



# Political Economy of Capitalism

INSTITUTE OF SOCIAL SCIENCES

# Political Economy of Capitalism



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Институт общественных наук

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Chapter I  
POLITICAL ECONOMY. ITS SUBJECT-MATTER  
AND METHOD

Marxist-Leninist political economy studies social relations between people, taking shape in the process of production. It deals with economic laws governing production and distribution of material wealth in human society at various stages of its evolution.

1. Social Production and Laws of  
Its Development

Productive Forces            Material production underlies people's life. People should produce food, clothes, housing, etc. to keep body and soul together. The process of production is interaction of man, or rather society, with nature. Irrespective of the social form, interaction of man with nature is the unity of three elements: labour, objects of labour, and means of labour.

Labour is man's purposeful activity to adapt objects of nature to satisfying people's needs. In the process of acting upon nature people acquire knowledge and skills and improve the labour process. Characterising the significance of labour, Frederick Engels pointed out that labour is the "primary basic condition for all human existence, and this to such an extent that, in a sense, we have to say that labour created man himself"<sup>1</sup>.

In the process of labour people act upon object of labour. Earth and its bowels are universal object of labour. Raw material is the object upon which the influence of labour was exerted and which is to be subjected to further processing. As science develops the number of objects of

<sup>1</sup> Frederick Engels, *Dialectics of Nature*, International Publishers, New York, 1940, p. 279.



labour grows and new objects of labour appear, for example, various synthetic materials.

Man acts upon objects of labour with the help of means of labour. Instruments of labour, back and bone of production according to Karl Marx, fall under this category. They play a decisive role since man's labour began with his first instruments. The level of their development is the main distinctive feature of each historical phase of production. Initially, stone axes, hoes, bows and arrows were instruments of labour, today they are modern complex machines. Transport, industrial buildings and structures, as well as Earth, belong to the means of labour.

Means of labour and objects of labour in the aggregate are called the means of production. Unable to produce anything by themselves, they are set working by people. The means of production and people with their production experience and skills constitute the productive forces. Since people make and improve the means of production, they are the main productive force. The productive forces express society's active relation to nature and their development reflects the degree of man's domination over it. As the productive forces develop, the role of science rises and its organic merging with production takes shape. Science becomes a direct productive force. Under the present-day conditions the scientific and technological revolution embraces all elements of the productive forces (new instruments and objects of labour, new power sources, new demands to manpower).

The productive forces make up only one aspect of social production, another are social-production, or economic, relations of people.

Social-Production  
Relations

Remaking nature in the process of labour, people enter into social relations with each other. These are called social-production, or economic, relations, in which the main are relations of ownership, i.e. relations between people as regards appropriation of material wealth, the means of production in the first place. They arise in the process of production since, as Marx noted, any produc-

tion is the appropriation of the objects of nature by an individual within the framework of a certain social form and through it<sup>1</sup>. Relations between people operate through things-means and objects of labour and also through products of labour. Bourgeois scientists substitute legal relations of people to things for relations between people. Marx and Engels stressed that legal relations were solely the reflection of objective economic relations, characteristic of a given mode of production.

Relations of ownership distinguish the method of linking manpower to the means of production pertinent to a given society and the social form of appropriating material and cultural values. There are two types of relations of ownership-public when the means of production and product of labour belong to society as a whole and private when these are owned by a certain part of society or even individuals, while its remaining part is barred from appropriating them.

Apart from the relations of ownership, production relations also include the exchange of activity between people in the process of production. Within enterprises this exchange proceeds between workers of various trades, between workers and engineering staff, taking part in manufacturing some articles. It may also be accomplished through the exchange of products with the social division of labour as its basis. Under certain conditions this exchange assumes the form of that of commodities.

The relations of distribution likewise belong to the system of production relations. There are two basic types of distribution relations: distribution of the means of production and labour resources by production branches and distribution of what has been produced, i.e. the means of production and objects of consumption, among people, social groups and classes.

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<sup>1</sup> See Karl Marx, Frederick Engels, Works, Vol. 12, p. 713 (in Russian).

Production and distribution are interconnected, though the decisive role belongs to the former. This role is determined not only by that products are distributed but also that the character and forms of distribution depend upon economic relations of people in production, upon the form of ownership in the means of production.

Thus, if the means of production are monopolised by individual groups or classes, the lion's share of manufactured wealth is appropriated by these very classes. The working people not always get even the minimum of the means of subsistence necessary for reproducing their normal capacity for work. Conversely, if the means of production and, consequently, all the created material wealth belong to the people, distribution benefits society as a whole. Depending on production, distribution exerts a feed-back effect upon it, telling upon people's attitude to work, speeding up or delaying production growth.

The movement of social product is finalised with consumption, i.e. utilisation of the wealth produced. Production and consumption are closely interconnected, production playing a dominant role, since here objects of production and personal consumption are manufactured. Production dictates the volume of consumption, giving rise to new requirements and changing the structure of consumption.

Consumption, in its turn, influences production, stimulating its progress. Thus, production, distribution, exchange and consumption are interconnected as parts of a single whole, constituting reproduction, with production playing the dominant role.

Social-production relations are objective relations arising between people in the process of production, distribution exchange and consumption of material benefits. Political economy also studies economic ties in the services, making clear the role of their various types in developing material production.

Different aspects of production relations make up a single system, in which each link is under the influence of other links, and, in its turn, acts upon them. However, as was already mentioned, relations of ownership in the means

of production occupy the leading position in this system, since precisely they unite all economic relations into a single whole and provide the basic characteristic of society.

International economic relations occupy a special place, Marx called them secondary, implying that they are conditioned by the nature of primary production relations, i.e. those existing within countries. However, the former's significance is increasing. Nowadays, there are many forms of international economic relations in the capitalist world. With the emergence of the world socialist system there appeared new international economic relations.

Bourgeois ideologists do their utmost to veil the decisive import of the relations of ownership in the means of production. To turn attention off the sphere of production where capitalist exploitation takes place they often give priority to the sphere of consumption, examining the relation of man to things, to the environment. Some of them concentrate their attention on studying the commodity exchange where exploitation is disguised, while still others try to substitute legal relations or forms of production management for production relations, to dissolve them in family, religious and other relations. Bourgeois authors often substitute purely technological relations for production relations, though the former may characterise only the interaction of the separate elements of productive forces: manpower, instruments and objects of labour. Some bourgeois scientists include the relations of ownership in social relations, stating meanwhile that the former's importance is decreasing all the time and in actual fact they are examined nowhere. The American economist Berley in his Power Without Property, maintains that now production is under command of hired managers, possessing no property. In fact, all basic decisions are taken by capitalists, to add that the upper section of managers belongs to the bourgeoisie.

Reality provides ever new and new evidence that relations of ownership in the means of production play the decisive part in the system of all socio-economic relations. It becomes obvious if one compares capitalism with socialism,

whose cardinal antithesis is conditioned, in the first place, by the fact that diametrically different forms of ownership constitute their economic basis.

Unity and Conflict of Productive Forces and Production Relations

Social-production relations, in the final analysis, are determined by the level and character

of the productive forces' evolution. Thus, the collective ownership in the means of production, common labour and egalitarian distribution conformed to the low level of the productive forces' development in the primitive society. The development of production starts with that of productive forces, perfection of instruments and working people themselves. The change in the productive forces entails a change in the relations of production. Nevertheless, the latter are by no means a passive element of production, acting, in their turn, upon the productive forces. If production relations correspond to the level of the productive forces, they speed up their progressive movement, or delay it, if such a correspondence does not exist. Since the productive forces develop more quickly they come into conflict with the existing relations of production. It should be noted that production relations do not remain invariable within the framework of one and the same mode of production. Within certain limits they adjust themselves to the changing character of the productive forces. However, this adjustment cannot eliminate contradictions between the productive forces and production relations since it does not change the basis of production relations. The conflict between them mounts, finding expression in a bitter class struggle, and is resolved by the socialist revolution.

Thus, the productive forces and production relations, the two aspects of production, are interconnected and interdependent. That is why political economy studies production relations in their interaction with the productive forces. It examines the productive forces' decisive influence upon the production relations and the latter's impact upon the former.

The productive forces and production relations in their

precisely historical unity is called the mode of production. History knows primitive-communal, slave-owning, feudal, capitalist and communist (its first phase called socialism) modes of production.

Social Structure of Society, Basic and Superstructure

Social-production relations underlie society's social structure.

Thus, private ownership in the means of production conditions society's division into antagonistic classes and struggle between them. As Lenin wrote, classes differ from each other "by the place they occupy in a historically determined system of social production... by their role in the social organisation of labour, and, consequently, by the dimensions of the share of social wealth of which they dispose and the mode of acquiring it"<sup>1</sup>. Political economy analyses economic foundations of class struggle, ascertains the scientific basis of strategy and tactics of communist and workers' parties. In socialist society with antagonistic classes non-existent, political economy is the theoretical basis for popular masses' activity directed at building communism.

Social-production relations constitute society's economic basis. Political and legal ideas, ideology and corresponding institutions arising on this form the superstructure. The basis determines the superstructure, which in its turn exercises influence on the former, though its character, degree and results are conditioned by the basis. The state is an important element of the superstructure. Political economy analyses the economic role of the state, its impact upon the basis and its socio-economic afterresults.

The sum total of the productive forces, the economic basis and the superstructure in concrete historical conditions constitutes a socio-economic formation.

Economic Categories and Laws

The essence of production relations studied by political economy is expressed in economic categories and

laws.

<sup>1</sup> V.I.Lenin, Collected Works, Vol. 29, p. 421.

Economic categories are generalised concepts, reflecting essential aspects of economic processes. They include, for example, property, production, distribution and exchange, and characterise social and production relations between people rather than things. Proceeding from simple to more complex categories, political economy analyses society's economic laws.

Economic laws are internal, necessary and stable connections of production relations, revealing the essence of phenomena and processes of economic life. They are objective since objective are production relations, conditioned by the productive forces' development level. These laws are historical because they express the historically determined production relations. Therefore, they cannot be as long-lived as laws of nature.

The operation of economic laws depends upon the nature of production relations. Thus, under capitalism with private property disuniting people they operate spontaneously, manifest themselves through the class struggle and competition. In socialist society economic laws are realised in conscious, organised activity of all society's members.

Revisionists do not grasp this fact, identifying the spontaneous form in which economic laws manifest themselves with their objective character. Thus, they arrive at the conclusion that economic laws do not exist in socialist society on the premise that under socialism there is no, nor can there be, spontaneously operating economic laws. These miscalculations are characteristic of both Right-wing revisionists favouring the development of spontaneous market relations under socialism and the "Lefts", ignoring objective economic laws and practising adventurism and voluntarism in politics.

Economic laws are perceived and employed by people. However, the degree of perceiving and of employing, as well as aims of applying, economic laws, are again determined by the character of production relations.

Each socio-economic formation has a system of economic laws, involving the specific ones, inherent in a given formation, and general laws, expressing universal conditions of

society's existence. Moreover, there exist laws, operating not in a single but in several socio-economic formations. They are all interconnected, though each of them expresses one or another aspect of given production relations. The basic economic law of a given mode of production reflects the essence of relevant production relations in their totality. This law characterises the purport of production and means of its attainment.

Political economy, studying production relations, naturally investigates economic laws governing production and distribution of material wealth at various stages of society's progress.

Subject-Matter of  
Political Economy

Political economy is the science dealing with the development of production relations in their interconnection with the productive forces and the superstructure. It studies laws of production, distribution, exchange and consumption of material and spiritual wealth. Political economy, as a historical science, holds as its subject production relations of primitive-communal, slave-owning, feudal, capitalist and communist societies.

Bourgeois Concept of the  
Subject-Matter of  
Political Economy

Bourgeois economists do not give a uniform definition of the subject of political economy, terming this science either "political economy" or "economics". The interpretation of political economy as the "science of wealth" is one of most widely spread. In this case it becomes a science about the totality of articles, their production, distribution and consumption. The question of socio-economic relations is passed over, actual contradictions between classes in capitalist society are veiled and historical character of political economy is ignored.

In his book Economics Paul Samuelson, American bourgeois economist, proclaims economic theory to be the science of day-to-day business activity of people. Priority is given to man's relation to external nature, manifesting itself in his economic activity. Similar to this is the definition of political economy as the science about satisfying individual's



want. This interpretation substitutes man's relations to things for economic relations between people. Political economy is reduced to studying people's needs and methods of their satisfaction. "Universal, eternal laws" are deduced, which actually do not exist. By bringing consumption to the foreground these economists do their best to divert one's attention from the sphere of capitalist production, capitalist exploitation.

"Economics" include many questions pertaining to concrete sectoral economics, finance, economic policy of the state and organisation of business. This is connected with strengthening of bourgeois political economy's practical function, with recommendations it elaborates for the state and big business. Whereas political economy studies economic laws, sectoral economics are preoccupied with manifestations of these laws in a concrete sphere. Confusion of political economy with other sciences only adds to eclecticism, characteristic of bourgeois political economy. "Economics" lack a clear-cut system, turning into a set of diverse constructions not always organically connected with each other.

## 2. Method of Political Economy

Production relations assume various forms, Under capitalism these forms mask the essence of production relations. The task of political economy is, first of all, to penetrate deep into economic processes, lay bare their essence and then explain concrete forms of their manifestation in everyday life. Only the scientific method of research makes it possible. The method is the approach to studying reality, mode of cognising and the totality of means of reflecting regularities of objective world.

Materialist dialectics is the method of political economy. It follows then that the basic provisions of dialectical and historical materialism are applied to studying economic processes.

Abstract and  
Concrete

The initial point of cognition in political economy is accumulating concrete facts of reality in all their multiformity. To understand what is going on scientific abstractions are indispensable. Marx wrote: "In the analysis of economic forms ...neither microscopes nor chemical reagents are of use. The force of abstraction must replace both"<sup>1</sup>.

In his analysis of any essential relationship, Marx picks it up out of the sum total of relations and disengages himself from all other secondary aspects, which enables him to ascertain economic laws and categories. Thereafter, proceeding from the abstract to the concrete, political economy again returns to concrete phenomena, providing the characteristic of their entire system as a whole as reality already cognised.

Unity of Analysis  
and Synthesis

Proceeding from the concrete to the abstract, political economy lays out the subject under investigation into component parts, studying each of them separately and determining its role as one of aspects of a single whole. This process is called analysis, with abstract definitions as its result. Proceeding from the abstract to the concrete, political economy reproduces in theory the object under study as a whole, i.e. accomplishing synthesis, the unification of various elements already analysed into a single whole.

From Simple to  
Complex

To understand the laws of development, political economy focuses its attention on the simplest economic relation, the foundation of the development of more complex relations. It proceeds from simple economic forms to more complex ones. Under capitalism commodity is the simplest economic cell from which Marx starts his analysis of capitalism.

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

Unity of Historical  
and Logical

Political economy reflects society's economic development in its historical continuity. However,

unlike history, it does not reproduce all the zigzags and contingencies of such development, sticking to the main tendency. Engels wrote: "The logical method of approach... is indeed nothing but the historical method, only stripped of the historical form and of interfering contingencies"<sup>1</sup>.

Combination of Qualitative  
and Quantitative Analysis

Any economic phenomenon has qualitative and quantitative aspects that are

closely interconnected. The former expresses the essence of process and prevails over the latter. In their turn, quantitative changes lead to new economic quality. Political economy is concerned with production relations in their qualitative and quantitative definiteness. It exposes, for instance, the essence of capitalist exploitation and ascertains its degree or norm. The quantitative analysis helps disclose politico-economic content to a greater extent. In so doing political economy makes use of mathematical and statistical methods and works out economico-mathematical models. The latter are mathematical expressions of dependence of interconnected economic quantities.

However, the employment of mathematics in politico-economic studies is mainly of applied nature. Production relations do not possess physical quantities and therefore the mathematical method cannot be dominant in political economy.

Role of  
Practice

Practice is the starting point of cognition.

As was already stated, scientific thought

leads to bringing to light objective laws of

production relations' evolution. The cognising process extends still further, and verification in practice of truthfulness of acquired knowledge is its concluding stage. Thus, for instance, practice, life time and again corroborate the

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<sup>1</sup> Karl Marx, Frederick Engels, Collected Works, Vol. 16, 1979, p. 475.

historical soundness of Marxist-Leninist economic teaching on laws of capitalism and inevitability of its destruction in a revolutionary way.

### 3. Class Character of Political Economy

Social Roots of Party  
Spirit in Political  
Economy

In class society political economy developed as a partisan science based on class interest.

It is explained by the fact that it studies production relations and affects radical economic and political interests of various classes and social groups. Bourgeois economists deny the class character of political economy. They strive to allege that the way to truth lies in abandoning class positions in science. In fact, however, under the guise of an "unbiased, objective analysis", they wage vigorous attacks at Marxism-Leninism, striving to distract working masses from the class struggle.

There can not be a unified economic science in antagonistic society. Each class has its own political economy, defending its interests.

Bourgeois Political  
Economy

Bourgeois political economy emerged with the rise of capitalism. At the time, the bourgeoisie

was a progressive class in comparison with the feudal lords, and the teachings of its ideologists contained scientific elements. But as soon as the bourgeoisie rose to power and proletariat's struggle assumed forms dangerous to capitalism, scientific bourgeois political economy was replaced by vulgar political economy with its main objective to disguise capitalist reality and fight working people and their ideology. The modern bourgeois political economy upholds the interests of monopoly capital. Its most reactionary trends endeavour to justify the arms race and imperialist wars. They never cease attacking socialism.

Petty-Bourgeois  
Political Economy

Having arisen in the early 19th century, it expressed the interests of small proprietors - peasants, handicraftsmen, petty manufacturers and merchants. Subjecting capitalism to severe criticism, petty-bourgeois economists idealised small-scale production and urged a return to backward handicrafts and petty peasant economy. Today petty-bourgeois economists advocate restricting the undivided rule of monopolies and reviving free competition, believing that this may be achieved with the help of a bourgeois state. These theories are anti-scientific since the course of history cannot be reversed and since capitalism of free competition invariably gives rise to monopolies.

Political Economy of  
the Working Class

Political economy of the working class differs fundamentally from bourgeois and petty-bourgeois political economy. Dating back to the mid-19th century, it serves the cause of emancipating all working people. The Party spirit of proletarian political economy is organically combined with supreme scientificity since the working class's interests wholly coincide with the law-governed march of historical development. The working class takes interest in perceiving as deeply as possible objective economic laws and on their basis fights for society's revolutionary re-making.

Marx and Engels, founders of scientific communism, provided an exhaustive analysis of capitalist production, the laws of its emergence, development and perish. They substantiated the inevitability of the socialist revolution and worked out the basic tenets on the transitional period from capitalism to socialism and on the two phases of communism.

Under new historical conditions, V.I. Lenin, the great continuer of the cause of Marx and Engels, raised Marxist political economy to a new stage. Leninism is Marxism of the imperialist epoch and proletarian revolutions, of colonialism's disintegration, of transition from capitalism to socialism and building communist society.

Marxist-Leninist economic science develops continuously, storing up new theoretical provisions and conclusions. The CPSU, fraternal Marxist-Leninist parties, and international communist movement contribute immensely to economic science. The Congresses of the CPSU did much to developing Marxist-Leninist economic theory. They analysed in depth the economy of the world socialist system, of developed socialism, the condition of liberated countries, socialist-oriented countries, in particular, process of deepening of general crisis of capitalism and other urgent issues of today.

Characterising Marxism, Lenin called Marx's economic doctrine the main content of Marxism, the most profound, comprehensive and detailed confirmation and application of his theory<sup>1</sup>.

Marxist-Leninist political economy scientifically substantiates the inevitability of the socialist revolution and winning power by the working class. On the basis of cognising economic laws, communist and workers' parties draw up science-based programmes, determine strategy and tactics of the working class in an alliance with the other sections of working people.

Political economy acquires particular significance after the victory of the socialist revolution. It is a methodological basis of the planned managing social production and clearing up the ways of its progressive movement. Marxist-Leninist political economy makes up the scientific foundation of economic policy of the Party and the state, the CPSU's economic strategy. It does not only analyse society's development laws, but also clarifies the mechanism of their action and works out concrete suggestions in governing the national economy.

Marxist-Leninist political economy plays a major part in the ideological struggle with bourgeois apologists, reformists and opportunists. It demonstrates complete ungroundlessness of the bourgeois pseudo-theories, brings to the foreground the advantages of socialism, proving that the capitalist system is doomed, and fosters a firm conviction in the triumph of communism.

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 21, pp. 50, 59.

## Chapter 2

### CAPITALIST MODE OF PRODUCTION AND STAGES OF ITS DEVELOPMENT

#### 1. Capitalism's Place in History of Society

As a socio-economic system, capitalism is a law-governed stage in society's evolution as were the preceding primitive-communal, slave-owning and feudal modes of production.

Capitalism - an  
Exploiting System

The beginning of capitalist epoch dates back to the 16th century, although some elements of capitalist relations sporadically sprang up in 14th and 15th centuries. Capitalist production, having arisen in the womb of feudal society, existed for a long time as a structure within feudal economy. The dominance of the capitalist mode of production was established in the late 18th-early 19th centuries, as a direct result of the industrial revolution and transition to large-scale machine production.

Capitalism is a class-antagonistic, exploiting system as were the preceding, slave-owning and feudal, ones. Consequently, it possesses the same basic features, characteristic of any exploiter system. It follows, therefore, that capitalist society, similarly to slave-owning and feudal ones, is based on the private ownership in the means of production and exploitation of man by man, and is divided into antagonistic classes engaged in irreconcilable struggle with each other. Under capitalism, however, these relations have different content in comparison with the preceding exploiter formations.

Distinguishing  
Features of  
Capitalism

The main distinguishing feature of the capitalist mode of production is that it is based on the exploitation of wage-labour. Wage-workers and the bourgeoisie are the principal classes of capitalist society. Workers are the main direct producers of material wealth, under capitalism. They are free from personal dependence, the fact distinguishing

them from slaves and peasant serfs who belonged to their master - slave-owner or feudal lord. Under capitalism, however, workers, free from personal dependence, are deprived of the means of production. Such being the case, workers are compelled to sell their labour-power (capacity to work) to capitalist entrepreneurs, owners of the means of production. Direct producer becomes thereby a wage-worker, an object of exploitation by a capitalist. The essence of this exploitation lies in the fact that capitalists appropriate the fruits of workers' labour.

Whereas in the context of slave-owning and feudal systems exploitation was based on supra-economic coercion, under capitalism it bases itself on economic compulsion. Workers, independent of capitalists personally, depend upon them economically: to get the necessary means of subsistence they are compelled to take a job in capitalist enterprises, i.e. work for the capitalist.

Unlike former exploiter formations with exploitation being of an overt nature, capitalism disguises it, due to the fact that relationships between capitalists and workers outwardly function as relations of equal exchange with everybody receiving exactly as much as he gives away. It seems that the capitalist pays the worker in full for what he produces by his labour. In other words, it seems that the worker is not exploited. Bourgeois ideologists employ this false appearance in their effort to deceive the working class and distract it from the struggle against capitalist exploitation and oppression when they preach justice and equality allegedly reigning supreme in bourgeois society.

Capitalism, the Last  
Exploiter Formation

Capitalism, based on private ownership in the means of production and exploitation of wage-labour,

objectively engenders the struggle of the working class and working masses against the bourgeoisie. This class struggle is completed by the socialist revolution, and it is an unavoidable and law-governed development. In contrast to other social revolutions, for instance, bourgeois revolution, which led to the replacement of one exploiter system by



another, the socialist revolution is distinguished by that it does away with any exploitation and oppression together with the capitalist system. Capitalism, consequently, is the last exploiting socio-economic formation in the history of human society.

Communist society with socialism as its first phase supersedes capitalism. The revolutionary replacement of capitalism by socialism began with the victorious socialist revolution in Russia (October, 1917) and since then it unfolds irrepressibly, being the principal law of the contemporary historical epoch.

## 2. General Regularities and Stages of Capitalist Development

The analysis of the capitalist mode of production aimed at exposing the economic laws of this system, is of paramount significance for the proletariat's class struggle. Knowledge of capitalism's laws and tendencies of its evolution enables the working class to consciously and efficiently fight the bourgeoisie and allows Marxist-Leninist parties to scientifically and thoroughly substantiate the strategy of struggle of the working class and all working masses for socialism.

A clear-cut differentiation of universal foundations of this mode of production and its specific features, characterising this or another of its stages, is one of the most important principles of Marxist-Leninist methodology in studying capitalism.

In its development the capitalist mode of production passes through the two basic stages: pre-monopoly and monopoly capitalism, or imperialism.

Each stage of capitalism is marked by a number of distinctions, reflecting specific features and regularities of the development level the productive forces and production relations have attained, the level of maturity of the mode of production and sharpening of its contradictions, which, in the final account, are manifest in the peculiarities of the class struggle's progress. Specific features and distinctions, characterising separate stages of capitalism, are,

on the whole, forms of expression and development of basic traits and general regularities of the capitalist mode of production, i.e. those underlying relations and laws of development, which, forming political and economic foundations of the capitalist formation, are intrinsic in this mode of production during the entire period of its existence.

Marx's Capital Is a Revolutionary  
Upheaval in Political Economy

Bourgeois political  
economy proved unable  
to scientifically ana-

lyse the economic system of capitalism. True, the period of capitalism's advent and ascending development, when the bourgeoisie was a progressive class, witnessed the rise of bourgeois classical political economy (William Petty, Adam Smith, David Ricardo), which made a certain contribution to economic science. Marx drew on it in creating his economic theory. However, representatives of this school could not lay bare the true nature of the capitalist system and laws of its evolution because they neither went beyond the comparatively narrow framework of bourgeois world outlook nor did they have a scientific method of research. Subsequently, they waived all their effort to scientifically cognise economic phenomena, devising apologetic concepts meant for defending and embellishing capitalism. That was how they reacted to sharpening capitalist contradictions and intensified struggle of the proletariat against the bourgeoisie.

A truly scientific analysis of the capitalist mode of production was, for the first time, undertaken by Marx in his Capital, a most important work in political economy, as Lenin noted.

In studying the economic system of capitalism Marx used in Capital his own method of materialist dialectics. This served as the basis for creating an integrated scientific system, that reveals the essence of capitalist production relations, their internal contradictions, laws and tendencies of their development. Marx accomplished a truly revolutionary upheaval in political economy.

Marx's system reveals deep-going capitalist relations, general foundations and laws, characteristic of this mode of

production as such, regardless of stages, concrete conditions and forms of its development. This analysis shows that the primary foundation of the capitalist system is private capitalist ownership in the means of production and exploitation of wage-labour. Behind the seemingly equal relations between workers and capitalists, engendered by commodity form of capitalist production, Marx saw the system of severe exploitation of workers by capitalist, who monopolised the ownership in the means of production and appropriated the fruits of workers' labour in the form of surplus-value. The analysis of production and appropriation of surplus-value, exposing the exploiter essence of capitalist production relations, demonstrates that surplus-value serves as the objective and motive force of capitalist production.

The analysis of the true nature of production relations under capitalism revealed the basic opposition between economic interests of workers and those of capitalists, their class antagonism, brewing the working class's struggle against the bourgeoisie. Studying the laws of simple commodity production being transformed into capitalist production, Marx proved that under capitalism the commodity form of production not only remains but develops most fully. In these conditions, the anarchy of production and economic crisis, bitter rivalry between capitalists, forcing them to constantly develop and perfect production and fanning their greed for gain, are inherent in capitalism, based on private ownership in the means of production. Essentially, however, development of capitalist production is the process of reproducing, on an extended basis, capitalist property and exploitation of workers by capitalists, and, consequently, of reproducing class antagonisms and class struggle in bourgeois society.

Capitalism developed the productive forces to a great degree, raised the productivity of social labour and its socialisation, on which basic capitalist production relations, contributing to this development, took shape. Investigating the dialectics of the productive forces and production relations, Marx showed that at a definite stage of capitalist development its production relations inevitably turn from the factor of promoting the productive forces develop-

ment into its brake. The analysis of the contradiction between the social character of production and private capitalist form of appropriation allowed Marx to conclude that capitalism is historically transitory and that it will be replaced by socialism in a revolutionary way. The material basis of socialism's advance consists in the socialisation of labour, the end towards which capitalism's development ultimately leads.

Development of the productive forces and further socialisation of labour are simultaneously the process of development of the working class itself, whose growth and concentration is accompanied by its stronger exploitation, worsening of its position, and also by enhancing its struggle against the bourgeoisie to protect its interests, to be socially emancipated. Marx regards the development of class struggle under capitalism as the process, intrinsic in this economic system, as its law. At the same time, in Capital the proletariat, born and organised by capitalism, is presented, according to Lenin, as an intellectual and moral force of revolutionary transformation of capitalism into socialism, as its executor.

The greatest significance of Marx's Capital, valid to this very day, and of the revolution it carried out in political economy, consists in that Marx scientifically substantiated the capitalist system's transitory character, its inevitable downfall as a result of the development and sharpening of its internal contradictions, that he showed the working class's historical mission as a revolutionary force destined to effect the revolutionary remaking of society.

Revealing the nature, development laws and fate of bourgeois society Marx dealt a mortal blow at bourgeois concepts, prevailing prior to the appearance of Capital, that preached the ideas of equality and justice in bourgeois society, harmony of class interests, eternal and unshakeable nature of the capitalist system. Marx himself justifiably noted that Capital had been a terrible shall ever thrown at the bourgeoisie.

Marx's Capital and Its  
Present-Day "Critics"

Since its publication to this very day Capital has been the keen ideological weapon of revolutionary struggle of the working class and working masses for social emancipation. It is not accidental that its basic ideas continue to remain in the centre of ideological struggle, being the object of most fierce attacks and numerous "refutations" on the part of bourgeois ideologists and their accomplices.

One of the favourite methods these ideologists employ nowadays is to declare that Capital has become outdated and scientifically worthless for studying modern capitalism, which, allegedly, is now quite different from the 19th-century capitalism analysed by Marx. This assertion is indicative of the class interests these ideologists uphold and also shows that they fail to understand, or purposefully ignore Marx's scientific method of investigating the capitalist mode of production and demonstrates their inability to correctly assess the results of this investigation.

True, Marx analysed capitalism at its pre-monopoly stage, availing himself of voluminous factual material, bearing, above all, on development of capitalism in England, the centre of classical capitalism at the time.

Unquestionably, capitalist production relations and class struggle at the time when Capital was written, i.e. pre-monopoly capitalism, were characterised by specific features, concrete forms and laws of development which Marx undertook to explain. However, each truly scientific research presupposes, above all, elucidating the essence of phenomena, their internally necessary connection, i.e. laws and tendencies of their development, and on this basis to explain specific forms and peculiarities of their manifestation under concrete historical conditions.

This analysis of capitalist production relations is particularly indispensable since they objectively are manifest in such forms which conceal their genuine nature, thereby giving rise to false ideas of the capitalist system, which are employed by bourgeois ideologists for their own apologetic ends. Precisely such truly scientific analysis of

capitalism's economic system was accomplished by Marx in Capital, resulting, above all, in laying bare the essence of capitalist exploitation, the basis and general laws of the capitalist mode of production, with which we dealt earlier.

Pre-Monopoly  
Capitalism

Marx's analysis of common features and laws of development of the capitalist mode of production provided the basis for elucidating its concrete forms and peculiarities of their manifestation under 19th century capitalism, i.e. at capitalism's pre-monopoly stage, with dominance of free competition as its distinctive feature. Under such conditions capitalist property existed primarily in the form of individual independent capitalists' ownership in the means of production. Capitalist social production was regulated by freely acting, spontaneous market mechanism. Under prevalence of free competition capitalist exploitation was, as Marx shows in Capital, governed by the law of average profit, according to which every capitalist got surplus-value, created by workers' labour, in the form of profit, in proportion to the amount of capital he advanced. Consequently, under the dominance of free competition the entire working class is exploited by the entire class of capitalists and the former's interests are at variance with those of the entire class of the bourgeoisie, the fact determining the forms of class struggle in this situation.

Monopoly Capitalism

At the turn of this century, the development of capitalism, based on the rule of free competition, having attained a certain level of concentration and centralisation of capital and production, aggravation of contradictions and class struggle, resulted in its growing into the monopoly stage, imperialism.

Lenin in his Imperialism, the Highest Stage of Capitalism and other works examined, from the scientific point of view, the monopoly stage of capitalism. Lenin's teaching on imperialism is a logical and direct continuation and a further elaboration of Marx's doctrine.

Lenin's analysis proved that imperialism preserves its basic features, contradictions and laws intrinsic in the capitalist mode of production in general, and is marked

by a set of distinctions, making it different from pre-monopoly capitalism and determining imperialism as a specific stage of capitalism.

In its economic essence imperialism, according to Lenin, is monopoly capitalism, under which monopoly dominance is replaced by that of free competition in all spheres of the capitalist economy. Instead of individual capitalist ownership, characteristic of pre-monopoly capitalism, under imperialism large-scale private monopoly ownership in the means of production reigns supreme and the working class is exploited mainly by capitalist monopolies, i.e. by the monopoly bourgeoisie. At the same time, non-monopolised capitalist enterprises and those of petty proprietors find themselves under control of monopolies which often turn them into their production appendages.

The establishment of monopoly dominance in major capitalist countries, and, afterwards, throughout the capitalist world, extremely exacerbated capitalist contradictions and brought to life new contradictions, speeding up the process of maturing of conditions for this system's downfall. Analyzing imperialism as monopoly, decaying and parasitic, as moribund capitalism, Lenin proved that it is the highest and the last stage of capitalism, the eve of the socialist revolution.

The Period of the  
General Crisis of  
Capitalism

The viability of Marxist-Leninist theory was corroborated by history itself. The Great October Socialist Revolution initiated the process of remaking society along socialist lines, of capitalism's downfall. As a result of the victorious revolution, the new, socialist system emerged and capitalism ceased to be the worldwide system of exploitation and oppression. Consequently, the world split into two opposite systems - socialist and capitalist - signifying the advent of the new historical period in capitalist society's development, the period of the general crisis of capitalism.

Embracing the entire bourgeois society, the general crisis of capitalism manifests itself and develops in various

forms: the gradual falling-away of countries from capitalist system and strengthening of the socialist system's economic and political positions; the disintegration of imperialism's colonial system and mounting struggle waged by the peoples against neocolonialism; greater instability and decay of the capitalist economy; intensifying struggle of the working class and working masses against the system of capitalist exploitation.

At the same time, the period of the general crisis of capitalism witnesses, particularly in developed capitalist countries, the growing of monopoly capitalism into state-monopoly capitalism, under which the power of monopolies merges with that of the state for the sake of saving capitalism, enriching monopolies, suppressing the working-class and national liberation movements. Under modern capitalism the bourgeois state comes to play an active part in the economy, taking measures to regulate economic life. However, state-monopoly capitalism is unable to rid the capitalist mode of production of its internal contradictions, of which indicative are mass unemployment, enormous and continuously climbing inflation, crisis upheavals. Far from eliminating capitalist contradictions, state-monopoly capitalism further aggravates them, thereby accelerating the formation of the prerequisites for transition to socialism.

### 3. Modern Capitalism and Tasks of Examining It

#### Uneven Development of Capitalism

The development of capitalism and its growing from one stage into another proceeds as an objective process, conditioned by the operation of laws, characteristic of the given mode of production. Nevertheless, this process should not be viewed as simultaneously developing and involving to an equal degree all countries and all economic spheres in a given country. On the contrary, capitalism moves forward unevenly which is its objective law, arising from the private capitalist ownership in the means of production, under which the development of production, becoming socialised in the context of capitalism, cannot be harmonious and propor-



tionate. Capitalism is the system where anarchy of production and bitter rivalry reign supreme, unavoidable engendering uneven development of individual enterprises, economic branches and countries. In the imperialist epoch, thanks to monopoly rule capitalism develops more unevenly and acquires new features. Moreover, unevenness characterises not only economic but also political progress, i.e. the class struggle and revolutionary movement. Uneven ripening of prerequisites for the socialist revolution in various countries arises from uneven economic and political development of individual countries under imperialism.

Heterogeneous Structure  
of Present-Day Capitalist  
Society

Heterogeneity of capitalist  
society's socio-economic  
structure is conditioned, among

other things, by uneven capitalist development, which is characteristic of both the system of the world capitalist economy in general and its individual countries.

Heterogeneity of the socio-economic structure of capitalist society and, consequently, contradictions it gives rise to has become particularly pronounced under imperialism. First of all, it applies to individual capitalist countries, where the establishment of monopoly rule has brought about the formation of monopolistic sector in the economy. There exist also non-monopoly and small commodity sectors whose development is subordinated to the interests of monopolies. Such structure is responsible for the fact that the monopolistic bourgeoisie's interests run contrary to the interests of not only the working class but also all other classes and sections of population in these countries.

Capitalism's entering the monopoly stage brought forward a group of imperialist powers which subjected other countries to their rule, turning the latter into their colonies, semi-colonies and dependencies, whose peoples found themselves under the yoke of ruthless imperialist exploitation. Thereby, capitalism overgrew, according to Lenin, into a worldwide system of colonial oppression and financial strangulation of gigantic majority of world population by a handful of "advanced" countries.

The imperialist system of exploitation accelerated economic progress in some countries and hampered it in others, thus stimulating the enrichment and flourishing of a group of imperialist powers, or industrialised countries, where the most mature system of capitalist production relations took shape. Dominating in the world capitalist economy, this group continues to employ, even today, the neocolonialist methods for exploiting people in dependent countries.

Alongside the industrialised capitalist countries, where the system of state-monopoly capitalism has already taken deep roots, the world capitalist system involves also a group of countries with medium level of capitalist development. The stage of capitalist development these countries have attained is characterised by the dominance of the capitalist mode of production. At the same time, economically these countries lag behind the highly developed ones, economically depend upon imperialist powers, and retain quite a number of elements of pre-capitalist relations in their economies.

There exists also a large group of countries in the world capitalist economy, where capitalism is still poorly developed. These are mainly the countries that have liberated themselves as a result of the disintegration of the imperialist colonial system and won political independence. Capitalism in these countries has not yet formed as a dominant mode of production. On the whole, these countries are marked by important elements of subsistence and petty economy existing alongside capitalist forms of production. In many of them survivals of feudalism are still present in agriculture. Foreign monopoly capital keeps a strong hold on their economies. Remaining in a subordinate position within the world capitalist economy, these countries are an object of imperialist exploitation, alien to the interests of their independent and progressive development.

Heterogeneous socio-economic structure of modern capitalist society engenders an intricate system of contradictions, whose growth and aggravation constitutes the process of gradual maturing of prerequisites for an inevitable downfall of this system.

Tasks of Analysing  
Modern Capitalism

Nowadays, Marxist-Leninist political economy in examining the capitalist mode of production holds as

most important the study of its current stage.

Modern capitalism is a monopoly capitalism of the period of capitalism's general crisis. To study it means to bring to light the nature and development laws of its system of economic relations. However, as we have already mentioned, specific features and distinctions, characteristic of capitalism's individual stages, are forms of manifestation and evolution of cardinal traits and regularities of the capitalist mode of production it retains throughout the entire history of its existence. Therefore, the analysis of modern capitalism presupposes laying bare both general foundations, cardinal traits and regularities of this mode of production and specific forms of their manifestation and development at its present stage.

At the same time, taking account of heterogeneity of modern capitalism, its analysis ought to reveal the specifics of capitalist development and manifestation of its general regularities in each of the existing groups of countries in the world system of capitalism. Of course, apart from common features, characteristic of a given group of countries, capitalism's evolution in each particular country has specific features peculiar to only this country.

Finally, the analysis of modern capitalism presupposes an all-round consideration and demonstration of the mounting influence upon the development of its major processes exerted by the socialist system.

## Chapter 3

### COMMODITY PRODUCTION

#### 1. Basic Features of Commodity Production

Marx begins his analysis of the capitalist mode of production with commodity production, an examination of which makes it possible to get to know conditions, causes and laws of capitalism's rise.

Capitalism, in contrast to the pre-capitalist formations with prevailing subsistence economy, is characterised by commodity production. It assumes a universal character under capitalism: not only products are manufactured as commodities, but labour-power itself becomes a commodity, an object of sale and purchase. Consequently, under capitalism production relations between the working class and the class of capitalists also assume the form of commodity relations thus concealing their exploiting nature. To perceive the essence of the capitalist mode of production, which historically develops from primitive commodity production, it is necessary, first of all, to consider the nature of commodity relations - the starting-point of capitalism and its general feature.

Conditions Underlying  
the Rise of Commodity  
Production

The most general and essential  
feature of commodity production  
is that it manufactures products  
for market exchange, whereas

under subsistence economy products are consumed within each household. Lenin wrote: "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>

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1) V.I.Lenin, Collected Works, Vol. 1, p. 93.

Social division of labour brings about the emergence of commodity production: individual producers specialise in producing a concrete product meant not for their own, but for other people's consumption. Every producer should have a host of products manufactured by others to satisfy his personal needs, organise and keep his production running. That is how the system of producers' interdependence forms to embrace both the sphere of production and that of consumption.

Social division of labour does not by itself bring to life commodity production and market exchange relations. Products of labour of one producer may be transferred to other persons without commodity exchange, without sale and purchase, as was the case within primitive commune, where all members received equal portion of labour products. Private ownership in the means of production is the direct cause for commodity production to rise and develop. Private ownership in the means of production makes separate producers keep their production running at their own risk, individually and in isolation.

This explains why social link between separate producers cannot be established directly in the production process; it forms only in the market through the exchange of products of labour, through the commodity exchange.

Simple Commodity  
Production

Historical progress of society resulted in appearance of social division of labour and private ownership in the

means of production.

The first form of commodity production was handicraftsmen and peasants' small-scale production, i.e. simple commodity production, distinguished by social division of labour and producer's petty private ownership of the means of production and the product of his labour. Such production is based upon personal labour of the producer himself. Relations of exploitation do not exist here and everybody appropriates the fruits of his own labour.

Simple commodity production as an economic structure existed under slavery and feudalism, and remains under capitalism and at first stages of socialism. However, it did not, neither could it become a dominant mode of production.

Simple and Capitalist  
Commodity Production

Under certain, historically formed, conditions in the period of feudalism's decline simple commodity production spontaneously overgrew into capitalist production to become the dominant mode of production. This overgrowing is possible due to the fact that simple commodity and capitalist production are basically of one and the same type, i.e. both are based on the private ownership in the means of production. Common for both is also that economic ties between people are maintained through the commodity exchange on an equivalent principle, that production is spontaneous and engulfed by competitive struggle. Nevertheless, the overgrowing of simple commodity economy into capitalist economy changes dramatically production relations. Whereas the former is based on personal labour of an individual who owns the means of production, the latter's foundation is the exploitation of other's labour, that of the wage-worker.

Small commodity producers are both labourers and private owners, their dual nature predetermining instability of their social aspirations, their vacillations between the proletariat and the bourgeoisie. Petty entrepreneurs' interests as labourers, being, moreover, the object of capitalist exploitation, coincide with those of the working class. This is an objective platform for their joint struggle at various stages of the revolutionary movement.

Commodity as Form of  
Bourgeois Society's  
Economic Cell

In commodity production based on private ownership in the means of production, the relations of production are not those between people but between products of their labour, as relations between things. Things, products of labour, come to be the bearers of production relations between people. This form of production relations manifesting themselves is also characteristic of capitalist society

since it retains commodity form of production. Moreover, precisely under capitalism commodity form of production relations is most developed, veiling its exploiter character.

The scientific method of knowledge, relying on the truth that in nature and society development proceeds from the simple to the complex, from the lower to the higher, makes it imperative to start the analysis of the capitalist mode of production with the simplest relation. The exchange of commodities, Lenin pointed out, appears as the "simplest, most ordinary, and fundamental, most common and everyday relation of bourgeois (commodity) society..."<sup>1</sup>). Therefore, the analysis of commodity, as well as capitalist, production should begin with the study of this simplest relation - the commodity exchange.

Commodity is the bearer of commodity exchange relations. Hence, the simplest and at the same time historically initial type of production relations under capitalism are those embodied in a commodity, in the commodity form of human labour's product. Marx writes that "in bourgeois society the commodity-form of the product of labour ...is the economic cell-form"<sup>2</sup>, that commodity is an elementary form of capitalist wealth and that for this reason the analysis of capitalism begins with that of the commodity.

The examination of commodity as an "economic cell-form" of bourgeois society enabled Marx to single out more profound capitalist contradictions in embryonic form, trace their development and transformation into a system of antagonistic contradictions, characteristic of developed capitalism.

## 2. Commodity and Its Characteristics

Use Value of  
Commodity

A commodity is, above all, a thing to satisfy some human requirements. This capacity of a commodity gives it its use value.

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- 1) V.I.Lenin, Collected Works, Vol. 38, p. 360.
  - 2) Karl Marx, Capital, Vol. I, p. 19.

Usefulness of a given thing or its use value is determined by its physical and chemical properties and realised in the process of personal or industrial consumption. As science and production march forward people discover and make use of new properties of things. Use values make up material content of social wealth, whatever the social form of production. As usefulness of a thing, use value does not express production relation. Judging by the taste of wheat, Marx writes, one cannot say who produced it: a Roman slave, a Russian serf, a French petty peasant or an English capitalist farmer. Consequently, defining use value of a commodity, one should not confine oneself to only mentioning its usefulness as a thing, i.e. its capacity to satisfy concrete needs.

