friendship and socialist mutual assistance.

One essential material precondition for extended reproduction is reproduction and accumulation of the national wealth of socialist society.

### The National Wealth

The *national wealth* consists of the whole totality of material goods accumulated by society over many generations. All the use values produced and accumulated form the material content of this wealth.

The national wealth of socialist society includes the following components: fixed productive assets—buildings and constructions used for production purposes, the equipment of factories, plants, state farms and other production enterprises in all branches of the national economy; circulating productive assets—production stocks and incomplete production; cash and disposable stocks—stocks of finished output, material reserves; the non-productive assets of society—housing and public buildings, scientific and educational establishments, medical and cultural municipal establishments, belonging to state, co-operative and social organisations; the personal property of the population.

The national wealth on the broad plane also includes the natural resources used in production: agricultural land, forests, hydro-energy resources, deposits of minerals, and so on. Geological prospecting work and the drawing of newly discovered resources into production increase the national wealth. The knowledge, skills and production experience accumulated by the workers also belong to the national wealth. Moreover, Marx called these the “chief accumulation of wealth”.

In socialist society, the national wealth belongs to the working people and is used in the interests of all members of society. The labour of Soviet people creates the national wealth of the Soviet Union. During the years of Soviet power, it has increased several dozen times. In 1983, the national wealth of the USSR (not including the value of land, minerals and forests) was estimated at 3.2 trillion roubles, including 2.09 trillion roubles worth of fixed assets (including cattle). A fifth of the country's national wealth consisted of the people's domestic property.

The further growth of the national wealth depends primarily on the increase in the aggregate social product.

## The Aggregate Social Product and Its Structure

The *aggregate social product* is the mass of material goods produced in a planned, balanced way in the sphere of material production over a given period (a year). Society uses the aggregate product to replace the material components of production consumed; to increase and renew them, and supply the members of society with the vital means they require.

The aggregate social product is the material bearer of socialist relations of production. It is created by workers, free from exploitation, in the sphere of material production, in socialist state, collective farm and cooperative enterprises, and on the personal subsidiary plots of collective farmers, factory and office workers. About 90 per cent of the entire aggregate gross product is created in the country's state enterprises.

The aggregate product under socialism takes two forms: a value form and a physical-material form. In value terms, the aggregate social product breaks down into two parts: the value of the means of production used up, which is transferred to the finished product, and newly created value, which is, in turn, divided into the value of the necessary product and that of the surplus product.

Each of the parts of the value of the aggregate social product plays a special role in the reproduction process. Under socialism, the transferred value is a fund for renewal of fixed and circulating productive assets that have been used up. The working people transfer to the new product the value embodied in the means of production consumed (wear and tear on machinery, raw and other materials used up, and so on). Thus, the *replacement fund* is formed. The second part of the value of the social product is the value of the product created by necessary labour, *the necessary product*, going to satisfy the personal requirements of the working people in material production. The third part of the value of the aggregate social product is the value of the product created by surplus labour; in socialist society it is the *product for society*.

The aggregate social product in physical-material form is divided into means of production and means of consumption. In accordance with this, social production and all branches of material production, depending on the economic purpose of the material goods produced there, are di-

vided into two departments: production of means of production (Department I) and production of means of consumption (Department II).

The two departments are closely intertwined, and part of the product is used both in Department I and Department II. In accounting and planning practice in the USSR, this division is carried out only in industry, where the output of a branch, in terms of its actual use, is attached to group A (production of means of production) or group B (production of means of consumption). Group A includes the output of heavy industry (iron and steel, coal, machinery, and the like); a part of the output of light and the food industry, which serves as raw material for further processing; construction output for production purposes; agricultural output used for productive consumption (seeds, fodder, raw materials).

Group B includes the main mass of the output of light and the food industry; part of agricultural output; part of construction output in the non-productive sphere (clubs, hospitals, housing, and so on); the part of the output of heavy industries intended for personal consumption (passenger cars, refrigerators, televisions, household chemicals, and so on).

Socialist reproduction presupposes strict observance of the proportions between the component parts of the aggregate social product in both physical-material and value form, which makes possible the uninterrupted planned, balanced realisation of the aggregate social product.

#### Conditions Necessary for the Realisation of the Aggregate Social Product

The aggregate social product produced annually is realised in a planned, balanced way. This is carried out by means of exchange between departments I and II and within each of them.

The general conditions required for the realisation of the aggregate social product presuppose replacement of all its parts in value and physical-material form. Moreover, the essence of the realisation of the aggregate social product consists in the proportional distribution of the product between departments I and II, the branches of production, the productive and non-productive spheres, types of production, and so on. At the same time, the conditions for reproduction

are co-ordinated with scientific and technical progress, and the growth in the productivity of social labour. It is these factors, in combination with the advantages of the socialist economic system, that exert a decisive impact on all realisation and social reproduction, on the formation of its optimal correlations and proportions.

The schema of the realisation of the aggregate social product under socialism is as follows: the part of the product created in Department I is realised within this department on the basis of the mutual exchange of output between the enterprises and branches of the first department. The means of production of Department I are replaced in this way. Another part of the product of Department I is exchanged for the output of the second department. As a result, Department II replaces the means of production it has consumed, and Department I receives means of consumption for the workers in its enterprises. Part of the output of Department II is realised in Department II for the consumption of its workers. The surplus product of departments I and II makes up the fund for expanding production, provides means for developing education, the health service, social insurance, public education, for forming reserves, for the country's defence, for administration, and so on.

The general conditions for the realisation of the aggregate social product under socialism are: first, the necessary and surplus product in the first department must be greater than the replacement fund for the renewal of the means of production in the second department, i.e. the production of means of production, especially machines, must develop faster than that of means of consumption.

Second, the total volume of the output of the first department must be greater than the value of the means of production used up in the process of production in both departments, or, in other words, more than the sum of the replacement funds of both departments.

Third, the output of the second department must not only provide means of consumption for the workers of the first and second departments in the volume of the necessary product created by them, but also ensure the involvement of additional workers for expanding production in both departments, as well as satisfaction of the social requirements of the working people. For this reason, the total output of the second department must be greater than the sum of the necessary and the surplus product of both departments,

These three conditions for the realisation of the aggregate social product under socialism objectively condition the faster development of the means of production, i.e. the operation of the law of the priority growth of the production of means of production.

**The Law of the Priority Growth  
of the Production of Means of Production  
Under Socialism**

The law of the priority growth of the production of means of production compared with that of means of consumption is the law of extended reproduction. This law, discovered by Marx, proved that, as the technical level of production rises, a certain amount of live labour sets in motion a growing mass of means of production and produces more output. Lenin gave a detailed scientific substantiation of the inner links between the preferential growth of the production of means of production and the development of machine production, accompanied by technical progress and a rise in the productivity of social labour. "The whole meaning and significance of this law of the more rapid growth of means of production," he wrote, "lies in the one fact that the replacement of hand by machine labour—in general the technical progress that accompanies machine industry—calls for the intense development of the production of coal and iron, those real 'means of production as means of production.'"<sup>1</sup>

The economic law of the priority growth of the production of means of production (Department I) compared with that of means of consumption (Department II) operates under both capitalism and socialism.

Under socialist conditions, this law is manifested primarily in the faster growth rates of the production of means of production compared with the growth rates of the production of means of consumption. This does not, however, exclude the possibility of the growth rate of Department II as a whole or of its individual branches sometimes equalling or outstripping that of Department I. The fact is that technical progress is constantly raising the efficiency of the means of labour, technological processes, objects of labour and or-

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<sup>1</sup> V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, p. 105,



ganisation of production in both departments. The law determined by technical progress, of the drop in material inputs per unit of output is manifested in both departments at the same time. The material-intensity of output, especially means of production, drops. For the same inputs of raw and other materials, it becomes possible to increase the quantity of means of labour and provide both departments with new, highly productive means of production. The drawing together of the rates of development of the two departments is stimulated by the increase in the output of consumer goods in Department I, as well as that in capital investment in Department II.

For the 11th five-year plan period (1981-1985), a 26-28 per cent increase in the production of industrial output was planned for the USSR, including 26-28 per cent in the production of means of production (group A), and 27-29 per cent in that of means of consumption (group B).

The accelerated growth rates of Department II do not mean that the law of the priority growth of the production of means of production loses its force. The branches ensuring progressive structural shifts in the national economy, stable and balanced extended reproduction, above all heavy industry, especially its science-intensive branches, are the ones that grow fastest. Thanks to this, the economic and defence might of the country, the people's welfare and the national income all grow.

#### The National Income and the Factors Behind Its Growth

The *national income* is the part of the aggregate social product in which the newly expended live labour and the newly created value are embodied. It is the part of the aggregate social product which remains after material outlays have been recompensed. As an economic category of socialism, the national income is the value newly created by labour, free from exploitation and organised in a planned way, the value used for public consumption and expansion of production in the interests of all members of society.

The national income may be considered in terms of its value or physical-material content. In its physical-material composition, the national income is the mass of means of consumption produced over the year and the part of the means of production used by society for expanding produc-

tion and forming reserves. In terms of value, the national income is the value of the necessary and the surplus product. (The national income is calculated in money terms in current and comparable—constant—prices. The size of the national income, calculated in comparable prices, is called the physical volume of the national income).

The functional purpose of the national income in socialist extended reproduction is reflected in the fact that it serves as a source for consumption by the workers in the sphere of material production, for the accumulation and formation of reserves, and for the maintenance of the non-productive sphere.

In socialist society, the national income is created by the working people; it belongs to them, is distributed and used in their interests. The use of the national income under socialism is subordinated to the goals of the increasingly full satisfaction of the people's growing requirements.

Under socialism, the national income increases at a steady rate. In the USSR, for example, compared with 1970 (taken as 100 per cent) the produced national income used for consumption and accumulation<sup>1</sup> in 1980 was 155 per cent, and in 1983—171 per cent. In 1983 the produced national income stood at 543.7 billion roubles, and that used for consumption and accumulation, at 530.9 billion roubles. Overall, the national income of the Soviet Union and the other socialist countries increased from 1970 to 1983 much faster than did that of the other countries in the world.

The national income is created by the labour of the workers in material production, employed in industry and construction, agriculture, transport and so on.

The chief factor behind the growth of the national income under socialism is the rise in labour productivity. Of major significance in this is the level of development of science and culture already achieved, the production experience accumulated, and the level of the knowledge and skills of the workers in socialist society. The higher the productivity of labour, the greater the physical volume of the aggregate social product and, consequently, the greater the

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<sup>1</sup> The national income used for consumption and accumulation differs from that produced by the amount of the compensation for losses and the foreign trade balance.

mass of the national income. In the Soviet Union, the rise in the productivity of social labour in 1981-1982 accounted for over 80 per cent of the increase in the national income. The growth of the productivity of social labour over these two years saved the labour of 5.3 million people.

Another major factor behind the growth of the national income is economies of means of production, which consist in scientific and technical progress allowing the country to produce new types of machinery, equipment and the like with fewer inputs of raw materials, and to make use of more progressive materials. In the USSR, in 1981-1982 the material-intensity of the social product was reduced, with the result that raw and other materials, fuel, energy and other objects of labour worth 8.6 billion roubles were saved. This led to a growth in the volume of the national income. The drop in the rate of expenditure of raw materials, fuel, energy and other material resources per unit of output, the application of more effective types and shapes of rolled ferrous and non-ferrous metals, the more extensive use of metal substitutes, improvement of the techniques for processing metal, and so on, all these create additional resources for increasing output and lead to a corresponding growth of the national income.

#### Distribution of the National Income

The distribution of the national income under socialism takes place in a planned, balanced way for the purpose of ensuring extended socialist reproduction and a steady growth of the working people's well-being.

The essence of distribution consists in the transformation of the value of the national income produced into specific forms of income. Distribution has two stages: primary distribution and redistribution. Primary distribution of the national income is carried out in enterprises and branches of material production. Here part of the necessary product, in conformity with the law of distribution according to work done, goes directly for the personal use of the workers in enterprises in the form of wages, the income of collective farmers in money and in kind, as well as the incomes of the working people in town and countryside from their personal subsidiary plots. Another part of the national income, corresponding, in the main, to the surplus product and part

of the necessary product, goes in a variety of forms (payments on profits to the state, payments for assets, turnover tax, deductions from enterprises into the social insurance fund, and so on) to the socialist state or to form the profits of enterprise. The socialist state carries out the redistribution of the national income, chiefly through the state budget, and forms, in a planned way, the accumulation and the consumption fund. Those groups of the population that work in the non-productive sphere receive their income through the redistribution of the national income.

### The Consumption and the Accumulation Fund

The *consumption fund* under socialism is the part of the national income that is used to satisfy the growing material and cultural requirements of the working people, as well as to meet other needs of society. The *accumulation fund* is the part of the national income of socialist society used for expanding and improving production, carrying out capital construction of projects of social and cultural significance and services facilities, and forming social reserves and insurance stocks.