Two factors distinguish use value of a commodity: first, the usefulness of a commodity as of a thing and thing itself, naturally, passes over from producer to other people, whose requirements they satisfy. Hence use value of a commodity is, due to its nature, social use value. Second, this passing over of use value from one person to another is materialised in the form of sale. Under these conditions products of labour turn into commodities.

Exchange Value and Value of Commodity

In the market during the process of sale a commodity displays its capacity to be exchanged for other commodities in certain proportions which gives it exchange value. It appears, first of all, in the form of quantitative ratio, in which use values of one type are exchanged for those of another type, Thus, for example, exchanging 1 kilogramme of coffee for 4 kilogrammes of sugar, we may assert, that exchange value of 1 kilogramme of coffee is represented by 4 kilogrammes of sugar.

Exchange value cannot be separated from a thing itself, from use value. The latter is a material bearer of exchange value and in this capacity operates as a historical category and is studied by political economy. Use and exchange values are the two aspects of commodity. Material aspect of a commodity is characterised by use value, its social aspect - by exchange value.



Since commodities are exchanged and, consequently, equated, we may presume, as Marx notes, that they have something in common, making them commensurable. Chemical, physical and other similar properties of commodities, determining their usefulness, their use values, cannot serve the basis for commensuration. As use values, commodities are qualitatively heterogeneous and quantitatively non-comparable. But if use values are not taken into account, the only characteristic commodities do retain is that they all are products of labour. Then we disengage ourselves from various kinds of concrete labour which produces commodities. In such case, this labour is a simple expenditure of labour-power in general, i.e. abstract labour. As products of this labour commodities are values. Exchange value is nothing more than a form of manifestation of commodity's value.

Thus, a commodity has two characteristics: use value to satisfy human needs and value, i.e. abstract labour crystallised in it. Use value expresses distinctions between commodities, whereas value - their unity. Use value expresses man's relation to a thing and is realised in the process of consumption, and value expresses relationships between commodity producers and is materialised through exchange.

Use value and value constitute unity in a commodity. Any given commodity may be exchanged for another in the process of sale, i.e. serve as an exchange value, thanks to the fact that it possesses certain use value. At the same time, manufactured commodity may act as use value (for others) only passing through the stage of exchange, where it displays its value.

Twofold Character of  
Labour Embodied in  
Commodity

Commodities are products of labour, therefore their twofold character is conditioned by the twofold nature of labour itself, embodied in them.

Labour is man's purposeful activity to create a certain article, to achieve a certain useful result. That is why any labour has always a definite purpose, definite objects, and means of labour, type of operations, and, finally, a definite result. These qualities serve to distinguish turner's labour

from that of a miner, steel-maker, baker, and so forth. Labour expenditure in a certain purposeful form is concrete labour. Beyond a certain concrete form labour does not exist, it always has this form and creates numerous use values required by society.

Concrete labour as a creator of useful things is a universal historical category and does not depend upon social form of production. Different kinds of concrete labour are not directly commensurable with each other like are various use values, produced by these types of labour. No matter how these kinds of concrete labour differ from each other, they all have something in common: they are an expenditure of human labour-power, i.e. expenditure of man's energy, his brain, muscles, nerves, etc. Marx calls an expenditure of human labour in general abstract labour, which forms value of commodity. As crystallised abstract labour, i.e. as values, commodities are qualitatively homogeneous and therefore quantitatively commensurable.

Abstract labour is a historical category, peculiar to commodity production alone. True, prior to emergence of commodity production, man's energy was expended in the process of work in physiological sense. However, before the appearance of isolated private proprietors in the system of social division of labour, producers did not have to commensurate expenditures of their labour; manufactured products were distributed among members of a collective, without acquiring commodity form.

Under commodity production, however, when individual producers are opposed to each other in the system of social division of labour, the exchange of products of their labour through sale has become a vital necessity. Under such conditions, expenditure of labour acquires, in physiological sense, certain specific social significance: it comes to be the basis for commensurating different commodities, for exchange of labour between producers, taking place in the form of the commodity exchange.

In the system of social division of labour, every producer's labour is wholly connected with that of other producers and is a necessary component of entire labour expended

by society for meeting its requirements. As a component part of labour of the whole society, labour of every producer is of social character, i.e. it is social labour. However, under commodity production, based on private ownership, producers' labour appears directly as private labour. Its social character is concealed and shows itself only in the market during the exchange of commodities; having sold the products of his labour in the market, producer realises that society needs it, i.e. his labour has social character. Consequently, social character of private producers' labour is manifest through reducing various types of concrete labour to abstract labour, which is a specific, historically conditioned, form of the manifestation of labour's social character in the context of commodity production.

Thus, whereas social division of labour imparts social character to labour, private ownership in the means of production stipulates its directly private nature. These two qualities of labour are in profound contradiction, which is the main contradiction of commodity production based on private ownership in the means of production. Whereas social character of labour demands coordination of individual producers' activity, its private character rules out such coordination in developing separate economies. Simultaneous operation of these two factors leads to proportions, without which social production's progress is impossible, being achieved but fleetingly, with constantly arising disproportions.

Magnitude of Value                      Labour is the sole creator of value.  
So far as labour producing commodities is substance of value, the magnitude of value of commodity is determined by an amount of labour necessary for its production. Working time is the measure of labour and, consequently, of commodity value.

To manufacture a given commodity, individual producers expend varying periods of labour-time depending on working conditions. It is evident that the magnitude of value of a commodity cannot be determined by individual labour-time, different with every producer; it rather depends on time socially necessary, derived from different individual ex-

penditures of labour. Reducing individual labour input to socially-necessary expenditure takes place in the market. As a result, from the standpoint of society, every producer acts as socially average labour-power, i.e. spends labour-time necessary on an average or socially necessary labour-time to create a given commodity.

"The labour-time socially necessary", writes Marx, "is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time."<sup>1)</sup>

Average socially normal conditions of production are those under which the bulk of commodities of a given kind is made in a given industry. Labour input at these enterprises determines the magnitude of value of a given commodity.

The producers, whose labour input is lower than the social, gain in selling commodities, while those, whose individual labour expenditure exceeds social, lose, i.e. some become rich, others are ruined. Consequently, the contradiction between individual and social expenditure of labour leads to the differentiation of the producers, to their stratification.

Various kinds of labour differ in their complexity. Simple labour does not require a worker's special training, whereas complex labour does, thus entailing additional expenditure. Complex labour creates greater value in time unit than simple labour. In value of commodities complex labour acts as simple labour multiplied in such a way that lesser quantity of the former equals greater quantity of the latter. Reducing complex to simple labour proceeds spontaneously, through the mechanism of the market exchange.

In the process of labour, worker's manual and mental functions combine to a definite degree. As the productive forces develop and the role of living labour in production process changes, mental abilities of a labourer come to play a greater part. This testifies to growing complexity

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1) Karl Marx, Capital, Vol. I, p. 47.

of labour and is, at the same time, an important factor for raising social labour productivity.

With the development of production and higher productivity of social labour, the magnitude of value of a commodity also changes. It is directly proportional to quantity and inversely proportional to the productive force of labour. Labour productivity is its efficiency, measured by quantity of articles produced per unit of labour time. It depends on the average degree of a worker's skills, the level of his vocational and general training, level of the scientific progress and degree of its technological application, social combination of production process, size and efficiency of the means of production, and natural conditions. The rise in labour productivity results in growing number of use values, produced in a time unit. This does not affect the total magnitude of created value, though the magnitude of value of every commodity's unit decreases if productivity grows.

### 3. Form of Value. Its Development

Being social characteristic of a thing, value may manifest itself solely through exchange value, i.e. in a definite quantitative relation of one commodity to another. Under developed commodity production, all commodities are equated to money, have monetary form of value, i.e. they have a definite price. Before monetary form of value appeared, exchange value travelled a lengthy period of its development, reflecting the evolution of commodity production and exchange.

Elementary Form  
of Value

The simplest value relation is the relationship of commodity of one kind to commodity of another kind, giving rise to an elementary form of value, which can be expressed with the formula: X of commodity A = Y of commodity B.

This form of value conforms to the earliest stage of the commodity exchange, when it was incidental in character.

However, the elementary form of value, according to Marx, contains the mystery of any form of value.

In the equation  $X$  of commodity A =  $Y$  of commodity B or 20 arshins of cloth = 1 frock-coat, the commodities to be exchanged play diametrical parts: the first commodity (A), whose role is active, expresses its value, the second (B), whose role is passive, is the material for expressing the value of the first commodity. Commodity A expresses its value in relation to commodity B and therefore is in a relative form of value, whereas the latter, serving the material for expressing value of commodity A, is in an equivalent form of value. Both forms constitute interdependent and simultaneously mutually exclusive poles of value relation.

Commodities are exchanged in definite quantitative proportions. Quantitative expression of value of a given commodity depends both on the value of this particular commodity and on the value of the commodity, which is its equivalent. Therefore, relative value of commodity may change with latter's value remaining invariable, if different has become value of a commodity-equivalent.

Relative form of value, as we have pointed out, is only one pole of value expression, while equivalent form is its another pole. As to our example, cloth expresses, in fact, its value existence in that a frock-coat may be directly exchanged for it. That is why, the equivalent form of a commodity is the form of its direct exchangeability for another commodity. But this role of commodity-equivalent (frock-coat) is played by its use value. Hence the first peculiarity of the equivalent form of value consists in that use value of a commodity-equivalent (frock-coat) becomes the form of manifesting its anti-thesis - value of cloth. The exchange makes clear that concrete labour, embodied in the commodity-equivalent (frock-coat) becomes a means of expressing its antithesis- abstract labour, embodied in cloth. This is the second peculiarity of the equivalent form. Finally, the third peculiarity of the equivalent form is that private labour of the producer who created commodity-equivalent (frock-coat), becomes a form of expression of so-

cial labour embodied in cloth. Thereby a frock-coat as an equivalent in this elementary form of value acquires a certain social function which it can perform because itself has value. Contradictions latent in a commodity act in value relationship as an outward contradiction between two commodities.

Total or Expanded Form of Value      The development of production and exchange resulted, at the time, in the first major social division of labour - separation of stock-breeding from crop-growing. In this situation, surplus of some products began to form in individual communes. The exchange gradually becomes regular. Separate commodity, say commodity A, is systematically exchanged for commodities B, C, or D, etc. Each of these commodities mirrors the value of commodity A and each is opposed to it not as an accidental equivalent, but as particular, i.e. as one out of the multitude of existing equivalents. The value of commodity A is thus expressed in infinite number of commodities:

	=	certain	quantity	of	commodity	B
	=	"	"	"	"	C
X of commodity A	=	"	"	"	"	D
	=	"	"	"	"	E
	=	etc.				

This form of value is called total or expanded and reflects more or less stable market relations among producers. However, the value of commodity does not find in it a complete form of expression.

General Form of Value      The development of exchange and its contradictions brought forward such commodity from among other commodities that came to play the role of the universal equivalent and acquired the capacity to be directly exchanged for all other commodities.

Given quantity of commodity B	=	
" " " C	=	
" " " D	=	X of commodity A
etc.	=	

This is a general form of value under which one commodity (universal equivalent) serves to the value of all commodities. The universal equivalent appeared after the second major social division of labour (separation of crafts from crop-growing), when commodity production as such came to being and the exchange of commodities became vitally necessary. Those commodities which were more often exchanged for other commodities used to become universal equivalents. Different peoples used different commodities (cattle, pelts, arrows, etc.) as the universal equivalent, depending upon conditions of their life and nature of their activity.

Money-Form of Value                      Further progress of commodity production and exchange made market links between producers exceed the framework of local markets. Under those conditions, the multitude of equivalents made exchange difficult; therefore the role of universal equivalent was finally ascribed to gold. Once the social function of universal equivalent mends with gold, the transition from the general to the money-form of value takes place.

Given quantity of commodity A	=	
" " " B	=	given quantity
" " " C	=	of gold
etc.		

By its very nature gold is better than other commodities adapted to fulfil the role of a universal equivalent, or money, that is why it was chosen. Much labour input is needed to get gold, therefore small quantity of it is needed to express the value of commodities. Besides, gold can be well preserved, is homogeneous in its composition, and is easily divisible into smaller portions, etc.

The transition to money-form of value crowns the separation of use value from value. Now only gold is the medium



for expressing value of other commodities. The world of commodities becomes divided: on the one side, there are all commodities acting as use values, on the other, gold, money.

#### 4. Criticism of Bourgeois Theories of Value

The labour theory of value is the starting-point and general foundation for Marx's political economy of capitalism, laying bare the exploiting essence and historically transitory nature of capitalism. This explains numerous and persistent efforts of bourgeois ideologists, both in the past and today, to refute Marx's labour theory of value with the help of their own theories of value.

Theory of Value in Classical  
Bourgeois Political Economy

The theory of value of  
classical school of bour-  
geois political economy

(William Petty, Adam Smith, David Ricardo) should be distinguished from the host of bourgeois theories of value characterised by their scientific unsoundness and apologetic character. The greatest service of this school was the elaboration of the labour theory of value, best developed by Ricardo. According to this theory, the value of commodities is determined by quantity of labour expended in their production. Ricardo pointed out the essential connection between the rise in labour productivity and magnitude of value of commodities. He observed that a change in commodity value entails the change in prices. Ricardo consistently followed the principle of labour value in analysing economic categories of capitalism and in this, according to Marx, consists his enormous service to science.

However, despite truly significant role of this theory in furthering the economic science, it was fraught with a number of serious shortcomings.

First of all, the representatives of this school held that commodity form of products of labour was an eternal one, and, consequently, eternal was the category of value. Marx showed complete groundlessness of this approach and

the conclusions derived therefrom for assessing capitalism. Ricardo examined value only quantitatively, taking interest in the magnitude of value alone and ignoring its qualitative analysis, and, consequently, labour producing it. Marx's teaching on the twofold nature of labour embodied in a commodity overcame this cardinal shortcoming in Ricardo's theory of value, exposing profound internal contradictions of commodity producers' labour - its private and social character.

The representatives of this school, remaining in the grip of bourgeois world outlook, were unable to penetrate into the specifics and concrete forms in which the law of value operates under capitalism. For that reason, their theory of labour value could not serve as the initial point and basis for a sound scientific system revealing the nature and development laws of capitalism.

#### Theory of Supply and Demand

During the pre-Marxian period of political economy's development bourgeois economists formulated the so-called law of supply and demand which, in one form or another, is employed by their modern counterparts. According to this "law", commodity price is directly proportional to the demand for a given commodity and inversely proportional to its quantity. The advocates of this theory did not see the difference between price and value. Identifying them, they, in fact, denied any internal content of value, bringing it down solely to exchange ratio, conditioned exclusively by supply and demand. Meanwhile, it is clear that correlation between supply and demand stipulates only price fluctuations in the market, and fails to answer the primary question of what determines prices when supply and demand are equal to one another. Besides, practice shows that, if prices hinge on supply and demand, the latter, in its turn, depends on price level;

#### Theory of "Production Costs"

Widely popular is in bourgeois political economy the theory of "production costs" (John Stuart Mill), according to which the value of commodities depends upon how much money the capitalist put in their production.

Scientific unsoundness of this theory is obvious: the money spent by the capitalist (determining value of commodities) makes up a definite sum of outlay, whose size depends on the price level of elements of production costs. Hence the vicious circle - prices (value) of commodities hinge on prices of production costs elements. Another representative of this theory, John Macculloch contended that value is created not only by human labour, but also by "labour" of draught-animals, machines and so forth.

The theory of "three factors of production" directly borders on the above theory. The "three factors" theory, founded by Jean Baptiste Say, is of expressly anti-scientific, apologetic character. Its essence consists in contention that the three factors—labour, capital, and the earth - are equal partners in producing value. Its scientific flimsiness is in that it mixes up use value and value of commodities, substituting relations of production factors for social relations between classes. Not only labour, but also nature and machines produce use value. However, value is created by labour, and only under commodity production, while the earth and machines have nothing to do with it.

"Marginal Utility"  
Theory

The upholders of this theory (Wieser, Menger, Böhm-Bawerk) which dates back to the 1870s, assert, as a matter of fact, that exchange value of material wealth is conditioned by its use value, Differentiating utility and "worth" of things, these economists contend that valuable are only things that are scarce. In their opinion, both utility and "worth" are not objective properties of material wealth, but depend on the relation of the subject to things. People appraise things, in one way or another, depending on what use it may be to them. The magnitude of "worth" (value), according to this theory, is contingent on that of utility of a thing, i.e. not magnitude of utility in general, but marginal utility of a thing. Marginal utility, conditioning the magnitude of "worth", is the utility of that material benefit with the help of which the least pressing want of a given man is met.

This theory is unsound since it is based on utter negation of the role of labour in producing value. Its advocates methodologically proceed from consumption, and not from production, though, in actual fact, consumption structure depends on production structure. Instead of analysing objective processes, independent of people's will and consciousness, its representatives study people's subjective psychological judgements, ignoring the fact, that changes in quantity and assortment of commodities are brought about by changes in production and that these accordingly affect people's subjective psychological judgements. Finally, its upholders study subjective appraisals by a man outside society, viewing him not as a producer but solely as a consumer. Thereby, they rule out the possibility to apprehend value as the specific production relation between people. In "marginal utility" theory value is an eternal category, contingent on man's relation to things, not on relations between people as regards things.

Eclectical Approach to  
the Problem of Value

Today, most popular are the bourgeois theories of value, resulting from the attempts to combine the vulgar theories of "supply and demand", "production costs" and "marginal utility". At the end of the 19th and beginning of the 20th century, A. Marshall, British economist, practised such an approach to the problem of value. These days this trend is represented by the US economist Paul Samuelson. The initial provision of the eclectic theory of value is the concept that commodity prices directly depend on supply and demand for them. The explanation of supply and demand is based on the theories of "production costs" and "marginal utility". Supply, according to the eclectic theory, is conditioned by the production costs, whereas demand, by the marginal utility of commodities. Production costs themselves are taken up as expenditure of not only labour, but also capital, the degree of risk, capitalists' sacrifices, etc. In actual fact, this theory identifies the value of commodities with their market prices, and combines various elements completely ignoring the social nature of value and labour as its substance.

The effort to unite the most spread bourgeois theories of value into a single conception for explaining prices does not hold water, since they, taken separately or in combinations, remain anti-scientific and are disproved by practice.

### 5. Essence and Functions of Money

**Essence of Money** Money is a commodity in the capacity of the universal equivalent. As has been already noted, gold has come to fulfill the function of the universal equivalent as a result of commodity exchange development. Value acquires an adequate form of its existence in gold, since it is the universal equivalent. Commodities and labour they embody, being exchanged for money, become directly and socially recognised.

With the appearance of money the exchange falls apart into two opposite acts - sale and purchase, and involves an agent - the merchant. Thus, merchant's and usurious capital arise to be of a major role in the development of capitalism. Money resources, concentrated in the hands of individuals, have become the universal instrument of capitalist exploitation with the transition to the bourgeois system.

The essence of money as the universal equivalent is manifest in the functions it fulfils.

**Measure of Value** The first and main function of money is that it serves as the measure of value of commodities. The value of commodities as embodied human labour acquires the homogeneous form of its manifestation in money (gold). Just as the value of a commodity always has a certain quantitative expression, its expression is always represented by a certain amount of gold. Therefore, money expresses and measures the value of commodities. The value of a commodity expressed in money is its price, and, correspondingly, the magnitude of value is expressed in certain magnitude of prices. Thus, the spontaneous accounting of labour is carried on under commodity production, based on the private ownership in the means of production.

Money may be a measure of value since it itself, being a commodity, has value, whose magnitude is determined like

value of any other commodity. However, it is quite natural that money as a universal equivalent does not have price itself. Its relative value may be imagined in that endless number of commodities which can be exchanged for a given amount of gold.

The specific function of money as the measure of value is that in it money acts as ideal, as imagined money. True, to express the value of a commodity in terms of money, i.e., to set its price, it is not necessary to have ready money.

Price as a form of expressing value gives rise to the possibility of its divergence from value, which is a result of constantly changing correlation between the demand and supply of commodities. Provided demand and supply are the same, the price equals the value. However, even under these conditions, the price of commodities may vary depending on changes both in the value of commodities and in that of money (gold), the means of expressing the value of commodities.

To compare differing prices the necessity arose to establish a certain standard of price, i.e. in measuring gold itself. The standard price is a weight unit of gold, taken as a monetary unit.

With fixing the standard of price, the expression of value of commodities by means of certain amount of gold is replaced by corresponding quantity of monetary units. The standard of price is introduced by legislation and, consequently, may be changed. It originated on the basis of a standard of weight and coincided with the latter. In England, for example, the weight of a pound sterling taken as a monetary unit corresponded to the weight of one pound of silver. Subsequently, the standard of price broke away from that of weight, preserving, however, its former name.

Medium of  
Circulation

The commodity exchange, as we have already said, arose in the form of directly exchanging one commodity for another (C - C).

In this exchange, which involves two persons, two commodities are sold simultaneously: sale (exchange) of one commodity coincides in time with the sale (exchange) of another commodity. With the emergence of money the direct commodity ex-

change gives way to the commodity circulation, in the context of which commodities are exchanged by means of money. Being an agent in the process of commodity exchange, money fulfils the function of means of circulation. The formula for this process is C-M-C, consisting of two acts: C-M and M-C. The commodity-money circulation, according to Marx, is fraught with the danger of disrupting the sale and purchase act, i.e. formally possible crises. It is obvious that, as distinct from the function of the measure of value with money acting as ideal money, in discharging the function of the medium of circulation money should be ready, i.e. real money is the means of circulation.

As a means of circulation money originally functioned in the form of ingots. Difficulties arising from determining the quantity and quality of metal in an ingot led to the appearance of a coin as a means of circulation. A coin is an ingot of a certain shape, containing a definite portion of metal in terms of weight and standard, the fact certified by the government.

The amount of money necessary for the commodity circulation hinges on many factors, above all, on the total sum of prices of commodities, which should be realised and expressed in money. This sum depends on both the number of commodities on sale and the price level. Provided all the commodities are sold simultaneously, the amount of money needed for the circulation will be equal to the sum total of all commodity prices. However, this is not real since in actual fact one and the same coin may be effective within a certain period of time in deals taking place one after another. The greater number of circuits each monetary unit performs demands less money for the commodity circulation within a given period of time.

It follows then that the amount of money needed for the circulation of commodities is directly proportional to the sum of prices of all commodities in circulation and inversely proportional to the average speed of the circuit each monetary unit performs. This may be expressed with the following formula:

$$\text{amount of required money} = \frac{\text{sum of commodity prices}}{\text{number of circuits of monetary unit}}$$

**Paper Money**      The transient function of money as a medium of circulation contains the possibility of replacing gold units by its symbol - paper money. Practically this replacement began spontaneously in the very commodity circulation in which gold coins were abraded. They thereby were losing their full value, since the real content of gold in them did not coincide with that fixed in the process of their coinage. Nevertheless, these abraded coins continued to function as full-bodied medium of circulation, being, in fact, only their tokens or symbols.

Whereas the coins signified the emergence of the first system of money circulation - metallic system (initially it was bimetallic and subsequently, monometallic), paper money marked the transition to the system of paper money circulation, nowadays effective in all capitalist countries.

Since paper money are tokens of value, of gold, which themselves do not possess value, and replaces gold only in the function of circulation medium, paper money cannot be a measure of value of commodities. Paper money is issued by the state, which fixes the rate of exchange. Any amount of paper money may be brought into circulation. However, regardless of how much paper money is in circulation, it will represent only that quantity of gold coins, which are needed for circulation. Thus, the amount of gold each unit of paper money represents (consequently, purchasing power of paper money) depends on the quantity of currency notes in circulation.

**Money as a Means  
of Hoarding**

Money functions also as a universal token of wealth, i.e. in the role of hoards. The hoarding is closely linked

to the function of money as the medium of circulation. A hoard, according to Marx, is a conduit for the supply or withdrawal of money to or from the circulation, which in this way never overflows its banks.



The fact that any commodity can be bought for money, that it is the embodiment of wealth, stimulates the accumulation of money hoards. Its qualitative boundlessness and quantitative limits act as a spur to the hoarder to accumulate. Only full-bodied currency may serve as a hoard.

Under capitalism, the hoarding while preserving old features (accumulation of hoards of money) assumes some new ones. Under present-day conditions, hoards are to a greater degree concentrated in the largest banks, the treasuries, becoming centralised in character. The capitalist countries are engaged in a bitter struggle with each other for gold reserves. This struggle is one of the forms in which the contradictions between these countries manifest themselves.

#### Money as a Means of Payment

As commodity production and circulation of commodities develops, sale on credit, i.e. payment on deferred terms expands. In this case, a promissory note is a means of circulation. The person who borrows gives such a note to the creditor and is to pay off on expiring of the term fixed in the note. As a means of clearing off the debts money fulfils the function of the means of payment. In this capacity money functions not only as payment for commodities bought on credit, but also in meeting money loans, paying the ground-rent and taxes, etc.

The function of money as a means of payment influences the sum of money needed for circulation. To determine this sum, provided credits and payments by written orders being immensely widespread in modern capitalist society, it is necessary to subtract from the aggregate sum of prices of commodities, realised within a given period of time, the sum of prices of commodities sold on credit and the sum of commodity prices equal to the liabilities that balance each other. To the above aggregate sum it is necessary to add the sum equal to the payments falling due. All the above factors considered, Marx's law, determining the mass of money necessary for circulation, is expressed in the formula:

$$MM = \frac{PC - C + P - B}{N} \quad \text{where}$$

- MM - mass of money  
 PC - sum of prices of commodities  
 C - sales on credit  
 P - payments falling due  
 B - liabilities balancing each other  
 N - number of circuits of monetary unit during a given period

The aggregate sum of prices, as well as the mass of money in circulation, also depends upon the value of gold itself.

**Credit-Money**           Whereas the function of money as a medium of circulation brought about the appearance of paper money, the development of credit relations, under which money acts as the means of payment, gave rise to a new instrument of the circulation - credit-money in the form of promissory notes (bills), bank-notes, and cheques. These do not have independent value, being credit symbols of full-value money, i.e. gold, and serve as the medium of the circulation of commodities carried on with the help of credit.

Promissory notes (bills) are based on commercial credit and issued by private persons - industrial and trading capitalists. The creditor receiving it may use it for purchasing articles from another commodity owner. Endorsement is put down on the bill when it changes hands, and the person receiving it becomes the creditor of that other person who issued it, etc. Bill circulation is widespread under capitalism.

Operations of accounting bills are concentrated in the banks, which accept them for payment, deducting a certain interest, and become creditors. On this basis banks themselves issue their own bills - bank-notes.

Bank-notes are liabilities for an indefinite term which the bank of circulation issuing them should pay for at any time through exchanging them for gold. Under the free exchange of bank-notes for gold, they are not depreciated and afloat under the circulation laws of gold coins. This type of exchan-

ge ceased to exist in the 1930s. Not exchanged bank-notes are, in fact, a variety of paper money and circulate according to the laws governing paper-money circulation.

**Universal Money**                      With the development of the international economic relations, money began operating in the world market, performing the function of the universal money (money of the world). There it strips off the local garb, i.e. appears in the form of the bullions of the precious metal - gold.

First of all, the universal money functions as the universal means of payment in transactions between states, when, under conditions of credit relations and settling mutual liabilities, one of the sides should pay a certain amount of money to another. In this case gold is exported from the country as a means of payment. Furthermore, the world money serves as the universal purchasing means, when a given country, due to various reasons, buys commodities of another country for cash.

Finally, the universal money functions as the universal embodiment of social wealth of bourgeois society. This takes place when the wealth from one country is transferred to another.

The above functions of money, strictly speaking, express only commodity relations. Under capitalism, money and its functions, the commodity circulation in general, are not only developed to the utmost, but also change their nature. Money and its functions are preserved, but now they serve also as a form of manifestation of the movement of capital, i.e. the capitalist relations of production.

**Inflation**                      Money and its functions, with which we dealt earlier, corresponded to commodity production and the capitalist system of economy at that stage of its development, when the gold standard existed in the form of the system of gold-coin circulation, i.e. when gold was a money commodity. The system of gold-coin circulation was most developed and spread in the late 19th and early 20th centuries. With capitalism's entering its im-

perialist stage and especially with the beginning of its general crisis this system was undermined, and ceased to exist by the present time.

Under gold-coin circulation money performs all the above functions within a country, being at the same time the universal money. However, its function as the means of circulation brought about paper money, and the function of a means of payment, credit-money. At this stage, therefore, gold-coin circulation combined with the circulation of paper money and bank-notes which were freely exchanged for gold.

In the present-day capitalist world, gold coins are withdrawn from circulation, bank-notes are not freely exchanged for gold and are deprived of that gold content which they earlier represented in the home market. Hence, gold ceased to be a money commodity, the formerly existing direct connection between the functions of money and gold, as well as that between currency notes (and, accordingly, prices they denoted) and gold disappeared. It does not signify, however, that the above connection is completely disrupted. It has become extremely complex and indirect. Currency notes are connected with gold by numerous links, are equated with it and can be, in one way or another, converted in gold in certain proportions. The establishment and development of the system of monopoly rule, though undermine the commodity foundations of capitalist production, considerably affect the mechanism of commodity-money circulation, but abolish neither commodity production nor the operation of the law of value.

Under the paper-money circulation currency notes may be issued in redundant quantity. They overbrim the circulation sphere and engender inflation. Inflation is the overflow of the circulation sphere channels by an excessive amount of currency notes in comparison with the necessary quantity of gold money required for the exchange. This being the case, the monetary unit (currency note) will inevitably be depreciated and prices will rise.

Bourgeois states experiencing currency difficulties due to military expenditure and other waste of capital engendering huge budget deficits, resort to excessive issues of currency notes. The result is that money is depreciated and

prices climb. The paper money is depreciated in relation to gold, commodities and foreign currency. The depreciation of money and price rises inevitably lead to a growing cost of living and, consequently, to fall in real incomes of the working people.

Prior to World War I, inflation was a sporadic, transitory phenomenon, taking place in individual countries at various periods. The situation is quite different today. In the modern capitalist world inflation has become universal and chronic, testifying to a complete derangement of the monetary system of capitalism, its crisis, which serves as one of the forms of the further aggravation of the general crisis of capitalism manifesting itself. Today, inflation has assumed huge dimensions and high rates of development.

Such an impetuous price rise in the capitalist countries over the recent period is explained primarily by the vigorous process of militarising these countries' economies, resulting in budget deficits, which the capitalist states strive to cover by paper-money issues. Additional currency notes put into circulation bring about the depreciation of money and price rise. However, the main underlying cause of inflation in today's capitalist world is the dominance of monopolies, having a decisive say in determining the policy of bourgeois states. At the same time, monopoly prices, set by monopolies, lead indirectly to increasing the mass of money in circulation, on the one hand, and directly - to the depreciation of money and drop in its purchasing power. Having grown to enormous dimensions, inflation in the modern capitalist world became an important instrument in redistributing of the national income in favour of monopoly capital, in strengthening the exploitation of the working class and broad working masses by the monopoly bourgeoisie.

The monopolistic bourgeoisie consciously uses inflation as the best camouflaged means of cutting down wages. As the bourgeois ideologists themselves admit, the workers' resistance would be less stubborn if the wages are lowered not through direct reductions of their size but through price rises.

The growing inflation is a major factor of aggravating the socio-class contradictions. When inflation leads to the derangement of the national economy, to aggravation of social contradictions, the ruling classes themselves do their utmost to overcome inflation and stabilise the currency.

History of capitalism knows various methods of stabilising the currency, such as nullification, restoration, etc., though devaluation is the most wide-spread means. The bourgeois state legislatively reduces the gold content of a monetary unit or decreases the rate of exchange of the currency of a given country in relation to gold or the currency of another country.

Dollar may serve as an example of reducing the gold content of a monetary unit: 1934 saw the devaluation of dollar in the form of increasing the official "price" of gold from 20.67 to 35 dollars per ounce. In 1971, gold "price" again rose to achieve 38 dollars an ounce, and 42.2 dollars in 1973. The British pound sterling may be taken as an example of reducing the exchange rate of the currency of a given country in relation to the currency of another country. Its rate of exchange in relation to dollar was reduced by 14.3 per cent in 1967 - from 2.8 to 2.4 dollars. Devaluation is the completion of the preceding period of depreciating paper money or an initial point of its further depreciation leading to a further rise in prices of commodities.

Under the general crisis of capitalism devaluation neither brings about currency stabilisation, nor does away with inflation since the lowering of the exchange rate of a currency in relation to dollar or of dollar itself results in the general rise of commodities prices in a country.

The totality of reforms to stabilise the currency is termed deflation by the bourgeois economists. Deflation, directly aimed at withdrawing the redundant mass of money issued during inflation, is usually accompanied by higher taxes. This results in a fall in the population's purchasing power, reduction of certain budget allocations for social needs and higher discount rates. The whole set of reforms to rehabilitate the currency system is realised, in the final

count, by the bourgeois state at the expense of the working people, infringing upon their interests.

Whereas in the past deflation brought about certain results, today it can only remove hypertrophic forms of inflation without putting an end to the very inflationary process. Inflation does not disappear during economic crises at the present stage of capitalist development. Moreover, sometimes, as was the case in 1974-1975, inflation intensified during the economic crisis, the phenomenon termed "stagflation" (inflation under stagnation) by the bourgeois authors.

## 6. Criticism of the Bourgeois Theory of Money

Though there is a number of clearly different trends in interpreting money in the bourgeois economic literature, they all have certain common features. First of all, different bourgeois theories of money are aimed at bringing to light the nature of money on the basis of this or another of its function, identifying the essence of money with its individual functions. Besides, most of these theories conceal the commodity nature of money, its origin as value, and, consequently, the role of labour in hoarding, with money being its embodiment. In this form the above theories serve the objectives of the apologetics of capitalism.

### Metallic Theory of Money

The so-called metallic theory was the first among the emergent bourgeois theories of money. It was created by economists representing mercantilism, a trend in the bourgeois political economy. Mercantilists identified wealth with money and money with precious metals which, allegedly, are money in their nature. The advocates of the metallic theory of money ignored thereby the socio-economic essence of money.

### Nominalistic Theory of Money

The development of monetary circulation necessitates the explanation of not only the nature of paper money but also of such phenomena as inflation, monetary crises, etc. This served the basis for shaping the nominalistic or

state theory of money, according to which money is not a commodity but a conventional unit of account. Hence it does not have its own value. By discarding the commodity nature of money and declaring it conventional symbol, the adherents of this theory maintain that it is the state that imparts the purchasing power to money. It is clear that the representatives of this theory employ the one-sided approach to defining money and strive to reduce its essence to its functions as a medium of circulation and payment under which money may be represented by symbols.

We have already considered the commodity nature of money and money itself as a specific commodity, performing the role of the universal equivalent. It has been also shown that the state may determine the standard of price but not the value of money. It is obvious that the nominalistic theory, ascribing the role of creator of money to the state, accords the interests of the apologetics of capitalism, since it denies the spontaneous character of capitalist economy and the objective economic laws governing it.

#### Quantitative Theory of Money

Many bourgeois authors deal with the quantitative theory of money, postulating that the magnitude of value of money depends upon the amount of money in circulation. The representatives of this theory maintain that money does not have value and acquires its "purchasing power" solely in the sphere of circulation. In actual fact, they saw only the circulation medium in money, ignoring the fact that money can perform this function exclusively because it serves as a measure of value. In this capacity money functions before the circulation process and only thanks to that it itself has value.

The contention that value of money hinges on the amount of money in circulation arises from the completely erroneous assumption that allegedly any amount of real money can be in circulation. In fact, the advocates of this theory spread the laws of paper-money circulation to that of gold money. The price level, they hold, is conditioned by the amount of money in circulation. Hence, the higher the price level the



lower is the value of money, i.e. its purchasing power. In practice, the amount of money afloat depends on the price level and, if the value of commodities is given, their expression in terms of money, i.e. the level of commodity prices, depends upon the value of money itself.

The new variant of this theory is the so-called advanced quantitative theory of money, an attempt to establish the dependence between the amount of money in circulation and the amount of the national income. Its supporters consider that an increase in incomes, wages in the first place, is the main cause for price rises. Hence the conclusion on "freezing" wages and salaries.

A peculiar variant of nominalistic and quantitative theories of money is the so-called theory of "regulated currency". John Maynard Keynes was the major representative of this theory. According to the theory, paper money is a "regulated currency". Therefore preference should be given to paper money, rather than to hard money. The advocates of this theory consider paper-money circulation to be the most important instrument of regulating the capitalist economy by the state. In their opinion, the state can regulate money circulation, price levels, and, through them, the demand for commodities and the entire capitalist production, thus making possible the abolishing of crisis, unemployment and other negative aspects of capitalism. This theory of money borders upon the apologetic theory of "regulated capitalism", whose groundlessness is proved by the very practices of capitalist society. It is more than obvious that state regulation of the capitalist economy is ineffective. The measures that bourgeois governments take against inflation foster stagnation of production and growth of unemployment; what they do to contain the critical drop in production lends still greater momentum to inflation.

#### 7. Law of Value

Under commodity production, social labour, the foundation of society's existence, invariably assumes the form of value of commodities, and the links between producers in the

production process, conditioned by the social division of labour, are manifest in the commodity exchange, which proceeds necessarily in conformity with the social value of commodities, whose magnitude depends on socially-necessary expenditure of abstract labour. This is the law of value which determines the development of commodity production, operating since the time when commodity production appeared.

Engels noted that this law was operative some seven thousand years ago, though under those socio-economic formations where commodity production was not prevalent, it was of subordinate character. Only under capitalism with the commodity form of production becoming universal, the law of value develops to its utmost.

Under commodity production based on private ownership in the means of production, the law of value is the spontaneous regulator of social production, operating through the mechanism of prices. Value is the law of prices.

The form of price provides the opportunity of its diverging from value. However, the true cause of fluctuation is the disbalance between the demand and supply of a given commodity. When the demand exceeds the supply, commodities are sold at prices which are higher than their values; and when the supply is greater than demand, prices fall below values. Only the equality of supply and demand makes prices coincide with values.

Commodity production is characterised by the anarchy of production and competitive struggle between producers. That is why demand and supply do not, as a rule, coincide, and prices always differ from values. Here lies the mechanism of operation of the law of value.

#### Role of the Law of Value

The operation of the law of value underlies the distribution of labour-power and means of production between various branches of economy. With demand and supply constantly changing, prices of commodities deviate above or below values. This means that some producers, whose commodities are sold at prices exceeding value, will find their production profitable and be interested in its expansion. For other producers, whose

commodities are sold at prices below value, their production will turn out a loss, and they, disinterested in its expansion, will switch over partially to manufacturing some other kinds of goods.

Those producers would turn to another kind of production whose products of labour are out of demand in the market. Thus, some kinds of production would shrink, while other, on the contrary, expand.

The law of value, operating in the commodity economy, leads to the development of the productive forces. According to this law, producers' individual labour input is reduced by the market to the socially-necessary expenditure of labour, and all the commodities of a given type are sold at one and the same price. If the demand and supply are equal, price coincides with value. Producers working in more favourable conditions create commodities that have lower individual values. Their position in the market is more advantageous, inasmuch as they sell their commodities at social value which is higher than their individual value. And producers whose commodities' individual value exceeds the social value find themselves the losers. Hence the desire of every producer to reduce the individual value of commodities, the end achieved by perfecting the instruments of labour, improving the organisation of entire production, i.e. by developing the productive forces in general.

Apart from this general strive for profit, the production perfection is carried out under the impact of the competition between producers, price with its fluctuations being their weapon.

#### Shaping of Capitalist Relations

The operation of the law of value resulted, at the time, in the formation of capitalist forms of production.

The price fluctuation above and below value, disparity between individual and social labour input, brought about gradual stratification of producers. Victor in the competition is always the one having more advantageous conditions of production, with all others losing. The operation of the law of value inevitably leads to the differentiation of producers, to

ruining their bulk and enriching an insignificant minority.

In the period of feudalism decay, the differentiation of producers resulted in the emergence of the capitalist forms of production. The ruined small producers were turned into wage-workers, whereas those who grew rich became capitalist entrepreneurs.

The process of the stratification of small proprietors is still under way in the capitalist countries in our days. Its present-day feature is that the impoverishment and destruction of small producers arise not so much from internal contradictions of commodity production proper as from the pressure that the established and gigantically developing capitalist production brings to bear upon it. Small urban and rural producers are objects of ruthless capitalist exploitation and their vital interests coincide with those of the working class. Under these conditions petty producers, the mass of the labouring peasantry in the first place, become the natural allies of the proletariat in the struggle against the bourgeoisie.

In capitalist production the operation of the law of value is subordinated to the purpose of extracting maximum profits. Already in the period of free competition's sway value acquires its converted form, and the mechanism of the operation of the law of value undergoes considerable changes. These transformations and changes become more pronounced under imperialism when the monopoly rule restricts the free competition, and free price formation is actually non-existent.

Monopolies can dictate prices to a certain degree. Monopoly prices may deviate above or below social value, however, whatever the deviation the latter always remains the basis for setting the commodity prices. Monopoly prices are an important instrument in the hands of monopolies for exploiting the working people, the imperialist monopolies' instrument of plundering the dependent countries.

Petishism of Commodities                      Under commodity production, ties between producers, production relations between them, are established spontaneously and manifest themselves through the commodity exchange.

The essence of production relations is expressed in spontaneously developing economic laws of commodity production, above all, in the law of value, which determine the lot of separate, isolated producers. The power of the spontaneously operating economic laws, their predominance over people, is embodied in things and, consequently, in the ascendancy of the product of labour over its producer.

The objective form, in which the relations between people manifest themselves, i.e. materialisation of their production relations, engenders in people's consciousness the idea of supernatural character of things-commodities and money, Value and capacity to be exchanged are ascribed to things as such, and the ability to be money - to gold. Marx termed this idea of things, the fruit of materialisation of production relations between people in the conditions of commodity production, the fetishism of commodities.

He showed that it has objective and subjective aspects. The former consists in production relations under commodity production being materialised, as a result of which the lot of commodity producers is closely bound up with the fate of the commodities produced. Commodities rule, as it were, over people. Subjective aspect lies in the false idea that things, products, by their own nature, can be exchanged for each other, affecting in this way the economic situation of commodity producers. The monetary fetishism is the highest manifestation of commodity fetishism. The supernatural quality of undivided sway over people is ascribed to money, gold, and the cult of money is taking shape.

With the liquidation of private property and establishment of public ownership in the means of production the fetishism of commodities is done away with.

## Chapter 4

### ESSENCE OF CAPITALIST EXPLOITATION

#### 1. Conversion of Money into Capital

##### General Formula of Capital

Money is the end product of the development of commodity circulation. It is also the starting-point of capital since any capital initially appears in the form of money. However, it would be erroneous to believe that any considerable amount of money is capital. Money was not capital in the hands of slave-owners and feudal lords, neither is it capital in the hands of workers and simple commodity producers.

Money is used as capital when the capitalist first buys certain commodities for money and then again receives money as a result of selling his own commodities. The circulation of money as capital is expressed by the formula  $M - C - M^1$ . Marx called this movement of capital the general formula of capital.

The general formula has some common features with the formula of simple commodity circulation ( $C-M-C$ ), since both fall apart into the two opposite phases:  $C - M$  and  $M - C$ . However, these formulas are marked by an essential difference.

In the formula of simple commodity circulation ( $C-M-C$ ) sale is done for the sake of buying with money being spent once and for all. The end objective of commodity circulation is the use value the producer needs in return for the commodity he manufactured.

The case is quite different when money circulates as capital. The initial and ultimate points of the circuit have qualitatively homogeneous economic form, i.e. the form of money, which may differ only quantitatively. In this case, it is not use value but exchange value that is the main objective and motive force. But buying for the sake of selling makes sense only when the capitalist obtains more money than he first expended. Therefore, the general formula of capital in its complete form is expressed in the following way:

$M - C - M^1$ , where  $M^1 = M + m$ . This means that the sum of money received from selling commodities is higher than that spent on buying them. The increasing value is the aim of the movement of capital. Money in this formula is not expended finally but is advanced. Therefore, capital is self-expanding value or value producing surplus-value. The general formula of capital directly expresses its movement in the circulation sphere. However, it is relevant to all other kinds of capital (with which we shall deal later on), since it characterises the motive, the aim of capital circulation in all branches and spheres of the capitalist economy.

Contradictions of the  
General Formula of  
Capital

It might seem that the expansion of value takes place in the process of circulation, as a result of the capitalist selling the commodities purchased dearer than he himself paid for them. This is how many bourgeois economists argue. One can assume that the excess of value may be obtained by a capitalist due to the divergence of price from value. But the non-equivalent exchange would only make some capitalists gaining and others losing. However, the entire capitalist class cannot grow rich at the expense of itself.

Thus the surplus-value does not arise in the sphere of circulation. Neither can it be produced without commodity owner's entering this sphere: remaining alone with his commodity without coming into contact with other commodity owners, he cannot convert it either into money or capital. Marx wrote on this score: "It is therefore impossible for capital to be produced by circulation, and it is equally impossible for it to originate apart from circulation. It must have its origin both in circulation and yet not in circulation."<sup>1</sup> Here lies the contradiction of the general formula of capital. Both conclusions exclude each other. The question of the source of surplus-value seems to be in a deadlock. Its existence contradicts, at first sight, the law of value, the exchange of equivalents.