The ratio between the consumption fund and the accumulation fund is a dialectical unity. If one fund goes up, the other goes down, and vice versa. A drop in the accumulation fund means a drop in the growth rate of social production; a drop in the consumption fund is in conflict with the goal of socialist production, i.e. the satisfaction of people's requirements and a rise in their standard of living over the given period. Consequently, the optimal ratio of these two funds has to be found every time. Taking the Soviet Union as an example, in 1983 the national income was divided up as follows: 356 billion roubles on consumption and 126 billion on accumulation. Three-quarters of the national income was used for consumption and, taking account of outlays on housing and socio-cultural construction, four-fifths of the national income went directly on raising the public welfare.

The consumption fund consists of two parts: the social consumption funds and the personal consumption fund. The social consumption funds are created for the socialist state to exert a planned, balanced impact on the structure of the population's outlays and consumption in order gradually

to bring together and equalise the socio-economic positions of the members of society. These funds are intended, in the main, for the joint satisfaction of the socio-economic requirements of the members of society and a considerable part of them is spent on developing education, health care, social insurance and the like. The personal consumption fund (payment for labour) of the workers in the productive and non-productive spheres is the main form in which the requirements of the working people and their families are satisfied.

The accumulation fund is created from the surplus product. In its physical-material form, the accumulation fund consists of the means of production that remain after the replacement fund has been deducted, and of means of consumption intended for workers newly drawn into production and the creation of material stocks. The accumulation fund is intended for expanding production, the construction of cultural and municipal facilities (school, hospitals, housing, and so on) and, finally, the creation of a reserve or insurance fund.

## 2. Commodity Circulation in Socialist Reproduction

### The Essence of Commodity Circulation Under Socialism

In socialist social reproduction, commodity circulation is a component part of the realisation of the aggregate social product. It is the mediator between production and consumption. It is through commodity circulation that the commodities are transformed into real production and consumer goods. This presupposes their delivery to the place of their consumption, their sale to purchasers—enterprises and the population. Marx wrote that “a product becomes a real product only through consumption. For example, a dress becomes really a dress only by being worn”.<sup>1</sup>

By means of commodity circulation, the effective demand of state and co-operative enterprises for means of production and of the population for means of consumption is satisfied; it ensures the timely supply of material goods to replace

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<sup>1</sup> Karl Marx, *A Contribution to the Critique of Political Economy*, Moscow, 1977, p. 196.

means of production used up and to satisfy other requirements, while at the same time compensating producers in money for the value of production and the delivery of commodities to the market.

Commodity circulation under socialism is the planned and balanced exchange of commodities, carried out through the medium of money for the purpose of satisfying the production and personal requirements in society.

Under socialism, commodity circulation acquires a new socio-economic essence, which is conditioned by the domination of social property. The new essence of commodity circulation compared with that under capitalism is manifested in the fact that the object of sale and purchase is the commodity created in socialist enterprises, private trade intermediaries being absent; the agents of commodity circulation are socialist enterprises and economic organisations, and the working people; commodity circulation has the aim of satisfying as fully as possible the requirements of society both for means of production and for means of personal consumption; basically, it is a planned process.

Characteristic of commodity circulation under socialism is a steady growth of commodity turnover. In the USSR, for example, in the period from 1970 to 1982 the volume of retail turnover of state, co-operative (including public catering) and collective farm trade doubled. In 1983, it stood at 314,2 billion roubles. The socialist state sets and maintains in a planned and balanced way, the necessary proportions, between the mass of commodities and the population's effective demand, thereby creating the conditions for the uninterrupted exchange of products in the form of sale and purchase.

#### The Functions and Forms of Commodity Circulation

The first function of commodity circulation under socialism is to bring to the consumers, in a planned way, the corresponding parts of the aggregate social product: means of production to state and co-operative enterprises, and means of consumption to the population.

Its second function is to compensate in money for the value of the commodities produced and supplied to the market.

Proceeding from the functions of commodity circulation in the USSR, its following forms are distinguished: material and technical supply (sales), state purchases of agricultural output, and the trade in commodities for the population.

The most important form of commodity circulation is *material and technical supply*. It includes the sale of output for production purposes by state enterprises; the purchase (supply) of means of production by state enterprises in industry, communications, transport, construction and agriculture; the purchase (supply) by collective farms of agricultural and other machinery, mineral fertilisers, fuel, building materials, and the like.

The circulation of means of production follows a plan. In the USSR, the purchase and sale of means of production is carried out by the State Committee of the Council of Ministers of the USSR for Material and Technical Supplies and by its organisations. The bodies engaged in material and technical supply carry out the centralised distribution of the key types of production equipment, machine-tools, machines, mechanisms, fuel, metal, and so on between industries and enterprises. They establish economic links between supplier enterprises and purchasing enterprises, determine their requirements and possibilities, and realise the main part of the means of production at wholesale prices.

Commodity circulation between state and collective farm-co-operative enterprises takes place through a special organisation, Soyuzselkhoztekhnika, which deals with the sale of farm machinery, spare parts, and mineral fertilisers, repairs and special work for collective farms, etc.

Another form of commodity circulation is *state purchases of agricultural output*. In the USSR, the Ministry of Procurements of the USSR establishes the scale of state purchases proceeding, above all, from the volume of commodity output of collective farms, the amount produced on the personal subsidiary plots of the collective farmers, and the collective farms' economic interest in selling output to the state.

The principles of this form of commodity circulation are equivalency, planning and stability. The prices are set at a level ensuring normal conditions for extended reproduction: compensation for outlays and the receipt of a profit. The volume and structure of output intended for sale

to the state are determined in a centralised way and announced to each individual farm. The volume of purchases is set at a stable level for several years, which is a major factor encouraging the development of collective farm production.

The third form of commodity circulation under socialism is the trade in consumer goods—Soviet trade.

### Soviet Trade

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In this trade, the principle of distribution of the means of consumption according to work done is implemented: the first act is the receipt by the worker of his wages, the second—exchange of this money (the wages) for the goods he needs. The movement of money and commodities takes place with the help of trade, which is a form of commodity circulation reflecting socialist relations of production and, at the same time, a specific branch of the national economy, in which the direct sale and purchase of commodities take place.

In the USSR the following forms of trade have taken shape: state, co-operative, and collective farm market. The chief form of trade is *state trade*, which is divided into wholesale and retail trade. Under socialism, wholesale trade is ensured by the planned distribution of consumer goods between the different regions of the country. The sale of goods for personal consumption directly to the population is carried out chiefly through the system of retail trade, which includes over 400,000 shops and other retail outlets.

A major place in the total volume of retail turnover in the USSR belongs to *co-operative trade*. This is carried out through a network of trading and public catering enterprises run by consumer co-operatives, united by *Centrosyus* of the USSR. The system of co-operative trade includes hundreds of thousands of shops, outlets and public catering establishments. The assets of co-operative trade enterprises are the collective property of the members who are united in consumer associations. Consumer co-operative enterprises trade mostly in rural areas.

*Collective farm market* trade is a component part of retail trade. Surplus foodstuffs produced by the collective farmers on their personal subsidiary plots are sold on collective farm markets. Some of the produce sold on these



markets is supplied by collective farms themselves. In 1982 there were 7,000 collective farm markets in the USSR, and the sales turnover of agricultural produce on collective farm markets outside the villages (not including sales by consumer co-operatives at prices set by agreement) amounted to 8.6 billion roubles.

A major form for satisfying the requirements of the working people is *public catering*. In contrast to other types of trade, enterprises of the public-catering system not only sell output, they produce it, and also serve the consumers. The sale of food by the public-catering system constitutes part of retail turnover. The turnover of public catering in the USSR was 6.8 times greater in 1983 than in 1940.

The various forms of trade are a major link in socialist extended reproduction.

#### Circulation Costs

In the process of commodity circulation, society incurs corresponding expenses. Circulation costs are divided into two types. The first is connected with the continuation of the production process in the circulation sphere. This includes outlays on the transportation, sorting, packaging, and storage of commodities and similar operations. The labour of the workers employed here participates in the formation of the value of the commodity. In the process of labour, the value of the material components used up (fixed assets, packing materials, fuel, etc.) is transferred to the product and new value is created. The second type of circulation costs results from the change in the form of value itself, i.e. the actual purchase and sale of commodities. This includes outlays connected with the issuing of money, the maintenance of sales personnel, cashiers, bank clerks, the book-keeping and accounting staff and others. Marx wrote that "the general law is that *all costs of circulation which arise only from changes in the forms of commodities do not add to their value* They are merely expenses incurred in the realisation of the value or in its conversion from one form into another."<sup>1</sup>

In accordance with the main forms of commodity circulation in the USSR, the following circulation costs may be

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<sup>1</sup> Karl Marx, *Capital*, Vol. II, p. 152.

identified: 1) material and technical supplies and sales (38 per cent), 2) purchases of agricultural produce (12 per cent) and 3) the trade in commodities for personal consumption and public catering (50 per cent).

Of major significance for improving and speeding up commodity turnover is the study of supply and demand, and the maintenance of a strict, economically justified correspondence between them. If demand exceeds the supply of commodities, the production of given goods must be expanded in order to balance supply and demand. Retail prices also affect supply and demand. In the USSR, at the stage of developed socialism, the task is being tackled of filling the market with consumer goods at stable state prices and, as the necessary economic preconditions are created, for reducing the prices of individual goods.

### 3. The Finance and Credit System

#### The Essence of Finances Under Socialism

The need for finances as an economic category under socialism results from the presence of commodity-money relations. Under these conditions, all movement of material goods in the process of reproduction is accomplished with the help of money relations, so the organisation of the process of social reproduction would be impossible without the use of finances.

*Finances* constitute a system of money relations by means of which monetary funds are created for ensuring socialist reproduction and satisfaction of social and personal requirements. They fulfil two functions: *distributive*, and *control and stimulating*. The distributive function is manifested in the formation, distribution and use of the aggregate social product in accordance with the requirements of the economic laws operating under socialism. The control and stimulating function of finances is used by the socialist state for exercising financial control over the production, distribution and consumption of the aggregate social product and the national income. Financial control embraces all links of the socialist economy, penetrating both the productive and the non-productive sphere and stimulating socialist production.

In socialist society, finances break down into the *finances of socialist enterprises* (these include the monetary

funds of state, collective farm-co-operative enterprises and economic organisations); *state finances*—centralised monetary funds in the hands of the state; the *finances* of trade unions and other *social organisations*.

The decisive role in socialist finances is played by state finances. In the USSR, they are formed from centralised funds, from money coming in from socialist enterprises (turnover tax; payment for assets; fixed payments; deductions for the social insurance fund from the wages of factory and office workers); the income tax levied on collective farms and other co-operative enterprises and organisations; payments by socialist enterprises to insure their property; taxes levied on the public; the realisation of state loans and lotteries and insurance payments by the population.

The chief link in state finances is the state budget.

### The State Budget

*The state budget* is the basic centralised monetary fund of the country. It reflects the financial relations that take shape between the socialist state, enterprises and individual members of society in connection with the formation and use of the state fund of monetary resources. The state budget of the USSR is the country's national financial plan, confirmed annually by the Supreme Soviet of the USSR; it has the force of law and is mandatory for all bodies.

The stage budget of the USSR fulfils an important function in the distribution and redistribution of the national income. It has income and expenditure items. Budget incomes are divided into two groups: 1) the revenues from socialist enterprises and organisations; 2) monetary means coming from the population. The first group of revenues has its source in the surplus product or net income of socialist society; the second is formed from the personal incomes and savings of citizens. The decisive role belongs to the first group; it makes up 85-90 per cent of the budgets of the socialist countries. Taxation of the population is not substantial: in the USSR it constitutes roughly 8 per cent of the revenues of the state budget. In 1984, the state budget revenues amounted to 366 billion roubles, 335.4 billion roubles of which came from state and co-operative enterprises and organisations, and only 30.6 billion from taxes.

Under socialism, taxes are not, in their economic nature, money removed without recompense from the working people, since the tax revenues in the final account go to satisfy the needs of the population. Marx pointed out that, in socialist society, "what the producer is deprived of in his capacity as a private individual benefits him directly or indirectly in his capacity as a member of society."<sup>1</sup>

The expenditure side of the state budget is made up of outlays on the national economy, social and cultural measures and science, maintenance of state administrative bodies, and the country's defence. The main part of the funds of the state budget of the USSR goes to finance the national economy, social and cultural measures and the development of science. In the 1983 Soviet state budget, for instance, the total sum of outlays was 360 billion roubles, including 320.5 billion on the national economy, social and cultural measures and science, 17.1 billion on defence and 2.9 billion on administration.

One characteristic feature of the budgets of the socialist countries is the high share of outlays on social and cultural measures. In the USSR, these have exceeded a third of the total sum of expenditures in recent years. The state budgets of the socialist countries are constantly growing on the basis of a steady rise in their whole economies.

#### Credit and Banks Under Socialism

A major component part of the finance system of socialist society is *credit*. Credit is a form of the planned and balanced redistribution of monetary resources on the condition that they are paid back. The need for credit arises from the fact that, in the process of the circuit of the assets of socialist enterprises, some money is temporarily released, while other enterprises experience a temporary need for additional funds.