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<sup>1</sup> Karl Marx, Capital, Vol. 1, p. 163.

To find the source of surplus-value, it is necessary to know how the capitalist, after buying commodities according to the values and selling them also according to their value, extracts from this process higher value than he initially put into it.

Let us consider the two elements of the general formula of capital. The first is money, which by itself cannot serve as the source of expanding value. Hence, the secret of surplus-value lies with the commodity bought for this money. Moreover, the point here is not value, but the use value of this commodity, since in the first act  $M - C$ , as well as in the second  $C - M$ , the equivalent exchange takes place. The surplus-value arises thereby in the process of consumption of this commodity, from its use value. The only commodity, whose consumption produces value and surplus-value, is labour power.

Labour Power  
as Commodity

Labour power is the totality of physical and mental capabilities of man, realised in the process of production. As the capacity to work it exists in every society, becoming commodity only under definite conditions. They are: (1) personal freedom of producer allowing the owner of labour power to act as a seller in the market, to arrange a deal with the purchaser - owner of money; (2) the owner of labour power must be deprived of the means of production and means of subsistence. Otherwise, he would not sell his labour power.

These conditions took shape in the process of disintegration of feudalism and establishment of the capitalist mode of production.

As we have already mentioned in the previous chapter, the law of value in operation is the basis for the differentiation of simple commodity producers and, consequently, for the formation of classes of capitalist society. The emergence of capitalism was speeded up by the primary accumulation of capital, which is the historical process of forcibly turning direct producers (peasants in the first place) into wage-workers, and the means of production and monetary wealth, into capital. The methods of primary enrichment of the bourgeoisie were multifarious, though all based on sheer violence. Marx



wrote that "capital comes dripping from head to foot, from every pore, with blood and dirt".<sup>1</sup>

The conversion of labour power into commodity is a characteristic feature of capitalism. Like any commodity, labour power possesses value and use value.

Labour power, as the capacity to work, is unalienable from man. Hence, its production and reproduction means the preservation of man's normal vital activity. This is the reason why the value of labour power is conditioned by the aggregate value of the means of subsistence, required for maintaining the life of the owner of labour power himself and for supporting an average family to ensure the reinforcement of labour power market. The value of labour power also includes the means necessary for workers' training and acquiring a corresponding qualification, and for satisfying social and cultural requirements.

The value of physically indispensable means of subsistence, without which a wage-worker cannot live, constitutes the lowest, minimal limit of value of labour power as a commodity. The value of labour power has the top limit, too. In contrast to other commodities "there enters into the determination of the value of labour-power a historical and moral element".<sup>2</sup> Workers have social and cultural requirements, depending on the historical setting in which the working class of a given country formed, the level of its economic, political and cultural development. These requirements are included in the value of labour power, making up its top limit.

Thus, the value of labour power is determined by the value of the means of subsistence, necessary for its reproduction, i.e. for meeting physical and cultural and social requirements of wage-worker and his family.

With the development of capitalism, the value of labour power alters. There are two opposite tendencies in the movement of the value of labour power, conditioned by the progress of society.

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

<sup>2</sup>Ibid., p. 168.

The growth of social labour productivity decreases the value of labour power, for it leads to lower value of the means of subsistence and thus to reducing the value of labour power. The involvement of women and children in production also lowers the value of labour power, since its reproduction is ensured by all the working members of the family, not only by its head.

The higher expenditure on improving labour-power qualification and the growth of workers' needs and changes in their structure are conducive to increasing the value of labour power. Lenin pointed out, that the universal law of increasing requirements operates in society. "This law of increasing requirements", wrote Lenin, "has manifested itself with full force in the history of Europe - compare, for example, the French proletariat of the end of the eighteenth and to the end of the nineteenth centuries, or the British worker of the 1840's and of today".<sup>1</sup> Lenin wrote that this law functions not automatically due to the productive forces' growth but owing to enhancement of class consciousness and intensified struggle of the proletariat. In economically developed capitalist countries the workers' range of requirements is wider than in countries which just recently have shaken off the colonial yoke, where this range, determining the value of labour power, is far more restricted. The higher intensity of labour, under which the worker needs more means for maintaining his vital activity, is an important factor of raising the value of labour power. Both these tendencies operate simultaneously, with one of them being prevalent at different stages and in different countries. Side by side with them acts the tendency, engendered by capitalism, of lowering the price of labour power in comparison with its value. The workers' class struggle alone puts the barrier in the way of this tendency's evolution.

Any commodity's use value consists in its ability to satisfy certain requirements of the buyer. Any use value is realised in the process of consumption.

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 1, p. 106.

The consumption of labour power is the process of labour when commodity, its value and surplus-value is created. The specific use value of the commodity - labour power is its capacity to produce surplus-value. It is precisely with this aim in mind that the capitalist purchases this commodity.

One of the major theoretical revelations in Capital is the strict differentiation between labour power and labour, providing the clue to understanding the source of surplus-value. Bourgeois political economy identifies these two categories, asserting that labour is allegedly an object of sale and purchase. Marx was the first to prove that the worker sells not labour but his labour power to the capitalist. Labour is the function of labour power, the process of its productive consumption.

## 2. Production of Surplus-Value

Peculiarities of the Labour Process under Capitalism. Expansion of Value

Labour is always a process of man's active influence upon nature. Under conditions of capitalism, however, this process is the consumption of the labour power bought by capitalist. Workers are under the control of capitalists, owners of the means of production and labour power, the cause for their appropriating of the products of labour manufactured by workers.

The capitalists are not interested in the use value as such since surplus-value is the objective of capitalist production. As a result of labour power being consumed wage-workers create new value, which is higher than the value of labour power. For example, if the value of labour power is 10 dollars, and the value the worker produces anew equals 20 dollars, the difference, or surplus-value, amounts to 10 dollars. Thus, surplus-value is the value created by the labour of a wage-worker over and above the value of his labour power and appropriated without payment by the capitalist.

The capitalist buys not only labour power, but also the means of production. For instance, 40 dollars were spent for the means of production and completely consumed in the process

of production, then the capitalist's expenditure would amount to 50 dollars, and the value of produced commodity, to 60 dollars. The difference, whose source is the exploitation of labour power, constitutes surplus-value.

In the process of labour the following phenomena take place: (1) former value (value of the machinery and raw materials) is preserved and transferred by concrete labour to a new commodity; (2) new value is created, which is the function of abstract labour. Thus, the contradiction of the general formula of capital is resolved; surplus-value is created not in the sphere of circulation, but in that of production, but by means of the former, where the capitalist buys labour power and the means of production. It is now a fact, that the general formula of capital does not run counter to the law of value, for initially it was assumed that the capitalist pays in full for the value of labour power.

The value of commodity produced anew may be expressed by the formula:  $C + V + m$ , where  $C$  is the value of the consumed means of production,  $V$  - equivalent of the value of labour power and  $m$  - surplus-value.

Essence of Capital.  
Its Structure

Bourgeois economists hold that capital is a thing. What they are arguing about is what things are capital: money, means of production or all commodities in general. In actual fact, capital is not a thing, but the value which, through exploiting wage-workers, produces surplus-value. Capital is the relations of production between the two classes of bourgeois society - capitalists and wage-workers - which are expressed through thing and acquiring thereby a specific social character.

By identifying capital with a thing, mostly with the means of production, bourgeois ideologists consider it an eternal category. In reality, the means of production become capital only under capitalism. Capital invariably presupposes wage labour, which, in its turn, presupposes capital. These are the two sides of one and the same relation.

The portion of capital, which turns into the means of production, does not change the magnitude of its value in the

process of production. The value of the means of production is only transferred to a product by labour so they themselves produce no surplus-value. This part of capital is constant capital (C).

Another part of capital, which is converted into labour power and changes its value in the process of production, is called variable capital (V). Labour power reproduces the equivalent of its value and, above it, the excess, or surplus-value, which, in its turn, may change. This division of capital was revealed by Marx. It shows that only that part of capital which was spent on purchasing labour power creates surplus-value, not the entire advanced capital. It is obvious therefore that unpaid labour of workers alone creates surplus-value.

The division of capital into constant and variable concerns only that capital which functions in the sphere of production, i.e. only there where surplus-value is created.

Bourgeois economists in their efforts to prove that exploitation is non-existent under capitalism put forward the theory of production factors, according to which three factors participate in production: (1) land in the possession of the landholder, (2) capital (means of production, according to bourgeois economists) belonging to the capitalist; (3) labour belonging to the worker. In their opinion, all the three factors have an equal part in creating new values. Hence the three kinds of income: land creates rent, capital-profit, and labour - wages. Thus, if to trust bourgeois economists, exploitation does not exist and harmony of class interests reigns supreme.

In practice, however, new value is created only by one factor - labour expended by the worker in the process of production. Worker's unpaid labour is the sole source of all kinds of capitalist incomes.

Mass and Rate of  
Surplus-Value

Worker's labour in the capitalist enterprise consists of two parts. The first portion of a working day, when the value is produced equal to that of labour power is called necessary labour time, and labour expended during this time - necessary labour.

During the second part of his working day, surplus labour time, the worker creates surplus-value by his surplus labour.

The ratio  $\frac{\text{surplus labour}}{\text{necessary labour}}$  expresses the degree of exploitation of a producer by the owner of the means of production in any antagonistic formation, including the capitalist one. The ratio of surplus-value to variable capital expresses the degree of exploitation inherent only in capitalism.

$$m^1 = \frac{m}{V} \times 100$$

The rate of surplus-value shows how the newly created value is divided between workers and capitalists, what portion of the working day the worker works for himself and what for the capitalist.

As capitalism develops, the rate of surplus-value grows and exploitation of workers become harsher. V.I. Lenin calculated the rate of surplus-value in pre-revolutionary Russia. He chose the data on the number of employed workers and their aggregate wages from the materials on the situation at factories and plants in 1908. By dividing the wages by the number of workers he calculated the wage of one worker. Having the data of the overall amount of the output and the sum of capitalists' expenditures on its production, it is easy to calculate the overall profit of capitalists and its part falling to a single worker. The comparison of this part with the wage provides the idea of the rate of surplus-value. Such calculations are not difficult to produce today. However, one should bear in mind that the bourgeois statistics contain exaggerated figures as regards the wages, including in them incomes of managers, which are in fact a component of surplus-value. At the same time, the amount of profit is underestimated, for capitalists often conceal its considerable portion. One should also take into consideration that workers yearly pay enormous taxes from their wages. Since all these factors directly or indirectly affect the rate of surplus-value, the calculations, as a rule, produce but approximate figure.

The rate of surplus-value is not sufficient for the

quantitative characteristic of surplus-value. The absolute magnitude of surplus-value is called its mass. A certain connection exists between the rate and mass of surplus-value. Under a given value of labour power, the mass of surplus-value, produced by an individual worker, depends on the degree of exploitation.

It follows from the formula  $m^1 = \frac{m}{v} \times 100$  that  $m = v \times m^1$ , i.e. the mass of surplus-value is equal to the sum of invested variable capital, multiplied by the rate of surplus-value.

The appropriation of surplus-value produced by workers' unpaid labour expresses the essence of exploitation of the working class by capitalists. The exploitation of man by man is characteristic of the class societies that preceded capitalism: the slaves' labour by far outstripped the limits of necessary time, and the peasant likewise worked for the feudal lord. However, capitalist exploitation is a specific form. Exploitation under capitalism is veiled, and this is its salient feature. Supra-economic coercion does not exist here unlike under slavery and feudalism. Wage-worker is free of personal bondage. But deprived of the means of production, he has no other choice than to sell his labour power and be exploited. Thus, under capitalism, too, forced labour is prevalent, though coercion is economic in nature. This essence is masked by the worker's personal freedom, by his seemingly voluntary sale of his labour power on an equivalent basis.

The capitalists' unrestricted striving for appropriating surplus-value is another peculiarity of capitalist exploitation, arising from the fact that under capitalism the aim of production is not satisfaction of capitalists' personal wants, but greed for profit, spurred on by competition, and amassing of wealth in the money-form, the more so since in this form wealth may be accumulated in any quantity. Whence springs the endeavour to extract more and more surplus-value, the most refined methods and forms of increasing the exploitation of the working class.

To conceal capitalist exploitation, the bourgeois economists put forward the concept of "human relations in industry". They claim that workers and capitalists have a single aim, being "equal partners", interested in maintaining "good human relations". Capitalists are forced to resort to the policy of concessions to workers to restrain the class struggle. However, as a result of "human relations" exploitation grows stronger. Certain representatives of big business openly declare that research into the sphere of "human relations" is important and more profitable than the research into the field of physics. Engels, revealing the true nature of relations between capitalists and workers, wrote: "Ultimately, it is self-interest, and especially money gain, which alone determine them... The relation of the manufacturer to his operatives has nothing human in it; it is purely economic."<sup>1</sup>

### 3. Means of Increasing Surplus-Value

Absolute  
Surplus-Value

In their pursuit for surplus-value capitalists strive to extend surplus time, which is achieved either by production of absolute surplus-value or relative surplus-value. Surplus-value obtained through the absolute extension of the working day is called absolute surplus-value. Let us admit that the working day at the capitalist factory is 10 hours, with necessary labour time and surplus time equalling 5 hours each. In this case  $m^1 = \frac{5}{5} \times 100 = 100$  per cent. If the capitalist prolongs the working day to 12 hours, surplus time will be 7 hours and the rate of exploitation rises to 140 per cent.

Though the length of the working day may be changed, it has its own limits. The ceiling of the working day is conditioned by two factors: physical bound - the worker cannot work for 24 hours a day; social or moral bound - he needs some time to meet his social and cultural requirements. Therefore,

<sup>1</sup> F. Engels. The Condition of the Working Class in England. Moscow, 1975, pp. 275, 276.



the length of the working day is confined within these limits. The working day's actual length is an outcome of the bitter class struggle between the bourgeoisie and the proletariat.

The production of absolute surplus-value, i.e. extension of the working day beyond the limit of necessary labour time, constitutes a general foundation of capitalist exploitation. However, the lengthening of the working day as the method of augmenting exploitation prevailed at earlier stages of development of capitalism. The working class's struggle, the growth of its organisation compelled bourgeois governments to adopt laws on restricting the working day. Nevertheless, production of absolute surplus-value takes place in other forms, such as greater intensity of work, overtime work, payment for labour power below its value.

The system of overtime work is widely spread. Some 14-15 per cent of workers in the developed capitalist countries work more than 48 hours a week. In many countries the working week ranges from 41 to 44 hours. Overtime work allows the entrepreneurs to save on expenditures on training new workers, on allocations to the social insurance fund, thus increasing their profits. Another way the working day is prolonged is the system of extra earnings. Millions of people cannot live on their main wages and are compelled to make extra earnings after their full working day. The length of the working day is also increased through reducing breaks during the working day.

More intensive labour means greater energy input and creates larger surplus-value.

Capitalists strive to compensate the restriction of the working day's length by higher intensity of labour. For this end they employ both old and a number of new methods of the capitalist rationalisation of production, including speeding up conveyors, timing of separate labour operations, introducing systems of before-hand-elaborated norms of movements, practising complicated "bonus" pattern of wages. Under the scientific and technological revolution the capitalist rationalisation of production pursues the aim of stimulating not only physical

effort to the utmost, but also maximal expenditure of mental and nervous energy. A new type of labour intensification and of exhaustion arises, i.e. protracted emotional and nervous overstrain, adversely affecting the worker's health.

Relative Surplus-  
Value

The second method of enhancing the degree of exploitation of the working-class is production of relative surplus-value. In this case, the growth of surplus-value is achieved through decreasing necessary labour time and correspondingly prolonging surplus time. For example, the necessary labour time is reduced from 5 to 4 hours, but the length of the working day remains the same - 10 hours. Hence, the surplus labour time increased from 5 to 6 hours and the rate of surplus-value grew from 100 to 150 per cent.

How the reduction of necessary labour time is effected, creating relative surplus-value?

As we have said above, during necessary labour time the value of labour power is reproduced, i.e. the value of the means of subsistence of the worker and his family. Consequently, the value of labour power can be lowered and necessary labour time reduced solely through decreasing the value of those commodities which are the means of subsistence for the workers (foodstuffs, clothes, etc.). This can be achieved through the labour productivity growth in those branches which manufacture consumer goods. This growth is the consequence, in the first place, of technological progress both in branches producing the means of subsistence, and in industries creating the means of production for these branches. These processes become particularly accelerated under the present-day scientific and technological revolution.

Extra Surplus-  
Value

The rise in labour productivity does not embrace all branches of production simultaneously. It takes place at individual advanced enterprises first, where capitalists introduce the new machinery and updated methods of production organisation. Individual outlays here are lower than socially-

necessary. Since market prices are regulated by socially-necessary expenditures, the capitalists, who succeed in raising labour productivity at their plants, obtain extra surplus-value (apart from surplus-value proper), which is the difference between social and individual values. What creates it is more productive labour of workers at the enterprises employing more perfect machinery and methods of production. This kind of labour, if compared to social labour, operates as multiplied labour, i.e. produces greater value.

Let us assume that the socially-necessary time to produce 1 metre of fabric amounts to 2 hours, the value produced by one-hour work is 2 dollars, then the social value of 1 metre of fabric will be 4 dollars. If, for example, an enterprise starts employing the latest machinery, thus doubling labour productivity, then production of 1 metre of fabric will take only one hour and its individual value will be 2 dollars. However, in the market the fabric will be sold at 4 dollars as before. The difference of 2 dollars per each metre of fabric will make up extra surplus-value.

Let us further assume that the worker creates 8 metres of fabric during the 8-hour working day, i.e. 32 dollars of new value. His wages equal 16 dollars (necessary labour time-4 hours) and surplus-value, 16 dollars. The rate of exploitation is 100 per cent. Provided labour productivity is doubled, the worker already produced 16 metres of fabric, whereas his wages remain at the former level of 16 dollars. To reproduce the value of his labour power it takes him 1 hours not 4. Over 2 hours he manufactures 4 metres of fabric, which, in its social value being 4 dollars per 1 metre will make 16 dollars. During 6 hours the worker would create surplus-value of 48 dollars for the capitalist, with the rate of exploitation raising to 300 per cent ( $\frac{6}{2} \times 100$ ).

The capitalist, wrote Marx, "does individually, what the whole body of capitalists engaged in producing relative surplus-value, do collectively."<sup>1</sup> However, production of extra surplus-value is not linked to reducing the value of

<sup>1</sup> Karl Marx, Capital, Vol. I, p. 302.

labour power but is conditioned by the fact that with the growth of individual labour productivity above its social level the value of labour power is reproduced without a shorter span of time.

The peculiarity of extra surplus-value consists in that it is obtained by individual capitalists only until innovations come to be dominant in a given branch. However, having disappeared at some enterprises, extra surplus-value emerges at others, representing a permanent law-governed phenomenon of capitalist society. In pursuit of extra surplus-value capitalists introduce the latest machinery and boost the productive forces. On the other hand, however, capitalists try to keep secret their achievements for the sake of extracting extra surplus-value for as long as possible, which impedes technical progress.

The growth tendency of relative surplus-value inherent in capitalism remains valid to this day, though its growth takes place in a contradictory form. The degree of employing new equipment restricts the growth rate of relative surplus-value. On the one hand, operative are such stimuli of introducing new plant as pursuit of extra surplus-value and competition. There emerged some new factors acting towards the same end, for example, economic competition between socialism and capitalism forcing the bourgeois state to introduce new machinery. On the other hand, circumstances holding the introduction of new plant grew stronger. The role of monopoly prices rose, as well as underloading of enterprises, narrowness of home markets, etc. bringing about the greater gap between potentialities of the scientific and technological revolution and the level of realising them.

This accounts for the fact that capitalists try to augment the rate of surplus-value through raising labour intensity. Under modern capitalist production, monopoly capital has far more possibilities to heighten the intensiveness of labour through introducing mechanisation and automation of production, employing new methods of labour organisation and modern forms of wages. Higher labour intensity embraces the majority of workers and brings thereby a decrease in the share of necessary labour and increase in that

of a surplus labour in the total mass of labour. The result is the same as in producing relative surplus-value.

Unity of Absolute and  
Relative Surplus-  
Value

The distinction between absolute and relative surplus-value does not exclude their unity. Any surplus-value is absolute, in-

so-much as it presupposes the prolongation of the working day above the necessary labour time. On the other hand, as long as labour productivity provides only the means of subsistence for the producer, there cannot be any surplus labour. Higher labour productivity alone reduces necessary labour time to a part of the working day. Consequently, any surplus-value is relative in so far as it presupposes a certain rise in the productivity of social labour. Both kinds of surplus-value have the same socio-economic essence: they express the relations between the two antagonistic classes - wage-workers and capitalists, exploitation of wage-labour by capital.

Production of absolute surplus-value was the first method to be used to enhance exploitation. However, at the initial stages of capitalist development the method of producing relative surplus-value was also applied. At the same time, even under developed capitalism creation of absolute surplus-value goes on. It should be stressed that intensification of labour is a means of producing both absolute and relative surplus-value.

Stages of Establishment  
of Capitalism in  
Industry

In its development capitalism passed through three stages: simple cooperation, manufacture and machine industry. These

are simultaneously stages of relative surplus-value production, of transition from formal to actual subordination of labour to capital.

Simple cooperation is the starting-point of capitalist production. Capitalist simple cooperation is such a form of social labour under which the capitalist exploits more or less considerable number of simultaneously employed wage-

workers, performing similar work. It has a great advantage over small commodity production, giving rise to new social productive force, collective labour. More effectively are used all the means of production, and the field of operations expands. The growth of labour productivity shortens necessary and increases surplus labour time.

Further development of simple capitalist cooperation leads to manufacture, which is capitalist cooperation based on the division of labour and handicraft technique. Manufacture contributed to the progress of the productive forces and rise in social labour productivity. It prepared the necessary conditions for shifting to machine industry. Manufacture made many work operations so simple, that it became possible to replace manual labour by a machine. Specialisation and perfection of instruments of labour acted in the same direction. Thanks to the division of labour in manufactory, the individual worker is no longer capable to independently put out any product for selling. That is why his dependence on the capitalist becomes stronger acquiring qualitatively new character. The degree of exploitation of workers intensifies and production of relative surplus-value expands.

The late 18th century witnessed the transition to the third stage of capitalism - machine industry. This process, known as an industrial revolution led to establishing capitalism as the dominant mode of production.

Machinery by itself is a powerful means of raising labour productivity and amassing the social wealth. Thus, under socialism wide use of machinery alleviates hard labour, reduces the working day, uplifts the working people's standard of living, eliminates the antithesis between mental and manual labour. Whereas in the possession of the bourgeoisie it became an instrument of enhancing the exploitation of wage-workers, a means of producing absolute and, particularly, relative surplus-value. The use of machinery as a means of creating surplus-value puts brake on its application. A machine is profitable for society as much as it saves labour, i.e. its profitability is measured by the difference between the quantity of living labour it replaces and the amount of former labour embodied in the machine itself. However, for

the capitalist this profitability is measured not by saving of labour but of capital, i.e. the difference between the value of a machine and the value of labour power it replaces. That is why in those countries where wages are low it is not always profitable for the capitalist to use new machinery.

Industrial revolution brought about changes both in the form and extent of subjugating labour to capital. The subordination of labour to capital on the basis of manual labour and handicraft technique Marx called formal subordination. At that time, under certain circumstances, a worker could again become an individual producer. But already then, at the first stage of capitalism's development, the real subordination of labour to capital began, since transformations were under way in the labour-process. The transition to machine industry crowns the process of real subjugation of labour to capital, changing the social form of wage labour and its material and technical basis. Machine made coordination in the labour-process a technical necessity, worker becoming its appendage.

The shift from manufacture to factory intensifies labour and raises its productivity, allows the employment of women's and child labour.

The army of unemployed formed after large-scale machine production replaced manufacture. All this made the exploitation of the working class more intense and the role of producing relative surplus-value more significant. Introduction of machinery accelerated the ruin of small producers, which led to higher unemployment rate.

Characterising socio-economic consequences of transition to machine industry in his work The Development of Capitalism in Russia, Lenin wrote that the "technical revolution is inevitably followed by the most thoroughgoing destruction of social production relations, by a final split among the various groups of participants in production, by a complete break with tradition, by an intensification and extension of all the dark aspects of capitalism."<sup>1</sup>

As a result of industrial revolution, the proletariat forms as a class aware of its vital interests, their opposi-

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 3, p. 454.

tion to those of capitalism, inevitability and necessity to wage a class struggle.

Machine industry developed through certain stages. The first - industrial revolution of the late 18th-early 19th centuries - is characterised by switching from hand-operated instruments to mechanised labour involving the use of steam-engines.

The second - late 19th-early 20 century - is called electrotechnical revolution, since at that time steam was superseded by electricity to be widely used in technological processes.

The third- modern scientific and technological revolution which began in the mid-20th century and comprised all elements of the productive forces. It leads to the further growth of intensiveness and productivity of labour and, consequently, to greater exploitation of the working class. However, such factors as the world system of socialism and higher living standards of the working people in the socialist countries, more vigorous struggle the proletariat wages in the capitalist countries and scientific and technological progress compell the bourgeoisie to pursue the policy of social demagogy, to adjust the methods and forms of exploitation to its endeavour to spread the ideology of "class collaboration and social partnership" among the working class, and to create an illusion of "humanised labour" at the capitalist enterprises. Today, capitalists introduce the system of so-called regulated intervals for rest, alternating labour and rest of workers. However, these measures are commanded not by concern of capitalists for workers' health, but by their striving to attain greater efficiency of consuming labour power in production, ensure the same high tempo of work during the entire working day for the sake of raising daily output quota of workers.

The bourgeois state plays a major part in intensifying the exploitation of the working class. In some capitalist countries over 20 per cent of the total number of wage-workers are employed at state-owned enterprises. Most of these enterprises are equipped with the latest equipment. A huge mass of surplus-value produced there is directly appropriated



by the bourgeois state, and, in the final count, by monopoly capital.

But the role of the state in enhancing the exploitation of workers does not consist only in this. To meet the interests of big capitalists, the state adopts anti-labour legislation, "incomes policy", restricts trade union rights and suppresses the working people's strike struggle. These measures enable capitalists to considerably increase their profits.

The bourgeois state, through imposing constantly growing taxes on the working people, concentrates huge sums in its safes, which, ultimately, are converted into incomes of big financial oligarchy in the form of highly profitable war orders to industry or open subsidising of the military-industrial complex.

#### 4. Basic Contradiction of Capitalism. Basic Economic Law of Capitalism.

Basic Contradiction  
of Capitalism

As capitalism develops the social  
character of production and so-  
cialisation of labour by capital

become more pronounced. The transition from manufacture to factory furthers the social division of labour still more. Though the number of branches in industry and agriculture grows, individual branches and enterprises become increasingly dependent on each other in terms of deliveries of raw materials; semi-finished products and sales of finished articles.

Large-scale production, that concentrates machinery, production and a large number of workers, replaces numerous petty economies. Disunity of small economic units disappears, and tiny local markets converge into national and world market. Further on, capitalism ousts various forms of personal dependence, providing conditions for greater migration of population, which ensures incessant labour-power influx to industries on the rise. Many industrial centres and large cities arise, and constant migration of capital takes place.

Large-scale socialisation of production contributes to the growth of the productive forces, which is characterised by profound contradictions. Production becomes increasingly social in its character, while the appropriation retains its private-capitalist nature. The latter means that each enterprise is privately owned by an individual capitalist, and the means of production and manufactured product belong to capitalists. They appropriate a lion's portion of the product. Not the interests of society as a whole govern production, but the mercenary motives of capitalists seeking to extract maximum surplus-value.

The basic contradiction of capitalism consists in the antithesis of social character of labour to private form of appropriation. Private-capitalist appropriation retards the progress of productive forces. The development of capitalism changes the forms of capitalist property, bringing about wider spread of its collective forms - joint-stock and state, which better correspond to increasingly social character of the productive forces. However the basic contradiction of capitalism is not solved because all the above features of capitalist appropriation remain. On the contrary, this contradiction becomes more acute, manifesting itself in new forms.

The basic contradiction of capitalism underlies the development of antagonism between labour and capital, the source of the class struggle between the proletariat and the bourgeoisie. The working class and capitalists are the main classes, whereas relations of exploitation of the proletariat by the bourgeoisie is the basic production relation in bourgeois society. Class interests of the proletariat and the bourgeoisie are diametrically opposed and, consequently, irreconcilable. Capitalists seek to enhance exploitation, while workers fight to abolish the entire system of capitalist oppression. The working class is the principal productive force of society, embodying highly developed productive forces, their social nature, which contradicts private-capitalist appropriation.

The contradiction between social production and private appropriation is insoluble within the framework of the capi-

talist system. It can be resolved only by liquidating private ownership in the means of production and its replacement by social ownership as a result of the socialist revolution. As the practice of the socialist community countries has proved, the liquidation of capitalism opens up broad prospects for flourishing of society's productive forces and uplift of the people's well-being.

Bourgeois economists in an effort to embellish capitalism often say that classes in bourgeois society are being integrated, alleging that workers are "integrated" into capitalism becoming owners, that there is no clear-cut distinction between classes and that class contradictions are a thing of the past. Such assertions are refuted, above all, by the growth of the working-class movement and the increasing number of strikes and their participants. The sphere of the working-class economic struggle expands still more, assuming political character.

Basic Economic Law  
of Capitalism

Producing the greatest possible amount  
of surplus-value and its appro-  
priation by capitalists through

intensifying the exploitation of wage-workers comprise the  
basic economic law of capitalism. Marx wrote in his time:  
"The directing motive, the end and aim of capitalist pro-  
duction is to extract the greatest possible amount of sur-  
plus-value, and consequently to exploit labour-power to the  
greatest possible extent."<sup>1</sup> Consequently, this law lays bare  
the purpose of capitalist production, its driving motive,  
consisting in extracting maximum surplus-value. This purpose  
is achieved by increasing the number of wage-workers and in-  
tensifying their exploitation. The law of surplus-value ex-  
presses the essence of capitalist exploitation, the basic  
production relation of capitalism - that between capitalists  
and wage-workers. It governs the development of the capital-  
ist mode of production, all major economic processes unfold-  
ing under capitalism. This law brings to light an important  
conclusion: existence and growth of capital are based on pro-

<sup>1</sup>Karl Marx, Capital, Vol. I, p. 313.

duction of surplus-value, and progress of the productive forces, stimulated by the law of surplus-value, leads to the deepening of the basic contradiction of capitalism. The operation of the law of surplus-value causes the antagonism between the interests of workers and that of capitalists, the growth and aggravation of the class struggle. The law of surplus-value is the law of evolution of the capitalist mode of production, leading, in the final count, to the socialist revolution.

Marx's forerunners could not explain the origins of capitalists' incomes, proceeding from the premise that workers sell their labour, not labour power, to capitalists. Consequently, all labour appeared to be paid, which contradicted their own postulate that the entire value is created by labour expended to produce commodities. Marx solved this problem by showing that workers sell labour power, not labour. However, in the process of its consumption value is created exceeding the value of labour power.

Thus, Marx was the first to prove that surplus-value arises not as a result of non-equivalent exchange, but precisely on the basis of the law of value. Having revealed the secret of surplus-value Marx found a clue to understanding all its concrete forms - profit, interest, and land-rent. He took the theory of surplus-value as a basis for analysing capital, its accumulation and its division into constant and variable. However, the main content of this theory consists in exposing the essence of capitalist exploitation and methods of its intensification, in proving that class struggle is inevitable and its role in capitalist society immense. "The doctrine of surplus-value is the cornerstone of Marx's economic theory",<sup>1</sup> Lenin wrote.

The theory of surplus-value has not only paramount theoretical but also tremendous practical significance for the working class. It shows that exploitation of the working class is inseparable from private capitalist property, that it grows with the development of capitalism, and that the

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 19, p. 26.

only way to emancipate the working class lies in the revolutionary replacement of capitalism by socialism. The teaching of surplus-value, being scientific substantiation of socialism, is a powerful ideological weapon of the working class in the struggle against the yoke of capital.

## 5. Wages

Essence of Wages            The value of labour power, expressed in money, is called price of labour power or wages. On the surface, wages in bourgeois society act as payment for labour, and labour appears to be a commodity. This is engendered by objective conditions of the capitalist mode of production. For the worker his labour during the necessary working day serves as a means of receiving wages, though the latter express value, produced only during the necessary labour time. The worker obtains wages having expended both necessary and surplus labour. Therefore, sale and purchase of labour power takes on the form of sale and purchase of labour. Furthermore, wages may alter together with the change in the length of the working day, labour intensity, worker's skill, owing to which wages seem to be the price of worker's labour.

In actual fact, labour is not commodity since it cannot be embodied in labour itself. Labour is the substance and intrinsic measure of value, but it has no value itself. Commodity exists even before it is sold, whereas labour begins only after a deal has been negotiated. If labour is commodity, whose value is fully paid for by the capitalist, then he will extract no surplus-value, which contradicts the capitalist reality.

In fact, what stands behind wages is payment for the value of labour power. What is more, labour power is sold, as a rule, below its value. Marx wrote that "wages are not what they appear to be, namely the value, or price, of labour, but only a masked form for the value, or price, of labour power".<sup>1</sup> That is why, under capitalism wages, according to him, are a transmuted form of value or price

<sup>1</sup> Karl Marx and Frederick Engels. Selected Works in three volumes, Vol. 3, Moscow, 1976, p. 23.

of labour power. Wages veil the essence of capitalist exploitation, conceal the division of the working day into necessary and surplus time and of labour - into paid and unpaid.

In slave-owning society, even that part of the working day during which the slave's labour served to restore his vital energy seemed to be the labour for the slave-owner. Under feudalism, peasant's labour for himself is distinguished from his forced labour for the landlord. Under capitalism, even surplus, i.e. unpaid labour of wage-workers, seems to be labour paid for, and relations between workers and capitalists appear, on the surface, as relations of free and equal commodity-owners.

Being a transmuted form of value and price of labour power, wages themselves assume various forms, time-wages and piece-wages being the main types.

Time-Wages                    Time-wages reflect the hourly, daily, weekly or monthly value of labour power. Price of labour is, in this case, a specific form of expressing the value of labour power, calculated on the basis of daily price of labour power, divided by an average length of the working day. Hourly payment for labour, as a variety of time-wages, is often employed in the capitalist countries.

The analysis of the price of labour allows to see how intensification of exploitation is connected with changes in the length of the working day. Daily wages may remain the same or even grow, whereas the price of labour falls owing to the prolongation of the working day.

To arouse material interest of workers in overtime work, capitalists sometimes fix increased hourly rate for overtime, though higher pay does not make up for intensiveness of wear of labour power. Frequently, during crises in particular, capitalists shorten the working day, preserving hourly rate and correspondingly cutting down wages. Thus, capitalists derive surplus-value from workers' labour without bringing their wages to the level which would secure them the possibility of normally reproducing labour power.

Time-wages came to existence before other kinds of wages and prevailed at the initial stages of capitalist development. Subsequently, piece-wages came to be prevalent. However, over recent decades time-wages again found themselves in good graces of most capitalist countries (nearly 80 per cent of workers in the West-German and French industries, 70 per cent in the US manufacturing industry). This is connected mainly with the scientific and technological revolution, when the working pace and rhythm are conditioned by machines or the technological process rate. Thus, time-wages are combined with the forced pace of work.

So-called bonus varieties of time-wages have come to be popular, when rates of wages are differentiated depending on the degree of fulfilling the established quotas by workers or when bonuses are paid for achieving certain targets (piece-bonus system). These forms include rate-setting of labour, fixing output quotas, encouragement increments.

Piece-wages

Payment for labour power, calculated depending on the volume of output produced in a time-unit is called piece-wages.

They are a transmuted form of time-wages, only in this case expenditure of labour power is measured not by the length of working time, but by the amount of output produced. Daily output quotas and rates for each unit of produce are fixed. Piece-wages veil still more the exploitation of workers, for it seems that the capitalist pays in full to the worker for the product of his labour. Piece-wages prompt workers to raise the intensity and productivity of labour, which results in higher profits for capitalists. For this reason, piece-wages were more profitable to capitalists than time-wages.

Today, the traditional wage-systems are used less frequently, increasingly giving way to piece-bonus and many-factor systems, under which wages depend upon a number of factors: output, quality of produce, saving of raw materials, making best use of equipment. The shift to many-factor systems is conditioned by growing importance of the above factors

owing to mechanisation of production and decrease in the number of employees. Bonuses are paid for fulfilling and overfulfilling the quotas, otherwise wages are reduced.

New forms of capitalist piece-work are meant to squeeze brain and physical energy out of the worker as much as possible and intensify exploitation. Wage-forms are changed also due to the working-class struggle and the growing resistance it offers to the old, already "discovered", forms of exploitation.

Rate-setting of labour and levying a tariff on individual operations underlie various wage-systems.

Rate-setting of labour under capitalism holds as its aim maximum intensification of labour and reduction of outlays for wages per output unit, allowing capitalists to augment their profits. This is achieved by setting low rates of time for manufacturing an article and high output quotas for workers. Tariff systems in capitalist countries are an instrument of consolidating discrimination and injustice in paying wages, since they establish different basic wage-rates for men and women, for those fulfilling the quotas, and those failing to do so, for grown-ups and minors, for workers of different races and nationalities.

Modern tariff systems are marked by the division of wages into two parts - constant and "bonus". Constant, basic, part depends upon the time during which workers do their job and the magnitude of basic wage-rate, whereas the "bonus" consists of various types of increments and extra earnings. These additions depend not only on such factors as quality of work, saving raw and other materials, but also on such factors, unyielding to any scientific substantiation or determination, as workers' "zeal" and "behaviour".

#### Collective Payment and Bonus Systems

Capitalist countries increasingly introduce collective bonuses such as the system of "participation in the profits", to produce the

semblance of workers' taking part in the activity of enterprises and distract them from strikes. In actual fact, under these systems wages are divided into two parts: the basic,



which is paid regularly, and to another part, which is not regularly paid and whose rate depends upon the margin of profit and on the size of saving on production costs.

There are other collective payment and bonus systems in the capitalist countries. Workers "participate" in capital, buying stocks of a given enterprise (frequently they are forced to do so), in results of higher labour productivity through lowering the share of expenses on labour power in production costs (certain portion of economised means is distributed among workers). Like all other wage-systems these forms veil capitalist exploitation and are a means of enhancing it.

Capitalists and their ideologists employ these systems for creating illusions of community of aspirations between workers and capitalists, allegedly, taking an equal interest in raising labour productivity and profitability of enterprises. However, the class struggle of the proletariat raging in the capitalist countries proves fruitlessness of the effort to thus belittle workers' class awareness.

Nominal and Real  
Wages

Standard of wages is a vital issue from the point of view of the working-class interests. This standard is

characterised by nominal and real wages.

The sum of money the worker receives in the monetary form is called nominal wages. It is spent on the means of subsistence, rent, taxes, etc. Since prices of commodities and services do not remain stable real wages should be also considered. These represent the quantity of commodities and services the workers' earnings allow to purchase under existing price level, after tax and other deductions. Consequently, the standard of real wages depends upon the size of nominal wages, price of commodities and services, and taxes.

Climbing unemployment and its effect upon labour market, drawing women and poorly qualified workers into production, fall in demand for labour power lead to cutting down nominal wages and contribute to curtailing real wages.

Such factors as rise in prices of commodities and ser-

vices, growing taxes and rent make real wages decrease. Even if nominal wages are on the rise, real wages may fall down, provided the prices of commodities increase faster than nominal wages.

Increase in the volume of the working-class necessary requirement as society marches forward brings about higher real wages. However, the working class not always satisfies its objective requirements and only in the process of acute class struggle.

Hence, there are two tendencies in real wages movement: towards reduction and towards increase. In certain periods, particularly during economic crises and wars, prevalent is the tendency towards reducing real wages. But even under favourable economic situation real wages may fall down, particularly it concerns low-paid workers. When the bourgeoisie under the pressure of the working class is compelled to somewhat increase real wages, it tries to make up for it by greater exploitation of workers directly in the production process. One must take into consideration that drop in real wages, as well as their rise, does not necessarily cover the entire working class, but only its certain sections. This depends upon the dynamics of nominal wages. It is also important that under capitalism there exists discrimination in payment for labour of women, children and national minorities.

In the 1970s the tendency towards reducing real wages became particularly evident due to growing inflation and unemployment as well as frequent recessions in production.

Under present-day conditions, the bourgeois state, pursuing, since the 1960s, the so-called incomes policy, exercises a tremendous influence upon the standard of wages. The distinctive feature of this policy consists in the efforts to fix a limit on possible rise in wages on the basis of certain criteria, among which the principal is the growth of labour productivity.

Formally, it is conducted under the flag of regulating not only wages, but also all other types of income. In actual fact, however, wages have become the main object of the incomes regulation, whereas commodity prices and profits re-

ceived by capitalists are absolutely free to rise. In the final count, the "incomes policy" leads to the share of the working people in the national income they create falling. No wonder, this policy comes up against the ever mounting resistance of the organised working class, all progressive forces in the capitalist state.

National Distinctions  
in Wages

The standard of wages differs considerably from one country to another, the fact conditioned by numerous factors. We shall consider the main of these factors in brief.

Differing magnitude of value of labour power. As we already know, the value of labour power depends upon a number of physical, moral and historical factors. Owing to the uneven economic, social and cultural development of capitalist countries, the available level of labour intensity and the role of the historical and moral elements in various countries differ to a considerable extent. That is why the amount and character of the means of subsistence necessary to satisfy these requirements are not equal.

Varying dimensions of unemployment. In countries, where demand and supply of labour power is especially unfavourable for workers, capitalists set wages that are markedly below the value of labour power. Particularly low are workers' wages in economically backward countries. In any of them, workers bear the burden of severe national and social oppression and are subjected to national and social discrimination in payment for their labour.

Difference in levels of qualification and number of trained workers. The bigger the share of unskilled workers the lower the average national standard of wages and vice versa.

Unequal degree of the working-class organisation, political and trade-union unity of workers and acuteness of the class struggle in different countries.

To provide a correct characteristic of the standard of wages in one or another country, one must take account of some other factors, such as the working day's length and in-

tensiveness of labour. It is quite possible that nominally higher wages in one country, provided the longer working day and more intensive labour than in other countries, would be really lower than in other countries, in other words, they would be insufficient compensation for the longer working time and more intensive labour.

#### Working-Class Struggle for Increasing Wages

Capitalists do their best to reduce wages for the sake of cutting down production costs

and raising the mass and rate of surplus-value. Their efforts are also backed up by the unemployment. Hence the tendency towards a drop in wages below the value of labour power.

However, for workers wages are the sole source of their existence, of rehabilitating their ability to work. Therefore, they are fighting for raising their wages. The outcome of the struggle depends upon the balance of class forces.

Wages are one of the main economic objects of their class struggle, including their standard, ways of their calculation, methods of rate-setting of labour, fixing output quotas and wage-rates.

Today, workers in capitalist countries are fighting for increasing the minimum of wages, eliminating discrimination in wages and their indexation (ensuring the growth of wages in accordance with price rise).

The world socialist system and mounting revolutionary onslaught of the working-class and national liberation movement on monopoly capital make the modern conditions favourable for the workers' struggle. Now, workers can, by rallying round their revolutionary vanguard and intensifying the class struggle, obtain higher wages and secure the satisfaction of a number of other economic demands.

#### Criticism of Bourgeois Theories of Wages

There exists a whole set of variations of bourgeois theories of wages. Their gist boils down

mainly to depicting wages as that part of value which is created by the worker's labour and alleging that profit is produced by capital. This viewpoint arises from the above-

mentioned theory of production factors. Along with this, bourgeois theoreticians are today seeking out methods to substantiate and justify the policy of "freezing" wages. Prominence here is given to the concept of "inflation spiral of wages and prices", which postulates that increase in wages leads, by multiplying production costs, to rise in prices not only in a given branch, but also in other branches connected with it. Hence the overall price rise. Therefore workers are forced to demand new wage increases, resulting in new price rise and so on with this circuit being endless. It turns out that everything workers gain as wage-pickers they lose when they act as buyers. It follows from this concept that losers are not only workers but also other sections of population. The worsening of the working people's condition, according to bourgeois economists, results from "egoistic" aspirations of the working class, rather than from operation of economic laws of capitalism.

Advocates of this concept suggest that workers should given up their struggle for higher wages.

In his time, Marx disproved the inventions that prices of commodities are regulated by wages (see Wages, Price and Profit). In practice the wage rise affects not the level of prices but that of profits.

Another widely spread bourgeois theory is the theory of "compensation", which holds that wages only satisfy physiological requirements and they are sufficient to serve this purpose. Hence no need to fight for higher wages. As to emotional and social requirements, they should be "compensated" at the expense of such factors as "participation in the profits", "suspended payments", pensions, allowances, etc. It is a well-known fact, that all these "suspended payments" allow capitalists to use a part of wages over a certain period of time, to raise profitableness at the expense of harsher exploitation of the working class.

## Chapter 5

### ACCUMULATION OF CAPITAL. THE PRESENT-DAY POSITION OF THE PROLETARIAT

#### 1. Essence of Capitalist Accumulation

##### Simple and Extended Reproduction

In order to exist society must constantly produce material wealth; means of production and consumer goods. New goods must be produced to replace those that have been consumed. This means that social production must be continually renewed. The continuous renewal of production is called reproduction.

In this process not only the material wealth, but also labour power and relations between people (the relations of production), the relations of the given mode of social production are reproduced.

There are two kinds of reproduction: simple and extended.

Simple reproduction is the reproduction that takes place when production merely repeats itself, when the newly created means of production and consumer goods replace those that have been used up. As distinct from simple reproduction, extended reproduction is a renewal of production on an increased or extended scale. More means of production and more consumer goods are produced than the number required to replace those that have been consumed over the preceding period.

Under capitalism reproduction is simple when the functioning capital is reproduced each year on the same scale. Simple reproduction means that the total surplus-value created yearly by the labour of wage-workers, is used up by the capitalist for his personal consumption.

Analysis of simple reproduction makes it possible to expose some essential features of capitalist reproduction, which characterise its exploiter nature. It shows that (1) both constant and variable capital is not in fact the personal property of the capitalists, it is rather appropriated by them in the process of exploiting wage-workers. It follows

then that capital must belong to the workers, rather than the capitalists. This analysis also shows that (2) in the process of reproduction the workers are always compelled to sell their labour power to the capitalists, i.e. to remain wage-workers, while the capitalists remain exploiters. To put it differently, simple reproduction alone makes it possible to conclude that capitalist reproduction, as has been noted above, is the reproduction not only of the material wealth, but also of the capitalist relations of production.

As distinct from simple reproduction, under extended reproduction part of the surplus-value is used to increase the scale of production, i.e. it is added to the amount of the functioning capital. This addition of surplus-value to capital, the transformation of surplus-value into capital is called accumulation of capital.

To appropriate the maximum of possible surplus-value, the capitalists do whatever they can to intensify the exploitation of wage-workers through the capitalist rationalisation of production, by the use of more advanced technology and an "improved" system of labour organisation so as to drive the workers harder. All this is achieved through the expansion of production.

Bitter rivalry between capitalists trying to sell the commodities produced at their enterprises as profitably as possible is a typical feature of capitalism. This also compels them to expand production, as large enterprises are more competitive. It must be noted that under capitalism limited production also occurs.

Concentration and  
Centralisation of  
Capital

There are two ways of forming big capital. The first is the concentration of capital, i.e. its increase by the addition of surplus-value. The concentration of individual sums of capital increases the aggregate social capital.

Centralisation is another way of forming big capital. This is the amalgamation of individual sums of capital into one large capital. This does not increase the social capital, it being merely redistributed among the capitalists and con-

centrated in fewer hands. Joint stock companies are one form of the centralisation of capital.

A widespread way of centralising capital is the take-over or absorption of smaller, less competitive enterprises by larger concerns in the course of the competitive struggle.

Even though the concentration and centralisation of capital are different things, they are essentially interlinked and interdependent. Both lead to the formation of bigger sums of capital.

Concentration and centralisation of capital lead to the concentration of production, i.e. to an enlargement of enterprises and the concentration of the means of production, workers and output in increasingly large enterprises.

The concentration of production has a dual effect. On the one hand, it intensifies the exploitation of the working people and so enriches the capitalists, since large enterprises are better able to apply the whole system of capitalist rationalisation, aimed at the maximum intensification of labour and more effective exploitation of the workers. On the other hand, the concentration of production leads to the concentration of workers at large enterprises, and so to their rallying in powerful proletarian organisations.

Organic Composition  
of Capital

As capital expands, its two parts (constant and variable) do not increase in the same proportion.

This leads to a change in the composition of capital. There are three forms of the composition of capital: technical, value, and organic. The relation between the mass of the means of production and the number of workers employed is called the technical composition of capital. It is an indication of the equipment available to labour. The more equipment, instruments and other means of labour every worker uses and the more objects of labour he handles, the higher is the technical composition of capital.

The technical composition of capital should not be confused with the value composition of capital, which is the relation between the value of the means of production and the value of the labour power. It shows the correlation between



the conditions for the production of surplus-value (the magnitude of the constant capital) and the source of surplus-value (the magnitude of the variable capital).

The technical and value compositions are closely interconnected. When the technical composition grows, the value composition grows accordingly if the prices of the means of production and of labour power remain unchanged. As the productive forces develop, both the technical and value compositions of capital change. An increase in the technical composition of capital is reflected in a growth of the power-to-man ratio in production and in its growing mechanisation and automation.

The relation between the value of the constant capital and the value of the variable capital, determined by the technical composition of capital, is called the organic composition of capital.

The extension of the production of capital is generally attended by its capitalist rationalisation, including technical modification. As a result, the organic composition of capital increases. According to Soviet estimates, the organic composition of capital in the US processing industry amounted to 7.2:1 in 1940, 9.8:1 in 1950, and 12.6:1 in 1960.

Today, under the impact of the scientific and technical revolution, there have emerged some contradictory trends in the dynamics of the organic composition of capital. On the one hand, extensive changes in the technology of production lead to its further growth, on the other, an increased number of skilled workers employed in production and savings in fixed assets give rise to the opposite trend, viz., to a decrease in the organic composition of capital.

Factors Affecting the  
Accumulation of  
Capital

Changes in the organic composition of capital affect the creation of surplus-value because it is derived from variable capital. The share of variable capital falls as the organic composition of capital rises. The mass of surplus-value created with a capital of the same size decreases accordingly. The possibility of the capitalisation of surplus-value, i.e. of the accumulation of capital and the

expansion of production, decreases too. In these conditions capitalism's intrinsic tendency to increase accumulation breaks its way through in the following manner.

When the ratio of the surplus-value consumed and the surplus-value accumulated is constant, the amount of accumulation depends on the rate of exploitation of workers. The capitalist must therefore constantly concern himself with stepping up the rate of exploitation.

The growth of labour productivity is an important factor facilitating accumulation. A growth of productivity in the consumer industries and in industries which produce means of production for the consumer industries reduces the value of labour power. As a result, the relative surplus-value grows.

Besides, a growth of labour productivity leads to a reduction in the value of the means of production. When this reduction in value brings about a reduction in the price of the means of production, less money is spent on their purchase after the recuperation of the means of production that have been consumed in production. The money thus saved is used to expand production.

The amount of accumulation is also affected by savings in the constant capital and increases in the capital invested in production.

## 2. Capitalist Accumulation and the Formation of an Industrial Reserve Army

Relative Surplus-  
Population

We have seen that the share of constant capital increases and the share of variable capital decreases as the organic composition of capital rises.

This does not mean that variable capital decreases in absolute terms too: its absolute size grows with the growth of capitalist production.

This happens because capitalist production expands, drawing an increasing number of working people within its orbit. The proletarianisation of working people is growing in capitalist society. The working class is swelling both in absolute

and relative terms. But variable capital grows more slowly than constant capital. As a result, the demand for labour power increases in absolute terms but drops in relation to the size of constant capital and, consequently, to the functioning capital and the scale of production as a whole.

The systematic lagging of the demand for labour power behind the rate at which capitalist production grows creates a situation when quite a few workers, particularly the older generation and workers in outdated professions, and also part of the young generation, lose their jobs. Extended capitalist reproduction creates a relative surplus of workers, a relative surplus population. We call it relative because there are not too many workers in general, but there are too many workers in relation to the needs of capitalist production. Under the different social system (socialism), the growth of production and technological, organisational and economic progress do not create a surplus of workers. This system knows no unemployment. There is enough work for the entire able-bodied population.

The relative surplus population takes on a variety of forms.

First, there is a floating surplus. This one is created when workers are alternately thrown out of production and drawn back, but now in fewer numbers.

Second, there is a latent form of the relative surplus population. A large part of the latent surplus population comes from the mass of poor and ruined middle peasants. They get such meagre incomes that they are always on the verge of joining the ranks of wage-workers. Many peasants are compelled, alongside the work on their farms, to hire themselves out "on the side".

The small artisans in towns can also be included in the latent surplus population. Their low living standard continually tempts them to give up their trade and join the army of wage-workers, when conditions favour this. The part-time workers, too, belong to the latent surplus population.

This relative surplus population is called latent because the peasants and artisans have a business of their own, and the part-time workers, an occupation. In reality, how-

ever, they are part of the industrial reserve army.

The latent surplus population also includes the housewives engaged exclusively in house chores because they simply cannot find a job outside their homes. Yet bourgeois statistics count them in as employed.

Third, there is a stagnant form of the relative surplus population. This includes the section of the working class in very irregular employment. They have no regular source of income and exist on chance part-time jobs.

Finally, there is a yet lower stratum of the relative surplus population, which, as Marx said, dwells in the sphere of pauperism. "Pauperism", he wrote, "is the hospital for the active labour-army and the dead weight of the industrial reserve army."<sup>1</sup>

These are the people who have long since been ousted from production and have lost all hope of ever returning. These are the impoverished and degraded old men and women, the cripples, incapacitated workers, etc.

And then there are the vagabonds and other declassé elements, i.e. the disgusting product of capitalist society, which permeates it in abundance and is a living proof of its depravity.

Industrial  
Reserve  
Army

These strata of bourgeois society, redundant to capitalist production, are the industrial reserve army. When the capitalist needs workers, he finds them on the labour

market.

The size of the industrial reserve army is greatly affected by the use of foreign labour power. Foreign workers who have come to a particular country in search of employment offer their labour power almost for nothing. They are deprived of any right that would allow them to demand decent wages.

The constantly abundant supply of labour, including foreign, leads to competition among the workers and the de-

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<sup>1</sup> Karl Marx, Capital, Vol. I, p. 603.

sire to be the first to get a job and keep it. The capitalists use this to maintain wages at a low level for both workers newly engaged and those who are in work.

The communist and working-class movement in the capitalist countries, therefore, constantly faces the important task of strengthening the class solidarity of workers, of organising joint actions by the employed and unemployed aimed at frustrating the entrepreneurs' attempts to use the industrial reserve army to lower wages.

The industrial reserve army is not stable in its composition.

Under present-day capitalism, unemployment is mass and chronic. It increases greatly during the crises of overproduction, when production contracts, and decreases somewhat during booms. During the cyclic economic crisis that gripped the capitalist world in 1974-1975, the number of totally unemployed people in the developed capitalist countries exceeded, according to UN figures, 15 million. In the subsequent period, unemployment did not decrease either (though production grew somewhat), with the number of jobless going up each year. Unemployment reached 31 million in 1984. The monopolies often transfer labour-intensive enterprises to regions where labour power is cheap, such as the developing countries. This also results in growing unemployment.

Modern capitalism is also characterised by partial unemployment. This means that a large proportion of the labour force is employed on part-time jobs daily or weekly owing to the existence of chronically idle capacity.

Criticism of the Bourgeois  
Theories of Unemployment

Unemployment is the scourge  
of capitalist society, its  
most obvious fault. Small

wonder, therefore, that the apologists of capitalism spare no effort to absolve that system of its responsibility for joblessness.

The British bourgeois economist John Maynard Keynes, for example, looks for the cause of unemployment in people's psychology. He says that as incomes grow, people prefer to save money rather than buy consumer goods. That is why the

effective demand drops and production is curtailed. This is the way the capitalists act, too. They prefer to keep their wealth liquid, i.e. in cash, instead of using it for the expansion of production.

Keynes believes that under capitalism unemployment can be done away by taking government measures. Growth of private and state capital investments is a key, he maintains, to the attainment of full employment. Moreover, he gives preference to investments which do not increase the mass of consumer goods. War production is high on his list of priorities.

In reality, however, joblessness is an inevitable concomitant of capitalism, being the result of the operation of the economic laws of capitalism.

To save Keynes's bankrupt theory, bourgeois economists are now saying that full employment does not necessarily mean complete absence of unemployment. US economists, for example, call the unemployment of 4 to 5 per cent of the labour force in the United States "full employment".

US bourgeois economists speak now of two types of unemployment: (1) deflationary, and (2) technological. The cause of deflationary unemployment, they maintain, is an insufficient demand for labour power. Technological unemployment, they say, is caused by a disparity between the skills of the unemployed and the available vacancies. Bourgeois ideologists make a qualitative distinction between these two types of unemployment. Moreover, they argue that technological unemployment is temporary and compatible with full employment.

This artificial division of unemployment into two basically different types has the aim of making it look harmless and temporary, of concealing the inability of the bourgeois state to resolve this grave problem.

To explain unemployment bourgeois ideologists continue to fall back on the theory of the prominent British economist Thomas Malthus. He formulated the "law" of population, according to which mankind multiplies in a geometrical progression, while, owing to natural limitations, the production of consumer goods only increases in an arithmetical progression and

so lags behind the population growth more and more. He maintained that the only way to liquidate disproportion between the population figure and the mass of consumer goods produced was to check the growth of world population. For this reason Malthus and his followers considered wars and epidemics a boon for humankind because they took away many human lives.

As distinct from Malthus's eternal "law" of population, Marxism-Leninism maintains that every socio-economic formation has its own population law, which is engendered not by nature, but by the economic conditions prevailing in that society.

The capitalist law of population is reduced to the following: the accumulation of capital leads to conditions in which part of the working population inevitably forms a relative surplus, is ousted from production, loses employment and sinks into poverty.

General Law of  
Capitalist  
Accumulation

The wealth of the capitalists grows continuously with the accumulation of capital, while the position of the working class deteriorates. This is because surplus-value is the source of the accumulation of capital and all methods of producing surplus-value are at the same time methods of accumulating capital.

With the development of capitalist production the absolute mass of the proletariat exploited by capital grows, and so does the relative surplus population, the industrial reserve army. The accumulation of capital leads to a deterioration of the position not only of the unemployed, but also of the active population.

Formulating the universal law of capitalist accumulation, Marx wrote: "The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army... But the greater this reserve army in proportion to the active labour army, the greater is the mass of a consolidated surplus population, whose misery is in direct

proportion to the labour put in. The more extensive, finally, the Lazarus-layers 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>

This law is universal in the capitalist world. At the same time, as Marx explained, "Like all other laws it is modified in its working by many circumstances."<sup>2</sup> Depending on these circumstances, the forms of manifestation of this law and its action are determined by concrete capitalist realities. This should be specially emphasised because the opponents of Marxism-Leninism assert that the universal law of capitalist accumulation operates in capitalist society intermittently and sporadically, and not continuously.

### 3. Deterioration of the Position of the Working Class: An Objective Trend in the Development of Capitalism

The deterioration of the position of the proletariat, of all the working people is the most important socio-economic consequence of the operation of the universal law of capitalist accumulation and the main economic law of capitalism. This deterioration, which is an intrinsic feature of capitalism, takes on two forms: relative and absolute.

Relative Deteriorations  
of the Position of the  
Working Class

The relative deterioration of  
the position of the proletariat  
means the deterioration of its  
position vis-à-vis the growing

wealth of the bourgeoisie. Marx described this process as follows: "The condition of the workers... worsens relatively in the same ratio as the general wealth increases, i.e. as capital is accumulated."<sup>3</sup>

1 Karl Marx, Capital, Vol. 1, p. 603.

2 Ibid.,

3. Karl Marx, Theories of Surplus-Value, Volume IV of Capital, Part III, p. 335.



The relative deterioration of the proletariat's position is characterised by several indicators.

First, it is seen in the decreasing share of the working class in a country's national income and its aggregate social product.

Second, the relative deterioration of the position of the working class can also be seen by comparing the dynamics of worker wages and that of capitalist profits. As a result of the bitter struggle waged by the working people in the capitalist world, they do get their pay rises time and again. But these rises are a far cry from the growth of capitalist profits. In the United States, for example, in the period between 1950 and the late 1960s the hourly wages of workers in the processing industry increased 40 per cent, whereas the profits of the joint-stock companies grew 100 per cent. The trend continued in the 1970s. The profits of 50 biggest industrial corporations in the capitalist world went up 30 per cent between 1974 and 1979. In 1979 alone, the net profits of the biggest US monopolies increased 20 per cent. These monopolies retained the same level of profit in 1980, too, despite a slump in production. At the same time the "incomes policy", so loudly advertised in the capitalist countries, resulted in a meagre growth of the workers' nominal wages which did not exceed several per cent. Moreover, in most cases it was eaten up by inflation, resulting in an actual drop in real wages.

Third, the relative deterioration of the position of the working class becomes also evident if we compare the share of the working people in the national wealth and that of the ruling classes. In the United States, for example, 10 per cent of the population in the highest income bracket have appropriated nearly half of the national wealth. A similar situation exists in other capitalist countries, too.

The workers compare their modest living standard with the lavish life styles of the ruling classes and clearly see an immense gap dividing them.

Marx gave a graphic and convincing example, illustrating the relative deterioration of the proletariat's position. He wrote: "A house may be large or small; as long as the surrounding houses are equally small it satisfies all social demands for a dwelling. But let a palace arise beside the little house, and it shrinks from a little house to a hut. The little house shows now that its owner has only very slight or no demands to make; and however high it may shoot up in the course of civilisation, if the neighbouring palace grows to an equal or even greater extent, the occupant of the relatively small house will feel more and more uncomfortable, dissatisfied and cramped within its four walls."<sup>1</sup>

The statistics showing the relative deterioration of the proletariat's position in capitalist society are so obvious that the strains of the opponents of Marxism-Leninism to prove otherwise can only be called an open and cynical apology of the bourgeois system. This anti-Marxist position has found its most general expression in the "revolution in incomes" theory. It boils down to the following: incomes in modern capitalist society are being levelled off, i.e. the share of the high incomes of the ruling classes is falling, while the level of the incomes of the working classes is rising. In reality, however, a quite opposite trend is observed, viz., the incomes gap is growing wider and wider.

Absolute Deterioration  
of the Position of the  
Working Class

The position of the proletariat  
under capitalism is deteriorat-  
ing both relatively and absolu-  
tely. The absolute deteriora-

tion means a lower living standard of the proletariat as compared with the previous period irrespective of the wealth of the bourgeoisie.

The notion "living standard" should be taken broadly, meaning the aggregate conditions in which the working people live and work. The living standard is determined by the following factors:

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<sup>1</sup> Karl Marx, Frederick Engels, Collected Works, Vol. 9, p. 216.

First, it is the level of real wages. This depends on the level of nominal wages, prices for consumer goods and services, rent, tax burden, and the like.

Second, the workers' position depends on the level of unemployment which affects the living standard of both unemployed and employed. A working member of the family has to support the one who has lost his job even though he receives the unemployment benefit, because this benefit cannot, of course, guarantee normal life conditions. Apart from that, he must save part of his wages "for a rainy day", for fear of finding himself in the same sorry plight. The workers' wages go down because of other factors, too. The capitalists, for instance, make use of the increased supply of labour on the part of those who have lost their jobs to cut down the wages of those workers who are still in work. Unemployment, however, does not affect only the size of the workers' wages. Having lost his job, the worker also loses his skills, and his labour power disintegrates. For this reason even having eventually found a job, the worker is unable to earn his former wage and provide the former conditions of life for his family.

Third, the workers' living standard is affected by the decay of some outdated branches of the capitalist economy, which happens due to technological progress. The workers of enterprises which close down or curtail their production, lose their jobs and are no longer able to find employment in their former trades.

Fourth, the workers' living standard depends on the duration and intensity of labour. The latter factor is acquiring tremendous importance in today's capitalist society. When the intensity of work exceeds the normal, the worker is quickly exhausted physically, his nervous system breaks down and he loses the ability to control his actions. Hence the numerous cases of nervous and psychic diseases and industrial injuries, including lethal.

Fifth, living conditions are also important. The soaring rent in the capitalist world deprives many working people of a chance to have a decent home, and this negatively affects their standard of living.

Sixth, other social factors are of no lesser importance. These include the provision of health care (which is very expensive in the capitalist world), social security programmes, and the like.

Seventh, the working class' living standard is affected by the measure its cultural wants are satisfied (for example, the ability to receive an education, etc.).

And, finally, the position of the working people, including that of the workers, largely depends on the militarisation of the economy and on wars. These bring about higher inflation rates, a drastic rise in the cost of life, heavy taxes and the uncontrolled intensification of labour, to say nothing of outright starvation and a huge toll of human lives.

All these factors should be taken ~~in~~ consideration when characterising the working class' standard of living. This can fall as regards all or several indicators. In either case, however, the position of the proletariat deteriorates absolutely. Yet oversimplification should also be avoided. One should not think that the position of the working class is deteriorating in absolute terms every year, every month, and every day in all the capitalist countries at once. This process is much more complicated. Capitalism is characterised by a tendency toward a general deterioration of the position of the proletariat, including the absolute deterioration. This means that the capitalists always strive for enrichment and secure the maximum possible profit by stepping up the exploitation of the working class and lowering its living standard.

Under capitalism, however, there are factors which hamper the capitalists and act as a counteracting tendency. These are the organisation of the proletariat and its struggle for its vital rights. The example of the socialist countries, where the working people's living standard is steadily rising, is a factor enhancing this counteracting tendency. Being aware of this, the proletariat in the capitalist countries is stepping up its struggle against capitalist oppression. As a result, the capitalists are often forced to make certain concessions and satisfy the workers' demands. Due to

this, there are periods in capitalist society when the working class succeeds in slightly improving its position. But this does not remove the capitalist striving for enrichment at the expense of the worsening position of the proletariat. The capitalists, having given in as regards some indicators of the living standard, often succeed in lowering it as regards the other indicators. When the proletariat's resistance to the bourgeoisie slackens or there emerge conditions favourable for an attack on the working people's vital rights (for example, during crisis or slumps in production), the position of the proletariat deteriorates as regards most (or even all) indicators characterising the people's standard of living.

So, the deterioration of the working class' position under capitalism is not its absolute law. It is rather an objective tendency, or, to put it differently, it is an economic law of a tendency toward a deteriorating position of the proletariat. Lenin wrote: "We actually see that capitalism has a tendency to engender and increase poverty, which acquires tremendous proportions when the above-mentioned counteracting tendency is absent."<sup>1</sup>

Lenin developed Marx's teaching on the position of the proletariat under capitalism. In his review of Karl Kautsky's book Bernstein und das sozialdemokratische Programm. (Eine Antikritik) (Bernstein and the Social-Democratic Programme. An Anti-Critique), he noted two phenomena characterising the proletariat's position: (a) the growth of poverty, "physical poverty"; (b) the growth of poverty "not in the physical but in the social sense".<sup>2</sup> Both are typical of capitalism and characterise the absolute deterioration of the proletariat's position.

The absolute deterioration of the working class' position in the physical sense means a decline in the consumption of material wealth and services, a worsening of living con-

<sup>1</sup>V.I. Lenin, Collected Works, Vol. 4, p. 201.

<sup>2</sup> Ibid.

ditions, a rise in industrial injuries and diseases, a high mortality rate, etc. as compared with the previous period. This deterioration is not continuous and universal, though it happens rather frequently. As Lenin noted, it occurs in "capitalism's peripheral regions", i.e. in the dependent countries, the area of active capitalist expansion.

The absolute deterioration of the proletariat's position in the physical sense is observed in the so-called disaster areas in industrially developed capitalist countries. These are often regions where obsolete industries are located. They become such owing to progress in technology. Because of the extremely high unemployment figure, the working people in such regions drag out a miserable existence on the verge of beggary.

The Ruhr region in West Germany and the Lorraine region in France have turned into disaster areas in recent years owing to the crisis in the iron-and-steel industry. Italy's southern regions are in the same sorry plight.

The absolute deterioration of the working class' position in the physical sense is observed during economic crises and depressions. During the world economic crisis of 1974-75 this deterioration was the result of a tremendous rise in unemployment, inflation, cost of life and taxes. During these two years the cost of life in the developed capitalist countries went up 25.4 per cent on the average. In 1975 alone taxes increased as follows: 34 per cent in Britain, 27 per cent in Italy, and 12 per cent in France and Japan. The increment in nominal wages that had been won by the working people was eaten up by the price increases for consumer goods and services. During this period the food prices grew 33 per cent on the average, while the cost of health care and rents went up 27 and 33 per cent respectively. As a result, the working people's real wages dropped.

The situation in the capitalist world has not improved in our days either (the early 1980s). As has been noted earlier, in 1980 full unemployment alone reached 19 million in the industrially developed capitalist countries, which is a staggering figure indeed. In the second half of the

1970s consumer prices went up 8-9 per cent annually. In 1980, according to the Organisation for Economic Co-operation and Development (OECD), they jumped 12.3 per cent on the average. Price rises outstrip increases in nominal wages throughout the capitalist world. As a result, real wages continue to decrease. In the second half of the 1970s this downward trend was observed in the USA, France, Britain, Sweden, Finland, Norway, Spain, Canada, Japan, and some other capitalist countries.

The reactionary forces in the capitalist world, primarily in the United States, have launched an unprecedented arms race. Allocations for this purpose are increasing every year, whereas budget appropriations for social, cultural and everyday needs of the population are being cut down.

Capital's onslaught on the working people's conditions of life hits especially hard those sections of the population who are discriminated against in their wages depending on their race, nationality, sex or age. These include foreign workers and old-age pensioners whose fixed income is regularly slashed by inflation and the rising cost of life. As a result, the income of many sections of the working people in the capitalist countries is below the established poverty level. In the USA for instance, the share of these people in the population averaged 15 per cent in 1984.

Now let us discuss the absolute deterioration of the proletariat's position in the social sense. This means an absolute growing gap between the level of society's wants and the working class' living standard.

Reproduction of labour power involves consumption of a certain amount of material goods and services. In keeping with the law of growing social requirements<sup>1</sup> and as a result of the increasing intensity of labour, the normal reproduction of labour power requires that an increasing quantity of material goods, social, cultural and every-day services are consumed. Yet, as often happens, even when real wages go up and other indicators of the living standard improve, the gap

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 1, p. 106.

between the increased wants and the degree to which they are met widens rather than narrows. The complete reproduction of labour power becomes increasingly difficult and unattainable. This is what is called the absolute deterioration of the proletariat's position in the social sense.

Bourgeois economists and other opponents of Marxism-Leninism seek to prove that there is no absolute deterioration of the proletariat's position under capitalism. They even try to create the illusion that capitalist society shows concern for the good of the people. To this end they advance the demagogic slogan of improving the "quality of life" of the working people, which, they allege, is quite possible in the capitalist context. To prove this they refer to a time which was indeed characterised by a certain increase in the proletariat's real wages and an improvement of other indicators of its living standard. In the postwar period, for example, real wages in some capitalist countries did rise as compared with the prewar years. The workers began to buy more consumer goods, especially those that were the fruits of scientific and technical progress (refrigerators, radio receivers, tape recorders, TV-sets, etc.). On the strength of these facts, the apologists of capitalism began to assert that the life conditions of the proletariat, of all working people under capitalism improve rather than deteriorate. They said that capitalism was changing its nature, growing over into a new, "welfare" society for all, where there were no rich and no poor and where the living standard of all sections of the population was on a continuous rise.

But these anti-Marxist assertions were refuted by the capitalist reality. First, the working people's real wages in the capitalist world frequently drop, as do the other indicators of their living standard. Besides, rising real wages do not necessarily mean that the absolute deterioration of the proletariat's position has stopped. This process may and does take the form of absolute deterioration of the proletariat's position in the social sense. Second, the workers are waging a bitter struggle with the bourgeoisie for their vital rights and, as a result, secure by themselves certain improvements in their life conditions, such as higher wages, better



health care, education and social security. And this is not a present from the capitalists, as their supporters would want us to believe.

At the same time the working class is well aware that in order to change its position drastically, to overcome the action of capitalism's inherent law of a tendency toward a deteriorating position of the proletariat, it must combine the economic struggle against the effects of capitalist exploitation and the political struggle against its causes. What is needed, therefore, is a fundamental, revolutionary shake-up of capitalist society and its transformation along new, socialist lines.

Deterioration of the Position  
of Other Sections of the  
Working People

The law of a tendency toward a deteriorating position of the proletariat affects the other sections

of the working population, too. These are peasants, farmers, small businessmen, the lower layer of the intelligentsia and employees.

Although there are periods when their income increases, the rate of such an increase is much slower than that of the bourgeoisie's income. This means that the position of these sections of the population deteriorates relatively. But this is not all (as in the case of the proletariat). Very often their living standard decreases in absolute terms, too. These sections, just like the workers, suffer from inflation, the rising cost of life caused by soaring prices, the growing tax burden, and the like.

Peasants and farmers suffer most from the wholesale buyers of their produce, whereas small businessmen are most painfully hurt by the merciless exploitation of the big monopolies in whose bondage they often are.

The peasants, farmers and small businessmen are held in wholesome bondage by the banks. In an attempt to survive economically, they are compelled to seek bank credits and loans on pawn. As a result, their bank debts increase every year. They pay the banks exorbitant interest rates and often lose all their property. In West Germany, for example, the pea-

sants' credit debts nearly equal the aggregate sum of their annual sales. In Denmark, one third of the cost of one year's farm produce goes for paying the interest and partially settling the debts.

Besides, as often happens, the small producers who are unable to survive the fierce competitive struggle with bigger entrepreneurs, go bankrupt and join the army of waged workers or become unemployed.

As a result of the ruin of peasants and farmers, the share of those employed in agriculture in the capitalist countries is continuously decreasing. In France, for example, in the early 20th century the peasants accounted for 45 per cent of the gainfully employed population, whereas by the early 1970s the figure dropped to 13 per cent. In the United States, as little as 5 per cent of the active population worked in agriculture in the early 1970s, and the number of American farms is diminishing. According to Canada's Minister of Agriculture, no less than half of the farmers left the country's most important agricultural zones during the 1970s. In West Germany, more than 900,000 farms got ruined between the early 1950s and 1975.

The bankruptcy of small enterprises in towns has also assumed a tremendous scale.

The lower strata of the intelligentsia and office workers are no better off in modern capitalist society. As regards their property status, they are drawing closer to the working class. This is important to note because the share of such sections of the working people in the total able-bodied population in the capitalist world is continuously going up. The Industrial Institution in Köln (West Germany) forecast that in 1985 the share of office workers in the total number of wage-workers in industry will reach 45 per cent, whereas in 1990 the figure will be 54 per cent.

The real income of these sections of the population is increasingly affected by growing unemployment, alongside the above-mentioned inflation, higher cost of life and heavy taxes. Joblessness is especially widespread among the youth who have graduated from higher educational establishments. Intellectuals and office employees suffer from various dis-

criminary measures, such as Berufsverbot practised against the progressive-minded intellectuals in West Germany.

#### 4. Historical Tendency of Capitalist Accumulation

The accumulation of capital is a deeply contradictory process. On the one hand, it is a source of progress in production, of the growth and improvement of the productive forces of capitalist society. On the other, it is attended by the greater exploitation of the working people, the growth of unemployment, the worsening of the position not only of unemployed, but also those employed.

This feature of capitalist accumulation engenders a historical tendency in capitalist development, which boils down to this: by developing production, capitalism digs its own grave and nurtures the grave-digger- the revolutionary proletariat.

Socialisation  
of Production

Greed impels the capitalists to expand production on the basis of the accumulation of capital, its concentration and centralisation. Growing capital, while expanding the sphere of exploitation of wage-labour, introduces better and better means of production and concentrates them at large enterprises. These means of individual labour now become the means of collective, social production, while the degree of the socialisation of labour grows. Wage-labour power, as well as the means of production, are increasingly concentrated at enterprises that grow bigger.

The growth of production goes hand in hand with the extension of the social division of labour. Enterprises become increasingly specialised. Their mutual links expand, and the branches of the economy become increasingly interdependent. Countries that were once isolated, are drawn into the world capitalist economy. The commodities produced by society, once products of isolated enterprises, become products of social labour. Production becomes a social process.

Exacerbation of the  
Contradictions of  
Capitalism

The results of production continue to be privately appropriated. The material wealth does not belong to its real creators, the working

people, but to the exploiting minority. The private capitalist form of appropriation (private capitalist property) clashes more and more with the social character of production. There emerges and grows more acute a basic contradiction of capitalism, viz. the contradiction between the social character of production and the private capitalist form of appropriation. The capitalist relations of production enter into the most acute conflict with the productive forces, and this fetters their further development.

Thus, by its economic laws and by the aggravation of this basic contradiction, the capitalist mode of production itself creates the material, economic prerequisites for the socialist revolution.

The process of capitalist accumulation exacerbates the contradictions between labour and capital, between the exploited and the exploiters. The expansion of production (a result of the accumulation of capital) adds to the wealth of the exploiters and brings untold suffering to the working people. This arouses their just anger. The people rise against the oppression of capital. The deterioration of the working people's position promotes greatly the class struggle in capitalist society. At the same time the concentration under capitalism of huge masses of workers at large enterprises and in workers' centres creates favourable conditions for the organisation of the working class.

The working class, being in the vanguard of the working masses and led by Marxist-Leninist parties, forms an alliance with all working people and becomes a powerful social force capable of overthrowing the bourgeois rule. The political prerequisites for a socialist revolution mature in the womb of capitalism.

The interaction between the material (economic) factors and the subjective (political) prerequisites for a socialist revolution gives birth to the historical tendency of capi-

talist accumulation, which Marx described as follows: "Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."<sup>1</sup>

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

Chapter 6  
DISTRIBUTION OF SURPLUS-VALUE AMONG VARIOUS  
GROUPS OF EXPLOITERS

As has been shown above, surplus-value is created in the process of capitalist production. It is the property of the capitalist at whose enterprise it has been created. Subsequently, however, this surplus-value undergoes a number of changes and becomes the property of other groups of exploiters, too. Most of them are also part of the bourgeois class, i.e. they are capitalists (merchants and "money" capitalists - the bankers). This is why the further movement of surplus-value includes both the relations between the capitalists and the workers and the relations between the various groups of capitalists, and also the relations between the capitalists and the landowners. The industrial capitalists "give" part of the surplus-value received as a result of the exploitation of wage-labour to other capitalists, and also to the landowners who account for a considerable share of the exploiters, especially in countries where capitalism is moderately developed and in the developing states.

To understand the mechanism of distribution of surplus-value it is necessary to consider its own movement and the movement of capital.

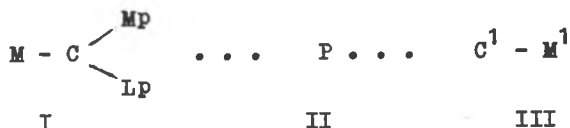
1. Circulation and Turnover of Capital

Circulation of  
Industrial  
Capital

We have discussed the process of production that gives the capitalists surplus-value. But surplus-value does not emerge as money, it is embodied in other commodities which the capitalist has to sell. To put it differently, production must be followed by circulation. The movement of capital is the unity of these two processes.

We have already mentioned the general formula of capital:  $M - C - M$ , but have not discussed it in detail.

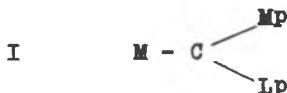
Its closer analysis shows that it takes the following form:



where M is money, C is commodity, P is production, Mp is means of production, and Lp is labour power.

This means that each capital passes through three stages in its movement.

At first, capital appears in the sphere of circulation: the capitalist buys the means of production and labour power. In our extended formula we mark this stage as I (the first stage).



Here money becomes the material and "human" factors of production. As Marx noted, money capital turns into productive capital, i.e. conditions are created for the production of surplus-value (labour power plus the means of production).

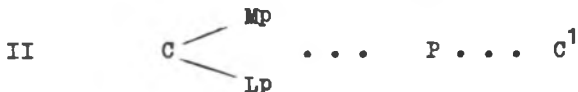
The above formula looks like an ordinary purchase of a commodity. But this is only a seeming similarity. The formula refers not to money per se, but to money capital. The money in the formula

(a) is not merely spent but advanced, i.e. it must return to its owner;

(b) buys not any commodity but only those that are required to start production; and

(c) is used by the "buyer" (capitalist) on two markets: on the ordinary commodity market where he buys machines and raw materials, and on the labour market. This is what makes the movement of money the circulation of money capital: the means of production can be bought by the peasant or artisan, whereas labour power can be bought by the capitalist alone. So, it is here that relations are formed between the owners of the means of production (capitalists) and the people who are deprived of them (proletarians).

At the next stage (stage II in our formula) the process of production takes place. The workers use the means of production and produce new commodities whose value exceeds that of the commodities bought by the capitalist.



Here productive capital turns into commodity capital i.e. a new quantity of commodities which are to be sold to reimburse the advanced money capital.

This happens at the third stage of the movement of capital. Commodity capital is again converted into money capital (stage III in our formula).



The cycle is over. As has been noted above, the capitalist has bought commodities according to their value, sold them at their value too, and yet received a surplus-value.

This consecutive passage of capital through three stages was called by Marx the circulation of industrial capital, industrial "in the sense that it comprises every branch of industry run on a capitalist basis."<sup>1</sup>

In the course of circulation, industrial capital takes on and discards certain forms, performing a specific function in each case.

In the form of money capital, it creates conditions for the production of surplus-value.

In the form of productive capital, it produces surplus-value.

In the form of commodity capital, it must sell the commodities that have been produced, i.e. convert them into new money containing surplus-value in a money form.

So, in each of its forms industrial capital performs certain functions, these forms being called the functional forms of capital.

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<sup>1</sup> Karl Marx, Capital, Vol. II, p. 50.



Turnover of  
Capital

The movement of capital is continuous,  
As soon as one cycle is over, the next one  
must start. Otherwise money ceases to be  
capital. The circular movement of capital, seen as a con-  
stantly recurring process, not as a single move, is called  
the turnover of capital.

This turnover starts from the moment the means of pro-  
duction and labour power are bought and ends the moment the  
capitalist gets back the advanced capital. It may include  
a series of circuits.

Each capitalist wants his capital to turn over as  
speedily as possible because in this case he would be able  
to use it again and again to obtain more surplus-value. This  
is why each capitalist counts how many circuits his capital  
makes. To determine how speedily capital circulates the fol-  
lowing formula may be used:

$$P = \frac{O}{o} ,$$

where "p" is the number of turnovers of the given capital,  
"O" is the number of days (weeks, months), and "o" is the  
period of the turnover of the given capital.

If, for instance, the period of one turnover of the  
given capital is 6 months, the capital makes two turnovers  
a year. (One year is a time unit for the turnover of capital.)

As regards duration, the turnover of capital (just  
like any circular movement) includes the time of circulation.

The time of production lasts from the moment the means  
of production and labour power are purchased to the moment  
a commodity is produced. This time includes two elements:

(a) the so-called working period, i.e. the period du-  
ring which the process of labour takes place or the number  
of working hours during which the worker acts on the object  
of labour; and

(b) the period during which the objects of labour  
either remain production stocks or are affected by the forces  
of nature, which is inevitable under the existing production  
process in the given industry. (For example, the working

period for making a set of furniture may take a few hours, but the wood used for its manufacture has first to be dried out and this process may, in natural conditions, take one or one and a half years).

As capitalism develops, the time of production decreases. The working period shortens as a result of the intensification of labour and the introduction of work shifts. The time required to prepare an object of labour for processing is reduced due to the use of new technological processes. (Wet wood, for instance, can be dried out in a matter of several days if high-frequency electric current is applied).

The time of circulation also consists of two parts: (a) the time needed to buy the means of production and labour power; and (b) the time needed to sell the manufactured product (commodity capital). The development of capitalism reveals two clear tendencies in the dynamics of the time of circulation. On the one hand, the development of transport and communication cuts down the time of circulation (which includes, among other things, the time of commodity delivery). On the other, the exacerbation of capitalist contradictions leads to an increase in the time of circulation (take, for instance, market difficulties connected with rising prices and the working people's falling purchasing power).

Fixed and Circulating  
Capital

The rate of the turnover of capital depends on a number of factors. The following two have special importance:

special importance:

(a) the specifics of the industry the capital is invested in. For example, the turnover of capital may last several years in the railway or canal construction, whereas this may take only a few months (in value) in the production of beer or cigarettes;

(b) the composition of capital. As we know, capital, from the point of view of its participation in the production of value and surplus-value, is divided into constant (C) and variable (v) capital.

The composition of capital from the point of view of the turnover of its separate parts, however, is quite different. The division of capital into (C) and (V) becomes meaningless. From this point of view, constant capital itself is composed of heterogeneous elements. Part of it (buildings, machines, equipment, and the like) participates in production over a lengthy period. Their natural form preserves up to their complete wear, while their value is transferred to the manufactured product gradually, part by part. (When, for instance, a machine has a 10-year life-span and costs \$ 1,000, each year 10 per cent of its cost, i.e. \$ 100, will be transferred to the manufactured product). This part of constant capital is called by economists (both Marxist and bourgeois) fixed capital.

Another part of constant capital (raw materials, fuel, auxiliary materials, etc.) is fully consumed during one cycle of production (the turnover of capital). During this one cycle its value is transferred to the manufactured product and is returned to the capitalist immediately.

Labour power, as we know, differs from raw materials and fuel. Its value is not transferred to the product, but rather is reproduced in it. Yet the value of labour power turns over just as does the value of raw materials and fuel. Upon the sale of the manufactured product the capitalist gets back the means of production advanced both for the purchase of raw materials, fuel, etc. and for the purchase of labour power.

The part of constant capital whose value is included in the manufactured product in the course of one cycle, is called circulating (or working) capital. This capital also includes variable capital.

Analysis of the specifics of the turnover of capital's separate parts makes it possible to discern some new aspects of the rate of surplus-value. Up to this point we have discussed the rate of surplus-value irrespective of the time during which it has been obtained. Counting in the new aspects, we can now introduce a new concept - the annual rate of surplus-value. This is the ratio of the annual mass

of surplus-value and the value of advanced variable capital. The value of variable capital being the same, the annual rate of surplus-value increases when the turnover of the variable capital is raised. At the same time the annual mass of surplus-value also rises.

The division of capital into fixed and circulating pertains to productive capital only. This division conceals the relations of capitalist exploitation.

## 2. Transformation of Surplus-Value into Profit.

### The Profit of Industrial Capitalists

Inasmuch as surplus-value is the result of the application of industrial capital, it becomes primarily the property of the owners of this capital. In everyday life it takes the form of profit, just as value takes the form of price.

Profit is a term which is most widespread in capitalist society. The capitalists keep their businesses for the sake of profit. But what is profit? To give a truly scientific definition of this category we have once again to consider the mechanism of producing surplus-value.

As we have seen, when starting production to receive surplus-value the capitalist invests a certain amount of money capital which he uses to buy the necessary machines, raw and auxiliary materials and labour power. This invested capital is divided into constant and variable capital, but it is the variable capital that alone creates surplus-value.

The capitalists (including bourgeois economists) do not however, recognise this division. For the capitalist, all the invested capital, whatever its composition, must yield profit. For this reason the expenditure expressed by the formula  $C + V$  is considered by the capitalist the production cost (K).

The capitalist recovers his production cost when he sells the commodity and simultaneously obtains surplus-value (M).

Essentially, profit is surplus-value. But the latter is not the result of the workers' labour which has not been

paid for, but a surplus of the commodity's sale price over and above the capital spent by the capitalist. Profit, being a category that exists in reality, conceals capitalist exploitation.

Indeed, the capitalist's expenditure (C + V) takes on a general form, i.e. it becomes an expenditure of capital irrespective of its component parts.

In this case surplus-value (M) looks like a creation of the whole sum of capital (P) - the profit.

Hence the original formula of the value of a commodity produced at a capitalist enterprise (C + V + M) assumes the following form:

$$\begin{aligned}C + V + M &= K + P \\C + V &= (K); \quad M = (P)\end{aligned}$$

The value of a commodity may now be expressed as follows:

$$K + P$$

The cost of production appears as the value of the commodity and the profit, as a surplus over and above this value, which is obtained as a result of the capitalist's resourcefulness and initiative, as a creation of the whole sum of capital.

Marxist-Leninist political economy recognises the category of profit. But it does not stop at that; it lays bare the essence of this category. It defines profit as a transmuted, i.e. concealed, form of surplus-value hiding its true source.

Rate of Profit. Factors that Determine the Rate of Profit

The capitalist does not care where to invest his capital, what part of it he should spend on machines and raw ma-

terials and what part should go for buying labour power. Most important for him is the profitability of his investment, which is measured by the rate of profit. The latter is the motive force behind capitalist production. The capitalist produces only that which yields profit, and as long as it does so.

The rate of profit is the ratio of the surplus-value and the entire advanced capital (and not the variable capital). This may be expressed as follows:

$$\frac{M}{C + V} \quad \text{or} \quad \frac{P}{C + V}$$

The formula of the rate of profit and the formula of surplus-value differ both quantitatively and qualitatively.

Quantitatively, the rate of profit is almost always less than the rate of surplus-value. Indeed, these two categories may only be equal quantitatively in one case, viz., when the constant capital is zero.

$$\frac{M}{V} = \frac{M}{C + V}, \quad \text{when } C = 0$$

Of course, this is quite conceivable. For example, merchants in South-East Asian or Persian Gulf countries often hire pearl fishers, giving them nothing - not even a knife to open shells or protect themselves from sharks. But this is not typical of capitalism as a whole.

More important is the qualitative difference between the rate of surplus-value and the rate of profit.

The former, as we have seen, expresses the rate of exploitation or the proportion in which the product of the labour of the waged worker is ~~divided~~ between him and the capitalist.

The rate of profit indicates the lucrativeness (profitability) of the capital investment, i.e. it shows how many units of profit the capitalist will receive over one year for each, say, hundred of the invested capital. (It should be remembered that both the rate of profit and the rate of surplus-value are relative magnitude expressed in per cent).

This is why each capitalist keeps his eye on the rate of profit he receives.

The rate of profit (profitability) of a capital investment depends on four factors.