Temporarily free money is formed primarily in the course of the economic activities of socialist enterprises. First, during the turnover of fixed assets certain sums are inevitably released. The value of the fixed assets is transferred in parts to the commodities produced, and is returned in parts

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<sup>1</sup> Karl Marx, "Critique of the Gotha Programme", in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. Three, p. 17.

to the enterprises in money form. Moreover, fixed assets are only replaced once they are worn out. In the meantime, between the gradual wearing out and subsequent replacement of fixed assets, their value accumulates in money form as *depreciation funds*. Second, money is released during the movement of circulating assets. Since the purchase of raw and other materials and fuel by enterprises does not follow on immediately after the sale of their finished output, part of the circulating assets of enterprises takes the form of temporarily free money. Third, money intended for paying for labour also appears in the form of temporarily free money, for wages are paid at specific intervals. Fourth, part of the net income (profit) of socialist enterprises temporarily takes the form of free money, too. So free money accumulates in the hands of both public organisations and the working people.

The process of crediting is based on specific principles arising from the essence of credit. The main principle of crediting is that it is for a *specific period*. This presupposes determination of the period for which a loan is advanced and also permits the crediting institution, on the expiry of the given period, to demand its return and apply certain sanctions for delays in repayment.

Other principles of crediting are *planning* and the *purpose orientation* of credit. All bank credits advanced to enterprises and economic organisations are reflected in the credit plans of the bank, and are also linked with the plans of the enterprises. Credit is advanced for specific economic requirements. In crediting, the principles of provision of credit on guarantee and its advancement depending on plan fulfilment are observed. This presupposes a correspondence between the amount of the credit and either the actual outlays of the enterprise, or its stocks of commodity and material values, as well as fulfilment by the enterprise of the chief plan indicators for economic activities.

Credit relations in the socialist economy take the form of bank credit. Depending on the period for which the money is advanced to enterprises, bank credit is either *short-term* or *long-term*.

Under socialism, credit fulfils three functions: 1) redistributive; 2) the function of keeping cash in economic circulation; 3) the control and stimulating function. *Interest* is payment for credit. Under socialism, it constitutes part of the net income of enterprises. The main purpose of in-

terest is to force the debtor to make rational use of the loan advanced to him and to promote greater efficiency of social production.

Credit operations in socialist countries are carried out by banks. *Banks* are state bodies that accomplish the credit redistribution of money in the interests of socialist reproduction, as well as organising accounting and control over the economic activities of socialist enterprises. The banking system in the USSR includes: the USSR State Bank, the All-Union Bank for the Financing of Capital Investments (Stroibank), the Bank for Foreign Trade (Vnesh-torgbank), state working people's savings banks, and pawnshops.

As the socialist economy develops and cost accounting becomes firmly established in the national economy, the finance and credit mechanism becomes more effective, and the role and effectiveness of credit increases in stimulating rational use of productive resources and in speeding up the growth of labour productivity, reducing the prime cost and ensuring rational use of internal production reserves.

#### Revision Exercises

1. What is the essence of socialist extended reproduction?
2. What is the national wealth, its composition, and what are the sources of its growth?
3. What is the aggregate social product?
4. In what is the operation of the law of the priority growth of the production of means of production manifested under socialism?
5. What is the national income, and how is it distributed and redistributed?
6. What is the essence of commodity circulation under socialism?
7. What are the forms of commodity circulation?
8. What is the role of finances and credit in socialist reproduction?
9. What is the state budget? What are its revenues and outlays?
10. What is credit and why is it needed under socialism?

## Chapter Seventeen.

### THE ECONOMIC LAWS OF THE GROWTH OF SOCIALISM INTO COMMUNISM

#### 1. The Common Features and Specifics of the Socialist and Communist Economies

##### Socialism and Communism—Two Phases of the Communist System

Communism as a socio-economic system passes through two phases in its development: socialism, as the lower phase, which is engendered within the heart of capitalism, and communism, the higher phase of the new society, the highest stage of maturity of production, which develops on its own basis, created by developed socialist society.

What is *socialism*? It is a social system the economic basis of which consists of social ownership of the means of production in its two forms—state and co-operative. Socialism eliminates exploitation of man by man. The material basis of socialism is provided by big machine industry in all branches of the economy. The highest stage of the socialist phase is developed (mature) socialism.

*Developed socialism* is a society in which powerful productive forces, advanced science and culture have been created, in which mature socialist relations have taken shape and the well-being of the people is constantly growing, in which ever more favourable conditions for the comprehensive, harmonious development of the individual take shape. The economy of developed socialist society is distinguished by the large scale and efficiency of production, and the huge size of the productive forces.

What is *communism*? Communism is a classless social system with a single social ownership of the means of production (they belong to all the people), full social equality of all members of society, where, together with the harmonious development of people, the productive forces grow on the basis of a constantly developing science and technology, where all sources of social wealth flow abundantly, and the principle of "From each according to his ability, to each according to his needs" is implemented. Communism is a highly organised society of free and conscientious working people, in which social self-management is established, and labour for the sake of society becomes a primary vital require-

ment for all, where everyone's abilities are applied to the greatest possible benefit of the people. Communism and socialism have common features as well as differences.

#### The Common Features of and Differences Between the Economies of Socialism and Communism

Socialism and communism are two phases of maturity in one and the same communist mode of production, so these phases have, above all, common, similar features. The economic basis of socialism and communism is provided by social ownership of the means of production, which holds undivided sway. Speaking of socialism, Lenin noted that "insofar as the means of production become *common* property, the word 'communism' is also applicable here, providing we do not forget that this is *not* complete communism"<sup>1</sup>.

There are common features to both socialism and communism, such as the absence of exploitation of man by man, exploiting classes and factors engendering the division of society into exploiters and exploited. Social production is subordinated to a single goal—the fullest possible satisfaction of the constantly growing material and cultural requirements of each member of society and of society as a whole, and as a result, the comprehensive, harmonious development of people. The basic economic law that operates under socialism is further developed in the new economic relations that take shape at the second phase of communism. The national economy develops according to a plan on the basis of the law of the planned and balanced development of the national economy. The development of production is continuous and rapid. Characteristic of the production relations of socialism and communism are comradesly co-operation, mutual assistance, friendship and collectivism.

In addition to the features that socialism and communism have in common, there are a number of substantial differences between them which make it possible to distinguish between them as being different phases of the single communist mode of production.

Communism differs from socialism primarily in its greater economic maturity and its characteristically higher level of development of the productive forces. Developing on

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<sup>1</sup> V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 476.



its own material and technical basis, which makes possible a great rise in the productivity of labour, communism provides an abundance of material and intellectual benefits. Under communism, the highest stage of the planned and balanced organisation of the entire social economy will be attained, more efficient use of material and labour resources will be ensured, and the growing requirements of all members of society will be fully satisfied.

The relations of production under communism will be distinguished by a substantially higher level of economic maturity. Under socialism, social property appears in two forms—state and collective farm-co-operative, but under communism there will be a single social communist property (belonging to all the people), and a single type of communist enterprise.

Under socialism, there are class differences, and there exist two friendly classes—the working class and the collective farm peasantry, as well as the social stratum of the intelligentsia. The transition to the higher phase of communist society will totally erase the class distinctions, since social distinctions between specific groups of people, linked to a given form of property, will be overcome; communism is a classless society.

Under socialism, the contradiction between town and country, between mental and physical work is eliminated, but there are still substantial socio-economic distinctions between them. Under communism, these distinctions will be overcome. In the degree of economic development, character of labour and cultural and living conditions, the countryside will rise to the level of the towns. Communism will bring an organic combination of mental and physical labour in people's production activities.

Labour in socialist society has not yet become a primary vital requirement of all people and for the main mass of the working people it is merely a means of survival. Under communism, all members of society will develop an inner urge to work for the benefit of the whole nation and labour will become a primary vital requirement of all people.

At the first phase of communism, society distributes the means of existence in accordance with the quantity and quality of labour put in by the workers in social production. At the second phase of communism, there will be a transition to the communist principle of distribution: "From each according to his ability, to each according to his needs."

Under communism, commodity-money relations and the economic categories connected with them—commodity, money, price and wage, cost accounting, credit, and finances—will die away. Under socialism, these categories exist and are used extensively in economic practice.

Communism will be distinguished by a high level of consciousness and self-discipline in people, strict observance of all the norms of social life and the rules of the communist way of life. Harmonious relations will be established here between the individual and society, on the basis of a unity of social and personal interests. The transition to communism will bring a flourishing and drawing together and, later, a merging of all nations and nationalities.

Finally, under socialism there is a state, which plays a very important role and fulfils responsible functions, while at the higher phase of communism, socialist statehood gradually grows into communist social self-government.

Such are the main socio-economic distinctions between the two phases—socialism and communism.

#### The Laws Governing the Growth of Socialism into Communism

The building of communism is the final goal of the communist and workers' parties. The growth of socialism into communism is an inevitable natural-historical process. Lenin wrote: "Socialism must inevitably evolve gradually into communism."<sup>1</sup> The gradual growth of socialism into communism differs from the transition from capitalism to socialism, which took place during a fierce class struggle and necessitated a social revolution. The evolution of socialism into communism is accomplished under other socio-economic conditions. Since socialism and communism have the same basis—social ownership of the means of production—no social revolution is required for the advance from the lower to the higher phase. Society proceeds from socialism to communism by means of a gradual evolution of the former into the latter. The gradual nature of the transition from socialism to communism should be understood in the sense that the qualitative changes are not made immediately, by a one-time act, but continuously,

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<sup>1</sup> V. I. Lenin, "Tasks of the Proletariat in Our Revolution", *Collected Works*, Vol. 24, p. 85.

by the improvement and development of socialist relations, and the dying out of the old and emergence of the new.

Moreover, the gradual nature of the transition does not mean slow development rates; on the contrary, society advances at an accelerated rate towards communism: the productive forces, the whole economy and cultural life, all develop rapidly. The evolution of socialism into communism does not constitute an intermediate stage or specific transition period, but an extended stage in the development of socialism. In the process of the further comprehensive development of mature socialism, the enormous opportunities and advantages offered by the socialist economy will be increasingly revealed and used.

The cognition and use of all the opportunities and laws of developed socialism in real dynamics is, at the same time, the building of communism.

The USSR is the first socialist country to enter the stage of developed socialism. The multifaceted tasks facing the Soviet people have much in common: their solution is aimed at speeding up the country's social and economic development on the basis of the latest scientific and technological achievements.

The confirmation and dominance of social ownership of the means of production under socialism and communism account for the operation of common economic laws: the basic economic law, the law of the planned and balanced development of the national economy, the law of the steady growth of the productivity of labour, and so on. Some economic laws (such as the law of value) will cease to operate under communism. At the same time, the economic laws common to both phases will operate more fully and profoundly under communism. Thus, the basic economic law of the communist mode of production will reflect the objective need to provide every member of society with means of existence in accordance with the growing requirements, individual demand and tastes of the comprehensively developed person. The law of planned and balanced development will reflect the higher, communist stage in the planned and balanced organisation of social production. As socialism develops, the economic law of distribution according to work done will be combined increasingly with satisfaction of the working people's requirements out of the social consumption funds and, under communism, it will make way for the law of distribution according to needs.

The gradual transition from socialism to communism requires fulfilment of the following basic tasks: in the economic sphere—the creation of the material and technical basis of communism; in the socio-economic sphere—the formation of communist social relations; in the ideological sphere—the communist education of the working people, the shaping of the new man, in whom intellectual wealth, high moral principles and physical perfection must be harmoniously combined.

## 2. The Creation of the Material and Technical Basis of Communism

### The Material and Technical Basis of Communism and the Chief Ways in Which It Is Created

The material and technical basis of communism is the highly developed, most perfect technical production apparatus in the world, based on social property and predominant in all branches of the economy. The material and technical basis of communism will be a qualitatively new, higher stage in the development of modern large-scale machine production, connected with the latest achievements of the scientific and technological revolution, with a profound revolution in production techniques, organisation and management. It will make it possible to create a public, comprehensively automated production, organised in a planned and balanced way. The material and technical basis of communism develops out of that of developed socialism on the basis of its improvement.

The creation of the material and technical basis of communism is the chief economic task in the USSR at the present stage. Its fulfilment will ensure the transition to the new stage in the development of society's productive forces characterising the higher phase of communism. The chief ways of creating the material and technical basis of communism are the following: complete electrification of the country and extensive use of new sources and types of energy; comprehensive mechanisation, automation, cybernetisation and robotisation of production; broad-scale chemicalisation of the national economy, leading to the multiplication and improvement of the objects of labour; the organic unification of the achievements of the scientific and technological revolution with the advantages of de-

veloped socialism. The scientific and technological revolution penetrates all these ways of creating the material and technical basis of communism; progress in science and technology is the chief lever for its establishment.