First, it is affected by the rate of surplus-value or, to put it differently, by the degree of exploitation of the wage-workers. This can be easily proved arithmetically.

Case 1.  $K = 100 (80C + 20V)$ ;  $M^1 = 100\%$

It means that  $M = 20$   $\frac{20 \times 100}{100} = 20\%$

Case 2.  $K = 100 (80C + 20V)$ ;  $M^1 = 200\%$

It means that  $M = 40$ , therefore  $\frac{40 \times 100}{100} = 40\%$

In the second case the capitalist uses his capital twice as profitably as he does in the first case.

Second, the rate of profit depends on the organic composition of capital. Strange as it may seem at first glance, the higher the organic composition of capital, the lower the rate of profit. Indeed, take the following examples.

Case 1.  $70C + 30V$ ;  $M^m = 100\%$ , i.e.  $M = 30$

then  $\frac{30M}{70C + 30V} = 30\%$

Case 2. The organic composition of capital increased  $80C + 20V$ ;  $M^m = 100$ , i.e.  $M = 20$

then  $\frac{20M}{80C + 20V} = 20\%$

It will be recalled once again that surplus-value is created by the variable capital only, and not by the whole capital. This means that a decrease in the share of the variable capital in the social mass of capital results in a drop of the invested capital that creates surplus-value.

Third, the rate of profit depends on how much constant capital is saved. An increase in the constant capital results in a drop of the rate of profit. This impels the capitalist to look for ways and means of saving this capital. The goal is attained by increasing the productivity of labour, which decreases the cost of the means of production and, consequently, the capitalist's expenses for the constant capital. Besides, the capitalist saves on the safety of labour and cuts down his expenses for the constant capital by refusing to improve the conditions of work. (For example, he may not improve the ventilation and lighting systems, may not put

up protective railings around the moving parts of machine-tools, and the like). In recent years the capitalists are trying to save on environment protection measures. By doing so, they increase the rate of profit at the expense not only of "their" workers' health, but also of the health of the whole population on this planet.

Fourth, the rate of profit depends on the rate of the turnover of capital. The higher the rate of capital turnover, the bigger the mass of the surplus-value the capitalist receives without increasing the size of his capital (the other conditions staying the same).

Competition. Formation  
of Market Value and  
Average Profit

As has been repeatedly noted  
in this textbook, both simple  
commodity production and the

capitalist mode of production are characterised by fierce competitive struggle. Political economy distinguishes between two types of competitive struggle.

There is, above all, competition between various enterprises producing one and the same commodity or belonging to one and the same branch. This competition within one branch involves struggle for better conditions of production and marketing and, consequently, for bigger profits. It has been noted in Chapter 2 (in the section discussing the size of a commodity's value) that the individual values of one and the same commodity produced at different enterprises may vary. In each case the individual value depends on the technology, the organisation of production, etc. But the market value of a commodity depends on the average (rather than individual) conditions of production, i.e. on the conditions prevailing at the enterprises that produce the overwhelming mass of the given commodity. Enterprises with the individual value lower than the market value will receive extra surplus-value which, superficially, takes on the form of super-profit. This is actually what impels the capitalist to take every possible measure to improve his production, introduce new technology, etc.

On the other hand, enterprises with the individual value higher than the market value sustain losses and often go



bankrupt unless their owners take measures to remedy the situation.

The competitive struggle between capitalists for a more profitable investment of capital, i.e. for a higher rate of profit, is waged not only within individual branches but also between them. Most crucial in this form of competition is the organic composition of capital within individual branches.

Under capitalism, various branches of production, just like individual enterprises, develop unevenly. In some branches the production technique develops faster irrespective of the fact (as has been noted earlier) that individual branches may have enterprises which are equipped better or worse than those in other branches. The electronic and aviation industries, for instance, have a higher technical level than do the textile or wood-working industry. This means that different branches in industry have capital that differs in its composition, which affects the rate of profit.

It is easy to see that if market prices were formed exclusively in the course of competition within one branch, capitalists in different branches would receive different rates of profit. But the law of capitalist production stipulates that equal capitals yield equal profits. This leveling-off of profit, its transformation into the average profit occurs in the course of competition between branches.

This competition compels the capitalist to invest his capital in a more lucrative branch and abandon that which is unprofitable. This results in the transfusion of capital from branches which are less profitable to those more profitable.

But the branches which are more lucrative at the given moment will attract too much capital. As a result, the production of commodities by these branches will expand and soon their supply will exceed the demand. Their prices will drop, which will bring about a decrease in the rate of profit.

Conversely, part of the invested capital will be withdrawn from the branches which are less lucrative, production

will be contracted, commodity prices will go up, which will result in an increase in the rate of profit. A reverse process will then start; capital will be attracted by the once unprofitable branches and the whole chain will repeat itself. This flow of capital from one branch to another is continuous.<sup>1</sup>

It is this flow of capital from one branch to another that levels off the rate of profit in different branches, bringing it to the average level. This means that all capitalists will obtain approximately equal profits on equal sums of capital.

The formation of the average profit is accompanied by redistribution of the surplus-value between the capitalists who have invested in different branches of industry. Those who have invested in branches with a low organic composition of capital, where the rate of profit is higher, will lose part of the surplus-value produced by their workers. But those who have invested in branches with a high organic composition of capital, will obtain not only all the surplus-value produced by their workers but also part of "somebody else's" surplus-value.

The formation of the average profit and the rate of profit may be presented as follows (assuming that the degree of exploitation in the branches under discussion is 100 per cent):

	Capital K	Surplus- value M	Rate of profit in the branch $\frac{M}{C + V}$	Average rate of profit Pa	+ or- in the branch
Branch A	90C+10V	10	10	20	+10
Branch B	80C+20V	20	20	20	±
Branch C	70C+30V	30	30	20	- 10
All capital	240C+60V	60	-	20	±

<sup>1</sup> Later on we will see that the situation is somewhat different under monopoly domination. The monopolies hamper to a certain extent the inflow of capital to the branches they have taken over. Yet this inflow is not checked entirely, it is only hampered.

The redistribution of surplus-value and the formation of the average profit result in that many commodities are sold not at their value but at a price which guarantees reimbursement of the cost of production (K) and receipt of the average profit (Pa).

This price is called the production price. In our example it will be  $120 - (100K + 20Pa)$ . The price of production is a transmuted form of value.

Qualitatively, it includes the same components as does the value of a commodity (C + V + M).

Quantitatively, in each particular case the price of production may not coincide with the value (in our example it coincides with the value in Branch B only). But under simple commodity production, too, commodity prices may not coincide with their value when demand and supply do not coincide. Yet on the scale of society as a whole the sum of production prices equals the sum of produced values.

The redistribution of surplus-value and the formation of the average value and production price show that all capitalists want the total mass of surplus-value to increase, this value being directly dependent on the degree of workers' exploitation.

This is why the workers are exploited not only by the capitalists they work for, but also by the entire capitalist class. Therefore, it is not individual workers who confront individual capitalists, but the working class as a whole stands opposed to the entire class of capitalists.

Hence the important political conclusion: the liberation of the working class can only be achieved in the struggle against the whole capitalist class, for the liquidation of capitalism as a mode of production, for the liquidation of the system of capitalist exploitation.

### 3. Commercial Capital and Commercial Profit

Part of the surplus-value is appropriated, alongside industrial capitalists, by commercial capitalists (or capitalist merchants).

Commercial  
Capital

Commercial capital functions in the sphere of circulation (not in the sphere of production). This includes wholesale, retail, export, import and other forms of trade. Commercial capital is the most ancient form of capital, which was in existence long before the advent of the capitalist mode of production. It existed in the age of slavery and in the age of feudalism. Today, too, the merchant is the first capitalist every man or woman living in a capitalist country gets to know in his or her practical life.<sup>1</sup>

Under capitalism, commercial capital is the part of capital which separates off from the industrial capital to service it. A kind of labour division sets in between industrial and commercial capitalists. The industrial capitalist reserves for himself the sphere of production, relegating all the trouble for marketing the commodities he produces to the merchant. Industrial capitalists sell their commodities to traders in big lots, wholesale, while the latter deliver these to consumers independently.

This specialisation offers the industrialists certain advantages. It makes it possible for them to cut down the time and expenses when delivering their commodities to the consumer and to invest all the available money in production. They increase thereby their productive capital and hence their profit.

Circulation  
Costs

To organise his activity the trading capitalists advance some capital to buy commodities from the industrial capitalists, to build and keep shops, warehouses, etc. and to pay the trading workers. These expenditures of capital are known as circulation costs. In their mass they create no surplus-value. Yet they enable the trading capitalist to participate in its distribution and to appropriate a certain part of it.

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<sup>1</sup> Of course, this does not refer to small traders who keep tiny shops, employ their own family and themselves buy goods for their shop from big trading capitalists.

There are two types of circulation costs. The first includes the costs directly related to the purchase and sale of commodities, advertising, marketing and other purposes (we have dealt with them earlier). These expenditures do not raise the value of a commodity and are compensated by the consumers. They are partially compensated out of the surplus-value created in the sphere of production. The other part is compensated out of the workers' wages and employees' salaries and the income of smaller traders.

The second type of circulation costs relates to circulation proper, being a continuation, as it were, of the process of production in the sphere of circulation. These are expenditures connected with sorting out the commodities, their processing and finishing, transporting, storing and packaging. They do not relate directly to commodity production and exchange proper. Any society, irrespective of whether there exist commodity-money relations or not, has to spend labour and material values on such operations. These costs, called added costs in Marxist-Leninist political economy, increase the value of a commodity, are added to the value created in the process of production.

#### Commercial Profit and Its Sources

The trading capitalist seeks to obtain profits no smaller than those received by the industrial capitalist, otherwise he would have invested his capital in production rather than commerce. But if this really happened, the industrial capitalists would find themselves on the losing side. They would be forced to exclude part of their capital from production and engage personally in the marketing of their commodities. This is why they have found it harmless to divide their profits with the traders, i.e. to concede part of the profit obtained at their enterprises.

This means that the source of the commercial profit is the surplus-value created by the workers in the process of production. Part of it is "conceded" by the industrialists to the capitalist traders. This in turn signifies that the trading capitalists indirectly participate in exploiting the industrial workers.

It must be noted that the word "concede" is in inverted commas intentionally, to show that surplus-value is distributed between industrial and trading capitalists in the course of fierce competitive struggle, which is a component of the competition between branches. There is a flow of capital not only between various branches of industry, but also between industry and trade. The traders, too, have to engage in competitive struggle.

As has been noted above, commercial capital indirectly participates in the exploitation of the industrial workers. But this does not exhaust its exploiter role. Commercial capital directly exploits the workers and employees engaged in trade.

Yet this exploitation is specific because the trade workers and employees create neither value nor surplus-value. They merely realise the value and surplus-value created by the industrial workers. In the course of this realisation, however, they enable, through their labour, the trading capitalist to appropriate part of the surplus-value created in industry. Their working day is also divided in the necessary and surplus - parts. During the necessary time they "earn" their salary, whereas during the surplus time they realise (sell) commodities for the trading capitalist for nothing. The position of the people employed in trading is, therefore, determined by the laws of capitalist exploitation (as is the case in industry).

Commercial capital, especially in the developing countries, also exploits small commodity producers, such as peasants and artisans. Acting as a middle-man between these and the consumers of the commodities they produce, the trading capitalist buys commodities from peasants and artisans at a price lower than their value and sells them to consumers at a price equal or higher than their value. The difference is appropriated as a commercial profit.

#### 4. Loan Capital and Credit Relations Under Capitalism

Origins of Loan Capital  
and Its Characteristic  
Features

Another group of capitalists  
participates in the distribu-  
tion of the surplus-value

created by the wage-workers.

These are the owners of "free" money capital. Due to a number of reasons, they do not use it themselves and loan it to capitalists active in industry, agriculture, construction, trade, etc. (the so-called functioning capitalists), receiving in return part of the surplus-value created there in the form of interest.

Loan capital, or interest-bearing capital, is, together with commercial capital, one of the most ancient forms of capital which existed long before the emergence of capitalism as usurious (money-lending) capital.

Money-lending capital is still widespread, especially in the developing countries that have chosen the capitalist path of development. It expressed (and still does) the pre-capitalist relations of production. Its clientele are poverty-stricken small producers who are mercilessly robbed because of the exorbitant interest rates they have to pay. (In some countries this rate is 100 per cent a year or even more.) So, the source of the usurious interest is the surplus labour of artisans and peasants. Money-lending capital played (and still does where it exists) an exceptionally negative role. Apart from bringing ruin and poverty to small producers, it hampers the development of the national economy. People who have money prefer lending it out at a usurious interest to investing it in production.

Under capitalism money-lending capital disappears from the scene of capitalist relations, being replaced by loan capital, i.e. the capital the capitalist owner loans to the functioning capitalist. The latter uses it and receives a profit, part of which he returns to the money owner as interest.

Loan capital emerges because each capitalist always has a free sum of money he cannot use at the moment to produce surplus-value. But if money does not circulate (remains immobile), it ceases to be capital. To avoid this the functioning capitalist loans the free sum.

Loan capital is a commodity which can be sold. Its "price" is the interest the money capitalist receives for his loan. Loan capital is the most parasitic form of capital. The formula of its movement  $M - M^1$  itself creates the illusion that money is able to produce profit in the same way an apple tree bears apples. Although loan capital expresses primarily the relations between the functioning and money capitalists, it also expresses the relations between the loan capitalists and the workers. The loan capitalists also exploit the wage-workers.

Interest and the Profit  
of Enterprise

The use of loan capital entails payment of interest. Its source is again surplus-value

because the functioning capitalist pays off the interest out of the profit he receives. So, the average profit obtained by the functioning capitalist when he uses not his own capital but that he has loaned, splits up into interest and the profit of enterprise. Interest is a payment for the capital (property), a remuneration for owning the capital, whereas the profit of enterprise is a remuneration for the activity of the functioning capitalist, the capitalist's "salary".

The profitability of loan capital is measured by the interest rate, which is the relation between the sum of the income obtained on loan capital and the size of the capital obtained as a loan. If, for instance, one capitalist loans another the sum of \$ 100 on condition that in one year's time he pays back \$105, the interest rate will be  $\frac{5}{100} \times 100 = 5\%$ .

Similar to the rate of profit, the interest rate is calculated on the basis of annual income.

Theoretically, the rate of profit is the higher limit of the rate of interest. Practically, however, the interest



rate never reaches this upper mark. Indeed, the capitalist loans some money capital to use it to make profit. But if he returns his entire profit as interest, the whole operation becomes meaningless. Again theoretically, the lower limit of the interest rate is zero. Practically, however, the capitalist never loans his money for nothing and, in the worst case, prefers to keep it.

In practical life the interest rate fluctuates between its higher and lower limits and depends on the supply of loan capital and the demand for it.

If business is good, the capitalist seeks to expand production, using not only his own but loan capital as well. In this case the demand for money capital increases and the interest rate goes up. When business is bad, however, the need for money is not so great because the capitalist does not want to run the risk of expanding production. The demand for money capital diminishes and the interest rate goes down.

In the setting of paper money circulation (Marx, as is known, based his theory on the gold circulation), the interest rate is also affected by the rate of inflation. Indeed, the capitalist will not offer his free money funds at a, say, 5-per cent annual interest rate if the national currency devaluates, for example, by 7 per cent annually. This is why our time is characterised by a growing interest rate despite the fact that the capitalist world lives through a period of recession, in some countries production is at a standstill, while in others it is even curtailed.

#### Capitalist Credit and Its Forms

Capitalist credit is a form of movement of loan capital. There are two types of capitalist credit: commercial and banker's.

Commercial credit is given by one functioning capitalist to another when selling commodities. For example, one capitalist producing steel sells it to another who owns a machine-building plant and uses this steel to make machine-tools. The latter does not pay back the money due immediately but does so after, say, 6 or 8 months. This is, actually, a credit deal. When its term expires the capitalist debtor pays back the cost of the steel plus interest.

The second type of capitalist credit, banker's credit, is given by money capitalists to functioning capitalists. It expresses the movement of capital in its direct or pure form.

In the overwhelming majority of cases money capital finds functioning capitalists through banks which act as an intermediary. Banks are capitalist enterprises functioning (like all the other capitalist undertakings) to obtain profit. The pride of place among the many types of banks (banks of circulation, mortgage banks, etc.) is occupied by commercial banks which form the basis of the capitalist credit system. It is through the intermediary of these banks that the banker's credit now under discussion is extended.

The banks collect the capitalists' temporarily free money and also the money savings of the other classes in bourgeois society and convert it into capital. The banks pay interest to their depositors. The money thus collected is loaned by the banks to the functioning capitalists. For these transactions they charge interest whose rate is higher than that they pay to their depositors. The difference between the interest rate paid to the depositors and the interest rate charged for the loans makes up the banker's profit.

Credit plays an important role in the development of capitalism and in the exacerbation of its contradictions. On the one hand, by accumulating temporarily free money sums and converting them into capital, credit facilitates the development of production, construction of new enterprises, etc. On the other, credit engenders and enhances disproportions in the capitalist economy, stimulates profiteering, creates an illusory demand for commodities and exacerbates economic crises.

#### Joint-Stock Capital

The separation of the owners of capital from those who use it (Marx called in the separation of capital-property from capital-function) brings about a new type of capitalist enterprises, which is dominant at the present stage of capitalist development. These are joint-stock companies. The capital of a joint-stock company does not belong to any one capitalist. This is a collective capitalist enterprise belonging

to a group of capitalists - the shareholders.

Each participant (shareholder) is a co-owner of the joint-stock company. He invests a certain amount of capital, which becomes part of the whole capital of the enterprise, and receives shares in exchange. These are securities certifying that their owner has invested a certain sum in the given enterprise and is entitled to receive a specific share of its income. The part of the income of the joint-stock company which is to be distributed among the shareholders in accordance with their invested capital is called dividend.

Formally, the joint-stock company's supreme body is the general meeting of the shareholders, where each participant has as many votes as he possesses shares. (For example, a \$100-worth share gives one vote. The owner of, say, 100 such shares will then have 100 votes). This peculiarity of a joint-stock company enables the capitalists who hold most of its shares (the so-called controlling block of shares) to have full control over the company and use at their own discretion the huge sums of capital belonging to the smaller shareholders.<sup>1</sup>

The shares of bigger companies are freely sold and bought on a special market called the stock exchange. But they are sold there not at the price indicated on the share and called the nominal price but at the so-called market price which depends on the dividend obtained for each share and the rate of interest paid by the banks to their depositors.

Indeed, if the owner of a share having the nominal price of \$100, which brings him a \$10 dividend annually (10 per cent of the nominal price), wants to sell it, he will do so at a price which, if deposited on a bank account, will yield him the same \$10. If the bank pays 5 per cent on a deposit, then

$$\frac{10}{5} \times 100 = \$ 200$$

This will be the selling (market) price of the share, although, as has been noted earlier, the price put on the share is \$100.

<sup>1</sup>For more details, see Chapter 8 of this textbook, specifically the section dealing with financial oligarchy.

Marx called the market price of shares capitalised dividend.

Shares and other securities (bills of exchange, bonds, etc.) are capital for their owners only. This is not real but fictitious capital. Real capital is the value invested in production and bearing surplus-value. Real capital is embodied in plants, mines, factories, and the like, whereas shares and other securities are merely paper replicas of real capital. The value of real capital remains the same irrespective of whether the market price of shares increases or decreases.

### 5. Capitalist Ground Rent

Under capitalism, alongside the industrialists, merchants and bankers, there exists another group of exploiters - the land-owners. They receive "their own" part of surplus-value in the form of capitalist ground rent, which is the part of surplus-value paid by the capitalist tenant to the land-owner for the right to use the land.

Emergence of  
Capitalist  
Rent

Capitalist ground rent emerged on the basis of feudal rent. With the development of feudal money rent, the possibility arose for some peasants, dependent on the feudal lord, to pay him a ransom and become independent small commodity producers, while the majority of peasants fell into ruin and had to sell their tools, their means of labour, and livestock. The changed relations between the feudal lord and the peasant who had paid his ransom at first took the form of a lease which entitled the peasant to till his land mainly to satisfy the needs of his family. Later a group of well-to-do peasants emerged, who became tenant-entrepreneurs. They rented land from the feudal lords, hired hands to till it and produced agricultural produce mainly as a market commodity. Some capitalists also rented land and invested their capital in agriculture for profit. A tenant obtained a definite profit after the sale of the produce. Part of that profit went to the landlord for renting the land. That part is called capitalist ground rent.

As a rule, the big landowners lease their land to the peasants or capitalist tenants. Therefore, as distinct from industry with its two opposing classes, three classes form in capitalist agriculture<sup>1</sup>: the landowners, the capitalist tenants, and the wage agricultural workers. Capitalist ground rent expresses the economic relations between these three classes.

The ground rent is paid to the landowner in the form of the rent (rental) for the land. This may include, in addition to the ground rent, the depreciation of the buildings, waterworks and the like on the rented land. In other words, quantitatively, the rental may (and does, as a rule) exceed the ground rent proper. The latter is the part of the surplus-value that exceeds the average profit on the capital invested by the tenant. Where does this surplus come from?

#### Differential Rent

Differential rent is a specific type of surplus profit (extra surplus-value). As distinct from the excess profit made in industry, in agriculture it is not a temporary, but a constant phenomenon; it is appropriated not by the capitalist, but by the landowner.

This is because land, the specific means of production, plays the key role in agriculture. Land differs from other means of production, such as machines, equipment, raw materials and fuel, in that the amount of land in a country (and even on the planet) is limited. Moreover, it is divided into good, average and poor land. This gives rise to a specific monopoly of land as an object of economy. Since social development makes growing demands for agricultural products, while the area of good and average land cannot be increased indefinitely, poor land is also included in production. For this reason the prices of farm produce, unlike the prices of industrial articles, are determined not by average conditions, but by the production conditions on the poorest land.

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<sup>1</sup> The agrarian relations between the landowners and the peasants, in the developing countries in particular, will be dealt with in Chapter 12 of this textbook.

Capitalist farmers who rent good or average plots in their fertility or location will derive higher profits from the same capital outlay as compared with others who work poorer plots. The excess profit, the profit over and above the average profit, is appropriated by the owners of the best and average land, the big landowners, in the form of differential rent.

Differential rent forms irrespective of whether the land is privately owned or not. When the land belongs to the state, it is the state that collects the rent.

Capitalist differential rent is a variant of excess surplus-value. Like all surplus-value, it is created by the labour of wage-workers. The labour of agricultural workers on more fertile land is more productive than it is on less fertile land. Therefore it creates a bigger mass of surplus-value.

Differential rent exists, alongside agriculture, in the mining industry and construction. Indeed, the price of oil, coal and other minerals is determined by the worst conditions of their extraction. It is believed that the extraction of oil, for example, is hardest of all in Texas (USA). It follows then that the Middle East countries obtain a huge differential rent. In the field of construction this rent depends on the siting of the building which is being erected. The burden of differential rent is especially heavy for city dwellers, specifically those living in the downtown of big cities. The house rent or the price of an apartment or a house there are much higher than those in the suburbs.

Differential rent may be received not only by the big landowners, but also by peasants who own land near towns or have extremely fertile plots. Such peasants sometimes quickly become capitalist entrepreneurs themselves.

Absolute Rent            In our analysis of differential rent we assumed that when the tenant of the worst plot of land sells his farm produce, he recovers only the production cost and average profit, i.e. that he does not pay ground rent and has no source for its payment. Actually, however, no landowner will allow a tenant

to work even his worst land for nothing.

This means that the tenant of the worst plot of land must also make some surplus over and above the average profit to be able to pay his rent. Otherwise renting the worst land will be economically unprofitable. Such land would be excluded from the economic turnover, agricultural production would decrease and no longer satisfy the demand. As a result the market prices for food would grow and when they exceed the social price of production, the entrepreneur would be able to rent also the worst land, since the price of production on it would not only return his production cost and yield the average profit, but would also provide a surplus profit which he could pay to the landowner as rent. The rent derived by the landowners from the worst of the plots of cultivated land (and hence from all other plots, irrespective of their fertility and location) is called absolute rent. The source of that rent is the excess surplus-value over the social price of production for agricultural produce. This excess surplus forms as follows:

In industry, the free competition between branches leads to the unobstructed flow of capital from one branch to another, so that the same sum of capital will yield an approximately equal (average) profit. In agriculture, however, there is a monopoly of private ownership of land<sup>1</sup>, which obstructs the flow of capital from industry to agricultural production. To be able to invest capital in agriculture the functioning (active) tenants must first be ousted, and, what is more important, rent has to be paid even for the worst land under cultivation.

Owing to the monopoly of private ownership of land, the prices of agricultural produce rise to a value determined by the conditions of production on the worst plots of land.

Absolute rent is the excess of the value of agricultural produce over the social price of production. It is created by the labour of wage agricultural workers as a result of the

<sup>1</sup> It has been noted earlier that the emergence of monopolies obstructs the free flow of capital from one branch of industry to another.

lower organic composition of capital in agriculture as compared with industry, and is appropriated by the landowner owing to the monopoly of private ownership of land.

It is a tribute capitalist society has to pay to the big landowners.

Price of Land            The existence of ground rent makes land an object of sale and purchase. In other words, land acquires a price, though it has no value because it is not a product of human labour. What is then the price of land?

The landowner treats his land as a source of profit, the land rent. When selling a plot of land, he fixes a price on the basis of the rent he receives. The landowner will demand for the land he sells the sum of money capital which, on being deposited in a bank, will bring its owner an income in the form of interest equal to the land rent. So, the price of land depends on two factors: the ground rent and the interest rate.

Let us assume that a plot of land gives its owner an annual rent of \$1,000 and the banks pay a 5 per cent interest rate. The price of the plot will then amount to \$20,000, because it is this sum which, on being deposited in a bank, will bring its owner an annual income of \$1,000.

This gives us ground to conclude that, essentially, the price of land is capitalised rent, i.e. the rent transmuted into money capital which brings profit in the form of interest.

While private ownership of land has nothing to do with the formation of differential rent and only influences its distribution, matters stand differently with absolute rent, which exists because of the monopoly of private ownership of land.

Hence the nationalisation of land under capitalism would facilitate the flow of capital from industry to agriculture. The excess surplus-value created in agriculture would join the general process of the redistribution of surplus-value. As a result, the average profit in all the branches of the capitalist economy would increase. But the bourgeoisie



is not interested in the nationalisation of land: the bourgeoisie itself, above all the big capitalists, the monopolists, have acquired landed property. Besides, the basic economic interests of the bourgeoisie have become intertwined with those of the landowners. The capitalists do not dare abolish big private landownership because they fear that the growth of the revolutionary self-awareness of the proletariat may shake the very foundation of private property. The question arises: if land cannot be privately owned, why then are plants, mines, banks, and the like? This is why the bourgeoisie, especially in the developing countries, frequently looks to the feudal lords and landowners for support in the struggle against the growing democratic movement, against the alliance between the working class and the peasantry.

Specifics of Absolute  
Rent in the Industrial  
Capitalist Countries  
Today

In the postwar period, especially in the 1970s and the early 1980s, the situation in the agriculture of the industrial capitalist countries

sharply differs from that which gave Marx and Lenin the basis for their analysis of absolute rent.

First, the situation in agriculture itself has changed. The scientific and technical revolution affected agriculture on an immeasurably larger scale than industry, having introduced sweeping changes in the mode of agricultural production. For many centuries on end agriculture had been based on manual labour (despite the use of machines in some of its spheres). Today, agriculture in the developed capitalist countries has passed from the "manufactory" to the "industrial" stage of production. (Some economists compare, with a good reason, the upheaval in today's agriculture with the industrial revolution of the 18th-19th centuries).

Second, the peasant ways and attitudes have also changed. In the agriculture of the industrially developed capitalist countries there still remain two forms of private property: capitalist and petty private property. Yet the contemporary peasants and small farmers are no longer absolutely independent producers. The traditional peasant market with

its relations between direct producers and consumers has become (or is becoming) the past. Now the peasants sell most of their produce to trading and industrial companies, co-operatives, wholesalers and other intermediaries. Many operations, such as the production of fertilisers, fodder and seeds and the transportation and storage of farm produce, i.e. operations once performed by the peasants themselves, are now the domain of capitalist companies.

Third, huge agro-industrial complexes have emerged. They put under one roof agriculture and the related industries which make agricultural means of production, process and market farm produce.

As a result of all these transformations, the organic composition of capital in agriculture has sharply increased, approximating the organic composition of industrial capital. In some countries, however, it is even higher. (In the United States, for example, \$2,500-worth of machinery and equipment accounted for each worker employed in industry and \$1,400-worth, in agriculture in 1940, whereas in the early 1970s the figures increased to \$6,100 and \$8,100 respectively.)

The question arises: how can absolute rent be explained in this situation?

Different answers are given, including this one.

Progress in agriculture does reduce the burden of rent because it was based on backward agriculture. Lenin wrote: "Because of their monopolist position, they (the landowners) are able to take advantage of the backwardness of agriculture, which does not keep pace with industry, and to fill their pockets with millions and millions of dollars."<sup>1</sup> Nowadays, however, this "backwardness" does not exist in the industrial capitalist countries. In the mid-19th century the US landowners appropriated some 40-50 per cent of the income produced by agriculture, whereas now the figure does not exceed 1 or 2 per cent.

But rent, including absolute, still exists. First of all, the monopoly of private ownership of land (the source

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 95.

of absolute rent) remains. Just like any monopoly, this has its own economic form of realisation. Also important is the fact that land can still be sold and purchased, i.e. it still has a price. The price of land (as has been said earlier) is the capitalised rent, i.e. a specific "transmuted" form of rent. Once emerged, the price of land lives its own life, as it were. It puts the landowners and the owners of interest-yielding landing capital within the same bracket.

Land prices have been on the rise in recent years. Understandably so: the price of land becoming a market category, it is bound to be influenced by demand and supply. In recent years the demand for land plots has exceeded the supply. The more so, because of the inflation the owners of money look for "secure" ways of investing it. The purchase of gold and land seems to be the surest investment of all. Besides, land is being increasingly used for non-agricultural purposes (urbanisation and motorways). And, finally, big landed property increasingly fuses with the monopolies. As a result, rent comes to include some aspects of monopoly price and monopoly profit.

On the whole, the existence of the monopoly of private ownership of land and the absolute rent which is based on this monopoly, remains an instrument for exploiting the working people not only by the capitalist entrepreneurs, but also by the landowners.

#### 6. Exploitation of the Peasantry in the Industrial Capitalist Countries by the Monopolies and Bourgeois State

Monopolisation of  
Agriculture in  
Imperialist Centres

The penetration of monopoly capital into the agriculture of the industrial capitalist countries

is a novel phenomenon. The process began on the eve of World War II in the United States and in the mid-1950s in Western Europe. It marked a new stage in the exploitation of small commodity producers in agriculture.

The most widespread instrument for monopolising agriculture in the developed capitalist countries is "vertical

integration". This is a form of organisation of agricultural production when all its stages, from sowing and breeding animals to marketing farm produce, are taken over by bigger companies which either process the produce, or market it, or make means of production for agriculture. The "integrator" monopolies control the small-commodity sector (the peasantry) by way of regulating the supply of means of production and concluding contracts which stipulate the volume, price and quality of farm produce. On the basis of these contracts the monopolies specify the tiniest particulars relating to production (strains of cattle, types of fodder and agricultural machinery).

The "vertical integration" has both political and economic motivation for the monopolies. They seek primarily to eliminate the contradiction between production on small peasant farms and the highly concentrated sphere of processing and marketing their produce. Politically, the monopolies are not interested in excessively high rates and scale of expropriating peasant farms. They introduce structural changes in agriculture in order to hinder the development of the peasant movement and the growing opposition to the agrarian policy of state-monopoly capitalism, seeking to preserve the peasantry as a social pillar of capitalism.

To put it differently, the monopolies are looking for such forms of domination which would preserve the formal ownership of small commodity producers in agriculture but deprive it of any economic content. In form, this is similar to the system of sub-contracts in industry, when small entrepreneurs are actually the monopolies' "wage-workers".

The "vertical integration" is not the only form of monopolising agriculture. In addition, the monopolies set up their own agricultural enterprises, either all by themselves or jointly with industrial monopolies. Agro-industrial complexes are a specific form of such a monopoly. They control a considerable share of the production and marketing of a particular type of farm produce.

As a result, small and even medium peasant farms are squeezed out of the market. The former peasants turn into semi-proletarians or "proletarians with a plot". The process

is not novel, but today it has assumed an unprecedented scale. It is caused by the transition of agriculture from the "manufactory" to the machine stage. In the past, manual labour was predominant both in small and large-scale agricultural production. As Marx and Lenin noted, the small commodity producer was at least able to earn his livelihood by stretching his working day or exhausting his land.

At the machine stage, however, no sacrifices can improve the peasant's lot because mechanisation, electrification and "chemicalisation" of agriculture have increased the productivity of labour at big agricultural enterprises ten- or even hundred-fold. The peasant farm can no longer compete with big capitalist enterprises. The peasants are compelled to work almost exclusively for the market. This is why they are fully dependent on the market and the ratio of the cost of production and sale prices.

Exploitation of Peasants  
by the Bourgeois State

The anti-popular essence of  
the policy of state-monopoly  
capitalism toward the peasant-

ry is seen most clearly in the so-called agricultural strategy implemented by the centres of world imperialism (Japan is excluded because the food problem confronts its ruling quarters most seriously).

Before the early 1960s, the governments of the developed capitalist countries had never declared so openly that their aim was to liquidate tens and even hundreds of thousands of small peasant farms. They have advanced the official doctrine of the "viability" of peasant production. According to it, the state helps only "viable" farms, i.e. profitable in the terms of capitalism. To consolidate the capitalist relations in agriculture and introduce monopoly capital there the bourgeois state makes use not only of national but also supra-national institutions, such as the European Economic Community (EEC).

Back in 1962, the setting up of this organisation worsened the position of small peasants by shattering the then-existing system of prices for farm produce. Simultaneously, the EEC governments began vigorously to push the policy of

"liberating" the economy from the unprofitable farms by slashing or suspending the financial aid to small farmers. As a result, millions of small peasants and farmers have been ruined over the last two decades.

To sum up, under state-monopoly capitalism the small commodity producer is not driven out of agricultural production exclusively by the spontaneous forces. They are now amplified by the policy of the bourgeois state, which is deliberately aimed at liquidating an immense number of small and tiny farms. The exploitation of the peasants by the monopolies and the bourgeois state enhances their revolutionary potential and creates objective conditions for strengthening the united anti-monopoly front.

## Chapter 7

### REPRODUCTION OF SOCIAL CAPITAL AND ECONOMIC CRISES. SPECIFICS OF TODAY'S CAPITALIST CYCLES

This chapter deals with the reproduction of all social capital as the aggregate of the individual sums of capital in their interrelation and interaction. Analysis of the reproduction of individual, independent capital may prompt the conclusion that the capitalist will have no difficulty in selling his commodities and finding the needed means of production on the market, as will the worker who will also easily find the consumer goods he wants. But if we look into the dynamics of the aggregate sum of capital, we will inevitably come across the problem of conditions under which the normal process of reproduction, or the capitalist realisation of the whole mass of varied commodities, is possible. So, the theory of reproduction of social capital is at the same time the theory of capitalist markets.

#### 1. Gross Social Product and National Income

In the course of social production (during one year, as a rule) the gross social product is produced. It includes the mass of material goods and services necessary to continue the process of production. These include product transportation, its packaging, storing and maintenance, and public catering. Under capitalism this product takes on the form of commodity, therefore, like any other commodity, it has its own value and use value.

The value of the gross social product equals  $c + v + m$ , where "c" is the value of the consumed means of production (transmuted value) and " $v + m$ " is the new value created over the given period by the labour of workers and employees engaged in the sphere of material production, and also by the labour of peasants and artisans. The newly created value is called national income. It is produced in the sphere of material production which includes industry and

agriculture, construction and transport, communication and supplies, and also certain operations in commerce, retail trade and some other services. These spheres of man's activity make up the process of production proper, or are its necessary continuation. Here, the workers' labour creates value and use value, i.e. it is productive labour. The magnitude of the value of the national income ( $v + m$ ) depends directly on the number of productive workers and the duration and intensity of their work.

The services engendered by the commodity-money circulation, the personal consumption of the working people, the parasitic consumption of the capitalists and landowners, and also by the desire to preserve bourgeois class domination (the army, the police and the greater part of the state apparatus) are unproductive. The labour of those working in this sphere does not create either value or surplus-value.

As regards the composition of its use values (the physical form), the gross social product is made up of the means of production and the articles of consumption. The branches turning out products used in production again (instruments of labour, raw materials, fuel, semi-finished products) are included in Department I of social production. The means of production, as we have noted earlier, are the necessary element of labour activity. Under capitalism they are concentrated in the hands of the bourgeoisie. The branches producing various articles of consumption (foodstuffs, clothing, durables) are included in Department II.

The national income is also represented by the mass of various-purpose commodities. Its physical volume increases together with the growth not only of the value (the aggregate labour expenditure of productive workers), but also of the productivity of labour. In the latter case the cost of production per a unit of use value decreases, though the aggregate labour expenditure may not increase.

General Economic Indicators  
Used in Bourgeois Statistics

The categories "gross social product" and "national income" are based

on the Marxist analysis of social reproduction and on the



Marxist theory of productive and non-productive labour. They differ in principle from general economic indicators used both in capitalist national statistics and in the statistics of the United Nations, the Organisation for Economic Co-operation and Development and other international bodies. Bourgeois statistics make use of the following major indicators: gross domestic product, gross national product and net domestic product. This invites a comparison between these indicators and those referred to above gross social product and national income.

The gross domestic product (GDP) and the gross national product (GNP) of a capitalist country have common ground for calculation. These indicators express the aggregate volume of the end-product or relative net product (the sum of depreciation transferred from the fixed capital to the product, the wages fund and the income). In other words, the cost of raw materials, semi-processed goods, fuel and auxiliary materials is excluded from the value of the capitalist product ( $c + v + m$ ). These indicators do not include the recurrent objects of labour in the overlapping production processes (rolled steel - semi-finished steel - pipes, rails, wire). Moreover, bourgeois statistics count out the cost of produced raw materials as an independent indicator, which "dissolves", as it were, in the end-product.

At the same time the end-product includes the results of the activity of all those employed in the national economy. In doing so, bourgeois statistics fall back on the concept that all income-making types of labour (excluding those "obviously criminal") are productive. By this taken the "services" rendered by the army and police are also considered productive.

In 1983, the US GDP totalled \$3,310,000 million including the relative net product of the non-productive sphere.

The difference between the GDP and GNP is the following. The first indicator shows the overall volume of the end-product produced on the territory of the given country irrespective of the owner-country of individual enterprises. The second indicator shows the volume of the end-product controlled by corporations and individuals who are citizens

of the given country (both inside and outside the country in question). These two indicators differ little in big capitalist countries.

The net domestic income roughly corresponds to the national income. This is GDP minus depreciation. But here, too, double counting occurs because the wages and incomes both of the productive and non-productive spheres of the national economy are summed up.

The statistics of the socialist countries use the Marxist method of figuring out the basic indicators of economic growth. This is why Marxist economists who study capitalist reproduction and make global comparisons of the world capitalist and world socialist economies are hard put to it because they have to convert bourgeois economic statistics into indicators corresponding to gross social product and national income.

For the aggregate product produced in the course of one year to be realised at value and to find the consumer, all the components of the gross social product have to be in a corresponding proportion.

## 2. Simple and Extended Reproduction of Social Capital

Conditions for Realisation  
Under Simple Reproduction

Simple reproduction is the necessary component of extended reproduction typical of capitalism. In the setting of stagnation, simple reproduction assumes its direct or concrete form. When, however, a crisis sets in, reproduction is curtailed.

Marx worked out the models of capitalist reproduction in Volume II of his Capital. To simplify the analysis he abstracted himself from foreign markets, price fluctuation and growth of the organic composition of capital and assumed that the whole sum of constant capital transferred its value on the end-product and the rate of surplus-value equalled 100 per cent.

Simple Reproduction

Department I:  $4000c + 1000v + 1000m = 6000$  (by the end of the year it is composed of means of production)

Department II:  $2000c + 500v + 500m = 3000$  (by the end of the year it is composed of articles of consumption)

Realisation: 4000c of the product of Department I is realised within Department I;  
 $500v + 500m$  of Department II is realised within Department II;  
 $1000v + 1000m$  of Department I is exchanged for 2000c of Department II.

The realisation and continuation of simple reproduction are possible if

$$\underline{I (v + m) = II c}$$

The national income under simple reproduction:

$$I (v + m) + II (v + m) = II (c + v + m)$$

The chief condition for the realisation of social product under simple reproduction is the equality of the new value  $(v + m)$  of Department I, existing at the end of the year in the form of means of production, and the transferred value of constant capital "c" of Department II, embodied at the end of the year in articles of consumption. There is an objective need for exchange between these elements. The workers and capitalists of Department I must convert their incomes into articles of consumption, whereas the value of the constant capital of Department II must again be converted into means of production.

Under simple reproduction the national income created by both departments goes entirely for the personal consumption of the capitalists and workers and becomes therefore articles of consumption.

Conditions for Realisation  
Under Extended Reproduction

The prime condition for extended reproduction is the inequality:  $I (v + m) \neq IIc$ .

The changes in the correlation of the components of the diagram of extended reproduction are dictated by the need for accumulation, i.e. for the preservation, in the form of means of production, of part of the surplus-value produced in Department I.

Diagram 2

Extended Reproduction

The results of the first year:

$$\text{Department I: } 4000c + 1000v + 1000m = 6000$$

$$\text{Department II: } 1500c + 750v + 750m = 3000$$

$$500m_1 = 400m_1c + 100m_1v$$

Accumulation in Department I: 1000m (accumulation fund)

500m<sub>2</sub> (consumption fund)

The accumulation transforms Department I into the following equality:

$$4400 (c + m_1c) + 1100 (v + m_1v) + 500m_2 = 6000$$

Department I offers Department II possibilities for accumulation:

$$150m_1 = 100m_1c + 50m_1v$$

(accumulation fund)

II 750 m

$$600 m_2$$

(consumption fund)

The accumulation transforms Department II as follows:

$$1600 (c + m_1c) + 800 (v + m_1v) + 600 m_2 = 3000$$

Realisation: 4400c of Department I and 800v + 600m of Department II are realised within these departments, whereas 1100v + 500 m of Department I are exchanged for 1600c of Department II.

The condition for the realisation and continuation of extended reproduction is the proportion:

$$I (v + m_1v + m_2) = II (c + m_1c)$$

The next year starts with:

Department I:  $4400c + 1100v$

Department II:  $1600c + 800v$

Its results:  $4400c + 1100v + 1100m = 6600$

$1600c + 800v + 800m = 3200$  (the analysis can  
be extended)

The national income under extended reproduction is:

$$I(v + m) + II(v + m) = II(c + v + m) + Im_1c + IIm_1c$$

The realisation of the social product under extended reproduction shows that Department I determines the size of accumulation in Department II. This is understandable because a new production cycle, both in Department I and Department II can be started after the material factors of production have been distributed in the proportion required by extended reproduction.

The chief condition for the realisation of the social product under extended reproduction is the equality between the variable capital (the original -  $v$  and the additional -  $m_1v$ ) and the consumed surplus-value ( $m_2$ ) of Department I, which are to be converted into articles of consumption, on the one hand, and the constant capital ( $c$ ) together with its increment ( $m_2c$ ), produced by the surplus-value, of Department II, on the other.

Under extended reproduction the national income /  $(v + m)$  in both departments/ is represented, as far as its physical form is concerned, by all the articles of consumption produced during the year, plus the part of the means of production that goes for the extension of capital ( $c$ ) in both departments.

The above diagrams and conditions for extended reproduction show that the scale of accumulation in Department I exceeds that in Department II. Capitalist society, as Marx noted, "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 share of branches within Department I accounts for 60 per cent of the conventionally net product of the US industry.

Lenin analysed extended capitalist reproduction when the organic composition of capital grows, and clearly showed that in this case accumulation growth rates in the production of means of production continuously and markedly exceed those in the production of articles of consumption.<sup>2</sup>

This priority growth of the production of means of production illustrates the history of capitalist machine production. The growth of labour productivity involved a decrease in the value of a unit of product, which meant that the share of materialised labour (the transferred value of the means of production) was higher than the share of living labour (the new value). Hence the conclusion: the need for extended replacement of the used-up means of production increased at a higher rate than the need for articles of consumption.

The priority growth of the production of means of production had different rates in different historical periods. Over the last few decades, the growth rate of branches within Department I in the industrial capitalist countries did not exceed (or exceeded only slightly) those of the branches within Department II. The causes are varied, including lower prices for means of production, their higher efficiency, lower material and capital intensity of production, higher "technisation" of the consumption sphere. These factors have, however, uneven effects.

Marx's theory of capitalist reproduction shows what conditions make the process of reproduction continuous. But the theoretical analysis made by Marx and Lenin is by far not exhausted here. They reiterated that recognising the possible continuity of capitalist reproduction was not tantamount to translating abstract conditions into reality. In practice this normal course is frequently disrupted. Marx wrote: "This process is so complicated that it offers ever so many

1 Karl Marx, Capital, Vol. II, p. 442.

2 See V.I. Lenin, Collected Works, Vol. 1, pp. 104-105.

occasions for running abnormally"<sup>1</sup> Lenin pointed out that the abstract theory of capitalist reproduction and realisation must not be confused with the concrete historical conditions of realisation of the gross social product in specific countries.<sup>2</sup>

The subsequent analysis will show why breaks in the normal course of social reproduction are inevitable.