One of the main ways of creating the material and technical basis of communism is the complete electrification of the whole country. Electrification is the pivot for the building of the economy of communist society. It will make profound changes possible in the technology and production methods in all branches of the economy and life. Lenin attached tremendous importance to electrification; he said that "communism is Soviet power plus the electrification of the whole country".<sup>1</sup>

In terms of the growth rates of electricity generation, the Soviet Union has overtaken all the capitalist countries. In 1970, 741 billion kWh of electricity were generated, and in 1983—1,416 billion. Unique hydroelectric power stations have been built, such as the Krasnoyarsk (with a capacity of 6,000 megawatts), the Sayany-Shushenskoye (6,400 megawatts) and others, a unified power grid is being formed for the USSR, to cover a territory with a population of over 220 million people. Long-distance alternating current electricity transmission lines have been built with a current of 750 and 1,150 thousand volts, and direct current ones of 1,500 thousand volts. Scientists are still working on the direct transformation of thermal energy into electricity, as well as the creation of reactors for accomplishing controlled thermonuclear synthesis. The USSR's Energy Programme is being successfully implemented.

Electrification is the basis for comprehensive mechanisation, automation and cybernetisation of production. In the Soviet Union, comprehensive systems of production automation and computer complexes are being introduced on the basis of microprocessors, robots, computers and flexible production techniques making it possible to reorganise production rapidly and efficiently for the manufacture of new output.

Modern automation and cybernetisation on the basis of electronics account for the fundamental changes in the character of labour and its productivity. Automation will, in the future, embrace all branches of production. A unified

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<sup>1</sup> V. I. Lenin "Our Foreign and Domestic Position and the Tasks of the Party", *Collected Works*, Vol. 31, p. 419.

automated management system for production will be created on the basis of the extensive application of mathematical-economic methods and computer technology. The first steps in this direction are the automated management systems already functioning in enterprises and certain branches of industry, the automated systems of plan calculations of the USSR State Planning Committee and the automatic control systems of a number of other central departments.

Of major significance for the creation of the material and technical basis of communism is the chemicalisation of the national economy. Chemicalisation is a powerful lever for raising the efficiency of social production. Under the conditions of the current scientific and technical progress, the increase in the volume and expansion of the range of materials required for manufacturing means of production and consumer goods presupposes not only rapid development of ferrous and non-ferrous metallurgy, but also a substantial expansion of the development of chemical materials—plastics and synthetic resins, and new materials with preset properties. Large-scale production of new types of super-durable, heat-resistant, electric-insulating, rust-resistant and other materials has become possible.

The creation of the material and technical basis of communism presupposes the development of science as a productive force of society and a correspondingly close integration of science with production.

The ultimate basis of scientific and technical progress is the development of science. In the socialist countries, outlays on science are regularly increasing, as is the number of scientific workers. In the USSR alone, in 1983 there were over 1.4 million scientific workers, or 25 per cent of the scientists in the world.

In many branches of science, Soviet scholars are at the fore. The achievements of Soviet scientists in quantum electronics and molecular biology, in chemistry and the earth sciences, the physics of elementary particles and the atomic nucleus, mathematics and medicine, in research into a broad range of problems—from the microworld to space, etc., have achieved world-wide recognition.

The most efficient scientific and technical achievements are introduced into the national economy. Technology is rapidly renewed in all economic sectors.

The creation of the material and technical basis of communism also provides for improvement of the structure of

social production. The rate of economic growth and the possibilities for accumulation of everything necessary for the further development of the economy depend largely on a correct solution to structural problems. Under the impact of the scientific and technological revolution, new progressive branches and types of production appear and rapidly grow, production in old branches is curtailed and they are modernised, and the proportions in the Soviet economy change. These processes are interlinked: the creation of new technology and production techniques, and new types of output leads to changes in the structure of production, the formation of new branches, an acceleration of the development rates of some industries and a slowing down of those in others. At the same time, the improvement of the structure is a major precondition for and stimulator of progress in science and technology and their realisation in production.

New horizons in the creation of the material and technical basis of communism in the USSR are opened up by the comprehensive programme for scientific and technical progress for a twenty-year period (1984-the year 2000), which is now an organic part of the planning of the Soviet socialist economy.

The material and technical basis of communism will be distinguished by rapid development, conditioned by the need to satisfy society's requirements efficiently. It is on the basis of the achievements of the scientific and technological revolution that the most advanced type of extended reproduction will be established, and intensification of all the resources utilised will become the dominant factor behind economic growth. The optimal proportions in the development of industry and agriculture will make possible the full satisfaction of the production and personal requirements of society.

### **3. The Growth of Socialist Relations of Production into Communist Ones. Communist Labour**

#### **The Development and Drawing Together of the Two Forms of Socialist Property**

Alongside the creation of the material and technical basis of communism, runs the process of the development and improvement of socialist relations of production. On

the basis of the growth of the productive forces, socialist relations of production gradually develop into communist ones. The decisive factor in this process is the development of socialist ownership of the means of production and its growth into communist ownership.

The way to create a single communist property in the USSR passes through the development and improvement of the existing forms of socialist property—public and collective farm-co-operative. The decisive significance in the creation of a single communist property belongs to the further development and strengthening of state property, as the more mature form, which plays the decisive role in the gradual transformation of the entire system of relations of production.

Above all, quantitative and qualitative changes are made in state property belonging to all the people, the objects of state ownership being improved on the basis of the introduction of the achievements of the scientific and technological revolution. The level of concentration of production and of its socialisation rises. Production grows rapidly, the economic links between associations, branches, and economic regions are strengthened, economic management is improved, and the masses take a greater part in the management of production. All this raises the level of socialisation of production and creates the conditions for a further development of state property (belonging to all the people).

The development and improvement of socialist property are reflected in the constant drawing together of collective farm-co-operative property with state property. History has shown that the collective farm form of property provides broad scope for the development of the productive forces in agriculture; the potential of this form for running the economy is far from exhausted.

What are the main ways along which collective farm and state property approach each other? Above all, a rise in the level of socialisation of collective farm production under the accelerated development of the productive forces in agriculture, an expansion and qualitative renewal of its technical basis.

Capital investment in agriculture rises from one year to the next. In accordance with the Food Programme of the USSR, 27-28 per cent of the total sum earmarked for the country will be allocated for the development of agricul-



tural production from 1986 to 1990.

Particular significance in increasing the maturity of collective farm-co-operative property attaches to: the formation of a state (belonging to all the people) industrial basis for agriculture; the equalisation of the amount of assets on collective and state farms, an increasing similarity in their organisational structure; the development of inter-collective farm, inter-state farm, collective-state farm and other state-co-operative associations, agro-industrial complexes for the production, processing and marketing of agricultural produce; a further specialisation and concentration of production on the basis of inter-farm co-operation and agro-industrial integration. Specialisation and concentration of agricultural production on the basis of broad co-operation, its transfer onto a modern industrial basis—these are the main directions in the further development of socialist agriculture, a new stage in the practical implementation of the ideas of Lenin's co-operative plan under the conditions of developed socialism.

Inter-farm co-operation now embraces many types of the economic activities of collective and state farms. According to data from the Central Statistical Office of the USSR, at the beginning of 1982 the total number of the various inter-farm formations was almost 10,000.

Of major significance for the rise of collective farm-co-operative property to the level of public property is the creation and development of the agro-industrial complex. The *agro-industrial complex* is the aggregate of the branches of the socialist national economy, including agriculture and the spheres of the economy connected with it, which are engaged in serving agricultural production and bringing its produce to the consumer. The main task facing the agro-industrial complex is to ensure reliable supplies of food-stuffs and agricultural raw materials for the country.

In the process of the building of communism, collective farm-co-operative property will increasingly acquire the features of state property. Eventually, it will reach such a level that it will be virtually impossible to distinguish it from state property and the two will merge, to form a single communist property.

## Overcoming Socio-Economic Distinctions

The improvement of the state and collective farm-cooperative forms of property will make it possible to resolve another important problem—that of overcoming the socio-economic and cultural distinctions between town and countryside, as well as those involved in the way of life. The decisive role in eliminating these substantial distinctions will be played by the further development of the material and technical basis of mature socialism. Comprehensive mechanisation and consistent intensification of agriculture, its complete electrification and the use of automatic means, not only lead to a tremendous increase in agricultural production, but also substantially change the character of the labour of workers in agriculture in terms of the asset-to-worker ratio and its organisation.

Of major importance in overcoming the substantial distinctions between town and countryside is improvement of the cultural and living conditions of the rural population. The construction of well-appointed housing, houses of culture, people's theatres, schools, libraries, hospitals, child-care institutions, and the like will turn villages into well-equipped urban-type population centres.

The elimination of the substantial distinctions between town and countryside does not, however, mean elimination of all the distinctions between them. Lenin wrote: "Agriculture possesses certain peculiar features that cannot possibly be removed... Owing to these peculiarities, large-scale machine production will never manifest in agriculture *all* the features it possesses in industry."<sup>1</sup> Once the substantial distinctions between town and countryside are erased, only the inconsequential ones will remain, those arising from the distinctions in working conditions typical of industry and agriculture.

### The Process of the Growth of Socialist Labour into Communist

In the process of building the material and technical basis of communism, gradual changes take place in the character of labour and its organisation. A major prerequisite for the transition from socialism to communism is

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<sup>1</sup> V. I. Lenin, "The Agrarian Question and the 'Critics of Marx' ", *Collected Works*, Vol. 5, p. 141.

the further development and improvement of the socialist organisation of labour. The communist organisation of social labour will be the sort of organisation that will unite the mighty productive forces and free creative labour, which will have become a primary vital requirement for people.

What is communist labour? In Lenin's words, "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 quotas, but voluntary labour, irrespective of quotas; it is labour performed without expectation of reward, without reward as a condition, labour performed because it has become a habit to work for the common good, and because of a conscious realisation (that has become a habit) of the necessity of working for the common good—labour as the requirement of a healthy organism."<sup>1</sup>

Man will experience a requirement for labour just as he now does for breathing fresh air, eating, listening to music, mixing with friends, and so on. Under communism, labour will become a source of joy and satisfaction, of creative development and self-improvement for each individual.

Of decisive significance for the transformation of labour into a primary vital requirement will be the creation of the material conditions for highly productive, highly skilled, industrial creative labour, for making it more attractive. The length of the working day and week will be regulated by the natural possibilities and requirements of the comprehensively developed person in labour. Under communism, the length of the working day will not lead to exhaustion and will preclude the appearance of negative emotions. Marx said about the labour process under communism: "The associated producers, rationally regulating their interchange with Nature, bringing it under their common control ... and achieving this with the least expenditure of energy and under conditions most favourable to, and worthy of, their human nature."<sup>2</sup>

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<sup>1</sup> V. I. Lenin, "From the Destruction of the Old Social System to the Creation of the New", *Collected Works*, Vol. 30, p. 517.

<sup>2</sup> Karl Marx, *Capital*, Vol. III, p. 820.

The current scientific and technological revolution, mechanisation, automation, cybernetisation, and chemicalisation of production make it possible to create, under the conditions of developed socialism, the objective preconditions for highly efficient labour organisation, a cut in the working day, and greater attractiveness of labour. The demands on the skills, educational level and culture of workers are higher, since the role of knowledge and science in labour activity becomes greater.

Modern industrial production requires highly skilled personnel, with a knowledge of the latest scientific and technical achievements. Man's might and his dominance over nature grow constantly in proportion to the accumulation of knowledge and its direct application in production.

In communist society, a flourishing of the creative potential of labour is achieved. Yet this, as Marx stressed when criticising the utopian views of the outstanding 19th century thinker Charles Fourier, "in no way means that this labour will be a mere entertainment or pastime, as Fourier, in the spirit of *grisettes*, naively understands it. Truly free labour, such as the labour of the composer, for example, is, at the same time, a devilishly serious matter, the most intense concentration."<sup>1</sup>

Under communism, all people will be highly educated, having a complete knowledge of their business; they will not be fettered by force of circumstances to one and the same trade. The all-round development of the abilities of society's members will allow each of them to choose his own type of employment freely. In communist society, not everyone will be a Raphael, but everyone "in whom there is a Raphael to be found" will have the opportunity to reveal his genius and talents.

#### 4. The Economic Foundations for the Transition to the Communist System of Distribution. Communist Self-Government

##### Distribution According to Needs

The communist principle of distribution is, as is well known, "From each according to his ability, to each according to his needs". In order to accomplish the transition to this

<sup>1</sup> Karl Marx, *Grundrisse der Kritik der politischen Ökonomie*, p. 505.

distribution principle, it is primarily the economic preconditions that must be created. Marx himself noted: "In a higher phase of communist society, 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!"<sup>1</sup>

The transition to the principle of distribution according to needs requires corresponding economic conditions. What are these? First, the creation of the material and technical basis of communism, the presence of a highly-developed communist production, ensuring an abundance of the material goods to fully satisfy people's requirements. Second, the undivided sway of communist relations of production, and the development of a communist attitude to labour in all members of society. It is not possible to go over to distribution according to needs unless people have developed an inner habit of labouring according to their ability. Third, a high level of conscientiousness is required in people with respect to consumption, for satisfaction of people's requirements does not refer to whims, but to the healthy requirements of the comprehensively, harmoniously developed person. Fourth, it is necessary to create a highly-developed, ramified network for the distribution of products, which grows out of socialist trade, as well as a large number of service establishments and public catering enterprises capable of satisfying all the multifaceted requirements of the members of communist society. These prerequisites, as a complex, will create the opportunities for going over to distribution according to needs.