### 3. Distribution of National Income

We have seen that the national income created by the branches of material production takes on the form of articles of consumption and the means of production necessary to extend production. How is the national income distributed in capitalist society?

Primary Distribution of National Income      As a result of the primary distribution, the newly created value becomes the income of the main classes of capitalist society (see Diagram 3).

Diagram 3

<u>Distribution of National Income</u>				
Income of Productive Workers	Income of Industrial Capitalists	Commercial Income	Loan Interest	Ground Rent

State Budget  
 Payment for Services of Non-Productive Sphere

Channels of Redistribution:

Monopoly Prices  
 Inflation  
 Consumption Fund  
 Accumulation Fund

Use of National Income:

Maintenance of Armed Forces  
 Net Expenditures

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<sup>1</sup> Karl Marx, Capital, Vol. II, p. 500.

<sup>2</sup> V.I.Lenin, Collected Works, Vol.,4, p. 87.

This distribution of the national income is effected in the setting of a fierce class struggle between the working people seeking to check the tendency toward a relative deterioration of their position, and the capitalists striving to convert the results of scientific and technical progress into profit. Various groups of capitalists are also engaged in a fierce competitive struggle to rip off their share of the surplus-value.

Redistribution of National Income

The state budget is the chief instrument for redistributing

the national income. Today between 30 and 50 per cent of it is redistributed through that channel in the capitalist world. By means of taxes and loans the state appropriates a large share of the workers' wages and part of the capitalist profit. Taxes levied on the working people in the United States, for example, make up some 70 per cent of the state budget revenue. The money is used to prop up the capitalist system and increase the profits received by the big bourgeoisie. Military spendings stand high on the list of priorities in state budget expenditures in the imperialist countries. These include primarily the bills coming in from the military-industrial complexes that manufacture weapons. (In the United States, for example, arms expenditures account for close to 30 per cent of the federal budget). Budget appropriations for public education, health care, social needs and environment protection measures are at the bottom of the list.

The national income is also redistributed by way of paying for non-productive (though necessary) services. This includes payments made by the population out of their family budgets for the medical care, communal services and entertainment and contributions to public organisations.

As capitalism develops, the mechanics of fixing monopoly prices and inflation come to play an increasingly important role as a means of redistributing the national income or, to be more precise, as another tool for robbing the working people. By fixing monopoly-high prices, big capital appropriates part of the national income created in the non-



monopoly sector, i.e. by the small producer in town and the countryside, and cuts down the income of the other sections of the working people. In the setting of inflation commodity prices rise, as a rule, faster than the workers' wages. Inflation thus becomes an additional "tax" levied on the working people. The growing cost of living and dwindling real incomes bring special hardships to the "have-not" sections of the population.

Use of National Income

Once the national income has been redistributed, the final incomes of the working people, the exploiter classes and the capitalist state are formed. They are used for accumulation, i.e. for the extension of production in all sectors of the capitalist economy; for the consumption of material goods and services by the working people and the exploiter classes; for the payment of net circulation expenses; and for the maintenance of the armed forces (budget appropriations).

#### 4. Contradictions of Capitalist Reproduction and Inevitability of Economic Crises

Crises are old and chronic disease of capitalism. Since 1825 they have been recurring every 8 to 12 years, engulfing an ever increasing number of countries and thus assuming worldwide proportions. Moreover, each new economic calamity differs from its predecessor. Crises are not copies of one and the same original. Crises of overproduction intertwine with protracted agrarian crises, monetary catastrophes and (in our day) world structural crises.

Is there any way of saving capitalism from systemically recurring economic crises? Bourgeois science has been searching for remedies to cure capitalism from cyclic catastrophes for more than a century. The works by John Maynard Keynes played a special role in bourgeois economic theory and practice. He agreed that capitalism cannot automatically rid itself of crises, and therefore suggested a

system of government measures to ease their effects and then do away with them by stimulating investments and demand, introducing tax cuts for the entrepreneurs and drastically increasing government spendings. To expose the untenability of Keynesianism and other bourgeois theories of crises, the nature of such economic upheavals should first be understood and the results of capitalism's economic development analysed.

#### Causes of Economic Crises

What are the reasons behind over-production and unemployment in a society where the living standard

of the working people's masses has room for improvement? Why do the banks accumulate excessive capital while small producers in town and village are ruined and the social needs of the population are not satisfied? Let us have a deeper look into the contradictions of capitalism.

The antagonism between the productive forces and the capitalist relations of production takes on the form of contradiction between the social nature of production and the capitalist private form of appropriation. As production grows on a mass scale and its branches become closely intertwined, the economic mechanism calls for centralised management. But socially, production is fragmentary and scattered among private capitalist entrepreneurs. This deep-seated socio-economic basis of the capitalist economy finds its expression in the variety of contradictions leading directly to a crisis.

The contradiction between the relatively organised production process within one enterprise or monopoly and the reign of anarchy and competition in the economy at large serves a driving belt for the main antagonism of capitalist production and economic crises. The social division of labour and the specialisation of individual branches make it imperative that the component parts of the national economy be strictly proportionate. But the activity of individual entrepreneurs guided by the wish to make their enterprise profitable and competitive, inevitably violates the conditions and proportions necessary to reproduce and realise the whole sum of social capital.

By absolutising this cause of crises, many bourgeois economists (from the time of David Ricardo), social-reformism theorists (Rudolf Hilferding, Eduard Bernstein) and also the Russian "legal Marxists" explained crises by "disproportions". Once the disproportions are removed by way of, say, state regulation, the "evil of crises" will be uprooted.

Here we have a one-sided approach to explaining the cause of such complex a phenomenon, as the crisis.

Alongside the inevitable disproportions, capitalism is characterised by the contradiction between production and consumption which "is due to the tremendous" rate at which production is growing, to the tendency to unlimited expansion which competition gives it, while consumption (individual), if it grows at all, grows very slightly; the proletarian condition of the masses of the people makes a rapid growth of individual consumption impossible.<sup>1</sup>

Essentially, one and the same cause, viz., the striving for maximal profits, gives rise to a tendency to unlimited expansion of production, on the one hand, and limits (due to a higher degree of exploitation) the effective demand of the working people, on the other. The gap between production and consumption growth rates disrupts the conditions necessary for the realisation of social product.

A number of bourgeois and petty-bourgeois theorists separate the conflict between production and consumption from the main capitalist contradiction, from the whole system of capitalist contradictions, distort its essence and explain crises by "low demand". This concept was advanced in the early 19th century by Simon de Sismondi (Switzerland). In Russia, it was backed by the Populists. Keynes, too, adhered to it to a certain extent. Criticising the theory of "low demand", Marx and Lenin exposed the dialectical essence of the contradiction between production possibilities and effective demand under capitalism. Marx emphasised that explaining crises by a low effective demand was a tautology. Thwarting the attempts at finding the "remedy" in merely

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<sup>1</sup> V.I.Lenin, Collected Works, Vol. 4, p. 161.

increasing the working people's share in the social product, he noted that the crises of overproduction "are always prepared by precisely a period in which wages rise generally."<sup>1</sup> Lenin opposed the thesis that production and consumption are directly linked up. His analysis of the capitalist market showed that it develops due to a growing demand for the means of production and the relative independence of Department I. This proposition is of great theoretical and practical significance. Lenin proved that a growing disproportion between production and consumption ends up in a crisis only eventually and in combination with capitalism's other contradictions. He also proved that the disintegration of small-scale production does not lead to absolute shrinkage of the capitalist market and that crises cannot last forever and bring about an automatic collapse of capitalism.

The main contradiction of capitalism is socially expressed in the class antagonism of bourgeois society. The dire consequences of capitalist exploitation are especially felt during crises, the contradiction between the bourgeoisie and the proletariat becomes extremely acute, compelling the broad popular masses to rise up for struggle against the system of hired slavery.

All the contradictions discussed above are closely interconnected and interdependent, forming a system of objective factors which turn the possibility of crises into inevitability. The contradiction between the social nature of labour and the capitalist form of appropriation of its results is the deep-seated basis for inevitable crisis phenomena in the capitalist world.

Cyclic Nature  
of Capitalist  
Production

The cause of the regularity of economic crises lies in the way the capitalist contradictions operate. Disproportions and unevenness in the development of various branches and enterprises, including the chief disproportion of capitalist reproduction, viz., the gap between

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<sup>1</sup> Karl Marx, Capital, Vol. 11, p. 415.

production and consumption, accumulate gradually and are partially alleviated due to price changes and capital outflow. Once their concentration has reached its peak, quantity changes into quality and a violent outburst of contradictions, a crisis, occurs.

In the age of free competition, capitalist production consecutively passed through the phases of crisis, depression, recovery, and boom, which together formed an economic cycle.

The crisis is the main, constituting phase of the cycle. On the visible side, it is seen in the overproduction of commodities, the pile-up of their unsold stocks, bankruptcies, unemployment and a sharp decline in the living standard of the working people. "Abundance", justly wrote Charles Fourier, the famous French social utopist, "becomes a source of poverty and hardships". On the invisible side, the crisis operates as a means of resolving, in a violent way, the accumulated disproportions. Production is drastically curtailed and adapts to the existing demand. The crisis opens the way for further development of production and aggravation of the contradictions inherent in it.

The decline of production stops. Yet the economy remains stagnant for some time. The rate of profit is relatively low and the rate of interest also decreases due to the absence of appreciable demand for capital. The accumulated stocks of commodities are gradually sold out. These features characterise the phase of depression, which is a period of adaptation to the new state of the post-crisis economy.

At the same time the capitalists increasingly seek to cut down the cost of production and increase the profitability of their enterprises. A need arises to replace the fixed capital which has become obsolete morally and worn-out physically. Capitalist production enters the phase of recovery. The increased demand for the means of production stimulates the development of branches within Department I. The increased number of people employed in these branches in turn expands the market for consumer goods and speeds up the development of production in Department II. The latter also increases its demand for new means of production. Production,

as a whole, grows at a higher rate, prices and rates of profit increase rapidly and unemployment drops to a certain extent. As a rule, recovery grows over into boom. Now the scale of production exceeds the pre-crisis peak and production grows in net terms. This growth may have a very high rate and bring about the minimum (within the given cycle) level of unemployment, higher wages and effective demand. Capital investments also enter a boom phase. The capitalist economy looks prosperous.

But the boom is also characterised by the stepped-up accumulation (albeit covert) of all sorts of economic disproportions and disparities and a speedily growing gap between the swift growth of production and the slower rate of growth of the purchasing power of the working people. Factors, such as the use of the credit system, a higher demand on the part of trading intermediaries and not completed construction projects, may for some time delay crisis phenomena. Ultimately, however, the lingering malady breaks through and spreads, like an epidemic, over the whole of the economy, engulfing one country after another.

To sum up, economic crises repeat periodically because of the inner contradictions of capitalism. Each crisis clears the way for a new production cycle and determines its character and peculiarities.

Crisis are most painful to the working people. They drastically cut down their real incomes and bring about mass unemployment, their rights and social gains are threatened, many small producers (handicraftsmen and peasants) are ruined, hunger and poverty set in.

##### 5. Specific Features of Cyclic Development of Contemporary Capitalism

The history of monopoly capitalism and the postwar economic development both show that the law of crises is still operational. The world crisis of 1929-1933 was unprecedented in length and depth. Its consequences were still felt several decades later. More than 30 per cent of the working people lost their jobs. Contemporary crises have taken on new and no less acute forms.

Specifics of Postwar  
Crises

In the postwar period, crises hit the US economy as early as 1948-1949 and 1953-1954. The severe crisis of 1957-1958 assumed worldwide proportions. In 1965-1967 the crisis wave swept Western Europe. In 1970-1971 another crisis broke out in the United States. Particularly deep was the crisis of 1974-1975 which gripped all the three imperialist centres (the United States, Western Europe, and Japan). Output in the industrial capitalist countries slumped by the total of more than 10 per cent. In 1980-1982 the world capitalist economy was hit by a new crisis of overproduction. In the USA production dropped by 9.1 per cent; in Britain, 10.5 per cent and in the developed capitalist countries in general industrial output fell 4.5 per cent. In the early 1980s capitalism is immersed in what is already the third economic recession in the past ten years. This prompts the conclusion that the first postwar decade (1950-1960) was characterised by increasing rates of economic growth in the capitalist world, whereas the second decade (1970-1980) was marked by declining growth rates.

Let us have a closer look at the specific features of the postwar capitalist cycles.

1. Crisis phenomena have become more frequent.
2. The depression phase sometimes never comes or is radically curtailed; recovery rapidly turns into boom or, conversely, recovery is followed by a new crisis. The classic sequence of cycle phases is thus disrupted.
3. The unemployed armies in the boom phase remain chronically static or even grow larger.
4. Crises do not entail price drops. Moreover, in the 1970s and 1980s they even brought about higher inflation rates.
5. Tendencies toward asynchronous and synchronous development of world capitalist crises intertwine. In the 1950s and 1960s crises gripped predominantly individual regions of the developed capitalist world (the United States in the first place), whereas in the 1970s there was a leading tendency toward internationalising economic upheavals.

This tendency is not, however, stable.

Causes of Changes in  
Cyclic Development of  
Capitalism

What are the causes of the above  
changes in the cyclic development  
of modern capitalism?

The economic effects of World War II have proved to be quite different for different imperialist centres. The impressive deferred demand, the depreciation and physical destruction of the means of production stimulated the market in some West European countries (especially West Germany) and Japan and delayed the oncoming crisis of overproduction.

The scientific and technical revolution in the postwar period promoted economic growth by way of enhancing the division of labour and the specialisation of production, i.e. by expanding the market above all for the products of Department I. It sped up the moral wear of machinery and amplified the need for its replacement. At the same time progress in science and technology has sharply exacerbated all the contradictions of the capitalist economy, expedited the growing disproportions and general instability of economic development.

State-monopoly regulation affected the cycle in a peculiar way. The so-called anti-crisis government policy cannot, of course, liquidate crises. Yet this policy is to a certain extent responsible today for the "ups and downs" in the cyclic development of capitalism, for the intertwining of industrial and monetary difficulties and for the growing insecurity of the broad popular masses.

The need for state intervention in the economy has become imperative not only because the contradiction between the level of the socialisation of production and the private capitalist appropriation has sharply exacerbated and not only because the vagaries of the market may bring about calamities unprecedented in scale and depth, but also because this intervention, given the existing correlation of forces in the world and the growing might of the socialist world system, has become an important element of the home and foreign economic policy of many capitalist countries. Their leaders



are well aware that crisis upheavals in the economy intensify the class struggle and bring nearer the collapse of the capitalist system of exploitation. This is why the proponents of the anti-crisis policy once again have turned to the theory of Keynes and his followers, and to recipes offered by some other bourgeois theorists.

Government activities to liven up the existing economic situation include measures to expand the market artificially through state orders and purchases, to mobilise (through loans and taxes) the relatively surplus capital and savings of the population in order to turn the money into effective demand, and to subsidise the entrepreneurs. Economic development programmes are introduced as a means of alleviating disproportions. To expand the boom phase the state adopts measures which slow down feverish growth at the concluding stage of the cycle (these include higher corporate taxes and higher-interest credits). To liven up the economy gripped by crisis and depression, the state offers lower-interest credits and extends considerable tax benefits to the entrepreneurs (the "stop-and-go" policy).

It must be emphasised that all these measures are superficial, cosmetic and therefore cannot remove the antagonistic contradictions inherent in the capitalist system. In most cases state regulatory measures are adopted at the expense of the working people. Inflation has become an inevitable result of the state-monopoly policy of maintaining monopoly-high profits and building up the arms in an unstable economic situation.

Formerly, higher inflation rates were indicators of a better market outlook and the deficit financing of the economy was resorted to, according to the Keynesian conception, in order to lead the economy out of the crisis. In the 1970s and 1980s, however, this remedy has proved inadequate. During the 1974-1975 crisis government-sponsored tax cuts and subsidies were eaten up by galloping price increases, whereas the physical volume of production remained stagnant or grew but slightly. The capitalist cycles today are characterised by stagflation. This is a novel phenomenon

showing that low (sometimes zero or even minus) economic growth rates intertwine with continuous (sometimes extremely rapid) price rises. The following figures are indicative.

State measures to check stagflation are contradictory and disorganise the economy even more. To curb inflation the former US Administration under Jimmy Carter boosted the credit interest rate to 21 per cent. Keeping the bank interest rate at a high level, Ronald Reagan's Administration is trying to augment the demand by cutting taxes, slashing simultaneously government expenditures for social needs. But the results achieved so far are deplorable.

Growing unemployment is a direct outcome of stagflation. Capitalist rationalisation also contributes to a higher unemployment figure. The effectiveness of rationalisation is measured against the cost of production, which is reduced primarily at the expense of those workers who are fired as redundant. The employment outlook is gloomy. It is estimated that in 1983 the official unemployment figure in the industrial capitalist countries reached 30,000,000.

The synchronisation of the world cycle is determined primarily by the increasing internationalisation of capitalist production and the growing instability of modern capitalism in general. But the synchronisation of the world cycle is only a tendency because there still exist factors accounting for the uneven development of the cycle depending on specific countries and regions. These factors include differences in the economic effectiveness of the national forms of state-monopoly regulation and the impact of the energy and other structural crises.

During a crisis the working class and the communist parties are faced with a double-prong task, viz., to minimise their hardships and losses, on the one hand, and to make maximum use of the opportunities offered to educate the masses and make them aware of the need radically to change the existing society. This makes relevant the demands that democratic control be instituted over price fluctuations, structural changes in the economy, measures to train and re-

train skilled workers and radical steps to ameliorate foreign trade. The communist parties also oppose the drive to "solve" the employment problem by stepping up the production of arms.

Militarisation of Capitalist  
Economy and Reproduction

Contemporary capitalism is  
characterised by the in-  
creasing militarisation of

the economy. In the period between 1970 and 1979 alone, the military expenditure of the NATO countries doubled, having exceeded \$ 200,000 million in 1979. Imperialist ideologues say that the arms race has a benevolent effect of economic growth. During the Presidency of John F. Kennedy, his advisers, for example, believed that each dollar of US government defence appropriations incurs spending by private companies one or one and a half additional dollars, which results in a more than two-fold increase of the demand. Other bourgeois economists estimate that military spendings make the multiplication factor even higher.

True, under certain conditions the militarisation of the economy may positively affect the economy and prolong the boom phase. To maintain the military sector the state not only cuts down the consumer demand of the working people, but also mobilises excessive capital. In the latter case the overall effective demand may increase. Militarisation stimulates the development of production in Department I (equipment, semi-processed goods, strategic stocks) and in Department II (army maintenance) and increases the work load of the production apparatus. But this effect is limited. A galloping rise in arms spendings replaces, rather than augments, the demand for civic-oriented products. Changes in the structure of the military market and gearing industry to producing special types of military hardware when the demand for conventional arms is limited slow down the development of basic industries and reduce the overall employment figure.

Statistics show that countries with a higher share of arms spendings, have, as a rule, substantially lower rates of economic growth and accumulation. During the entire

length of the postwar period the United States' military expenditure accounted for an exceptionally high share of its GNP (some 7 per cent). In West European countries the figure was 3.6 per cent and in Japan, between one and one and a half per cent. During the 1970s the share of accumulation (investments in fixed capital) decreased from 17 to 14 per cent in the USA, remained at the level of 23 per cent in West Germany and reached the high mark of 34 per cent in Japan. This is only natural. Indeed, the arms race is not dictated by the need to develop the productive forces. Purely military products do not serve the goal of continuing production or reproducing labour power. They are paid for by redistributing the national income.

When, however, military production does sometimes stimulate economic progress, this is not because it is military per se, i.e. specific in its character and purpose, but because weapons make up part of the national commodity market. Similarly to government outlays for "public works", infrastructure and the like, military spendings can exert a temporary stimulating effect on the economy.

But the specifics of the military sphere are only fraught with negative economic consequences, dangerous political implications and apocalyptic prospects for humankind. The burden of the arms race hampers the working people's struggle to improve their well-being, raise their educational and cultural level and eliminate poverty and disease. According to UN statistics, the world's military spendings are four times higher than the sum spent by the world on public health. Not war preparations that doom the people to a senseless squandering of their material and spiritual wealth, but consolidation of peace that is the clue to the future.

## Chapter 8

### LAWS GOVERNING EMERGENCE AND DEVELOPMENT OF MONOPOLIES AND FINANCE CAPITAL TODAY

At the turn of the century capitalism entered its highest and last stage of development - the imperialist stage.

Imperialism is characterised by deep-going changes in the economy and policy of the capitalist countries. The proletariat's practical revolutionary struggle made it imperative to study these changes from the Marxist position. This task of historic significance was accomplished by Lenin, the great follower of the cause of Marx and Engels.

#### Significance of Lenin's Theory of Imperialism

Before studying the stage of imperialism, one has to realise the full depth of

Lenin's theory of imperialism, which constitutes an epoch in the development of Marxist theory. Lenin's study of imperialism, particularly his Imperialism, the Highest Stage of Capitalism, is a direct follow-up of Marx's Capital. Lenin defined the essence of imperialism, its main features, the causes turning the capitalism of free competition into imperialism, and also showed the significance of this fact for the revolutionary process as a whole. Lenin's theory of imperialism underlies his doctrine of socialist revolution, which has been borne out by the development of humankind in the 20th century.

Lenin showed that imperialism is capitalism that has entered its highest and last stage of development. Under imperialism, plants and factories, land and minerals still belong to individuals - the capitalists, whereas the workers are still deprived of this wealth and are compelled to sell their labour power to the capitalists. Yet, as distinct from old-time capitalism, i.e. the capitalism of free competition, under imperialism there emerge large capitalist enterprises

and their alliances - the monopolies, which establish their domination inside and outside individual countries, penetrate into all branches of the economy, including the banking sphere. The intertwining and merging of industrial and banking monopolies gives rise to a new type of capital - finance capital. The power of finance capital and its owners - the financial oligarchy - affects all spheres of society's life. The monopolies plunder the wealth of other countries by exporting their capital, setting up powerful international capitalist alliances and dividing the world economically and territorially. All these features, Lenin wrote, are the basic economic peculiarities of imperialism, which, historically, make it the eve of a socialist revolution.

The features of imperialism are closely interconnected because, for all their variety, they are mere manifestations of one basic feature of imperialism, viz., monopoly domination. Giving a more concise definition of the economic essence of imperialism, Lenin emphasised that imperialism is monopoly capitalism.<sup>1</sup>

The all-round analysis of imperialism enabled Lenin to outline unprecedented possibilities for the revolutionary movement in the new age and to evolve a theory of world socialist revolution in keeping with the new historical situation. Lenin's theory of imperialism shows that, on the whole, the system of world capitalism is ripe for the socialist revolution. Yet the law of the uneven economic and political development of capitalism in the age of imperialism makes it impossible for the socialist revolution to triumph in all the countries simultaneously. By creatively developing Marxism, Lenin was first to arrive at the conclusion that the socialist revolution may and will inevitably triumph at first in several or even one country. Having discovered the law of the uneven economic and political development of capitalism at its imperialist stage, Lenin concluded that different countries would not come to socialism simultaneously and that the imperialist front might not necessarily be

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 276.

broken through in the most developed capitalist country.

By his analysis of the economic and socio-political contradictions of imperialism, Lenin proved that capitalism would collapse as a result of breaking the world capitalist system in its weak points and the falling away from this system of ever new countries. So, Lenin's theory of imperialism served the basis for a new theory of socialist revolution. This was Lenin's great contribution to the development of Marxism, a new and invaluable ideological weapon for the working class in its revolutionary struggle against capitalism.

Lenin's theory of imperialism combines a thorough scientific analysis of the most complicated processes of monopoly capitalism and a sharp criticism of the bourgeois and opportunist "theories" of imperialism.

Lenin gave the lie to the false explanations of the essence of imperialism and its place in history offered by bourgeois economists and opportunists of all hues. He showed that imperialism is far from being an ever-lasting phenomenon in human history and that it is transient. This makes relevant the anti-imperialist struggle for the triumph of socialist revolution and the building of socialism.

Lenin also exposed the falsehood of depicting imperialism as a source of social progress, having shown that imperialism only amplifies reaction in all spheres of society's life.

The content of Lenin's theory of imperialism is ample proof of the utter untenability of the assertions that Leninism has allegedly lost its relevance.

Lenin's theory of imperialism was the greatest contribution to Marxism, a new stage in its development. This theory provides the key to an understanding of the specific features distinguishing imperialism at its present stage of development.

The theory of imperialism continues to be developed by the communist and workers' parties, by the revolutionaries in all countries. The 26th CPSU Congress analysed capitalism's present-day situation and its outlook for the future, showed that its contradictions grow more acute and made conclusions which further develop Lenin's theory of imperialism.

## 1. Laws Governing Emergence of Imperialist Monopolies.

### Essence of Monopoly

Lenin pointed out that "free competition gives rise to the concentration of production, which, in turn, at a certain stage of development, leads to monopoly".<sup>1</sup>

Concentration of Production  
as Material Basis and Cause  
of Emergence of Monopolies

Monopoly, Lenin emphasised,  
is "the deepest economic  
foundation of imperialism".<sup>2</sup>

Before studying the economic essence of imperialism, one has to understand the causal connection between capitalist concentration (i.e. the increasing size of enterprise, the concentration of labour power and machinery there, and the like) and monopolies.

A monopoly is a company, association or at least an agreement concluded by big capitalists, which concentrates the capital and production of a significant (or even bigger) section of one or several industries, enabling the given company (or companies) to make regular superprofits.

The possibility of establishing monopoly domination in a number of big capitalist countries became real at the end of the 19th century, when concentration attained a high level. Before the middle of the 19th century, when the level of concentration was relatively low, agreements would have had to involve hundreds, or even thousands, of capitalists, which was virtually impossible. The situation changed when the concentration became so high that there were only a few dozen big enterprises in each of the key branches of production.

By the end of the 19th century monopolies had become not only possible, but inevitable. Even the biggest individual capitalists could no longer put up the money needed for the vast production units and complexes. Only monopoly as-

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 200.

<sup>2</sup> Ibid., p. 276.



sociations of big capitalists, i.e. only associations controlling a large share of the aggregate capital functioning in any particular branch, made it possible for really big enterprises to emerge and develop. Thus, at a certain stage of the evolution of capitalist ownership the monopoly form of ownership became inevitable. It was a reaction of capitalism to the objective tendency towards the elimination of all private ownership of the means of production, which was a consequence of the development of the productive forces.

Lenin wrote: "The rise of monopolies, as the result of the concentration of production, is a general and fundamental law of the present stage of development of capitalism."<sup>1</sup> By showing that the sphere of material production is decisive for the emergence and development of monopolies, Lenin refuted the various bourgeois and opportunist conceptions that distorted the way monopolies formed and the essence of imperialism. Today, too, some bourgeois economists reject the decisive role of the concentration of production in the appearance of monopolies, limiting the sources of monopolies to the sphere of circulation. They are echoed by the right opportunists who try to prove that there is no need to nationalise the monopoly property in the sphere of production. This only means that the economic roots of the monopolies remain intact.

The law of the development of monopolies, discovered by Lenin, is a universal law operating in any sphere of capitalist production and in any capitalist country. Moreover, the emergence of monopolies depends not only on concentration per se, but also on its degree which is bound to be different in different branches of the capitalist economy and in different capitalist countries.

It is important to note here that monopolies also develop unevenly. Lenin showed that in European countries, such as Britain, France and Germany, in the United States and in some other countries monopolies began to develop speedily at the turn of the century. But in countries with a medium level of

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 200.

capitalist development, such as Portugal, Spain, Greece, Brazil and Mexico, which depended (and largely continue to do so) on the big imperialist powers, monopolies emerged somewhat later. In many cases they appeared as late as recent decades. Although monopolies develop in such countries in quite a new setting (the existence of the world socialist system and the collapse of the colonial system), the main features of this development may only be correctly understood on the basis of Lenin's theory of imperialism.

In the overwhelming majority of developing countries foreign-based capitalist monopolies continue to be active, seeking to retain these countries within the orbit of imperialist dependence.

Key Features of  
Monopolies

Now that the origin of monopolies is understood, their essence becomes clearer.

Lenin's view of the essence of a capitalist monopoly includes two factors. On the one hand, a monopoly implies a large enterprise or association which takes over a considerable part of the output and sales of a particular product. On the other, this association seeks to make monopoly-high profits by using economic levers which enable it to impose its own terms on the market.

The principal feature of a monopoly is its domination over a large part of production in any particular branch. The size of this part and the methods used to effect domination vary with conditions. But it must always be big enough to establish control and domination to a point where the company's overwhelming economic superiority enables it to obtain profits much higher than those of the small and medium enterprises.

So, basically a monopoly (a) concentrates enormous sums of capital which gives it vast economic power and a big advantage over the multitude of smaller capitalists; and (b) appropriates monopoly superprofits, this being the economic form in which monopoly domination is realised.

How can the presence of monopolies and the degree of their domination be established? As Lenin showed, the ob-

jective indicator of monopolisation is the share of the biggest enterprises in the total industrial output of an industry, a country or the world, as well as in the number of the workers employed and in the aggregate mass of the capital used. Its other indicators may include the size of the profits realised by monopoly associations, their rate of profit, and also the share of the profits made by such groups in the total capitalist profit.

The domination of monopolies is the most important feature of imperialism. Each monopoly amplifies the social nature of production. But it does not resolve the main contradiction of capitalism, i.e. the contradiction between the social nature of production and the private form of appropriation, because the monopoly belongs to an exclusive group of people who have formed it to appropriate profit.

Bourgeois economists distort the essence of monopolies. They either treat monopoly enterprises as off-springs of technological and social progress and their profits as "payment" for this progress (this is open apology of the monopolies), or as accidental formations which have no deep roots in production and which make high profits exclusively thanks to good market opportunities for particular commodities. Both right and "left" opportunists (whatever their outward distinctions) increasingly slip down to these bourgeois positions. The rightists are inclined to praise the "progress" allegedly ensured by the monopolies, whereas the leftists criticise the monopolies from the petty-bourgeois positions, ignoring the objective nature of the domination of monopoly capital and the fact that society cannot move backwards.

## 2. Growth of Concentration and Degree of Monopolisation in Imperialist Age

Why Concentration Grows  
Under Imperialism

Free competition led to the establishment of a level of production concentration which prepared the ground for the emergence of monopolies. In its turn, monopoly domination accelerated the concentration pro-

cess even more. It became a monopolistic concentration of capital, which lended that process unequalled intensity.

The triumph of socialism in the USSR and the emergence and consolidation of world socialism had an enormous influence on the development of monopoly capital. In an attempt to retain its positions, the monopoly bourgeoisie endeavours to adjust itself to modern conditions. The economic development of contemporary capitalism and its contradictions, coupled with the incurable disease of the entire capitalist system - its ever deepening general crisis - tends to expand the process of capitalist concentration, gives rise to new forms of concentration, and whips up imperialist competition.

The growth of concentration in modern conditions is enormously stimulated by the transformation of monopoly capitalism into state-monopoly capitalism which, while extending the sphere of exploitation, promotes a growth of monopoly profits.

By making monopoly-high superprofits, the monopolies can achieve a high rate of accumulation, which makes them more competitive. With huge capital at their disposal, they can make wide use of the latest equipment and technical improvements, grab the most profitable markets and get credit more easily and at lower interest rates. The monopolies use these advantages to swallow up many small and medium enterprises.

Now that the revolution in science and technology is forging ahead, the role of technological progress as a major factor in concentration has grown.

First, the introduction of new technology in production raises the share of fixed capital, which involves an increase in the necessary minimum of advanced capital.

Second, the use of new objects and means of labour and of new production methods makes the equipment obsolete much faster than before. Small firms are often unable to raise the money needed to replace obsolete plant and equipment, and therefore go to ruin.

Third, science is increasingly turning into a direct

productive force, and this makes the competitiveness of enterprises depend on research and development.

The process of monopolisation is greatly affected by the aggravation of the general crisis of capitalism in the 1970s and early 1980s.

Because of the above causes, the concentration of labour power and production at big and bigger enterprises has assumed a scale which markedly exceeds that in the first decades of this century. According to Lenin's estimates, enterprises employing 50 or more workers accounted for 39.4 per cent of the labour force in Germany in 1907. Bigger plants employing 1,000 and more workers concentrated less than 10 per cent of the German labour force. In the 1970s, however, enterprises employing 50 and more workers accounted for 61.8 per cent of the labour force in West Germany, whereas big concerns with over 1,000 workers and employees concentrated more than 31 per cent of the labour force<sup>1</sup>.

As monopoly capitalism develops, another indicator of the concentration of production and capital begins to play an increasingly bigger role. This is concentration at the level of companies, corporations and firms, as distinct from individual enterprises or production units.

The company-level concentration leads to the economic domination of an insignificant number of major monopoly associations in leading branches of the capitalist economy.

Specifics of Modern  
Monopolisation Process

The growing rate of monopolisation is a law of the capitalist economy under imperialism. In

their attempts to conceal the operation of this law, bourgeois economists resort to all sort of subterfuges. Many of them attempt to prove that modern capitalism, just as the capitalism of the 19th century, is based on "free enterprise". To this end they distort the whole concept of monopoly.

The American economist Edward Chamberlin, for example, devised a "theory of monopolistic competition" which replaces

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<sup>1</sup> Lenin's Theory of Imperialism and the World Today, Moscow, 1977, p. 31 (in Russian).

the scientific category "imperialist monopoly" with a vulgar definition. According to this theory, any enterprise, even an artisan business, which sells a commodity with some unique property, should be treated as a monopoly.

Many bourgeois economists interpret monopoly as a philological notion. Since the word "monopoly" implies exclusiveness, there is allegedly hardly any industry dominated by a monopoly. Several large companies operate, as a rule, within every industry. This interpretation is intended to camouflage the existence of imperialist monopoly expressing, as it does, great concentration of economic power, the maintenance of monopoly prices and the extraction of monopoly profits.

The apologist conceptions of deconcentration have gained wide currency in some capitalist countries in recent decades. Their proponents are trying to play up a trend toward a decrease in the average number of employed at individual enterprises in some branches of modern industry. This trend is due to a higher rate of specialisation and cooperation. Yet even there this does not necessarily mean that the process of monopolisation has stopped or slowed down.

Reality makes short shrift of these theories.

One of the most important changes in the modern development of monopoly capital is the intensified monopolisation of the capitalist economy as a whole. In the early 20th century, the monopolies only had a grip on some branches of industry in a number of developed countries. During the past decades, however, they have grown in size and influence and have become a decisive force in all spheres of the world capitalist economy.

First of all, the size of monopoly enterprises has grown immensely. Specifically, the number of industrial monopolies with billion-dollar assets has sharply increased in the past decades. In the early 20th century, only one such company - the United States Steel - was in existence, while in the early 1950s there were four such corporations: Standard Oil of New Jersey, General Motors, United States Steel (all three in the USA) and the Anglo-Dutch group - Royal Dutch Shell. In 1963, however, the family increased to 57, in 1974 to

344, and in 1976 to as many as 460.

On the other hand, as we have noted earlier, the area of domination by monopoly capital is expanding. Today not only the heavy industry, but also the light industry, transport and commerce are dominated by monopolies. Monopoly capital is increasingly penetrating into agriculture.

The development of the productive forces and the growth of world socialism are among the factors which intensify the internationalisation of monopoly capital. In particular, internationalisation is encouraged by the ongoing process of imperialist integration. The degree of the monopolisation of capitalist international trade is rising sharply, and the monopolies now handle most of the capital exports. The early 20th century saw the formation of national monopolies, whereas now national monopolies are increasingly becoming international as regards their ownership, scope of activities, the location of their enterprises, etc.<sup>1</sup> The new type of monopoly is both international and mighty national power, a "supermonopoly".

Another feature of the monopolisation process in recent years is the much greater tempo at which it proceeds in many capitalist countries.

Under the influence of the general crisis of capitalism, the structural changes in the economy of the capitalist countries, the scientific and technical revolution and the militarisation of the economy, serious changes are taking place in the alignment of forces between individual monopolies. Data available on 100 French industrial companies show that the position of monopolies operating in the most modern branches of chemistry, the oil and gas industry, radio electronics, the aircraft and aerospace industries, have grown particularly strong.

The forms of the concentration and centralisation of capital and the forms of monopoly associations are also undergoing major changes.

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<sup>1</sup> A more detailed description of contemporary international monopolies is given in the chapter dealing with the world capitalist economy.

As a result of development over a long period of time the following more or less stable forms of monopoly have emerged: cartels, syndicates, trusts, and concerns (corporations).

#### Forms of Monopolies

The cartel is normally a monopoly union of capitalists, which retains the production and commercial independence of its participants and agrees on the level of prices, markets, production quotas, etc. The participating members of a syndicate retain their production independence but lose their commercial freedom. They set up joint bodies to market their commodities, to buy raw materials, and the like. The trust is a monopoly whose participants lose both their commercial and production independence. The concern (or corporation) is a more complex form of trust association. Their important feature lies in a multibranch nature of their production structure.

The production and organisational structure of monopolies continues to grow in complexity. This is facilitated by the shifts in the development of the productive forces.

More complex technological interconnections between individual branches have greatly increased the importance of combined production. At the same time the process of diversification is also growing. This is the amalgamation of production lines unrelated to a monopoly's main business.

In addition to changing the production structure of many modern monopolies, diversification leads to the formation of a new type of monopoly association known as conglomerate. This may be regarded as an intermediate stage in the development of industrial capital into financial capital. Conglomerates are formed mostly by centralising capital and buying up shares of existing companies. Many enterprises incorporated in a conglomerate may have no relations among themselves in the production sphere.

Conglomerates as a new type of monopoly association first appeared in the United States. In the past few years, however, they have been springing up rapidly in Western Europe, Japan and many other capitalist countries.

As a result of all these processes, the commoner type



of monopoly is now not a firm with narrow specialisation, but a multibranch monopoly association.

#### Higher Rates of Monopolisation

The growth of the monopolies has increased their domination over the economy of the capitalist countries. This can be seen from the following: monopoly enterprises now employ a larger share of the total labour force, the biggest monopolies' share in output and sales is rising and they account for a much larger share of the assets of industrial monopolies.

Any unbiased observer, having analysed economic statistics, will arrive at the conclusion that modern capitalism is characterised by sharply increased rates of monopolisation of production. Giant monopolies controlling the bulk of social production dominate the life of the nation. Here are some figures. According to official estimates, the sales of 50 biggest industrial monopolies in the capitalist world increased 470 per cent in the period from 1969 to 1982 alone. Individually, the sales of Exxon went up from \$ 14.9 to \$ 88.5 billion; Royal Dutch Shell, from \$ 9.7 to 80.5 billion; Mobil, from \$ 6.6 to 54.6 billion; and British Petroleum, from \$ 3.4 to 49.1 billion. As early as the mid-1970s, 344 capitalist monopolies, whose assets exceeded \$ 1 billion, controlled two thirds of the total labour force in the capitalist world and 70 per cent of the total capital and profit there.

The growth of the monopolies in the capitalist world in recent years has become so intensive that bourgeois economists can no longer ignore it. In many Western countries special theories have been developed to reflect, albeit incompletely, the increasing role of the monopolies today (for example, the theory of "dominant company" evolved by Francois Perroux).

Recognising the ongoing process of monopolisation, bourgeois economists continue to distort the essence of monopolies and their role in society's life.

Some bourgeois economists are still trying to lay a basis for their "demonopolisation" theory by substituting the

problem of the rate of monopolisation (which cannot be even universally) for the problem of the degree (or scale) of this process. The uneven development of the capitalist economy is seen in this sphere, too.

Some branches have attained a very high degree of monopolisation. In the United States, for example, in 69 branches (out of 188 covered by industrial censuses) a dozen of big monopolies concentrated no less than 90 per cent of the total output, and from 45 to 89 per cent in the remaining branches (except the printing and wood-working industries). At the turn of the century there were 1,600 companies in the US auto industry, whereas only four of them have survived by 1982. Moreover, three of them (General Motors, Ford Motor Co., and Chrysler Corp.) account for 97.8 per cent of the US-made automobiles.

Seven giant monopolies, forming the International Oil Cartel, control the oil industry in the capitalist world. Only two of them (Exxon and Royal Dutch Shell) account for some 30 per cent of the total oil output and over one third of the oil-refining potential of the capitalist world.

In the chemical industry, the West German Hoechst, the British Imperial Chemical Industries and the American Du Pont de Nemours hold key positions. The value of their output increased from \$ 4.2 billion in 1960 to \$ 72,5 billion in 1982. Ten huge chemical monopolies produce more than half the output of chemical products in the capitalist world.

Five leading electrical engineering monopolies (the American General Electric Co., International Business Machines Corp., International Telephone and Telegraph Corp., and Western Electric Co., and the Dutch Philips) account for two thirds of the world capitalist output in this field. Moreover, IBM produces over 70 per cent of computers in the capitalist world.

In the mining industry, five giant corporation control 53.7 per cent of the capitalist chrome ore output, 62.4 per cent of nickel, 65.2 per cent of alumina, 7.6 per cent of molybdenum ore, and 96.5 per cent of platinum.

At the same time the degree of monopolisation in a number of other branches is still relatively low. There is still a good deal of room here for further monopolisation.

### 3. Monopolies and Competition Under Imperialism

Monopoly Domination  
and Exacerbation of  
Capitalism's Main  
Contradiction

The establishment of monopoly domination has exacerbated the main contradiction of capitalism.

The capitalist socialisation of production reaches its peak under imperialism. As this socialisation is carried out by the monopolies whose only motive is to make the maximum profit out of the enterprises, branches of production and economic regions under their rule, the capitalist appropriation of the means of production and the produce also attains its highest level. Since all profit results from the exploitation of labour, the monopolies' rule and their appropriation of the lion's share of the profits means that the capitalist exploitation of social labour and the expropriation of the social wealth develops to the maximum.

New factors in the development of the monopolies are not only a specific form of capitalist appropriation today; they are also changes in the capitalist system of appropriation, its adaptation to the current revolution in science and technology, to the intensified class struggle in the capitalist world, the coexistence, competition and struggle between the two social systems.

The sharpening of the main contradiction of capitalism, caused by monopoly domination, is manifested in the aggravation of all the contradictions deriving from the main one and in the sharper forms of competition.

Bourgeois economists maintain that monopoly domination allegedly mitigates and even ends the antagonisms within bourgeois society. From these false premises the apologists of the monopolies draw the conclusion that imperialism should not be fought, but supported. Bourgeois economists metaphysically contrapose monopoly to competition. Some of them

take this further and maintain that the monopolies are ending competition, while others insist that competition remains, so it would be wrong to speak of monopoly domination. They say that there are only two alternatives: "pure monopoly", i.e. the total monopolisation of a branch by a single firm, or "pure competition", i.e. the absence of monopoly. As the total monopolisation by a single firm of a whole branch is rare, they assert that there is no monopoly rule and that modern capitalism continues to be a "free enterprise" system.

On the other hand, the unprecedented rate of monopolisation and the growth of monopoly power give rise to another tendency in bourgeois economics. This is direct apology of the monopolies which are equated by some bourgeois economists with technical and social progress.

Such arguments seek to beautify modern capitalism and avoid the fact that at the imperialist stage the contradictions of bourgeois society are aggravated to the extreme because the establishment of monopoly rule does not abolish competition but, on the contrary, intensifies it immensely.

Lenin's proposition that monopoly and free competition are opposite notions underlies any discussion of their correlation. The age of pre-monopoly capitalism was characterised by the free competition of isolated and relatively small enterprises producing commodities to be sold on any unknown market. The monopolies eliminate the dominant role of free competition. Yet, as Lenin noted, "the monopolies do not eliminate the latter /competition. - Ed. /, but exist above it and alongside it, and thereby give rise to a number of very acute, intense antagonisms, frictions and conflicts."<sup>1</sup>

The private-property essence of monopoly is the foundation of competition and the anarchy of production in modern capitalist society. The competitive struggle is waged between monopolies, within monopolies, between monopolies and non-monopolised enterprises, and between non-monopolised enterprises.

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 266.

Intensification of Competition  
Under Imperialism and Changes  
in Nature of Competition

Before imperialism, the main instrument in the competitive struggle was the development of equip-

ment and the resulting lowering of the production costs and prices. Under imperialism, the competitive struggle is waged mainly by few, but extremely powerful, monopolies. The main weapon in the competitive struggle in these new conditions is the acquisition of a monopoly, i.e. privileged, exclusive, position. Technological development is subordinated to the interests of monopoly control.

The aim of the competitive struggle also changes under imperialism. Formerly competition was a mechanism which ensured equal profits on equal capital. But monopolies are not content with the average profit; they compete against other enterprises to make superprofits. Their monopoly position enables them to use the mechanism of competition to that end. The monopolies are not out to weaken their opponent - but to destroy him. Open competition is replaced by conspiracies between a few against the rest. This lends a new quality to competition under imperialism and makes it extremely grave. Simultaneously the sphere of the competitive struggle expands, involving new objects and new participants. The entire world capitalist economy becomes an arena for the competitive struggle. International monopolies and imperialist states are in the clutches of fierce struggle for markets and raw material sources, for the spheres of capital investments, for the redivision of the world. This struggle poses a threat to the cause of universal peace and to the very existence of life on this planet.

Various forms of the so-called nonprice competition are a specific feature of our time. In the setting of the scientific and technical revolution the competitiveness of capitalist companies is increasingly dependent on the quality and durability of their commodities, marketing methods, services provided, and terms of payment. The monopolies make wide use of innovations as applied to the product they produce, the production technique and marketing methods used, so as to consolidate their position on the national and in-

ternational markets. The role of expenses of research and development has increased immensely. Equally important has become patent control exercised by the biggest monopoly associations. In West Germany, for example, one per cent of the patent holders control 51.6 per cent of the total number of patents.

Competition in the field of making quite new lines of commodities or commodity substitutes is acquiring ever greater importance in the contemporary capitalist economy. Advertising is now also among the chief means and lines of competitive struggle. In view of the enormous sums spent on advertising (in some cases they exceed 30 per cent of the commodity price), this ceases to play the socially useful role of informing the consumer and turns into squandering of society's resources.

Positions within the state-monopoly mechanism are becoming an object of particularly acute competitive struggle. The monopolies are out to secure government orders, investments and credits, to divide the state budget and the sources of extra-budgetary financing, to make use of the government-financed results of research and development. Government economic programming also becomes an object of competition.

Bourgeois economists portray competition as a crucial condition for the development of the productive forces, as a means of encouraging enterprise and initiative among the participants in production. In reality, however, competition under monopoly capitalism implies vast squandering of the productive forces, suppression of the enterprise, energy and bold initiative of the mass of the people.

Small Enterprise and  
Free Competition Under  
Imperialism

All this does not mean, however,  
that the features of the com-  
petitive struggle in the pre-

imperialist epoch disappear completely. Free competition is preserved. "Nowhere in the world", Lenin wrote, "has monopoly capitalism existed in a whole series of branches without free competition, nor will it exist."<sup>1</sup> The monopolies dominate by

<sup>1</sup> V.I.Lenin, Collected Works, Vol. 29, p. 168.

taking control of all the key positions in the economy, but not the whole of the economy. Even in the monopoly-infested country, such as the USA, about 75 per cent of the 4.5 million firms employ less than five workers. These include repair workshops with one or two workers, groceries, filling stations, and the like.

The small and medium firms account for 99.5 per cent of the total number of enterprises in Japan, which is the highest figure. In West Germany these companies produce some 25 per cent of its industrial output, in Britain - over 30 per cent, and in France - 45 per cent.<sup>1</sup> Small enterprises play an important role in the traditional sectors of the economy of smaller developed capitalist countries, and also in the economy of many other capitalist and developing countries.

Growing monopolisation increases the dependence of small and medium enterprises on big capital. The economic position of such entrepreneurs becomes extremely unstable.

Free competition before imperialism and free competition under imperialism, however, are two different things. Under imperialism, there is competition with monopoly domination and free competition exists only in a very narrow sector, since the small and medium enterprises' share in the total output is negligible. Most of the competing small and medium entrepreneurs are directly or indirectly under monopoly control.

The extremely difficult conditions in which small and medium enterprises have to exist under imperialism make the competitive struggle between them particularly violent. Many small entrepreneurs engaged in free competition are used by the monopolies in their fierce competitive battles.

That free competition is preserved along with monopoly rule only aggravates the contradictions of capitalism. The dependence of a multitude of small entrepreneurs on monopoly capital ultimately makes them oppose the latter. The contradiction between the monopoly and the non-monopoly bourgeoisie

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<sup>1</sup> Mirovaya ekonomika i mezhdunarodnye otnosheniya, February, 1980.

is intensifying. Some of the small entrepreneurs, looking for a way out of this situation and trying to avoid ruin, endeavour to curb the monopoly domination. This is a basis for the participation of that social layer in the general struggle against the omnipotence of monopoly capital. At the same time big capital is seeking to split the growing alliance of the middle sections of bourgeois society and the working class. To this end the monopolies make use, among other things, of the system of contracts and agreements which make it possible for them to establish virtual control over the small and medium enterprises, although seeming independence is preserved.

#### 4. Nature and Laws Governing Formation of Finance Capital

Monopolisation  
of Banks

Like industry, the banking system breeds monopolies as well. The development of banking monopolies was the result of high concentration and centralisation of bank capital. This in turn resulted from the concentration of production. The latter caused more and more free money capital to be deposited in the banks. On the other hand, the enlargement of production led to the growth of the proportion of borrowed funds because big enterprises needed large credits. Small banks could not offer large and long-term credits needed by industrial monopolies. So, the concentration of production facilitated the increasing concentration of banking capital. A high degree of the concentration of capital in the field of credit led to the emergence of banking monopolies.

The banking monopolies are bank associations holding dominant positions in the banking business and appropriating, as a result of this domination, monopoly-high profits.

The role of banks in the capitalist economy grows steadily, and their scope increases. At the beginning of this century only a relatively small group of industrialists could get credit from the banks, whereas now hundreds of thousands of small non-monopoly enterprises in industry, agriculture



and the service sector have various business links with banks. Today the latter exploit the broadest layers of bourgeois society.

Even though self-financing, i.e. the mobilisation of internal accumulations for investments, is gaining ground, industrial companies still have to use the credit system to preserve and consolidate their position in the fierce competitive struggle.

One of the reasons for the growing influence of big banks is their control over huge money resources. The biggest banking monopolies of the capitalist world dispose of tens or even hundreds of billions of dollars.

In recent decades, especially in the 1970s and 1980s, monopolisation has made rapid headway in banking and credit. Between 1971 and 1982 alone, the combined assets of 50 biggest banks in the capitalist world increased 500 per cent.

In the late 1970s, four giant banks which have emerged in the past decade, controlled assets exceeding \$ 400 billion, which is nearly 6 times as much as the aggregate national income of the whole of Africa.

Lenin emphasised that the development of banking monopolies led to drastic changes in the role of banks. Once mere intermediaries in redistributing money resources among enterprises, they have become the omnipotent monopolists of the money market, having a big say in production.<sup>1</sup>

Bourgeois economists often (especially in recent years) underestimate the role played by the banking monopolies. Some of them even purport that this role is diminishing.

Analysis of the entire range of bank activities, the evolution of their role and their significance today easily gives the lie to such assertions. Several hundred banks control from 85 to 90 per cent of all financial transactions in the capitalist world today. In 1982, 10 US banks concentrated assets totalling \$ 665. 2 billion. In 1960, the figure was 36.9 per cent. In Great Britain, as few as four banks control more than 90 per cent of the bank deposits in the

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 22, p. 210.

country. Ten biggest French banks concentrated some 70 per cent of the bank assets and almost 80 per cent of the bank deposits. In Sweden, three biggest banks account for over 60 per cent of the joint-stock company capital. Three largest Danish banks concentrate more than 50 per cent of the bank assets in the country.

#### Methods of Expansion

The monopolisation of the banking and credit sphere is mainly effected through the bankruptcy of small banks, mergers and takeovers, i.e. through the centralisation of bank capital.

Another method of expansion used by modern banking monopolies is the creation of a wide network of branches. In recent years the organisation of holding companies which buy up the controlling blocks of shares of independent banks and establish tight control over them by a limited group of people, has been used a great deal. The use of debentures is also becoming widespread. The banks extend their sphere of economic domination by using deposits.

Capitalist banks also mortgage property and make consumer loans to the population. This form of credit, especially loans which are repaid in instalments, yields vast profits. The consumer often pays the bank as much as 20 per cent a year, and sometimes even more.

The complex system of specialised credit and financial institutions is typical of the recent development of the banking and credit system in the capitalist countries. The mutual savings banks, loan and saving societies, insurance companies, pension funds and investment trusts are markedly expanding their operations. Their main function is to accumulate the people's savings and to pass them on to the monopolies to extend capitalist accumulation.

By establishing control over virtually all the financial institutions (insurance companies, investment trusts, savings and other societies), the banks seize all the free money saved by the population.

Insurance companies are the most powerful of these specialised institutions. Their role in the system of finance

capital has increased considerably in recent decades.

The reason for their rapid growth in the capitalist world is not the "incomes revolution", as the apologists of the monopolies assert. That explanation holds no water. The main reason for the growth in insurance transactions is the insecurity of millions of working people, their striving to insure themselves in some way against loss of work, industrial injuries, death of the family breadwinner, and other contingencies. At present, millions of people in the USA, Britain, France, Japan, West Germany and other developed capitalist countries hold insurance policies.

Accumulating huge sums of free money capital, insurance companies invest them in industrial shares and other securities, speculate in real estate and finance government operations. In Britain and the United States the insurance monopolies supply close on 50 per cent of the long-term credit for industry.

The role of investment trusts differs in some respect from that of the insurance companies. The greater importance of these trusts is linked with the sharp increase in the turnover of securities. Investment companies buy other firms' shares out of their receipts from the sale of their own securities. These companies, which clip the coupons twice, are used by the monopolies to expand capitalist accumulation. The specialised credit and financial institutions have become much more important in recent years.

The emergence of industrial and banking monopolies has changed the character of relations between banks and industrial enterprises. The banking monopolies no longer confine themselves to credit operations alone. They penetrate into industry. The banks buy up the shares of industrial companies, offer them loans against their securities and participate in establishing new industrial enterprises.

The penetration of the banking monopolies into industry is accompanied by the reverse process, i.e. the penetration of industrial companies into the banking business. Industrial monopolies acquire shares belonging to big banks and even open their own banks.

As a result, close links are established between banking and industrial monopolies, their interests closely intertwining. This is secured by the personal union of banking and industrial monopolists. Bankers hold executive posts at industrial enterprises while big industrialists occupy high places on the boards of banking monopolies.

The intertwining and coalescence of banking and industrial monopolies entail the formation of finance capital.

#### Formation of Finance Capital

Lenin called monopoly industrial capital which has merged with monopoly banking capital finance

capital. He 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> The correct, scientifically sound definition of finance capital is of great political and ideological significance. Lenin resolutely opposed the false idea of finance capital as the bank capital at the disposal of industry. This interpretation distorts the nature of finance capital. Actually, it exaggerates the role of the sphere of circulation in the emergence and development of finance capital because it presents the banks as the main and exclusive source of finance capital. In politics, this idea implies refusal to shake the foundation of finance capital domination, viz., monopoly ownership in the sphere of material production.

Finance capital is a dominant form of monopoly capital in the age of imperialism, being one of its main features. Finance capital synthesises the forms of capital that had separated off earlier. This is why its operation is multi-branch and omnipresent.

The development of finance capital in modern capitalist society is of special relevance.

Bourgeois economists and opportunists have for a number of years been trying to prove that finance capital is undergoing "self-liquidation" due to the break-off of the "conjugal bonds" between the banks and industry.

1 V.I. Lenin, Collected Works, vol. 22, p. 226.

In reality, however, the bonds between banking and industrial monopolies have grown stronger in recent decades. As has been noted earlier, new forms of bank activities emerge and new types of finance and credit institutions are established to promote the growth of finance capital. Industrial and banking capital is increasingly intertwined with commercial capital.

The tendency towards the growth of self-financing by the industrial monopolies does not involve a related decrease in the role of the banks, including in the sphere of credit. Bank credit has grown substantially in recent decades. The credit links between banks and industrial monopolies are becoming more complex and diverse. In the United States and West European countries, for example, medium-term bank credits began to play a greater role after World War II. The banks (notably state credit and financial institutions) are also becoming a major source of long-term credit.

Banks and other specialised credit and financial institutions, which control vast money resources, participate ever more widely in the capital of industrial, commercial and other firms. It is now common practice for banks to hold large blocks of securities, and the securities held by the banking monopolies attain vast dimensions. For example, in 1974 the American Chase Manhattan Bank held about \$ 8 billion dollars' worth of securities. Banks and bank groups finance industrial firms. If a company, for instance, increases its share capital or issues a loan, it is usually the banks which float these securities. Naturally, the most profitable shares and those with the best prospects remain in the hands of the banking associations.

In recent years there has been a particularly rapid increase in the share-floating and promoting activities of the banking monopolies. It would be difficult to find an example of the birth of a new industrial enterprise without a banking monopoly to act as midwife. This applies equally to the expansion of enterprises, the floating of securities, etc.

On the other hand, in the postwar years industrial monopolies have begun to play a greater part in the process

of the coalescence of banking and industrial capital. Many industrial monopoly associations are founding their own banks and extending their interest in credit and financial institutions.

The development of finance capital is greatly influenced by the increasing participation by the state. The existence of a large state sector in some countries, the state regulation of investment, credit, a system of tax privileges and subsidies, and the growth of the state market, have all made a deep imprint on the mechanism of modern finance capital.

The emergence of finance capital implies the appearance of a new type of monopolies, a new type of capital, which is especially mobile, flexible and intertwined both inside one country and internationally, which is especially impersonal and detached from direct production, and which is especially easily concentrated and has already been concentrated to an especially high degree. Finance capital holds a dominant position in the capitalist countries.

An analysis of finance capital is essentially an analysis of the development of a monopoly elite in bourgeois society, which dominates society as a whole, regardless of political colour. To understand finance capital, it is necessary to examine the real balance of the class forces in the capitalist countries, the real position of the handful of magnates who are growing more and more prosperous, and the position of the majority of the nation, which is subjected to steadily increasing exploitation and oppression. It is not really surprising, therefore, that bourgeois economists prefer to avoid, wherever they can, these problems.

The acceleration of the monopolisation process and the increasing monopoly domination in the economic and political life in the capitalist countries are leading to growing dissatisfaction among the petty bourgeoisie in town and country, and also among members of the medium and non-monopoly bourgeoisie. Under the impact of these changes, the criticism of imperialism from petty-bourgeois positions is mounting. This

reflects growing dissatisfaction with the oppression by finance capital. The bourgeois critics rightly expose the rule of finance capital and its fatal consequences for the social and economic development of the capitalist countries. But their petty-bourgeois limitations make themselves felt in most of their criticisms. More often than not the emergence of finance capital is said to be accidental and not really inherent in "genuine" capitalism. The monopolies are often divided into "good" and "bad", and the bourgeois state is portrayed as an instrument for changing the nature of finance capital and removing some of the negative consequences of monopoly domination. In the final analysis, this kind of petty-bourgeois criticism usually ends up as apology of imperialism.

#### 5. Structure and Specifics of Development of Modern Finance Capital

**Financial Groups**      The growing concentration and centralisation in industry and banking, the coalescence of banking and industrial monopolies lead to the emergence of a new type of monopoly association - the finance capital groups. These are the highest form of private monopolisation.

The financial group, a special kind of monopoly association, reflects the coalescence of bank and industrial capital. It is a method by which a handful of financial magnates establish and extend their rule over a vast number of industrial, financial and other enterprises, taking in all the aspects of modern capitalist economy and united by common property relations.

Organisationally, the most important features of a financial group are:

- 1) it has a nucleus of closely interlinked and powerful banking and credit and industrial monopolies;
- 2) the parent companies pursue a common policy; and
- 3) the group controls a large number and variety of companies in all branches of the national economy.

When studying financial groups, two things should not be overlooked. On the one hand, the real character of these monopoly associations and the degree of their organisational unity should not be underestimated. On the other, it should not be forgotten that financial groups differ in some respect from most of the other forms of monopoly. These distinctions stem from the fact that finance capital is extremely mobile and flexible.

Compared with other kinds of monopoly associations, the financial group is a relatively loose-knit organisation. A comparatively large number of companies are within the sphere of influence of various financial groups. The parent companies, which are the nucleus of a group, act as decision-makers, but do not normally concern themselves with the day-to-day activities of their subsidiaries.

In recent years there has appeared a tendency toward strengthening the organisational unity of financial groups.

#### Methods of Financial Group Domination

A financial group will use a variety of methods to establish domination, including participation in the capital of the companies concerned, personal union, financial, organisational and technical services, and the conclusion of special agreements. The state, ~~the state budget~~ <sup>in</sup> the capitalist countries, and links with foreign capital all play a major part in the formation of finance capital groups and in the changes in the balance of forces between them.

The system of holdings, a method by which one company owns part of the capital of another company, is one form of the coalescence of banking and industrial monopolies, and the most effective means of making financial groups more powerful. The system of holdings helps financial magnates expand their sphere of domination. Giant pyramids of enterprises, which are controlled through the system of holdings, form the basis of most financial groups. The system of holdings enables the financial magnates to control, by using relatively small capital, a huge mass of capital, exceeding that they have invested themselves many times over.



The spread of the system of holdings is facilitated by the development of joint-stock capital and the increase in the number of shareholders because it is much easier to gain control over the company if its capital is scattered among many people. Similar results are obtained by the ever more intricate techniques used to manage the fictitious capital of companies, for example, the issue of different kinds of shares - a method that deprives the small shareholders of any say in the business of the company.

The biggest banking and industrial magnates actually own no more than 2 or 3 per cent of the securities of the companies in which they have an interest. These 2 or 3 per cent, however, suffice to establish control over many of them. Thus, in 122 companies, in whose capital the Banque de Paris et des Pays Bas has an interest, the actual holdings of the bank amount to no more than 10 per cent of the stock of 71 companies, less than 2 per cent of the stock of 32 companies and less than 1 per cent of that of 19 companies.

The financial group often uses the method of cross-holdings - combined holdings of several of the group's leading companies in the capital of a given company - to tighten its control over companies it considers important. To conceal their domination, the financial groups often set up figure-head holding companies.

The system of holdings is supplemented by personal union. This enables the financial group to gain control not only over the given company, but also over its subsidiaries. It is not necessary for the majority on the board of directors of a company to be based on the control of the bulk of that company's capital or, in fact, on a holding in general.

In the early 1980s, 200 major industrial and transport corporations in the United States had common directors with 40 biggest commercial and 20 investment banks and 30 insurance companies. Personal union is clearly international in character. The corporate directors of US financial groups, such as the Morgans, the Rockefellers, and the Du Ponts, often also hold director's posts on the boards of many British, West German and French companies.

The role of personal union within the financial groups has grown in recent decades. This has been facilitated by the general growth in the concentration and centralisation of capital and by the growing intricacy of economic management. That is why, in addition to infiltration into the boards of directors of companies, the personal union is formed ever more frequently by the establishment of control over general directorships, the company's engineering and technical services which prepare draft key decisions for the boards, and over various research offices which play an increasingly important part in enterprise management. This amplifies the growing importance of the third basic method of monopolising control - the rendering of various financial, organisational and technical services to enterprises by the financial groups.

A good way to establish to which financial group a company belongs is to find out whom it provides the financial services. The financial institutions which act as organisational centres of groups (commercial banks, holding and insurance companies) endeavour to monopolise the provision of financial services for "their" companies and to extend them to the maximum. Financial services are in this case a means of raising the group's profits (by holding on to the share of the value which would otherwise have to be paid to other banks rendering these services, and exorbitant fees for their services to small companies, or to any independent companies in difficulties). At the same time they are a powerful means of extending the group's sphere of control.

The central banks of financial groups generally handle the current payment of "their" enterprises and negotiate all important financial transactions: the increase in the companies' capital, the floating of bonds, the payment of dividends to shareholders, the floating of new securities of the companies on the stock exchange and the representation of their interests there.

At present, financial services are often rendered to companies not by a single bank, but by several financial institutions which belong to different financial groups. With-

in these consortia, there is generally one bank that is the "main" representative of the enterprise's interests and is used by the monopoly elite of the financial group to control the enterprise. The participation of the same financial groups in a large number of consortia generally indicates that these groups are drawing closer together, that a growing interpenetration is leading to the gradual emergence of an even more powerful financial and economic unions, into whose sphere of influence several "old" financial groups are drawn.

Financial services are very frequently combined with other kinds of services from the central companies of the group, which are used by the financial magnates to tighten control and to expand the group's sphere of influence. For example, since they have a large staff of specially trained people, banks and other central companies of the financial groups study the production and sales methods for certain commodities and make recommendations to enterprises, establish contacts with foreign customers for them and consult them on various technical, financial and economic matters.

Domination of Capitalist  
Economy by Financial  
Groups

By various methods a handful  
of financial magnates have  
seized dominant positions in

the capitalist economy.

The formation of some 100 financial groups that have established their control over the economy of the leading capitalist countries was an important result of the postwar development. Key economic positions are now being held by 26 big financial groups in the USA; 20 in Great Britain; approximately 10 in Japan, West Germany, France, and Italy, from 3 to 4 in Belgium, the Netherlands, Switzerland, Sweden, and South Africa.

In view of the above it can be safely presumed that more than 50 per cent of the surplus-value created in the imperialist countries is appropriated by the main financial oligarchy groups.

There have been new features in the development of the financial groups in recent years. The development of the productive forces and the intensification of imperialist com-

petition are transforming the financial groups from purely family groups into broad coalitions consisting of many families of financial magnates. This is promoted by the growth of joint-stock companies and by the increasing merger of the monopolies with the bourgeois state.

The tendency towards the interpenetration and mutual interweaving of the finance capital groups is growing more and more pronounced. The system of interpenetration helps the financial groups to mobilise huge resources and to divide the risks involved in setting up large new enterprises and serves as a means of concealing profits and for political camouflage.

But the interpenetration of the financial groups does not weaken imperialist contradictions or the competitive struggle within finance capital. On the contrary, it is one of the most important forms of struggle waged by the financial groups for power, spheres of influence and maximum profits. The interpenetration reflects a new stage in the monopolisation of the capitalist economy.

The correlation of forces within international finance capital has been undergoing major changes since the war.

The most important financial groups in the capitalist world are the US monopoly associations. They account for more than 50 per cent of the assets controlled by the financial groups of the capitalist countries. The present stage of development of US financial capital is characterised by a relative drop of the share of the New-York financial groups and an increasing role of the so-called provincial groups, specifically the California group, and also the Mellon group, the Du Pont group, and the Detroit group.

While admitting the vast importance of American finance capital, it must also be emphasised that in the last decade the wealth of US financial groups has in many cases grown less rapidly than that of certain monopoly groups in West Germany, Japan and some other countries.

The dominant role of the financial groups in the economy of those countries has risen. In Japan, for example, six biggest financial groups control some 24 per cent of the country's bank and industrial capital. The size of their bank

assets almost equals that of the biggest US financial groups.

Financial groups are extremely powerful in Britain and France. In the latter country ten such groups control 40 per cent of the property owned by private citizens. The biggest of them are: Banque de Paris et des Pays Bas and Cie financière Suez. The sphere of interest of British and French financial groups extends beyond their countries' borders. Some of them have become international financial empires. Alongside the above two, these include the Rothschild and Lazard groups.

Financial groups in smaller West European countries, such as Belgium, Switzerland, Holland, and Sweden, hold an important place of their own within the general cosmopolitan alliance of modern finance capital. Take, for instance, the so-called Golden Club in Sweden, whose members (the biggest Swedish financial groups) rule supreme in the Swedish economy.

Characteristically, in recent years there have emerged financial groups in countries with a medium level of capitalist development, such as Brazil, Mexico, Columbia, and Turkey.

The realities of the capitalist world testify to the spuriousness of bourgeois propaganda about the "self-liquidation" of finance capital. Actually, finance capital rules the capitalist economy with a firmer hand than ever.

Financial Oligarchy

Lenin noted that the financial oligarchy is the personification of finance capital. In finding out the composition of the financial oligarchy we find out the owners of finance capital. Given the high degree of intertwining of industrial, banking, trading and other monopolies today, the financial oligarchy, being a totality of the owners of finance capital, almost fully coincides with the notion of the monopoly bourgeoisie.

Many modern ideologists of imperialism maintain that the financial oligarchy has disappeared. It has allegedly "dissolved" under the impact of the "democratisation" of capital and the "managerial revolution".

Another widespread form of the apology of the financial oligarchy is the conception of the "social mobility", whose proponents claim that class distinctions in capitalist society have faded away and the big bourgeoisie has vanished. The upholders of that theory allege that greater "social capillarity" leads to the "dissolution of the bourgeoisie".

The theoretical research of overt and covert ideologists of the bourgeoisie into the non-existent problems of the so-called evaporation of ownership and the disappearance of big fortunes has nothing to do with the realities. Their arguments are strikingly weak and unconvincing and they never bother to try to prove the basic propositions of their theories. There is, for example, not a single work that contains statistical proof of the "fragmentation" of private fortunes. Generally, the sole argument is the spread of the joint-stock company.

Actually, the increasing spread of joint-stock enterprises in the capitalist countries does not lead to the "democratisation" of capital, but to the opposite - the growth of the power of big capital and of the finance-oligarchic groups.

The biggest financial-industrial groups of the capitalist world, despite their gigantic size and extremely ramified organisational set-up, are run by a handful of big shareholders and their trusted managers. Specifically, 30 leading shareholders control 41 per cent of the shares of the US Chrysler Corp., 28 per cent of Mobil Oil and 21 per cent of General Electric. The role and significance of the financial oligarchy in the economic and political life in the capitalist countries are continuously rising.

Analysis of official statistics on the inheritance of fortunes during several decades of the 20th century shows that the main thesis of the propagandists of neo-capitalism about the "vanishing" of big fortunes and the "evaporation" of property is sheer nonsense.

Inheritance statistics show that class differentiation is by no means a thing of the past. Fifty per cent of the French population, for example, leave no inheritance at all,

because they have no property. If we add those who leave less than 5,000 new francs, who also actually have no property, the proportion of the propertyless population reaches 80 per cent. But alongside the France of the workers, of peasants, artisans, employees and working intellectuals, there is another France, in which a negligible minority of moneybags, a few per cent of the population, own close on 70 per cent of all private property. The richest Americans and Englishmen accounting for as little as three per cent of the population, control 57 and 61 per cent of their countries' national wealth respectively. In Sweden, 18 families concentrated immense economic and political power. In Austria, as few as 881 people own 41 per cent of the taxable national property.

Changes in Composition  
of Financial Oligarchy

Major changes are taking place  
in the composition of the fi-  
nancial oligarchy. Alongside the

owners of big fortunes, an even increasing part is played within the oligarchies by the dute of the managers of private and state enterprises.

A feature typical of capitalism is the separation of the capitalist owner, his withdrawal from enterprise. Under the domination of finance capital the separation of the ownership of capital from the application of capital to production reaches a maximum. Changes in the capitalist mode of production, such as the development of the capitalist socialisation of production, the greater complexity of management, the ever greater replacement of the individual capitalist form of private ownership by "associated capitalist" ownership (in the form of joint-stock or state enterprises), play an important part.

The owner of the means of production is increasingly changing into a coupon-clipping, monopolist rentier. This trend is particularly pronounced in the United States. As a result, the social structure of the US financial oligarchy manifests itself in its "purest form".

In France, Italy and several other developed capitalist countries, and also in some countries with a medium level of

capitalist development, the separation of capital as a function from capital as property has not been completed a long way. There still are many family companies, in which the main owner or his relatives make all the decisions. But even there, especially in recent years, an increasing number of executive posts in the trusts are handed over to the hired "generals of industry", which brings the structure of the financial oligarchy in these countries closer to that of the USA.

Seeing that many top executives have made good, bourgeois ideologists have produced a theory of "managerial revolution", which says that managers are replacing and abolishing the financial oligarchy and are promoting the emergence of a qualitatively new type of capitalism - "people's capitalism", "humane capitalism", etc.

In practice, of course, the managerial elite does not abolish the financial oligarchy, but is subordinated to it, and partly dissolves in it. The class allegiance of the top executives is determined by the fact that they act as big functioning capitalists. Some top executives eventually make considerable fortunes for themselves and become independent members of finance-oligarchic dynasties. But most of them remain subservient to the owner plutocrats.

In some capitalist countries the elite of the land-owner class, the "aristocracy", the government and military bureaucrats play an important part in the financial oligarchy. In Britain, for example, one finds members of the royal family and the landed gentry and colonial aristocracy on the boards of the biggest monopolies, alongside representatives of banking houses.

The owners of large land estates become members of the emerging financial oligarchy in Argentina, Brazil and some other Latin American countries.

Economic and Political  
Rule of Financial  
Oligarchy

The monopoly elite has seized complete control over the economic and political life of the capitalist countries.

In the United States the bulk of the wealth is control-



led by a small handful of capitalist magnates. Some 250-300 plutocratic families, whose fortunes are continuously growing, hold all the decisive positions in the American economy. New finance-oligarchic dynasties have emerged in the United States since then. The growth of military expenditure and state orders has created millionaires whose main stake is in the arms race and on the government market.

The nucleus of the financial oligarchy in West Germany is formed by a few dozen families. The most successful are the Thyssen, Haniel, Berges, Burgsdorff, and Waldthausen families who control the economy of many regions in the FRG and maintain broad international contacts.

Up to World War II, the famous 200 families were symbolic of the financial oligarchy in France. In the postwar years the number has decreased. Now only a few powerful dynasties form the nucleus of the the French financial oligarchy. They include the Rothschild, David-Weill, de Wendel, Michelin, and Peugeot families.

Major changes have also taken place in the postwar years in Japan's financial oligarchy. The war promoted the further concentration of economic power in the hands of the old "Dzaibatsu" families and advanced a large group of new magnates. In the postwar period Japanese imperialism has lost its military-feudal characteristics and acquired an organisational structure very much similar to that of highly developed state-monopoly capitalism.

Practically, some 300 very rich families now control all the key positions in the Japanese economy.

The financial oligarchy is the undisputed ruler of the modern capitalist economy. It extends its dictatorship to all aspects of society's life in the capitalist countries. The upper crust of the monopoly bourgeoisie increasingly sets itself up against society. Besides exploiting the mass of the working people, it oppresses other social strata, expropriates the small and medium bourgeoisie. It grows fantastically rich on the militarisation of the economy and the arms race, financial machinations, speculation on stock exchanges, etc.

In modern conditions the financial oligarchy interlocks more and more with the bourgeois state apparatus. In a bid to strengthen its economic and political positions, it rejects the traditional forms of bourgeois democracy and resorts to fascism and open reaction.

The power of the financial oligarchy has long since transcended national frontiers. The growing international interlocking of finance capital, Lenin said, "is the only really general and indubitable tendency, not during the last few years, and in two countries, but throughout the whole capitalist world".<sup>1</sup> Cosmopolitan finance capital is increasingly moving away from its national roots and setting itself up in opposition not only against definite classes and social groups, but also against whole nations. The oppression of finance capital grows steadily worse. A handful of multimillionaires have become the individual rulers of the entire wealth of the capitalist world, and use whole nations as pawns in their shady deals.

#### 6. Monopoly Superprofits: Specific Modern Form of Capitalist Profit

Monopoly Ownership  
and Monopoly  
Superprofits

Capitalist profit is a form in which capitalist ownership of the means of production finds its economic realisation. The development of capitalism changes the forms of capitalist ownership and gives rise to new forms. As a result, new forms of the economic realisation of capitalist ownership emerge.

In the 20th century, when the domination of monopoly ownership was established, a qualitatively new form of capitalist profit emerged, monopoly superprofit, which is a specific form of the monopolies' economic realisation of the ownership of the main economic resources.

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<sup>1</sup> V.I.Lenin, Collected Works, Vol. 21, p. 226.

When the private form of capitalist ownership was dominant, the profit of every capitalist inevitably gravitated towards the average profit. An individual capitalist could make extra profits (or superprofits) if he used some important technical improvement in production. Superprofit existed constantly on the scale of society as a whole, but individual capitalists did not enjoy it regularly.

Superprofits resulting from economic privileges created by technical innovations also exist in our time, and they can sometimes also be formed at non-monopoly enterprises. But in our time it is more usual for superprofits to be made on a vast scale by monopoly enterprises. Lenin wrote: "...monopoly yields superprofits, i.e., a surplus of profits over and above the capitalist profits that are normal..."<sup>1</sup> Monopoly companies have immense resources and can use scientific and technological achievements on a much wider scale than small and medium capitalists. It is a question not so much of the use of new technical achievements by the monopolies as of the concentration of these achievements in their hands. By establishing control over R & D institutions, the monopolies help themselves to the results of the work of scientists and inventors. Depending on the surplus profit to be gained out of new scientific and technological achievements, the monopolies decide whether or not to use them in production. A typical feature of the monopolies is that they make superprofits out of their control over the bulk of the means of production, of scientific and technological discoveries and inventions, raw material sources, transport and communications, money capital and commodity sales.

The total profit of the monopolies also include, in addition to the specific monopoly superprofit, the average profit and ordinary extra profit obtained as a result of the use of technical innovations. Of course, the monopolies do not distinguish between these forms of profit. They just try to get the highest possible profits irrespective of the form.

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 23, p. 114.

Sources of Monopoly  
Superprofit

It should be emphasised that the main component of monopoly superprofits is the extra surplus-value obtained at monopoly enterprises as a result of their higher rate of exploitation, compared with non-monopoly enterprises. In recent years the intensity of labour at monopoly enterprises has reached such a level that workers often strike not so much for higher wages as against the excessive intensification of labour.

An essential component of monopoly superprofit is the part of the value of labour power being appropriated by the monopolies in the circulation sphere through the sale of consumer goods at prices exceeding their value and the production price. This can be seen, in particular, from a comparison of the dynamics of the labour productivity at monopoly enterprises producing consumer goods and the price movements for these goods. The productivity of labour grows, so the value of consumer goods drops, but the prices continue to be jacked up by the monopolies.

Another component of the monopoly superprofit is the part of the surplus-value which is produced at non-monopoly enterprises and which the monopolies appropriate in the circulation sphere through the sale of monopoly goods to those enterprises at inflated prices and the purchase of their products at artificially depressed prices.

In this context we should also take note of such component of monopoly superprofit as the value appropriated by the monopolies by financial means, i.e. their promoter's profit, which is, in effect, a deduction from the profit and capital of rank-and-file shareholders, or from their savings.

A special place in the structure of monopoly superprofit is held by the value of the surplus and part of the necessary product of small commodity producers in town and country. This applies particularly to the value of commodities produced by the peasants who are mercilessly robbed by the monopolies.

Still another source of monopoly profits is the exploita-

tion of the peoples of the colonial and dependent countries. In those countries the monopolies resort to particularly barbarian methods of exploitation. The level of workers' wages at monopoly-owned factories and on plantations in the Third World countries is much lower than that in the imperialist states. Even after the collapse of the colonial system, the monopolies of the imperialist powers are trying to re-tain their positions in the newly free countries. They make fortunes by using cheap labour in those countries, fixing monopoly prices for the local goods and for the commodities exported by the monopolies to the developing countries, appropriating part of the profit belonging to local capital and seizing the necessary product of small commodity producers in those countries. The actual forms of imperialist plunder in the developing countries will be discussed later in the book.

Of great importance for the growth of monopoly profits are all sorts of financial speculations and machinations used by the capitalist magnates to redistribute to their advantage not only the earnings of the working people but also a considerable portion of the profits made by the small and medium bourgeoisie. To this end they use the mechanism of stock exchanges, operations to "water down" the monopoly capital, various methods of evading taxes, tricks with the company funds and scores of other devices.

Tricks with the balances of capitalist enterprises also serve the aim of gaining monopoly profits. These balances reflect the typical features of the capitalist economic system. They are class in character, being a means of capitalist rationalisation and an instrument for increasing monopoly profits by robbing small shareholders and other members of capitalist society.

The balance of a capitalist enterprise equally reflects its property resources (balance assets) and its origins (balance liabilities). Striking a balance for the capitalist is a means of contriving all kinds of tricks. Lenin noted: "The balance-sheets of many joint-stock companies put us in mind of the palimpsests of the Middle Ages from which the

visible inscription had first to be erased in order to discover beneath it another inscription giving the real meaning of the document."<sup>1</sup> It is not accidental that today three forms of balance have received an almost official status in the capitalist world. These are: 1) a "commercial" balance used as a means of attracting capital and fooling around the small shareholders; 2) a "tax" balance used to conceal the taxable profit; and 3) a secret balance reflecting the true situation, which is important for the enterprise owner.

#### Monopoly Prices and Monopoly Profit

The tendency for prices to rise is typical of capitalism, even if it is extremely uneven and fluctuates from time to time and from branch to branch.

Analysis of the price movement in the leading capitalist countries shows that the long-term tendency for prices to drop ended in the late 19th century and quite the opposite, no less stable, tendency has been prevailing throughout the 20th century (with the exception of the 1930s).<sup>2</sup>

This tendency became especially manifest in the postwar period. During the last two decades prices have been growing continuously. Since 1970 prices in the developed capitalist countries have risen on average by 130 per cent, and since 1975 by 50 per cent.

A variety of circumstances affect the price level. But monopoly domination, the artificial inflation of the prices for their goods, is the basic reason for the price rises. Monopoly prices preserve their nature even though they may stay on the same level or even drop in times of crises, as was the case in the past. In both cases, however, monopoly prices exceed the value and the price of production of the relevant commodities.

Monopoly superprofits do not necessarily depend on a rise in monopoly prices. When production costs drop, mono-

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<sup>1</sup> V.I.Lenin, Collected Works, Vol. 22, p. 229.

<sup>2</sup> S.M. Menshikov, Inflation and the Crisis of Economic Regulation, Moscow, 1979, p. 149 (in Russian).

poly superprofits may rise, even if prices remain the same or fall. Nevertheless, the formation of monopoly superprofits in conditions of growing monopoly prices is typical of imperialism.

The monopolies use various methods to establish high monopoly prices. The most widespread is the price agreement system, when the firms dominant in a given branch agree to fix prices at a level which other firms have to follow. The monopolies then take steps to limit the supply of commodities and go so far as to destroy commodity stocks. They use every possible means to remove competitors.

At the same time the monopolies encounter obstacles in their policy aimed at maintaining monopoly prices. Counteracting forces set definite limits to this policy. These obstacles are due to the fact that monopoly domination is not absolute and that competition is preserved even under imperialism. Economically, the operation of the law of value, which continues in the stage of monopoly capitalism, is responsible for the fact that the monopoly price policy meets with obstacles.

Economic Basis of Anti-Monopoly Struggle

In Volume III of his Capital Marx proved that the process of the levelling of profits

between capitalists in proportion to the size of their capital is the economic basis of the proletariat's class solidarity. The formation of an average profit means that it is not only the individual capitalist that exploits the particular group of workers employed at his enterprise, but that the whole capitalist class exploits the whole working class.

Lenin's theory of monopolies, finance capital and monopoly superprofits laid an economic foundation for the formation of a union of all anti-monopoly forces. The CPSU Programme points out that the capitalist monopolies are the working class' No. 1 enemy. They are also the main enemy of the peasants, artisans and other small owners in town, of most office workers and intellectuals.

The working class directs its main blow against the

capitalist monopolies. All the major strata of capitalist society have a stake in abolishing the omnipotence of the monopolies. This makes it possible to unite all democratic movements, opposing the oppression by the financial oligarchy, into a single powerful anti-imperialist stream. The leading role of the working class headed by its Marxist-Leninist vanguard is decisive in setting up an anti-monopoly and anti-imperialist front and in bringing it to victory.



STATE-MONOPOLY CAPITALISM

The domination of monopolies, finance capital and the financial oligarchy against the background of the intensified contradictions of capitalism leads to the emergence of state-monopoly capitalism.

Lenin's study of state-monopoly capitalism was his great contribution to the development of Marxist economic theory. Lenin observed but the initial stage in the formation of a system of state-monopoly capitalism. Yet he introduced the scientific concept of state-monopoly capitalism and developed a theory explaining its essence, origins and regularities.

Lenin's theory of state-monopoly capitalism has been fully borne out by developments in recent decades. It was further developed in the documents of the CPSU and other communist and workers' parties and of the international communist movement, and also in economic studies made by Marxists-Leninists from a number of countries.

The documents of the CPSU and the fraternal communist and workers' parties note that modern capitalism has acquired some new features, although, essentially it remains monopoly capitalism. Most important of them is its more pronounced state-monopoly character. Modern capitalism is state-monopoly capitalism, i.e. monopoly capitalism combining the power of capitalist monopolies and state power in the name of saving the capitalist system and securing monopoly profits.

The 25th and 26th CPSU Congresses gave a profound analysis of state-monopoly capitalism, emphasised that a "highly developed state-monopoly economy" has formed in the main centres of capitalist economy in the postwar period.

The further aggravation of the general crisis of capitalism shows that state-monopoly capitalism, which is only a form of capitalism's adaptation to the conditions of struggle between the two systems and to the requirements of the revolution in science and technology, exacerbates more and more the

contradictions of capitalist society.

### 1. Essence of State-Monopoly Capitalism

Lenin's Theory of State-Monopoly Capitalism

Lenin's theory of state-monopoly capitalism is a component part of his theory of imperialism. For many years on end Lenin had been studying the coalescence of monopolies and the state. In his classic study of monopoly capitalism, Imperialism, the Highest Stage of Capitalism, Lenin first arrived at the conclusion that on the stage of imperialism the bourgeois state becomes the state of the monopoly bourgeoisie. Speaking of the role played by the financial oligarchy, Lenin wrote that the oligarchy "throws a close network of dependence relationships over all the economic and political institutions of present-day bourgeois society without exception."<sup>1</sup> In late 1916 and the subsequent period Lenin formulated the basic propositions of his theory of state-monopoly capitalism. Of major importance in this respect were his works The State and Revolution<sup>2</sup> and The Impending Catastrophe and How to Combat It<sup>3</sup>.

For the first time in the history of Marxism, Lenin defined state-monopoly capitalism as "combining the colossal power of capitalism with the colossal power of the state into a single mechanism..."<sup>4</sup> This formula underlies the modern definition of state-monopoly capitalism contained in policy-making documents of the communist parties and the international communist movement.

Lenin advanced a proposition that monopoly capitalism grows over into state-monopoly capitalism<sup>5</sup>, analysed the causes of its emergence and development. He noted, in particular, the high level of the socialisation of production (a result of growing concentration and monopolisation), which

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 299.

<sup>2</sup> Ibid., Vol 25, pp. 385-497.

<sup>3</sup> Ibid., pp. 323-369.

<sup>4</sup> Ibid., Vol. 24, p. 403.

<sup>5</sup> This proposition was first formulated in his work Principles Involved in the War Issue, written in December 1916 (see V.I. Lenin, Collected Works, Vol. 23, pp. 157-158).

leads to aggravation of the main contradiction of capitalism. By joining forces with the bourgeois state, finance capital seeks to alleviate this contradiction. This single state-monopoly mechanism is also used to offset the contradictions of capitalist accumulation, and to increase monopoly profits. Lenin also emphasised the important role of factors, such as the intensification of the class struggle, the exacerbation of the inter-imperialist contradictions and imperialist wars.

Lenin developed his theory of state-monopoly capitalism in the setting of bitter struggle against bourgeois and opportunist distortions. Bourgeois economists and right opportunists presented the state as a "servant of society", a "neutral arbiter", whereas "left" opportunists underestimated the active role of the state, reducing it to a passive instrument of the monopolies.

Lenin's thesis about the "alliance", "interweaving", "coalescence" of monopoly capital and the bourgeois state and forming a single mechanism is a key to exposing the bourgeois and opportunist theories of the bourgeois state standing "above classes" and warns against dogmatic mistakes and a simplified view of the ways of development of modern state-monopoly capitalism.

Lenin defined the class essence and causes of the development of state-monopoly capitalism, and also showed its objectives and functions. Noteworthy is a proposition set forth in the work The Impending Catastrophe and How to Combat It. Lenin wrote that state-monopoly capitalism "does not for a moment, in any measure it adopts, lose sight of the reactionary aim of strengthening capitalism, preventing its being undermined..."<sup>1</sup>. In a number of his speeches Lenin emphasised another function of state-monopoly capitalism, viz., the enrichment of monopolies.

Lenin's works The Impending Catastrophe and How to Combat It, Material for the Article "On the Question of the Role of the State", and some others gave a profound analysis of the main forms of state-monopoly capitalism (state property, the use of the state budget, taxes, government price regulation measures, etc.).

<sup>1</sup> V.I.Lenin, Collected Works, Vol. 25, p. 351.

Also of major importance is Lenin's analysis of the historical place of state-monopoly capitalism and his extremely farsighted conclusion that state-monopoly capitalism is "a complete material preparation for socialism".<sup>1</sup>

All the above exposes the untenability of the assertions advanced by certain ideologues of the so-called Eurocommunism that Lenin's theses of the state have become "outdated". Lenin's theory lays bare the class essence of state-monopoly capitalism, defines regularities underlying its emergence and development, and is a potent ideological weapon for the contemporary revolutionary forces.

#### Background of State-Monopoly Capitalism

The emergence of monopolies leads to substantial changes in the activities of the bourgeois state. The concentration of economic power in the hands of a small number of monopolies enables them to coalesce with the state apparatus and to use it in their own interests.

On the other hand, the emergence and development of monopolies made it necessary for them to make ever greater use of the bourgeois state. This was dictated by the intensification of the contradiction between the private nature of the monopolies and the gigantic growth of the socialisation of production appending monopoly.

The continual intensification of the main contradiction of capitalist mode of production at the monopoly-capitalist stage gives rise to a qualitatively new phenomenon, viz., the growing coalescence of the monopolies and the bourgeois state, the emergence of state-monopoly management based on the fusion of state and monopoly power.

The rigid limits set by capitalist private ownership have always obstructed the full development of the productive forces. State-monopoly ownership, being the aggregate ownership by all monopolies, provides relatively greater possibilities for the introduction of the latest technological achievements than does private-monopoly ownership.