The transition to the communist distribution principle is ensured and provided for not by restrictions on the operation of the economic law of distribution according to work done but, on the contrary, on the basis of its all-out consolidation and use for speeding up the development of the production of material goods. Lenin wrote: "Until the

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<sup>1</sup> Karl Marx, "Critique of the Gotha Programme", in Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. Three, p. 19.

'higher' phase of communism arrives, the socialists demand the *strictest* control by society *and by the state* over the measure of consumption."<sup>1</sup>

This means that, at the stage of developed socialism, steady observance is required of the principle of personal and collective material responsibility of the workers for the results of their labour. In order to ensure the transition to communist distribution, the entire mechanism of distribution according to work done must be perfected — the wage mechanism: the wage rate system, bonuses for labour, the forms and systems of wages, moral and material incentives to labour must be developed, and the role of the social consumption funds increased in satisfying the people's requirements. Under communism, the requirements of the members of society will be satisfied out of the social funds. Personal consumer goods will be completely at the disposal of each member of society. Personal ownership of consumer goods will fully satisfy the growing requirements of the working people in communist society. Moreover, the consumer goods will include an increasing share of ones facilitating a rise in the cultural level and an intellectual enrichment. The classics of Marxism-Leninism noted that the people's material requirements have specific bounds, while the intellectual requirements of comprehensively developing people and their cultural demands are essentially limitless.

#### Communist Self-Government

The creation of a communist society will be accompanied by a gradual growth of the economic functions of the socialist state into those of communist self-government. The classics of Marxism-Leninism pointed out that the socialist state is necessary right up to the full victory of communism, until classes and class differences disappear. The need for a state is engendered by international conditions. Only once developed communist society has been built in the country and on the condition of the victory and consolidation of socialism in the international arena will the need for a state disappear, which will then wither away completely. Lenin pointed out that "the state will be able to wither away completely when society adopts the rule: 'From each according to his

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<sup>1</sup>V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 474-75.

ability, to each according to his needs', i.e., when people have become so accustomed to observing the fundamental rules of social intercourse and when their labour has become so productive that they will voluntarily work *according to their ability*".<sup>1</sup>

The withering away of the state will not obviate the need for the planned and balanced organisation of production, exchange, distribution and consumption on the scale of all society and in its individual spheres. Under communism, the need for government increases, but this government will not assume the character of political activities by a state, conditioned by regulation of the relations between classes and groups of people. Actual economic activities in the sphere of planning and accounting, the distribution of products, and the elaboration of the directions for the development of science and technology will fall to social self-government bodies.

Under communism, the principle of democratic centralism will be developed further. Alongside the creation of a perfect apparatus for centralised, planned management, there will be extensive development of the working people's creative activities, ensuring the participation of every member of society in the management of the economy. Major changes will take place in the methods of management. The chief links in the national economy will be regulated by society directly, by means of comprehensive account and study of the requirements for products. The methods of coercion, the courts, the Procurator's Office and so on will disappear.

Society will arrive at the withering away of the state, however, only through an all-out strengthening of the state and the development of socialist democracy. In the all-round development of socialist democracy the law of the gradual transformation of socialist statehood into communist social self-government is manifested.

#### Revision Exercises

1. What are the features common to socialism and communism?

2. What are the distinctions between socialism and communism?

<sup>1</sup> V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 474.

3. What are the laws governing the evolution of socialism into communism?
4. What are the ways for creating the material and technical basis of communism?
5. What are the ways for creating a single communist property?
6. What does the principle: "From each according to his ability, to each according to his needs" mean?
7. Which economic laws operate at both phases of the communist mode of production, i.e., under socialism and under full communism?

#### Chapter Eighteen.

### THE WORLD SOCIALIST ECONOMIC SYSTEM

The emergence and development of the world socialist system is an inevitable historical process, resulting from the operation of objective economic laws. Socialism and communism are the future of the world. In February 1919, Lenin talked in the Kremlin to the French journalist Ludovic Naudeau. When asked to whom the future belonged, Lenin answered: "The future of the world? I am no prophet. But one thing I can say for sure.... The old system is doomed to perish.... Mankind will inevitably come to socialism."<sup>1</sup>

History has shown that a whole number of countries have followed the Soviet Union on the path to socialism, and a world socialist system has taken shape. In terms of area, in 1983 the world socialist system occupied 35.6 million square kilometres, or almost 26.2 per cent of the entire dry land, while its population was 1,523 million people, or 32.7 per cent of mankind. It accounts for over 40 per cent of world industrial output. The industrial output of the socialist countries constitutes more than three-quarters of the volume of that produced by the developed capitalist countries.

The world socialist system is still a growing young social organism; it is in motion, improving and elaborating the prototype of the future communist society.

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<sup>1</sup> V. I. Lenin, *Biographical Chronicle*, Vol. 6, Moscow, 1975, p. 498 (in Russian).



## 1. The Essence, Stages of Development and Chief Features of the World Socialist System

### The Essence and Development Stages of the World Socialist System

The *world socialist system* is a community of countries and nations building socialism and communism. It is the aggregate of the economic relations of socialist states, united by common interests and goals, and indestructible ties of international socialist solidarity.

The world socialist system is a community of countries where exploitation and oppression of one nation by another are excluded. Fraternal relations are established between countries, which are based on the principles of socialist internationalism.

*Socialist internationalism* means a combination of the interests of each socialist country with those of the entire community, co-ordination of the national and international principles, development of co-operation and mutual assistance in all spheres of the economy, politics and ideology. The relations between the socialist countries, relations of a fundamentally new type, take shape and develop on the basis of proletarian internationalism. The content of this process is improvement of the internationalist links between the socialist states on the principles of full equality, mutual respect, comradely mutual assistance, and fruitful co-operation in all spheres. This helps strengthen the friendship and trust between them and intensify the effort to achieve socialism and communism.

The world system of socialism passes through specific stages in its development. The first is that of its establishment. This began at the end of the 1940s and terminated in the mid-1950s. During these years most of the tasks involved in the internal consolidation of socialism, its protection against imperialist aggressors were fulfilled, the economies of the socialist countries destroyed during the Second World War were restored, and mutual economic links were established. The economic links between the socialist countries developed mainly through foreign trade and the exchange of scientific and technical documentation. In 1949 the Council for Mutual Economic Assistance (CMEA) was set up as the international economic organisation of the community of socialist countries.

The second stage embraces the second half of the 1950s and the early 1960s. During this period, the exchange of commodities on the basis of long-term trade agreements became more widespread and international credit relations developed. The CMEA agencies began to co-ordinate the countries' national economic plans. The establishment of the *world socialist economic system* got under way. This consists of the totality of economic relations of the sovereign socialist states, linked by the socialist international division of labour and comprehensive fraternal co-operation and mutual assistance.

The third stage began in the 1960s and has continued to the present day. It is characterised by the creation of developed socialism in the USSR, the building of the foundations of mature socialist society in the majority of the socialist countries, and an increase in the number of socialist states. In the sphere of economic co-operation, the socialist states focus particularly on the joint construction of large projects, the creation of inter-state associations, and scientific and technical co-operation. The economic integration of the CMEA member countries is developing, this being a further expansion of the co-operation between them in the sphere of the economy, science and technology. The world socialist system is becoming the decisive force in modern history.

#### The Chief Features of the World Socialist System

The world socialist system is characterised by the following chief features: first, an economic basis of one and the same type—domination of social ownership of the means of production in its two forms—state or belonging to all the people, and co-operative—group ownership. On the basis of social property, the economic laws inherent in socialism begin to operate, the system of socialist relations of production emerges, and international socialist production relations develop. International socialist production relations are the totality of the links between the socialist states and their economic bodies responsible for the production, distribution, exchange and consumption of output. On the basis of the economic similarity between the socialist countries specific economic laws arise, including the law of the equalisation of the economic development levels of the socialist countries, the law of the drawing together of the develop-

ment of their national economies, etc. In a short period of time, the majority of the socialist countries, which in the past were at a relatively low economic level, have become highly-developed states and achieved a substantial growth of the working people's material well-being.

Second, the world socialist system is characterised by political power of one type and a common ideology. The guiding and directing force in the socialist states is their Marxist-Leninist parties, which unite, educate and organise all the working people around the vanguard of the working class and direct the activities of the popular masses towards fulfilling the tasks of building socialism. The victory of the socialist revolution cannot be consolidated, nor the advantages of socialism be used in the struggle against capitalism without a Marxist-Leninist party. Nor can the alliance of the working class and the peasantry be strengthened, or a firm unity and mutual assistance be achieved between the socialist countries.

Third, a characteristic feature of the world socialist system is the common interest in defending the revolutionary gains, the common goal of the struggle by the working people of the socialist countries to build a developed socialist society in each of them and strengthen the socialist system as a whole, the struggle for peace and the progressive development of mankind.

The material basis of the community of socialist countries is the world socialist economic system.

#### The Essence of the World Socialist Economic System

The *world socialist economic system* is based on the international socialist division of labour and the ensuing specialisation, collaboration and economic co-operation of the socialist countries. At the same time, the international socialist division of labour itself arises and takes shape as a result of the consolidation of social ownership of the means of production and the operation of the economic laws of socialism within each socialist country and on the scale of the world socialist system.

The character of the international socialist division of labour is thus determined by social ownership of the means of production, and socialist relations of production. It is inherently planned and balanced. Moreover, this ensures each participant socialist country the guaranteed sale of the

output in which it specialises, as well as the timely receipt of the necessary equipment, machinery, raw and other materials, and other means of production from the other socialist states on a co-operative basis. The socialist international division of labour improves the use of national labour and material resources, furthers an increase in production in each country, a cut in prime production cost, as well as a rise in product quality and labour productivity. As a result of the division of labour between the socialist countries the most suitable location of productive forces is achieved and the most favourable economic proportions are established within the world socialist economy.

The chief principles of the international socialist division of labour are:

1. A correct account of the objectively necessary proportions in the economic development of each country and the world socialist system as a whole, promoting the achievement of balance in the economies of all the countries.

2. Provision of a high economic efficiency of the international socialist division of labour, reflected in a rapid growth rates of production and the fullest possible satisfaction of the population's requirements in each country, with minimum social labour inputs.

3. A combination of international specialisation of production and comprehensive (multifaceted) development of the economies of the individual socialist countries in the interests of fuller and more rational use in all of them of their natural and economic conditions of production.

4. The gradual overcoming of the historically formed differences in the levels of economic development between the individual countries on the basis of maximum use of each country's inner resources, as well as the advantages of the world socialist system.

The leading and decisive place in the world socialist system belongs to the Council for Mutual Economic Assistance. This fraternal union at present includes the sovereign states of Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, Poland, Romania, the Soviet Union and Vietnam. On the basis of an agreement on co-operation, Yugoslavia also participates in the work of the CMEA bodies. Delegations from Socialist Ethiopia, the Democratic People's Republic of Korea, the Lao People's Democratic Republic and the People's Republic of Angola take part in the activities of the CMEA bodies as observers.

The ten CMEA countries, which cover 18.7 per cent of the territory of the whole world (over 25 million square kilometres), have a population of 455 million people, or 9.8 per cent of the world total.

According to the CMEA Charter, the main aim of this international organisation is to further, by pooling and co-ordinating the efforts of the CMEA member countries, the planned and balanced development of their national economies, acceleration of their economic and technical progress, a rise in the level of their industrialisation, and a steady growth of labour productivity and the people's well-being.

When it was set up, bourgeois politicians and economists called CMEA a "joint-stock company of the beggars", foretold its collapse, disorder and ineffectiveness. But they were wrong. Over the 35 years the Council for Mutual Economic Assistance has existed, the national incomes of its member states have increased more than 8.6 times, and their industrial output—14-fold. From 1981 to 1983, the CMEA countries' industrial output rose by more than 9 per cent, while that of the developed capitalist countries did not rise, but actually went down.

The CMEA countries nowadays produce more than a quarter of the total world national income, 34 per cent of the world industrial output and 20 per cent of the world agricultural output. This community has become a huge industrial complex. Its share of world industrial production is greater than that of the United States and is roughly 70 per cent greater than that of the capitalist countries of Western Europe.

The CMEA countries are currently concentrating on the tasks to be solved in the next few years. Above all, these are a further concentration of their efforts on speeding up scientific and technical progress, and the rational use and economies of material resources. They also include continued work on creating progressive production techniques, highly efficient machinery and equipment with the extensive application of microprocessors, microelectronics and industrial robots. An unswerving line is being pursued of deepening socialist economic integration, which is in the fundamental interests of each country and of the community as a whole.

## 2. Socialist Economic Integration. Forms of Economic Co-operation

### Socialist Economic Integration

What is *socialist economic integration*? It is the process of the international socialist division of labour, consciously regulated in a planned and balanced way by the communist and workers' parties and governments of the CMEA countries, the formation of a modern, highly efficient economic structure in the socialist countries, and the gradual drawing together and equalisation of their economic development levels. The process of socialist economic integration takes place on the basis of the formation of deep and stable links in the key branches of the economy, science and technology, expansion and consolidation of the international socialist market, and improvement of commodity-money relations.

The material basis of socialist economic integration is provided by internationalisation of economic affairs, the objective process of the establishment, expansion and deepening of the economic interdependence between these states as a consequence of the growing socialisation of production. Socialist economic integration is a protracted, complex, multifaceted and comprehensive process. It envisages, too, a new, broader approach to many economic problems, an ability to find more rational solutions, meeting the interests not only of the given country, but also of all the participants in the co-operation. It requires a firm orientation on the latest scientific and technical achievements, on the most profitable and technically advanced forms of production.

Objective factors behind the deepening of socialist economic integration are the scientific and technological revolution, the high level of development of the productive forces, the major structural changes taking place in the sphere of production and consumption, and the rise in the people's well-being; the character of socialist production relations and the demands of socialist solidarity against imperialism are also such factors. Today none of the socialist countries can develop its economy efficiently without applying the latest achievements of science and technology, without a deepening of the international socialist division of labour, or without close economic co-operation with the others.

The CMEA member countries are also tackling such major problems as the development of the power industry, the supply of fuel and raw materials and their rational use;

a rise in the technical standard and quality of output in the engineering industry, closer co-operation in the production of progressive types of machinery and equipment; expansion of the product range and improvement of the quality of consumer goods. The long-term programmes for co-operation, elaborated by the CMEA countries, are designed to solve all these problems.

In recent years, the CMEA countries have improved their work on drawing up a co-ordinated plan for multilateral integration measures, as well as on elaborating the long-term programmes for specialisation and co-operation of production for 1981 to 1990. Life itself has set the task of supplementing plan co-ordination with co-ordination of economic policy in general. The countries' economic mechanisms are becoming increasingly similar in structure, the direct links between ministries, associations and enterprises participating in co-operation are being further enhanced, joint firms are being set up, and other forms for uniting the common efforts and resources of the CMEA countries are being developed.

Socialist economic integration helps the CMEA countries in resolving the problems involved in their economic development, in deepening and increasing the efficiency of all forms of economic co-operation.

#### Forms of Economic Co-operation

The chief forms of international economic co-operation between the CMEA countries are joint inter-governmental planning activities, international specialisation and co-operation, co-operation in the sphere of science and technology, international trade, payment and credit relations, co-operation in the construction of economic projects, and international economic organisations (CMEA, Intermetall, Intertextilmash, Interatomenergo).

*Joint inter-governmental planning activities* allow each individual socialist country to rely on the achievements and assistance of all the other countries of the world socialist system. This creates the conditions for realisation of the demands of the law of planned and balanced development within the bounds of the world socialist system. The Comprehensive Programme points out that co-operation in the sphere of planning and especially the co-ordination of plans constitute the chief method for organising the co-operation

and deepening the international socialist division of labour. This co-operation will be developed in the following directions: elaboration of forecasts in the key branches of the economy, science, and technology; co-ordination of long-term plans for the key branches of the national economy and types of production; further improvement of the co-ordination of the five-year plans; joint planning by interested countries of individual branches of industry and types of production, and exchange of the experience gained by the CMEA countries in improving the system of planning and economic management.

A qualitatively new form of joint planning activity is the elaboration of long-term special programmes for co-operation (LTSPCs), which strengthen the CMEA countries' orientation on solving the key problems of socio-economic development, and extend the time-limits of co-operation. In particular, LTSPCs have been considered and approved for the development of the power industry, the use of fuel and raw materials; the development of agriculture and the food industry; engineering; transport links; and the production of consumer goods.

*International specialisation and co-operation of production* mean the priority development of individual industries in the countries where the given output can be produced for minimum expenditures of resources, and mutually complementary interlinks between specialised production units can be established with the aim of achieving maximum economic effect in the production of an individual product.

Specialisation and co-operation of production make it possible to ensure a high degree of concentration of the production of homogeneous output in one or a few countries, for satisfying the requirements of all the other countries. They are designed to achieve the world's best quality standards and technical levels of the output.

A major form of economic co-operation is *co-operation in the sphere of science and technology*. Every year, this form of co-operation grows, primarily because the role of science is growing, it becoming a direct productive force of society. Scientific and technical co-operation covers the exchange of scientific and technical achievements, the elaboration of major, fundamental and applied scientific problems, and co-ordination of the national plans for scientific research into problems of mutual interest. The CMEA Committee for Scientific and Technical Co-operation has approved the



Guidelines for the Scientific and Technical Co-operation of the CMEA Member Countries up to 1990 and the Technico-economic Consequences Anticipated on This Basis. These include about 200 problems, over half of which are included in the long-term special programmes for co-operation. In the 1980s, a number of co-operation spheres have been designated, including the automation of production processes, the elaboration of digital control systems; the introduction of robot manipulators and other means of mechanisation of labour-intensive processes; the creation of complexes of powerful technology for developing deposits of fuel and raw materials and transporting them, etc.

*International foreign trade* is a traditional form of economic co-operation. From year to year, the volume of trade between the CMEA countries increases. From 1950 to 1983, it rose 36-fold to reach 167.4 billion roubles. Mutual deliveries provide for most of the import requirements of the CMEA countries in machinery and equipment, oil, iron ore and consumer goods. In 1983, the CMEA countries' mutual deliveries of these goods constituted about two-thirds of their total imports.

The world socialist market reflects the relations of comradely co-operation and fraternal mutual assistance between the countries. Planned and balanced character and rapid growth rates of commodity turnover are typical of it. On the world socialist market, commodities are sold at stable, mutually profitable prices, which are based on the prices of the world market, but with the current market fluctuations that would make them diverge from their value basis removed.

*Finance and credit relations* constitute a form of mutual fraternal assistance and co-operation between the CMEA countries. In this sphere, a major role is played by the International Bank for Economic Co-operation (IBEC), which was set up in 1964 by the CMEA member countries to organise their multilateral payments and credit their mutual trade. The settlements made by the IBEC are in transferable roubles—the international (collective) currency of the socialist countries. The transferable rouble has a gold content of 0.987412 grammes of pure gold and fulfils the functions of a measure of value, means of payment and means of purchase. The bank also attracts and holds the free funds of the CMEA countries in transferable roubles and other currencies.

The establishment of the IBEC and the introduction of a system of multilateral payments in transferable roubles, ensure more rational use of means of payment, reduce the requirement for credit in the CMEA countries' foreign trade, and create the preconditions for speeding up the development of their mutual trade turnover.

In 1970, the International Investment Bank was set up to provide long-term and medium-term credit to the socialist countries. The IIB credit is planned, advanced for a particular purpose. It is a fixed term credit and has an interest charged on it. It is advanced for the construction and modernisation of enterprises in the chemical, engineering, motor, electro-technical and other industries, and transport. The bank's credits are in transferable roubles, the national currencies of the interested countries and convertible currencies. The maximum long-term credit is advanced for fifteen years, and the usual medium term is five years. An interest rate of an annual 4-6 per cent is usually charged. The bank may advance credit to various economic organisations, enterprises, banks and international socialist organisations, as well as the economic organisations of other countries that are not members of the bank.

Another form of economic co-operation is the *joint construction of projects by interested countries*. For example, the Ust-Ilim pulp-and-paper plant has been built in the USSR by the combined effort of the USSR and other CMEA countries. Romania, Poland, the GDR and Czechoslovakia have built a pulp-and-paper combine in Brail (Romania). Poland, Czechoslovakia and the GDR are expanding the production base for fuller utilisation of the deposits of Polish brown coal. The USSR, Hungary, Poland and Czechoslovakia have laid the 4,264 kilometre Friendship oil pipeline which has cut the costs of oil transportation to these countries to a fifth or even a sixth. From 1974 to 1978, the Soyuz gas pipeline, 2,750-kilometres long, was laid and in 1983 another was laid from Urengoi via Pomary to Uzhgorod, and so on.

All these joint projects were constructed considering the interests of all the countries involved and provide considerable economic benefits to them.

The comprehensive development of international co-operation serves as the basis for the further growth of production efficiency in the socialist countries, speeds up the process of the building of a developed socialist society. "The USSR,

as part of the world system of socialism and of the socialist community," runs Article 30 of the Constitution of the USSR, "promotes and strengthens friendship, co-operation, and comradely mutual assistance with other socialist countries on the basis of the principle of socialist internationalism, and takes an active part in socialist economic integration and the socialist international division of labour."

### **3. Economic Rivalry Between the Two World Systems and the Inevitability of the Victory of Communism Throughout the World**

#### **The Struggle Between the Two World Systems**

There is a struggle between the worlds of socialism and capitalism, the question of "who wins whom" is being decided on a world scale, and the struggle between the world socialist system and the world capitalist system is unfolding. The operation of objective economic laws results in imperialism leaving the historical stage, to be replaced by a new, progressive system.

The imperialist powers are doing everything in their power to retain capitalism's positions, to lengthen its life, and destroy the world socialist system. They have now taken a harsh line in relation to the USSR and the other socialist countries, and are using all the means at their disposal to undermine the positions of socialism. This line is manifested in the calls for economic boycott and sanctions against the USSR and other countries of the socialist community, and the striving to reduce all forms of economic co-operation between the West and the socialist states to a minimum.

All this is done in the hope of slowing down the growth of the world socialist system's economic potential. In this connection, it is apt to recall Lenin's words in 1921: "Did they not threaten to surround us with a barbed wire fence so as to prevent any economic relations with us whatever? 'War did not scare them, so we shall reduce them by means of a blockade'... As for the blockade, experience has shown that it is an open question as to who suffers from it most, the blockaded or the blockaders."<sup>1</sup>

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<sup>1</sup> V. I. Lenin, "Ninth All-Russia Congress of Soviets, December 23-28, 1921. The Home and Foreign Policy of the Republic. Report of the All-Russia Central Executive Committee and the Council of People's Commissars, December 23", *Collected Works*, Vol. 33, pp. 151-52.

The main line followed by mankind is determined by the world socialist system, the international working class, the national liberation movement, and all revolutionary forces. There are, however, two systems in the world—the socialist and the capitalist, which interact with each other, are united by the totality of economic links, forming (together with the developing countries) the system of the modern world economy. Countries cannot develop in isolation one from another. Common economic worldwide relations, conditioned by the development of the productive forces and the historically shaped international division of labour, comprise the main objective basis for peaceful coexistence.

#### Peaceful Coexistence and the Competition Between the Two World Systems

The only correct and rational principle for international economic relations is that of peaceful coexistence between states with different social systems. What does this mean? Peaceful coexistence means rejection of war as a means for solving disagreements between states, and their solution by means of negotiations instead; equality, mutual understanding and trust between states, account of one another's interests; non-interference in internal affairs, recognition of each nation's right to solve all problems faced by the country independently; strict observance of the sovereignty and territorial integrity of all countries; development of economic and cultural co-operation on the basis of full equality and mutual benefit.

Peaceful coexistence serves as the basis for the economic rivalry between socialism and capitalism. The economic rivalry is an objective law of the modern age.

The decisive sphere of economic rivalry is material production, which ultimately determines the development of all aspects of the life of society. Moreover, the economic rivalry with capitalism assumes the character of a fierce and tense class struggle. World capitalism does not give up its positions without a struggle. Of decisive significance in the economic rivalry between the two opposing systems is the economic competition between the USSR and the USA.

The starting line for the economic competition between the Soviet Union and the USA was in many ways unfavourable for the former. Let us recall that, before the October Revolution, tsarist Russia was a backward agrarian country. At that time, one American journal even car-

ried a cartoon showing a map of Russia on which a bear was lying with a packet of debt obligations of foreign banks in its jaws.

Indeed, after the military intervention by the capitalist countries from 1918 to 1922, the country was producing only a 45th to a 50th as much as the USA. The Second World War brought tremendous losses to the Soviet economy. The total sum of the material damage suffered by the USSR as a result of the war was estimated at the enormous figure of about 260 billion roubles. Almost 30 per cent of the national wealth was destroyed, and over 20 million people lost their lives (the total war deaths amounted to 50 million people throughout the world). Direct total military outlays exceeded 1,000 billion dollars, to which the value of the towns and cities, etc. destroyed should be added. The total losses during the Second World War reached 4 trillion dollars.

A major indicator of the economic rivalry between the two systems consists of the growth rates of material production and industry, which are several-fold higher in the USSR than in the USA. This is convincing evidence of the tremendous advantages of socialism. In terms of the volume of industrial output, the Soviet Union has overtaken such major West European countries as the FRG, Britain and France, taken together, and has reached over 80 per cent of the US level. The correlation between the chief indicators of the development of the economies of the USSR and the USA are consistently changing in favour of the former.

The following table gives the correlation between the chief indicators of the development of the economies of the USSR and the USA.

	<u>The USSR as % of the USA</u>
National income:	overall level
1960	58
1970	over 65
1983	67
Industrial output:	
1960	55
1970	over 75
1983	over 80
Agricultural output:	
1966-1970 (annual average)	85-90
1971-1975 (annual average)	about 85
1981-1983 (annual average)	about 85

Freight turnover of all forms of trans-	
port:	
1960	68
1970	102
1983	139
Volume of capital investment:	
1960	about 70
1970	about 100
1983	about 100

According to many major indicators, the standard of living (provision of jobs, free medical care, free education, a comprehensive social security system and social insurance, rest and sport, etc.), the Soviet Union is already ahead of the USA. The people of the socialist countries are not exploited, know nothing of unemployment, crises, racial or other discrimination in payment for labour; they are confident about the future. In no capitalist country is there such an all-embracing social security system as in the USSR.

The degree of satisfaction of the people's requirements depends, however, on the level of development of production and the productivity of labour. According to a number of indicators of the standard of living, the USSR has not yet caught up with the most developed capitalist countries, especially the USA. In comparing standards of living, however, account must also be taken of the fact that average per capita figures for the consumption of material goods in the USA conceal tremendous class and social differences. The bourgeoisie enjoys a high standard of living, but there are many poor people: according to official statistics, at the beginning of the 1980s of the total of 40 million people living in poverty, 8 million were classified as virtual paupers.

A major arena of the economic rivalry is scientific and technical progress, the development of science and technology. Lenin himself pointed out the decisive significance of the development of science and technology in the economic competition with capitalism: "Those who have the greatest technical equipment, organisation and discipline, and the best machines, will gain the upper hand."<sup>1</sup>

The material and technical basis currently at the dispo-

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<sup>1</sup> V. I. Lenin "Extraordinary Fourth All-Russia Congress of Soviets, March 14-16, 1918. Reply to the Debate on the Report on Ratification of the Peace Treaty, March, 15", *Collected Works*, Vol. 27, p. 195.

sal of the world socialist economy as a whole allows the socialist countries to ensure a rapid acceleration of scientific and technical progress in order to strengthen their economic potential and raise the standard of living. Socialism reveals the prospects for the development of science and technology for the benefit of all people, for the strengthening of the defence capability of the USSR and the other CMEA countries.

The Soviet Union and the other socialist countries wage a resolute and consistent struggle for peace and the prevention of a nuclear-missile war.

The USSR comes out for the total elimination of nuclear weapons and has made far-reaching, specific proposals for a radical reduction in the nuclear confrontation both on a global scale and within Europe, in strict accord with the principles of equality and equal security. A nuclear war would be an unprecedented tragedy for mankind, would take the toll of billions of lives and transform Earth into a desert.

In the face of the danger of a nuclear war breaking out, the USSR, the other socialist countries and peaceloving forces throughout the world are developing a worldwide anti-war and anti-missile movement, in which hundreds of millions of people are taking part.

By raising its defence capability, the Soviet Union is also creating favourable conditions for providing the Soviet people with the necessary conditions for fulfilling the tasks they face in further improving developed socialism.

The peace policy and the economic achievements of the Soviet Union and the other socialist countries influence the entire course of world development. There is no country or group of countries that has not felt the impact of socialism to some degree or another. Lenin said: "We are now exercising our main influence on the international revolution through our economic policy... The struggle in this field has now become global. Once we solve this problem, we shall have certainly and finally won on an international scale."<sup>1</sup>

Ultimately, capitalism can and will be defeated because socialism reveals new incentives to a growth of the pro-

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<sup>1</sup> V. I. Lenin, "Tenth All-Russia Conference of the R. C. P. (B)" May 26-28, 1921. Speech in Closing the Conference, May 28", *Collected Works*, Vol. 32, p. 437.

ductive forces, the development of science, technology and culture, that are not available to the bourgeois system, and creates a new, much higher productivity of labour. The results of the rivalry between the two systems testify to the advance of the socialist countries and their inevitable victory in the peaceful economic competition with the capitalist states. Full of energy and vitality, the world socialist system triumphs over capitalism as a consequence of the irrevocable laws of social development, of its indubitable superiority over capitalism in all respects.

Under modern conditions, capitalism is experiencing a dual impact. On the one hand, pressure is exerted on "from within" the capitalism mode of production, by the productive forces, which have outgrown their capitalist integument, and on the other, from "outside", by the existing and strengthening production relations of the countries that have taken a socialist course. Within the framework of the capitalist world, objective conditions are maturing for the transition to the new society, to socialism. The replacement of old capitalism, which has outlived itself, by the new, communist mode of production is an objective necessity. Of course, no one can predict the exact course of events at any given moment in future development, but if we do not pay attention to details and take a view of the matter from the angle of possible chance occurrences, as Lenin said, "from the standpoint of all countries together, when the matter is taken on a broad scale, then particular and trifling details recede into the background and the chief motive forces of world history become apparent".<sup>1</sup> If the chief motive forces of history are known, and the main trends in historical development revealed, the final result of the struggle between the two world systems becomes obvious--the victory of communism throughout the world.

#### Revision Exercises

1. What are the laws of the formation of the world socialist system?
2. Name the three stages in the development of the world socialist system.

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<sup>1</sup> V. I. Lenin, "Speech Delivered at the First All-Russia Congress of Working Cossacks, March 1, 1920", *Collected Works*, Vol. 30, p. 381.



3. What are the chief features of the world socialist system?
4. What are the chief forms of economic co-operation between the socialist countries belonging to the CMEA?
5. What reflects the essence of socialist economic integration?
6. What does peaceful coexistence mean?
7. What is the essence of the economic competition between the socialist and the capitalist systems?
8. Why is the victory of socialism and communism throughout the world inevitable?

## A SHORT DICTIONARY OF POLITICAL ECONOMY

*Absolute deterioration in the condition of the proletariat*, the drop in the standard of living of the proletariat under capitalism, reflected in a fall in the degree of satisfaction of the workers' growing material and intellectual requirements, a deterioration in their working conditions, a growth of unemployment, and a fall in real wages.

*Absolute ground (land) rent*—the part of surplus value appropriated by the landlords on the basis of the monopoly of private ownership of the land.

*Absolute surplus value*, the surplus value obtained as a result of an extension of the working day; an increase in the number of hours worked or a rise in the intensity of labour.

*Abstract labour*, the social labour of the producers of commodities, the expenditure of human labour power in general, irrespective of the concrete, specific form of this expenditure; labour that creates the value of the commodity.

*Aggregate social product*, the sum of material goods produced in society over a given period of time (usually a year).

*Anarchy of production*, the spontaneous, chaotic, disproportionate development under the conditions of the random influence of the economic laws of commodity production based on private property.

*Average rate of profit under capitalism*, equal profit on equal capital in different industries, irrespective of differences in its organic composition.

*Balance of the national economy*, a system of scientifically substantiated and interconnected economic indicators characterising, in complex, the chief aspects of extended socialist reproduction, and the key proportions in the development of the national economy.

*Banks*, credit and finance institutions carrying out operations to concentrate temporarily free money in their accounts and advance it as credit.

*Bonds*, securities giving their owner the right to receive an income in the form of a fixed percentage of their nominal value.

*Bourgeoisie*, the dominant class of capitalist society, owning the chief means of production and living on the exploitation of the wage labour of others.

*Budget*, a balance account, the accounting of monetary revenues and outlays for a specific period of time.

*Capital*, "self-expanding" value; value that, by means of the exploitation of wage labour, brings in surplus value. Capital is a specific production relation—the relation between the class of capitalists, who own the means of production, and the proletariat, who are deprived of them and consequently have to live by selling their labour power to the capitalists and thus enrich them with their labour.

*Capital exports*, the investment of capital overseas in order to increase the profits of the monopolies and the financial oligarchy and provide the imperialist states with various economic and political benefits and advantages.

*Capitalism*, the mode of production of material goods based on private capitalist ownership of the means of production and exploitation of wage labour.

*Capitalist monopoly*, a large capitalist company (or association of companies) controlling a substantial share of the production and sales of a given product with the purpose of obtaining high monopoly profits.

*Centralisation of capital*, the growth in the size of capital as a result of the unification of several capitals into one bigger capital or the take-over of one capital by another.

*Centralised net income of the state*, the part of the net income of socialist society that is concentrated in the state budget and is used for the development of the national economy and the satisfaction of the other requirements of society.

*Chronic unemployment*, constant mass unemployment in capitalist countries, which during the period of the general crisis of capitalism does not disappear in any phase of the capitalist cycle.

*Circuit of industrial capital*, the process of the continuous movement of capital through the spheres of production and exchange, which ensures the production of surplus value and the reproduction of capital. There are three consecutive stages in the circuit of capital: the transformation of money capital into productive, productive capital into commodity, and commodity again into money capital.

*Circulating assets*, the part of the productive assets of a socialist enterprise that is used up in its entirety in each production cycle and the value of which is transferred completely to the finished product during a single period of production.

*Circulating means*, the totality of circulating assets and cash and disposable stocks of socialist enterprises.

*Collapse of the colonial system of imperialism*, the process of the elimination of colonies and the formation of new independent states.

*Collective farm*, in the USSR, a co-operative organisation of voluntarily united peasants for the joint running of agricultural production on the basis of social means of production and collective labour.

*Colonialism*, the policy of the imperialist states geared to directly enslaving the peoples of economically backward countries.

*Commercial (merchant's) capital*, the separated part of industrial capital, the chief function of which is the realisation of commodities for the purpose of obtaining a profit.

*Commercial profit under capitalism*, the part of the surplus value created by wage labour in the process of production which is appropriated by the commercial capitalist.

*Commodity*, the product of labour, intended not for the producer's own consumption, but for sale.

*Commodity fetishism*, the materialisation of relations of production, inherent in the commodity economy based on private ownership of the means of production.

*Competition*, an antagonistic struggle between private commodity producers for the most profitable conditions of production and sale of commodities.

*Complex labour*, labour requiring special training and skills from workers.

*Communism*, a classless social system with a single state ownership of the means of production (belonging to all the people), a highly-developed economy, a comprehensive development of people and full social equality of all members of society, where the principle "From each according to his ability, to each according to his needs" is implemented. A society where self-government is established and labour for the good of society becomes a primary vital requirement.

*Concrete labour*, labour expended in a specific, deliberate and useful form and creating the use value of the commodity (the labour of the tailor, foundryman, miner, etc).

*Constant capital*, the part of capital spent on purchasing means of production and not changing its value during the production process.

*Consumption*, the use for personal and production needs of material goods created in the process of production, a phase of the process of reproduction.

*Controlling block of shares*, the number of shares ensuring their owner full control and domination in a joint-stock company.

*Co-operation of labour*, a form of organisation of social labour under which a substantial number of people participate jointly in one and the same labour process or in different but interconnected processes.

*Cost accounting*, the method of the planned management of socialist enterprises, based on comparison, in monetary form, of their expenditure and receipts, guaranteeing profitability, the material interest and responsibility of the enterprise and its workers.

*Currency*, the monetary unit of a given country (the Soviet rouble, the US dollar); the money supply of foreign states used in international payments.

*Currency crisis*, an acute disruption of the internal money and credit systems, and international currency and financial relations of the capitalist states.

*Depreciation (amortisation)*, the gradual transfer of the value of machinery, equipment, buildings and constructions to the output produced with their help and the use of this value for the subsequent reproduction of means of labour.

*Differential rent under capitalism. Differential rent I*, the surplus of profit over the average profit, received on the best and medium plots of land in terms of natural fertility and location. *Differential rent II*, the surplus of profits over average profits, arising on farms where additional capital has been invested; *under socialism*—the additional net income created in agricultural enterprises located on the best and medium plots of land in terms of fertility or located more conveniently with respect to sales markets, as well as those with more intensive farming methods.

*Direct social labour under socialism*, labour organised in a planned way on the scale of the whole society. In socialist production, thanks to social ownership of the means of production, the individual labour of each worker is included directly in the aggregate social product as a component part of it.

*Distribution*, one of the phases in the process of social reproduction, the mediating link between production and consumption.

*Dividend*, the income paid to share-holders.

*Dumping*, the sale of commodities at prices substantially below normal, sometimes even below the cost of production.

*Economic categories*, theoretical reflection of actually existing social relations of production.

*Economic co-operation of socialist and developing countries*, diverse economic links between them, geared to furthering the creation of independent national economies in the developing countries.

*Economic crisis of overproduction*, the phase of the capitalist cycle characterised by overproduction of commodities, mass unemployment and a sharp deterioration in the condition of the working people.

*Economic interests*, objective motives of people's activity reflecting the link between the position of the workers in the system of production and their material requirements.

*Economic laws*, objective laws governing the production, distribution, exchange and consumption of material goods at different stages in the development of human society.

*Economy*, the historically specific totality of relations of production, the economic basis of society.

*Efficiency of social production*, a very important economic indicator, describing the correlation between the economic results obtained by society and the productive outlays; reflects the level of development and rational organisation of the national economy.

*Exchange*, the mutual alienation of the products of labour on an equivalent basis, or the mutual exchange of activities between people; one of the phases of social reproduction.

*Exchange rate*, the specific correlation between the currencies of individual countries.

*Exchanges*, regularly functioning markets on which large-scale wholesale trade is carried out in samples and standards (commodity exchange); the sale and purchase of securities and foreign currency (stock-exchange); the sale and purchase of labour power as a commodity (labour exchange).

*Exploitation of man by man*, the unrecompense (appropriation by the owners of the means of production of the products of the surplus, and sometimes even part of the necessary, labour of the immediate producers.

*Exports*, the export of commodities, capital and services on to the foreign market.

*Extra (excess) surplus value*, the additional surplus value appropriated by the individual capitalist as a result of a lower individual value of the commodity produced in his enterprise compared with the social value of this commodity.

*Feudal land rent*, unpaid surplus labour of bonded peasants appropriated by the feudal lords, chiefly by means of non-economic coercion.

*Feudal mode of production*, the mode of production of material goods based on feudal ownership of the land and incomplete ownership of the workers—the personally dependent serfs, who ran their small economies on land belonging to the feudal lords.

*Finance capital*, monopolistic industrial capital merged with monopolistic banking capital.

*Financial oligarchy*, a small group of the biggest capitalists, possessing industrial and banking monopolies and enjoying virtual economic and political domination in the biggest developed capitalist states.

*Fixed assets*, the part of the means of production of socialist enterprises transferring their value to the new products in parts.

*Fixed capital*, the part of capital that transfers its value to the new product in parts, as it wears out.

*Foreign trade*, trade by a given country with other states, consisting of the export and import of goods and services.

*Free time under socialism*, the part of the non-working time that the working people use for rest, study, improving their skills, social work, bringing up children, and satisfying their cultural and intellectual requirements.

*General crisis of capitalism*, the period of the revolutionary collapse of capitalism as a social system, of the internal disintegration of the world capitalist system, the withdrawal of more links from it, and of the struggle between socialism and capitalism on a world scale.

*Gross product*, an indicator characterising, in money terms, the total volume of the material product of individual enterprises, associations, industries, and the national economy as a whole.

*Ground (land) rent*, the part of the surplus product created by immediate producers in agriculture and appropriated by the landlords.

*Imperialism*, monopoly capitalism, its highest and last stage of development, moribund and decaying capitalism, the eve of the socialist revolution.

*Imports*, the import of commodities, capital and services from abroad for sale on the home market of the importing country.

*Industrial capital*, capital functioning in the sphere of material production in industry, agriculture, transport, and construction.

*Inflation*, the oversaturation of the channels of money circulation with a surplus mass of paper money compared with the requirements of commodity turnover, resulting in depreciation of the money.

*Integration, capitalist economic*, the process of the economic and political unification of the capitalist countries, assuming the form of inter-state economic and other agreements, designed primarily to satisfy the interests of big monopoly capital.

*Integration, socialist economic*, the unification and planned and balanced co-ordination of the efforts of the socialist countries for the purpose of fulfilling the key socio-economic tasks involved in the further growth of their productive forces, the achievement of the highest possible scientific and technical standards, and a rise in the people's well-being.

*Interest. Under capitalism*, the part of the surplus value that the functioning capitalist (industrialist or merchant) pays to the loaning capitalist for the right to use his money for a specific period of time. *Under socialism*, the part of society's net income paid to state banks for the use of temporary loans.

*Joint-stock company*, a form of organisation of big enterprises, their capital being formed by the sale of shares.

*Labour discipline*, strict and precise observance of the necessary work procedure by each participant in the production process.

*Labour intensity*, the tension of labour, determined by outlays of the physical and intellectual efforts of the worker per unit of time. It changes in response to an increase or decrease in the speed at which labour operations are carried out. All other conditions being equal, more intensive labour creates more value per unit of time and, correspondingly, more goods. The value of each item thus remains unchanged.

*Labour power*, man's ability to labour, the totality of his physical and intellectual forces, used in the process of the production of material goods.

*Labour productivity*, the efficiency of people's labour activities, determined by the amount of time spent on manufacturing a single unit of output or the quantity of output produced per unit of time.

*Loan capital*, money capital advanced by its owner to other capi-

talists for a given period of time, in return for a set payment in the form of interest.

*Main contradiction of capitalism*, the contradiction between the social character of production and the private capitalist form of appropriation of the products of labour.

*Military-industrial complex*, the union of military-industrial monopolies, the top brass and government bureaucracy, supporting the arms race in order to strengthen the domination of monopoly capital, as well as for the purpose of personal enrichment.

*Mode of production*, the historically specific mode for obtaining the material goods necessary for people's productive and personal consumption, the production of means of production and means of consumption. Constitutes a unity of the productive forces and relations of production.

*Money*, a specific commodity, the chief function of which is to act as the universal equivalent in the exchange of commodities.

*Money capital*, a sum of money transformed into capital, i. e., the value bringing in surplus value and used for the exploitation of the labour of others.

*Monopoly price*, a form of market price, set by monopolies above or below the price of production or the value of the commodity, and ensuring the receipt of monopoly profits.

*National income*, value newly-created in the country over a specific period of time (usually a year). Part of the value of the aggregate social product, minus the value of the means of production used up.

*Necessary labour*, the labour expended on the production of the necessary product.

*Necessary product*, the part of the social product created by the workers in the sphere of material production which is necessary for maintaining the worker himself and his family, for his training and education.

*Necessary working time*. *Under capitalism*, the part of the working day during which the worker produces the equivalent of the value of his labour power. *Under socialism*, the time during which the worker in socialist production creates the value of the share of the social product produced by him that ensures the restoration of his vital strength and the development of his physical and intellectual abilities.

*Neocolonialism*, the totality of the economic, political, military and ideological means used by the imperialist states to keep the countries that have gained state independence within the capitalist economic system.

*Nominal wages*, wages expressed in money terms.

*Non-working time*, the period of the time not directly connected with work in an enterprise or institution.



*Ownership*, the relationship between people in the appropriation of means of production and the material goods created with their help.

*Personal property*, the property of individuals, consisting of material goods intended for personal consumption. The personal property of the exploiting classes is a variety of private property.

*Planned and balanced nature of the development of the socialist economy*, the law of the functioning of the socialist economy, reflected in a constant, deliberate maintenance by society of the optimal correspondence between all the structural links in the economy, between the different branches and spheres of the socialist economy.

*Price*, the monetary expression of the value of a commodity.

*Price of production*, the price of a commodity in the capitalist economy, equal to the costs of production plus average profit; a converted form of the value of the commodity.

*Primitive communal mode of production*, the first mode of production in human history based on collective ownership of the means of production by individual communes, corresponding to undeveloped, primitive productive forces.

*Production*, the process of the creation of the material goods necessary for the existence of human society; the chief phase in the reproduction process.

*Productive forces*, the totality of means of production and people, possessing knowledge, production experience, and labour skills, who put the means of production into motion.

*Profit, capitalist*, a converted form of surplus value, appearing as the income surplus above the capital expended.

*Profit, socialist*, one of the forms of net income, consisting of the part of value reflecting the surplus product created by the labour of workers in material production.

*Proletariat*, the class of wage labourers in capitalist society.

*Protectionism*, the economic policy of the state, furthering the development of the national economy by protecting it from foreign competition.

*Quality of output*, the totality of consumer properties of output, its ability to satisfy specific national economic and public requirements as intended.

*Rate of surplus value*, the degree of the increase in variable capital. It is defined as the ratio of surplus value to variable capital, expressed in percentage terms, or as the ratio of the surplus working time to the necessary working time (the degree of exploitation of the producer by the owner of the means of production in any antagonistic society).

*Rate of profit under capitalism*, the ratio of surplus value to the to-

tal capital advanced, expressed in percentage terms. It is a major indicator of the profitability of a capitalist enterprise.

*Real wages*, wages the size of which shows the quantity of material goods and services the worker can acquire for his nominal wage.

*Regime of economies*, socialist method of economic management, a system of measures implemented in a planned way to achieve the best possible results for the minimum outlays in all spheres of activity, and to ensure the maximum use of internal reserves.

*Relations of production*, the totality of social relations that take shape between people, irrespective of their consciousness and will, in the process of the production, distribution, exchange and consumption of material goods. Relations of production are based on the relations of the ownership of the means of production.

*Relative deterioration in the condition of the proletariat*, a deterioration in the condition of the proletariat compared with the prospering bourgeoisie. Indicators of this are a drop in the share of the working class in the national income, the aggregate social product and the national wealth.

*Relative over population*, a relative surplus of the working population under capitalism compared with the demand for labour power on the part of capitalists.

*Relative surplus value*, the surplus value received as a consequence of a drop in the necessary working time and a corresponding increase in the surplus working time as a result of a growth in labour productivity.

*Rent*, an income received regularly on capital, land or other property, not connected with entrepreneurial activities.

*Rentier*, the most parasitical stratum of capitalists, living on the incomes from securities and interest on capital deposited in banks.

*Services sphere*, the totality of branches of the national economy and forms of activity providing services of a material and non-material nature.

*Share*, a security testifying to the contribution of a certain sum of money to the capital of a joint-stock company and providing the holder with the right to receive a dividend on the profits of this company.

*Share-cropping*, a form of rent (lease for temporary use) of land, under which the landlord is paid a rent in the form of a specific share of the harvest (a half, a third, a tenth, etc.).

*Simple labour*, labour not requiring any special training of the worker, unskilled labour.

*Slave-owning mode of production*, the first mode of production in human history based on the private form of ownership of the means

of production and the worker himself—the slave, on exploitation of man by man, on antagonism between classes (slaves and slave-owners).

*Social classes*, large groups of people, differing in terms of their place in the historically specific system of social production, their relationship to the means of production, their role in the social organisation of labour and, consequently, their method for obtaining, and the size of, their share of the social wealth.

*Social consumption funds*, the part of the national income intended chiefly for the formation and joint satisfaction of a specific range of socio-economic requirements of the members of socialist society, free of charge or on favourable terms: free education, free medical care, allowances, pensions, student grants and other payments and benefits.

*Socialism*, the first phase of the communist mode of production, the socio-economic system based on social ownership of the means of production and the labour, free from exploitation, of equal members of society, developing in a planned and balanced way for the purpose of a rise in the welfare of the people and the comprehensive development of every member of society according to the principle "From each according to his ability, to each according to his work."

*Socialist accumulation*, the planned, balanced use of part of the national income of socialist society for expanding social production, increasing the non-productive assets, and forming material and financial reserves.

*Socialist emulation*, a method for increasing the productivity of labour and efficiency of production in socialist society, the communist education of the working people, and their involvement in the management of production on the basis of the development of their broad activities and creative initiative.

*Socially necessary labour*, labour spent on the manufacture of a given commodity under socially normal production conditions, i. e., an average level of technology, average intensity of labour and workers' skills in enterprises producing the main mass of the given type of output. It determines the value of the commodity.

*Socially necessary working time*, the time spent on the manufacture of some commodity under socially normal production conditions.

*Social reproduction*, constant repetition and continuous renewal of the process of production, including the reproduction of material goods (or the aggregate social product), labour power and the dominant relations of production.

*State capitalist property*, a form of bourgeois property, under which the means of production belong entirely or partially to the bourgeois state, the "aggregate capitalist".

*State monopoly capitalism*, the stage in the development of capitalism characterised by a combination of the forces of the monopolies with the might of the bourgeois state for the purpose of preserving the capitalist system, providing finance capital with maximum pro-

fits, putting down the revolutionary working-class and national liberation movements, and struggling against the countries of the world socialist system.

*State socialist property*, state property (belonging to all the people), the chief and leading form of socialist property. Its essence is that all members of society act as the joint owners of the means of production.

*Surplus labour*, the labour expended by the workers in material production on creating the surplus product.

*Surplus product*, the totality of material goods created by workers over and above the necessary product.

*Surplus value*, the value created by the unpaid labour of the wage worker over and above the value of his labour power and appropriated without compensation by the capitalist.

*Surplus working time*. *Under capitalism*, the part of the working day during which the worker creates the surplus value that goes to the capitalist. *Under socialism*, the time during which the worker in socialist production creates surplus product.

*Trade*, the exchange of the products of labour in the form of the sale and purchase of commodities.

*Turnover of capital*, the circuit of capital taken not as an individual act, but as a periodically repeated process.

*Unemployment*, a phenomenon inherent in capitalism, part of the able-bodied population being unable to find work and forming a reserve army of labour.

*Universal equivalent*, the commodity that reflects the value of all other commodities and for which they are all exchanged.

*Use value*, the usefulness of a thing, its ability to satisfy a given requirement of a person or society.

*Value*, the social labour of the commodity producer, embodied in the commodity.

*Variable capital*, the part of capital spent by the businessman on purchasing labour power.

*Wage labour*, the labour of capitalist production workers, deprived of the means of production and compelled to sell their labour power to the capitalists.

*Wages under capitalism*, a monetary expression of the value of the commodity "labour power", sold by the wage worker to the capitalist.

*Wages under socialism*, the form of payment according to labour done, compensating for the value of the main part of the expenditure of necessary labour by the workers in the sphere of material production and the expenditure of socially useful labour by the workers in the non-productive sphere.

*Working day*, the time during which the working person works in the enterprise or institution.

*World market*, the sphere of the exchange of goods and services between countries, including states belonging to the opposite socio-economic systems: capitalism and socialism.

*World socialist economic system*, the aggregate of the national economies of the independent, sovereign socialist countries, closely interconnected by comprehensive economic, scientific and technical co-operation, the international socialist division of labour and the world socialist market.

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