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 25, p. 363.

So, state-monopoly capitalism reflects the development of the social nature of production. The socialisation of production reaches its peak, which is followed by the socialist revolution. Production, being social in character, naturally demands that it be subordinated to the interests of all society and that public management and control be instituted.

The intensification of the main contradiction of capitalism is not the only reason for the emergence and development of state-monopoly processes. The derivative contradictions, notably the contradiction of capitalist accumulation, which Marx linked with the tendency for the average rate of profit to fall, are of no small importance. The latter manifests itself as an internal contradiction of the self-movement of capital. The state-monopoly mechanism develops as a means to ensure high profits for the monopoly elite of society by intensifying the exploitation of the working class, peasantry, intelligentsia, and the peoples of the developing countries.

With the onset of the general crisis of capitalism the coalescence of the monopolies and the state is affected, in the first place, by the struggle between the two world systems, the aggravation of the class contradictions in the imperialist countries and the growth of the national liberation movement.

The socialist system is demonstrating its growing supremacy over the capitalist system. National liberation revolutions are gaining ground. Under these conditions, the monopolies see the urgent need to save the capitalist system. In the setting of competition with socialism, the ruling capitalist circles are particularly afraid that the class struggle may grow into a mass revolutionary movement. All the efforts by the state apparatus and its participation in economic life are used by the financial magnates to ensure their further enrichment and, increasingly, to suppress the revolutionary action of the people and bolster up the world capitalist system, which is decaying steadily. Consequently, there comes a period in the development of state-monopoly capitalism when its growth is motivated not only by the intensification of the contradictions inherent in imperialism, but also by their new exacerbation, now evoked by the threat of complete disintegra-

tion of the capitalist system.

Single State-Monopoly  
Mechanism

The coalescence of the monopolies and the state proceeds in two main directions. On the one hand, the

monopoly bourgeoisie is increasingly taking over the state with all its resources and powers. On the other, the state is taking over the capitalist economy. As a result, the state becomes a big industrialist, merchant and banker. State regulation extends to all the most important aspects of capitalist reproduction.

This coalescence of the monopolies and the state leads to the emergence of a single state-monopoly mechanism. Its aim is to save the capitalist establishment and to enrich the monopoly upper crust of the bourgeoisie - the financial oligarchy. As the general crisis of capitalism takes on sharper forms, the importance of the first function grows. State-monopoly capitalism becomes the principal method by which capitalism adjusts itself to modern conditions, a method intended to save the capitalist system.

In this single mechanism, subordinated to the interests of the monopolies, the state commands a definite autonomy which enables the bourgeois state to defend the common interests of monopoly capital. The autonomy is due mainly to the important role the state plays in the capitalist economy. The state must manoeuvre in its policy, taking into account the competitive struggle between financial oligarchic groups, and also the contradictions between monopoly and non-monopoly capital. It has also to reckon with the growing power of the working class. The state acts mainly in the basic interests of monopoly capital. It must adopt and implement long-term decisions on the questions of economic, political and class relations. These decisions must be first and foremost directed at alleviating the threat to the very foundations of monopoly rule. It often happens that current needs of individual monopoly groupings clash with the basic interests of finance capital as a whole. In this event the state will subordinate the first to the second, even at the risk of dissatisfying some financial groupings. All this means that the monopolies them-

selves need the state's autonomy to secure their vital interests.

Lenin's theory of state-monopoly capitalism, further developed by the Marxist-Leninist parties, brings out the dialectics of state-monopoly capitalism.

On the one hand, state-monopoly capitalism enhances the dictatorship of the monopolies, whose economic power multiplies under its wing. The growth of militarism and political reaction is one of its manifestations. In facilitating the concentration of economic and political power in the hands of the elite of the financial oligarchy, state-monopoly capitalism steps up the exploitation of the working class and other working people in the capitalist countries, and of the peoples in the developing countries, and thus constitutes a threat to all of mankind.

On the other hand, by intensifying the contradictions of imperialism to the utmost, state-monopoly capitalism makes for growth in the socialisation of production and creates the material and organisational prerequisites for socialism. The development of the mechanism of "social management" creates new conditions for action by the revolutionary forces.

The emergence and development of the monopolies, their seizure of the command positions in the economy of the capitalist countries, the coalescence of the monopolies and the state into a single mechanism subordinated to the goal of defending the capitalist system and enriching the financial oligarchy, the convergence of that mechanism into a basic prerequisite for capitalist reproduction, the consolidation, on this basis, of the dictatorial monopoly rule and the simultaneous growth of the material and organisational prerequisites for socialism - such is the history of the emergence of state-monopoly capitalism and its content.

## 2. Transition from Monopoly to State-Monopoly Capitalism. State-Monopoly Capitalist System

Laws Governing Development of Imperialism

In the early 20th century Lenin laid the foundation for the conclusion that the transformation

of monopoly capitalism into state-monopoly capitalism is one of the basic tendencies and regularities in the development of imperialism. This tendency is founded on the development of the capitalist mode of production and the intensification of all its contradictions in the new conditions. Imperialism, Lenin said, is the era of the development of monopoly capitalism into state-monopoly capitalism.<sup>1</sup>

Of special importance is the development of state-monopoly processes under modern capitalism.

The documents of the communist and workers' parties and studies made by progressive economists serve as a guide in dealing with such processes. The recent documents of the international communist movement emphasized many a time that in the period after World War II the development of monopoly capitalism into state-monopoly capitalism (the process whose inevitability was discovered back in the early 20th century by Lenin) has acquired a number of new features. The rate of this process has markedly increased. The coalescence of the monopolies and the bourgeois state involves ever broader spheres of social production, circulation, distribution and consumption, which brings about a ramified and continuously functioning system of state-monopoly capitalism in many capitalist countries.

This is borne out by the documents of the international communist movement. Back in 1960, the participants in the Meeting of Communist and Workers' Parties in Moscow concluded that the development of monopoly capitalism into state-monopoly capitalism is speeding up during the general crisis of capitalism, especially at its present stage. "The contradictions of imperialism," the Meeting said, "have accelerated the development of monopoly capitalism into state-monopoly capitalism."<sup>2</sup>

The International Meeting of Communist and Workers' Parties, held in Moscow in 1969, stressed: "Present-day imperialism, which is trying to adapt itself to the conditions of

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 25, p. 410.

<sup>2</sup> The Struggle for Peace, Democracy and Socialism, Moscow, 1964, p. 410.



the struggle between the two systems and to the demands of the scientific and technological revolution, has some new features. Its state-monopoly character is becoming more pronounced."<sup>1</sup> Moreover, its Main Document said: "It resorts ever more extensively to such instruments as state-stimulated monopolistic concentration of production and capital, redistribution by the state of an increasing proportion of the national income, allocation of war contracts to the monopolies, government financing of industrial development and research programmes, the drawing up of economic development programmes on a country-wide scale, the policy of imperialist integration and new forms of capital export."<sup>2</sup>

What are the reasons causing state-monopoly capitalism to develop at higher rates in the second half of the 20th century?

Of major importance is the exacerbation of all the contradictions of capitalism (above all, its main contradiction) during its general crisis. Also of great relevance is the struggle between the two world systems, and also the class struggle within individual capitalist countries.

Under the impact of the historical competition between the two systems and the further development of the Soviet Union and the other socialist community countries, the capitalists are more and more often forced to take steps which run contrary to the capitalist nature and essence. This is what, Marxists believe, distinguishes modern imperialism not only from old-time "classic" capitalism, but also from the imperialism of the early 20th century. Yet the essence of imperialism remains the same.

The national liberation revolutions in the developing countries are a powerful catalyst of state-monopoly processes. The monopolies, aided by the state, are straining to retain these countries within the world capitalist system.

The scientific and technical revolution deserves special mention. The state-monopoly mechanism takes on functions beyond the powers of individual capitalists. In doing so, it tries to

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<sup>1</sup> International Meeting of Communist and Workers' Parties, Moscow, 1969, Prague, 1969, p. 18.

<sup>2</sup> Ibid.

alleviate the contradictions between the demands of scientific and technical progress and the private-property essence of capitalism.

Alongside the revolution in science and technology, the contradictions of capitalist accumulation also play a significant part in the coalescence of the monopolies and the state. There has been an unprecedented increase in the role of state-monopoly capitalism as a means of ensuring high profits for the monopoly elite of society by intensifying the exploitation of the working class, peasants, intellectuals, and the peoples of the developing countries.

The formation of state-monopoly capitalism is also accelerated by the aggravation of inter-imperialist contradictions.

State-monopoly capitalism does not alter the nature of imperialism. It does not change the position of the main classes within the system of social production. Moreover, it widens the gulf between labour and capital, between the majority of the nation and the monopolies.

At the present stage of the general crisis of capitalism, while socialism is becoming a decisive force in the modern world, and the very existence of the capitalist system has been called in question, the aggravation of all the internal social and economic contradictions of capitalism is leading to certain qualitative changes in the coalescence of the monopolies and the state.

"Modern capitalism is, first and foremost, state-monopoly capitalism, which adapts itself to the struggle between the two world systems."<sup>1</sup>

System of State-Monopoly Capitalism

Having dealt with the factors speeding up the development of state-monopoly capitalism, let us turn to

the essence of the qualitative shift in state-monopoly processes today.

It is worthwhile to recall that this problem is extensively debated today. Some economists undoubtedly overesti-

<sup>1</sup> 50th Anniversary of the Great October Socialist Revolution, Theses of the Central Committee of the CPSU, Moscow, 1967, p. 50.

mate the changes that are taking place today and assert that modern Western society is no longer either capitalist or imperialist. In reality, however, as we have seen in the preceding chapter, this society remains monopoly capitalism dominated by giant monopolies, although to preserve and strengthen their domination the monopolies increasingly intertwine with the state. Neither are right those economists who see only quantitative changes in the development of state-monopoly capitalism.

The qualitative change finds its expression in the formation of the system of state-monopoly capitalism, i.e. a mechanism of monopoly-state interaction which becomes the dominant force in the capitalist economy and a permanent and necessary condition for extended capitalist reproduction. Characteristic of that system is a high degree of maturity in state-monopoly relations, and their extensive development and constancy.

The formation of the system of state-monopoly capitalism is seen in the major changes taking place in the economic basis of capitalist society.

The transformation of monopoly capitalism into state-monopoly capitalism works definite changes in the basic feature of imperialism, and also in the forms through which they manifest themselves. This involves primarily the economic basis of imperialism - the monopolies. Side by side with private monopolies, the state monopolies also become increasingly important. The degree of monopolisation rises steadily. This coalescence of the monopolies and the state makes monopolisation embrace all branches, assume a national scale and eventually transcend national borders.

The monopoly fused with the state becomes the economic foundation of modern capitalism, and this is a fundamental change. In modern conditions most monopolies have established a complex and far-flung system of links with the state apparatus. The classic example is the various forms of participation by private monopolies in mixed companies with the state. The monopolies also make use of property that belongs to the state only, which thus acquires a state-monopoly character. The mechanism of state-monopoly capitalism plays

an enormous part in providing the monopolies with labour power, financing their capital investments and research and development. The state market becomes important to the monopolies. Many of them are almost completely dependent on state orders. This is particularly true of the military monopolies. The changes taking place in private monopolies under the state-monopoly system are most clearly expressed in programming. The monopolies conclude special agreements with the state bodies within the framework of capitalist programmes, under which they are granted various privileges in financing production, research, foreign economic expansion, etc. In this way the monopolies provide for a wide participation of the state-monopoly mechanism in all aspects of their production activity.

In modern conditions, the reproduction of monopoly capital becomes impossible without state intervention, and this is the process that characterises the changes in the economic foundation of modern capitalism.

The coalescence of the monopolies and the state inevitably changes the character of finance capital. Lenin was right when he wrote: "Imperialism is gradually transforming all trusts into organisations of a similar type (state-capitalist - Ed.)."<sup>1</sup> As was foreseen by him, finance capital acquires a state-monopoly character. It is no longer just the coalescence of banking and industrial monopolies, but of banking and industrial monopolies and the state, which gives the financial oligarchy greater control over economic resources and better opportunities for gain. Members of the higher state bureaucracy penetrate into the financial oligarchy. State-monopoly finance capital becomes the dominant force in all the decisive links of modern capitalist production. This makes the state-monopoly financial oligarchy the main enemy of the working class, of all other classes and social layers in modern capitalist society.

State-monopoly processes also influence other essential characteristics of imperialism. Today the government plays a major role in the export of capital not only as a guarantor

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 25, p. 426.

but also as an active participant in this process. Inter-state monopoly associations are emerging, and the territorial division of the world between the imperialist powers and the struggle to redivide it now largely take the form of neo-colonialism. Under neo-colonialism, all aspects of imperialism become permeated by state-monopoly capitalism. Formerly, private monopolies could operate successfully in the colonies with only the nominal support from their own state, but they cannot operate neo-colonialist methods generally on their own. Basically, neo-colonialism is a system of state-monopoly measures aimed at maintaining the economic positions and restoring the political positions of imperialism in new forms in countries that have won state independence.

The formation of the system of state-monopoly capitalism marks the transition of imperialism to a new stage in its development. In this period, changes in favour of state monopoly occur in many essential elements of the structure of capitalism along with reconstruction of its mechanism and economic policy. State-monopoly capitalism, being a qualitatively new stage of imperialism, puts capitalist society on the threshold of socialism.

When they conclude that a new stage of state-monopoly capitalism has emerged, Marxists-Leninists emphasise that this is a form of the development of imperialism. So it cannot transcend the limits of imperialism, no matter how hard some contemporary bourgeois and opportunist theorists may try to prove that it can. The champions of the "convergence" theory, for example, try to picture the now existing system of state-monopoly capitalism as a social organisation that has allegedly cast off the shortcomings of the previous capitalist structures and is, by and large, the ideal that the socialist states should strive for. This is a complete falsification of the real content of the state-monopoly stage of capitalism.

The emergence of a developed state-monopoly economy does not mean that "pure" state-monopoly capitalism has appeared. Just as there is no "pure" imperialism, so there can be no "pure" state-monopoly capitalism. Alongside the private monopolies, which have fused with the state apparatus, and the state monopolies, there is still non-monopoly production and

small-commodity production. Nor does it mean that a pure "pre-state" imperialist phase existed previously. The development of monopoly capitalism into state-monopoly capitalism was typical of imperialism from the moment it took root. It is a matter of the degree to which state-monopoly processes are developed. The essence of the qualitative leap in the development of state-monopoly capitalism in the most recent period is that out of the extraordinary and temporary measures used during the two world wars and during the crisis of the 1930s, the system of state-monopoly capitalism has developed into a permanent institution in capitalist reproduction.

The development of state-monopoly capitalism is very uneven and proceeds in fits and starts. Nevertheless, the basic tendency in this development is its continual regeneration at a more advanced level, and gradual extension of the system of state-monopoly economic management.

The development of the world revolutionary process is an important contributory factor in the unevenness of the development of state-monopoly capitalism.

### 3. Basic Forms and Contradictions of State-Monopoly Capitalism

The most important forms of state-monopoly capitalism today are: the personal union of the monopolists and the upper echelon of the state apparatus; state enterprising activities in the economy, including state property; various forms of the state regulation of the economy, such as the system of budget, taxes, government financing; capitalist economic programming; the "incomes policy"; the militarisation of the economy and the development of the military-industrial complex.

When studying the mechanisms of state-monopoly capitalism one should always remember its class essence and main functions.

Personal Union of Monopolies and Governments

The personal union between monopoly associations and governments is the most important form of the

coalescence of the state apparatus and the financial oligarchy,

Personal links between monopoly companies and the state apparatus develop along the following three lines: (a) high government officials hold key posts in private monopoly firms; (b) monopoly agents hold high positions in the state apparatus; and (c) the monopolies take the most responsible government posts into their own hands. In the latter case the monopolies exercise direct control over the government, and the subordination of the state apparatus to the financial oligarchy stands out in bold relief.

Personal union is one of the most ancient and traditional forms of state-monopoly capitalism. Today it has become even more widespread. Bourgeois economists have coined the world pantouflage, meaning "changing the shoes" when a businessman becomes a state leader and a state bureaucrat "earns" the post of a monopoly's board member. Highly indicative in this context was the "change of teams" in the United States in the period from November 1980 to December 1981, when the team of the former US President Jimmy Carter was replaced by the team of the newly elected President Ronald Reagan. Most of the members in both teams represent big business.

As state-monopoly capitalism develops, the administrative departments of the state increasingly coalesce with the management of private monopoly bodies. In some cases the monopolies take over the functions of state bodies. This became particularly widespread during World War II, when trusts and cartels took charge of the military mobilisation of industry and were in fact vested with the authority of state departments. In other cases various state departments become branches of monopoly companies. Among them are, for example, the state bodies engaged in handing out profitable government orders to the biggest monopolies. No matter what form the coalescence of the state bodies with the monopoly apparatus takes, it always looks after the interests of the financial oligarchy.

#### State-Monopoly Property

When characterising the entrepreneur activity of the state, one has to emphasise that the state sector is very extensive in the economy of many capitalist countries. The socio-econo-

mic essence of all forms of state property is determined by monopoly domination. State enterprises often sell their commodities and services to monopolies at prices which are lower than the cost of production and buy monopoly products at inflated prices.

Marx, Engels and Lenin explained the nature of state property. Engels, for instance, wrote in his Anti-Dühring: "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. The workers remain wage-workers - proletarians. The capitalist relation is not done away with. It is rather brought to a head."<sup>1</sup> Lenin defined state property under capitalism as the collective property of capitalists united together organisationally.<sup>2</sup>

The capitalist reality bears out these fundamental propositions and refutes the reformist conceptions and revisionist allegations that state-monopoly property is very much like the public property in the socialist countries.

In every imperialist country the state owns and controls all sorts of property: state-owned industrial, transport and power enterprises, communications, transport, power stations, land and forests, armaments, considerable money resources from the state budget revenue and deposits in state credit institutions.

Some state enterprises are the result of the nationalisation of private companies, which is typical of Britain, France and Austria. Other state enterprises were built out of state budget funds, which is more typical of the United States. Mixed, state and private, enterprises have become widespread in Italy and many other countries.

Including indirect holdings and local government property, the state now holds about 20 per cent of the gross social wealth in the developed capitalist countries. State

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<sup>1</sup> F. Engels, Anti-Dühring, pp. 330-331.

<sup>2</sup> V.I. Lenin, Complete Works, Vol. 33, p. 335 (in Russian).



enterprises account for 15-20 per cent of the industrial output in big capitalist countries like West Germany, Britain, France and Italy. In the United States, state property plays a major role in its economy. According to bourgeois statistics, it is now valued at \$590 billion, which is 23 per cent of the national wealth. In the USA, the state owns enterprises in the atomic industry, a series of big power stations, which supply 13 per cent of the total power in America, and a great many of hydrotechnical installations. The state participates heavily in other branches of industry as well.

State property holds key positions in the transport system of the developed capitalist countries. In Western Europe, for example, state enterprises handle more than 50 per cent of its freight.

State-monopoly property plays particularly important part in the credit sphere.

The state has become the monopolies' chief banker. Including the resources of the banks of issue and the large number of mixed credit institutions, the state holds almost a third of the total assets of the banking and credit system of the capitalist countries. In some countries this figure is even higher. In France, for example, state banks hold about two-thirds of the total bank deposits, in Italy - 75 per cent, West Germany - 54, Belgium - 50, Luxembourg - 46, the Netherlands - 29, and the United States - 14.7 per cent of the total.

In order to divert the working people's attention from their class tasks, bourgeois economists and sociologists distort the essential class basis of bourgeois state property by persistently calling it "public property", often picturing it as socialist property "which exists in a society with a mixed economy". Glossing over the fundamental distinctions between the socialist and capitalist systems, whose social and economic nature and class structure are opposite, they maintain that the two economic systems only differ in the degree of the state ownership of enterprises. The right Social-Democrats regard state enterprises as a special sector of the economy, which is allegedly outside the system of the capitalist relations of production, and interpret it as "socialism within the framework of capitalism". They draw an idyll of gradual

development of capitalism into socialism without a revolution, on the basis of state property.

Marx and Engels exposed the theorists who, in their time, declared that "all state ownership, even the Bismarckean sort" was socialist.<sup>1</sup>

In the bourgeois countries wage-workers create surplus-value at state enterprises. In organisation, many state-monopoly enterprises differ very little from private monopoly companies. Like the latter, government enterprises are a source of profit for the financial oligarchy. One of the means of its enrichment is the representation of monopolies in the management of government enterprises, as well as income on securities.

The monopolies grow rich on the surplus-value created at state enterprises, and not only from the securities they own or by participating in their management. The mechanism by which the surplus-value from the state enterprises is transferred through the prices of goods sold and bought by state enterprises plays an important role in this. State enterprises sell their output to the monopolies at prices below average, sometimes even below the cost of production. But when they buy equipment and raw materials from private firms, they pay more than the usual prices.

State companies often run at a loss, while the enterprises which belong to private monopolies generally make high profits. It would be wrong to assume that this is due to a relatively low level of technology or labour productivity at state enterprises. On the contrary, nationalised enterprises are generally marked by the best technological facilities and the highest labour productivity. The losses incurred by these enterprises are due to the relations of prices between commodities bought and sold by them, and to the payment of compensations to the former owners, by which means surplus-value is siphoned off from the state enterprises into the safes of private monopolies not as dividends, but as interest.

It would also be wrong to ignore the specific features which distinguish state and private enterprises. The main

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<sup>1</sup> See F. Engels, *Anti-Dühring*, p. 329.

specific feature is that profit here is yielded not by the capital of an individual capitalist, but by the part of the national income which goes to finance state enterprises through the state budget. This, however, is an isolated distinction within the framework of their fundamental socio-economic similarity, as can be seen from the effects of crises on state enterprises.

Since profit is not the main aim of state enterprises, and since their finances are guaranteed by the state budget, they can carry on work even if their sales drop. So they are less vulnerable to cyclic fluctuations than private enterprises. But if the general drop in business activity becomes critical, it affects state-owned enterprises as well. When private enterprises, curtailing production, cancel their orders placed with state-owned companies, the state concerns also have to curtail production, sack workers and cut down their prices.

State Regulation  
of Economy

State property is the economic basis of the regulating activity of the state-monopoly mechanism. Appropriating from 30 to 50 per cent of the value of the national income, the state redistributes it to the advantage of the monopolies.

The following methods of regulating the capitalist economy have become widespread today: budget and taxes, state investments, state financing of research and development, predominantly state consumption of military products, state regulation of finance, credit and currency relations and prices, etc.

The redistribution of the national income is a key element in the state economic regulation. This is because the state has to have control over enormous resources to be able to regulate economic processes.

In the early 20th century the state budget was a relatively small part of the national income. The main purpose of the budget was to pay the state's expenses and to enable it to fulfil its relatively limited functions concerned with preserving the general foundations of the capitalist mode of production. Now the state takes a large part of the national

income. In the United States, Britain, Japan, France, West Germany, Italy and the smaller countries of developed capitalism, from 40 to 55 per cent of the national income goes into the state budget, and the redistribution of the national income is becoming its main function.

The national income is redistributed in the interests of the monopolies. But it must be remembered that it is not redistribution in the interests of individual monopolies or even financial groups. Of course, state subsidies, interest-free loans and similar privileges are granted to monopoly companies. But, budget policy promotes the interests of the entire financial oligarchy, the ruling élite of the capitalist class, and not necessarily the current interests of this élite, but their basic long-term interests. To this end the monopolies themselves have to renounce some of the national income they appropriate in the form of profits, and hand it over to the state in the form of taxes.

The monopolies have to reckon with the fact that the state needs vast resources to develop the economic infrastructure in their interests, to regulate economic processes, to reduce class conflicts by "social investments", to carry on the arms race and a foreign policy which suits the financial oligarchy.

But when we talk about the taxes the monopolies pay, we must remember that the corporations are able to conceal a large share of their profits from taxation (according to some estimates, not less than 50 per cent). Moreover, the monopolies enjoy a variety of tax privileges. They include part of their taxes in production costs, which is tantamount to getting their taxes paid by an increase in their prices. Of course, they don't always succeed in competition, and resistance from the workers, who demand wage increases to compensate for price rises, often prevent this.

The assertions of bourgeois experts that the taxation of corporations is "confiscatory" is pure demagogy. In recent years the taxes paid by US corporations accounted for less than 30 per cent of the total state budget revenue, and in Britain the corporations' share in direct taxes was 20 per cent. The bulk of the taxes is levied on individual taxpayers,

and the main tax burden is borne by the working people.

In the United States, people with an annual income of \$100,000 and more pay less than 5 per cent of the direct taxes. Since World War II the number of people who pay income tax has grown considerably because the imperialist states have lowered the level at which income tax becomes payable, while indirect taxes, which are added to the prices of commodities, have risen. (In France, indirect taxes accounted for more than 70 per cent of the revenue in recent years). The effect is a reduction in the working people's real income.

The state's share in the total investments in the capitalist countries has risen steeply of late.

Alongside the direct state financing of private capital investments, the government also uses indirect methods to promote the accumulation of private capital. One method is when the state permits the depreciation of buildings and equipment to be inflated. This accelerated depreciation enables enterprises to show part of their profits as capital depreciation in their balance sheets and to reduce their income tax commitment. In this way the monopolies receive enormous subsidies (in the form of tax relief) from the state budget to compensate for the supposed obsolescence of equipment.

**State Market**            The state market plays an important part in the state-monopoly regulation of the economy. The monopolists endeavour to use it to resolve the contradictions in the capitalist economy and to ensure unobstructed capitalist reproduction.

Of prime importance here is state consumption, i.e. state purchases from private monopoly enterprises. They include the purchases of equipment, raw and other materials, semi-manufactures and plant, purchases for the armed forces and for the needs of the state machinery. In the United States, 21 per cent of the gross national product is now purchased by the state. About half of this is military purchases. In some American industries the state buys up as much as 87 per cent of the output. The federal purchases alone account for 15 per cent of the total goods and servic-

es realised in the country. In Britain, state purchases account for about 19 per cent; in West Germany, 18; France, 19; and Italy, 18 per cent of GNP.

The state also influences the demand through a variety of payments to the population: pensions, benefits, servicemen's pay.

Finally, the state influences the demand through the credit system, mainly by regulating the terms on which credit is granted by private banks and consumer credit by commercial firms. The state can help to improve the terms for consumer credit, or restrict it and make it more difficult to obtain, depending on the market situation. In this way the state endeavours to smooth out fluctuations in the demand and to stabilise it.

It would be wrong to deny the importance of the state market or the government regulation of the demand. But, the money used to regulate the demand is the budget revenue which comes out of the incomes of the population and this creates a vicious circle, because the greater the revenue, the smaller the demand. In the final analysis, state intervention into market relations leads not to an increase, but to a decrease in consumer demand. The fact that the state regulation of the demand is unable to do away with crises, unemployment or the under-capacity operation of enterprises is ample proof of its limitations.

The relative narrowness and instability of the domestic market makes monopoly capital search for new ways of expansion. The militarisation of the economy is one of such ways.

Military-Industrial  
Complex

The militarisation of the economy is one of the most striking phenomena pointing to the decay of capitalism in the age of its general crisis.

According to official statistics, the NATO countries spent some \$400 billion on arms in 1980 alone. Their military spendings in the 1970s approximated \$2,000 billion. These resources alone could fully liquidate backwardness in most of the developing countries, put an end to hunger and epidemics

and extensively develop education and culture.

Militarisation has resulted in the formation in the United States and some other imperialist countries of military-industrial complexes which fused the war monopolies, the reactionary top brass in the armed forces and the upper echelon of the government bureaucracy in the capitalist countries. Today the military-industrial complex poses a threat to the cause of peace and social progress.

Militarisation brings about non-productive squandering of part of the social product, exacerbates the contradictions of the capitalist economy and poses a threat to mankind's progress.

State-Monopoly Capitalism  
and Revolution in Science  
and Technology

The present stage of the scientific and technical revolution, connected with the introduction of electronic computers, automation and the creation of new materials, has made capitalist accumulation a thorny problem. It often happens that even the biggest companies are unable to cope with the huge expenditure needed to create some of the new branches of production, to do extensive research, especially in space, radioelectronics, and so on. For example, the production of new computers requires huge expenditures which only begin to pay after some years. Moreover, as electronic computers are extremely expensive and become quickly obsolescent, private firms prefer to hire rather than buy them, which means the manufacturing companies have to make even bigger investments, which take still longer to pay off. So even the biggest monopolies in the computers field have to attract extra capital through the private bank and credit system on the money market and through the bourgeois state.

As a result, state expenditure on research is rapidly growing. In the United States, for example, the federal and state outlays for research and development have reached some \$40 billion in the early 1980s.

Government expenditure on research is also growing in the West European countries and Japan. In recent years the state has defrayed about two-thirds of the cost of R & D in

the United States, Britain, West Germany, France and many smaller countries of developed capitalism, such as Denmark.

The role of the state as direct organiser of research, especially in the fields which demand gigantic capital investments, has also grown.

By acting as the biggest financier and organiser of research and the introduction of technological achievements in the interests of monopoly capital, the state lifts the bulk burden off the gigantic (and increasing) research costs of the private monopolies' shoulders and put it onto the taxpayers.

The monopolies make extensive use of scientific and technological achievements to strengthen their positions, to make production more effective, to develop it faster, and to intensify the exploitation and oppression of the working people.

State Programming of Economy:  
Latest Form of State-Monopoly  
Capitalism

In addition to the earlier state-monopoly processes, the state programming of the economy has become

widespread in most of the capitalist countries in the past 10-15 years. Economic programmes in the capitalist countries are based on private ownership of the means of production. For this reason they only point directions and are not compulsory for the capitalist enterprises. The content of the programmes serves the interests of monopoly capital.

There are special institutions engaged in drawing up economic programmes and, in some measure, in implementing them. These programming bodies are not only made up of civil servants. Representatives of the big monopolies also serve on their boards. The monopolies use these bodies to obtain economic information and to apply pressure when state orders and subsidies are distributed.

The economic programming system has changed the nature of economic regulation by the state. The economic policy of state-monopoly capitalism, the synthesis of which are the state programmes of economic development, reflects first and foremost the strategic interests of the financial oligarchy. Based on the united power of the monopolies and the bourgeois



state, programming is a fairly effective instrument for further enriching the oligarchy and for strengthening its domination over the capitalist economy. Programming aims not only at the satisfaction of the interests of individual monopoly groupings, but also at the solution of the difficult problems of monopoly capital as a whole.

The main purpose of the programming mechanism is to encourage private firms to fulfil state programmes with the help of such levers for raising the rate or profit as tax rebates. For example, taxes on investments envisaged in the state programmes are reduced.

What are the causes behind the emergence of economic programming as a new form of state-monopoly capitalism? The nature of the modern productive forces is such that their normal functioning and unobstructed progress are only possible under centralised management. The production relations of socialism alone give full scope to the development and application of science and technology. Monopoly capital, however, endeavours to use economic programming to adapt the relations of production in modern bourgeois society to the requirements of the productive forces, gravitating towards socialism. The need for long-range programming has become particularly important for monopoly capital since it has become obvious that the Soviet Union and other socialist countries owe their economic successes largely to the planned management of their economies. The intensification of the class struggle has also had its effect. It has become essential to the monopolies that the state should take the coordination of various economic processes upon itself to promote a higher rate of profit, because there was a danger that it would fall as a result of the strong pressure of the proletariat on monopoly capital. The intensification of the competitive struggle between the monopolies has also played a part in this. At a time when the world situation is deteriorating and growing more complicated for monopoly capital, state economic programming is called in to reconcile and coordinate the interests of individual monopolies with the common interests of the monopoly bourgeoisie, to help perpetuate capitalism as a mode of production.

State economic programming plays a definite role in the objective economic development process. However, one should not overestimate its efficacy.

The programming of economic activity, organised and financed by the state, can temporarily increase growth rates, stimulate new investments, increase export of commodities and capital and improve the country's balance of payments. But it cannot do away with the disproportion between branches or competition between industrialists. For although economic programming introduces some elements of planning into spontaneous production, the effect is limited, since anarchy is endemic in capitalist production. A result of the contradictions of modern capitalism, state economic programming is unable to remove them.

Of special importance in state economic programming is the regulation of relations between labour and capital. This regulation is commonly known as the "incomes policy". Emphasis should be made on the class essence of all forms of state-monopoly regulation, including the "incomes policy". All this regulation is subordinated to the interests of the monopolies and therefore cannot ensure balanced economic development in the interests of the working people.

Specifics of State-Monopoly  
Processes in Different  
Countries

To characterise the specifics  
of various state-monopoly  
processes it is necessary to  
understand correctly the

relationship between the essence of monopoly capitalism and the concrete forms it takes on in different countries.

Defining imperialism as monopoly capitalism, Lenin at the same time called British imperialism colonial, French imperialism largely usurious, and so on.

The system of state-monopoly capitalism has formed today in all the developed capitalist countries. Yet under the impact of historical developments in particular countries, the specifics of their socio-economic system, the role in the world economic system, the intensity of the class struggle and some other factors, various "types" of the state-monopoly system have emerged. State-monopoly capitalism in the United

States, for example, is characterised by huge private monopolies, a relatively small state sector in civil industries, an enormously important role of the military-industrial complex and the state's active involvement in international politics. The large-scale development of state enterprises and government economic programming is more typical of France and Italy. In part, this is because the French and Italian private monopolies are relatively weaker and need more support directly from the government. The intensity of the class struggle is also an important factor. In most of the smaller countries of developed capitalism state-monopoly capitalism develops primarily through the mechanism of indirect economic regulation.

State-monopoly processes have different levels of maturity and this has to be reckoned with. For the overwhelming majority of developed countries state-monopoly capitalism exists as the world system of capitalism which uses various methods to steer these countries toward the capitalist path of development.

The situation is more complex in countries with a medium level of capitalist development. Broad discussions have been started in recent years as regards state-monopoly capitalism in those countries. Most of the economists unanimously agree that the economy of these countries is undergoing serious changes, and that capitalist concentration and monopolisation intensify there. Yet opinions differ as regards individual countries. Some Brazilian economists, for instance, say that a system of state-monopoly capitalism is taking shape in Brazil. They are echoed by Mexican economists who also assert that their country has embarked on the path of state-monopoly capitalism. More cautious views are expressed, however, in relation to Columbia, Turkey and some other countries, where, experts believe, there have only appeared state-monopoly tendencies.

A correct answer to this question is important for the activity of the revolutionary forces. A scientific analysis of the problem must rely on the Leninist criteria of the essence of state-monopoly capitalism. These include: the level

of monopolisation, the degree of state participation in the economy, the degree of state-monopoly intertwining, a clear idea of in whose interests the single state-monopoly mechanism functions, and its role in the overall development of the national economy.

State-Monopoly Capitalism  
and Crisis of Modern  
Capitalist Society

The aggravation of the general crisis of capitalism in the 1970s and early 1980s has shown the inability of state-monopoly capitalism to curb the spontaneous, uncontrolled forces of capitalist production and market. On the other hand, this has brought about new forms of state-monopoly processes, which in turn contributed to the exacerbation of the contradictions of capitalism.

Moreover, the contradictory activity of the state-monopoly mechanism is today another factor exacerbating the capitalist crisis. Measures to reduce the growth of prices, for example, slow down production growth rates, while the stimulation of production increases prices.

The aggravation of the general crisis of capitalism in the 1970s and early 1980s is seen not only in the combination of cyclic crises and inflation, monetary, energy and other structural crises, but also in the paralysis of state economic regulation. Stagflation (stagnation plus inflation) is a new stage in the crisis of state-monopoly regulation of the economy. It is rooted in the aggravation of capitalism's general socio-economic and political contradictions.

In their feverish search for a way out of the impasse, of the socio-economic crisis that has gripped all the capitalist countries, most of the bourgeois economists and big capitalists arrive at the idea of rationalising the traditional instruments of state-monopoly regulation of the economy and finding a new recipe for saving the capitalist system.

Yet today, as before, there is no concensus among the proponents of state intervention in the capitalist economy as regards its future development, which only confirms the contradictory nature of state-monopoly capitalism.

Some bourgeois economists, fearing a further spread of

the socialisation of production, emphasise the importance of expanding the redistributory function of the bourgeois state, specifically by way of further budget increases and through various forms of government financial assistance to private capital. A research institute run by Mitsubishi, one of the biggest Japanese international corporations, has acknowledged that "the world economy is confronted with the greatest crisis" and suggested a "global policy of a new course". All this boils down to making huge government investments approximating the damage incurred by humanity during World War II.

Other bourgeois economists and representatives of state-monopoly capitalism call for a more centralised regulation and emphasise the priority of a structural policy and broader long-term orientation of state activities.

In the most recent period, however, the widest currency have received the ideas of removing the state from economic regulation altogether. Falling back on the popular masses' bitter disillusion with the activities of the bourgeois state and the crisis of the political structures of capitalist society, the ideologues of monopoly capital, who have long been advocating the curtailment of certain economic activities of the bourgeois state, are now especially active. It is safe to say that the crisis in the state-monopoly regulation of the economy has raised among the theorists of free enterprise a wave of criticism of the system of state intervention in the economy and evoked the nostalgic memories of the old good time when the role of the state in the economy was "minimal".

Very indicative in this context is the hectic activity of advocates of "free enterprise" in the United States, such as President Reagan and his associates.

The concept of neo-liberalism lives through a "renaissance" in Britain and some other capitalist countries.

According to Western press reports, the sphere of state-monopoly property has of late visibly decreased in some leading capitalist countries. This is confirmed by the takeovers of government enterprises by private capital in some industries, transport and the service sphere in Britain and the acquisition of several railways in Japan. Of course, it would be a mistake to overestimate these factors, because the importance

of mixed state-monopoly property is also sharply increasing and the bourgeois state is expanding its activity in such fields as financing and programming.

Giving his assessment of the recent-time tendencies, Gus Hall, General Secretary of the Communist Party, USA, was right to note that monopoly capital raises hue and cry, protesting against the government attempts to regulate economic activity. Yet it constantly seeks ever new regulations - those which would net it maximal profits. With every new regulation, the role of the state increases. This tendency is inevitable and will remain in force. The state's role, he went on to say, has reached a point beyond which, if it halts its activity or even drastically curtails them, the economy will plunge into an uncontrollable dive.<sup>1</sup>

As regards the bourgeois state's outlays for social needs, a new phenomenon has indeed occurred in recent years. This is the monopolies' open attack on the social gains of the working people. The facts show that a massive operation is now under way in the capitalist world to amputate the state social expenditures. In the United States, Britain and eight more developed capitalist countries the social schemes were cut down in 1980's for a sum totalling close on \$150 billion. These cuts affect the interests of the overwhelming majority of the population in the West.

The social programmes are curtailed in the interests of the mushrooming military-industrial complex of capitalism, because the most reactionary segment of the monopoly bourgeoisie is raising its stake on militarism.

The difficulties experienced by capitalism also affect its policy, including foreign policy. Visibly more active of late are the opponents of detente, of limiting armaments, and of improving relations with the Soviet Union and other socialist countries.

These reactionary tendencies in the development of modern state-monopoly capitalism are increasingly opposed by the international working class, by all democratic, peace forces.

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<sup>1</sup> See Political Affairs, Journal of Marxist Thought, December 1978.

#### 4. State-Monopoly Capitalism and Maturing of Prerequisites for Socialist Revolution

The development of state-monopoly capitalism irrespective of the will and aspirations of the monopoly bourgeoisie implies preparing the material and organisational prerequisites for the socialist revolution.

In his work "The Impending Catastrophe and How to Combat It", Lenin gave a profound analysis of the socio-economic essence and place in history of state-monopoly capitalism. He advanced the thesis that "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>

Being a material preparation for socialism, its threshold, state-monopoly capitalism cannot, however, automatically, without the socialist revolution, grow over into socialism. Lenin wrote: "... the erroneous bourgeois reformist assertion that monopoly capitalism or state-monopoly capitalism is no longer capitalism, but can now be called 'state socialism' and so on, is very common."<sup>2</sup>

State monopoly can only serve the interests of the people when state power is taken away from the bourgeoisie. This, however, can only happen as a result of the socialist revolution.

The development of state-monopoly capitalism leads not to the stabilisation of capitalism as a social system, but to the exacerbation of all capitalist contradictions and to an upswing of the anti-monopoly struggle.

Intensification of  
Main Contradiction  
of Capitalism

Massively socialising production and centralising its management, state-monopoly capitalism is carrying to extremes the basic contradiction of the bourgeois system, the contradiction between the social nature of production and the private mode of ap-

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<sup>1</sup> V.I.Lenin, Collected Works, Vol. 25, p. 359.

<sup>2</sup> Ibid., pp. 447-448.

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

So, in state-monopoly capitalism the socialisation of production is carried to its extreme point, the transformation of production in something centralised, calculated, controlled and "socialised".<sup>1</sup> This implies not only a material and technical, but also organisational preparation for socialism, i.e. the creation of general state mechanisms for accounting and control, and for the regulation of social production. These mechanisms may and should be used by the revolutionaries when building socialism, because, as Lenin wrote, "socialism is merely state-capitalist monopoly which is made to serve the interests of the whole people and has to that extent ceased to be capitalist monopoly".<sup>2</sup>

However, state-monopoly capitalism seeks the reactionary objective of consolidating capitalism. It leads to growth in the economic and political power of the monopolies and to exacerbation of the basic and other contradictions of capitalism. State-monopoly capitalism resorts to coercion and socio-economic manoeuvres in a bid to put pressure to bear on the proletariat, to split up the revolutionary forces and to counterpose the various detachments of the revolutionary movement.

Under state-monopoly capitalism state coercion plays a more important part in the economic life of bourgeois society than ever before.

The use of force by the bourgeoisie against the proletariat reaches its maximum. The police and military functions of the state expand, because the state is used by the monopolies to suppress the working people and to continue their attack on the standard of living of the working class. For many years now the state has been pursuing a policy of wage

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<sup>1</sup> See V.I.Lenin, Collected Works, Vol. 27, p. 294.

<sup>2</sup> Ibid., Vol. 25, p. 362.



freezes, keeping wages at a low level, while consumer goods prices are rising. The financial oligarchy prevails on the state apparatus to introduce more and more reactionary laws, to undermine the trade-union movement, and to control it, to make it extremely difficult for the workers to wage their economic struggle, drastically to limit their right to strike, while giving unrestricted freedom to strike-breakers, and to restrict the workers' participation in their country's political life.

All this, of course, intensifies the class conflicts in bourgeois society. It also changes the conditions of the proletariat's class struggle. The working class no longer faces individual monopoly companies, it has to fight the united front of monopoly capital and the state. Under these conditions any major action by the proletariat becomes political in character.

State-Monopoly Capitalism  
and Struggle of Communist  
Parties for Democracy and  
Socialism

The development of monopoly  
capitalism into state-monopoly  
capitalism is of prime import-  
ance to charting the strategy  
and tactics of the revolution-

ary movement. It makes it necessary to fight for a democratic alternative to state-monopoly capitalism. This objective needs evolve from the fact that state-monopoly capitalism intensifies reaction and the domination of the financial oligarchy, since this is its class function. At the same time state-monopoly capitalism, which is developing under the influence of the scientific and technical revolution (which promotes intensification), raises the productivity of social labour and makes social manoeuvring easier for the monopoly bourgeoisie, thus obstructing the formation of a political army of the socialist revolution. Moreover, state-monopoly capitalism creates the mechanism, the skeleton of a system of social management, which can and must be used by the democratic revolutionary forces.

With the development of state-monopoly capitalism the imperialist bourgeoisie extends its oppression to ever wider sectors of society. The social structure is changing fast;

the industrial proletariat and hired mental workers, and also peasants and small entrepreneurs are drawing closer together. This makes it possible to unite all democratic movements opposing state-monopoly capitalism into a single anti-monopoly front.

In these conditions, Communists set forth, on the basis of Lenin's theory of imperialism and state-monopoly capitalism, a broad programme of socio-economic changes in the capitalist countries, which open before the whole of society the way to socialism.

The current economic programmes of the communist parties in the capitalist countries insist that the main blow must be spearheaded at the heart of modern capitalism - monopoly property and the system of state-monopoly capitalism. Communists are endeavouring to establish working-class control over the economy and social ownership of key enterprises, and to bring about democratic nationalisation.

The other direction of the working-class struggle is the demand for a thorough reform of the management of the economy through the organisation of democratic planning and the utilisation of other methods of regulating the economy in the interests of the working class and the broad democratic sections of society.

Democratic control presupposes direct participation of the working class in economic management, both at enterprises and at state level.

The communist parties support the working people's demand that the power of the owners of private companies be limited by the participation of the shop-floor and office workers in the management of these companies and the related enterprises. As to the concrete forms of such participation, they will, according to the prevalent view within the international communist and working-class movement, be prompted by the working people themselves. In the final analysis, the expediency of a particular form of the working people's participation in management will depend on its efficacy as a method of limiting the power of the monopolies and democratising production processes.

This participation in management will not be effective

unless the democratic forces insist on the takeover of the entire machinery of state economic management state-monopoly capitalism has created.

The takeover and management of the state sector in the interests of society and the extension of the state sector by nationalising various forms of monopoly property are the material basis of democratic control over the economy, the key to the solution of the fundamental problems of anti-monopolistic democracy. These demands are reflected in the slogan of democratic nationalisation, which is formulated in programmatic documents of many fraternal communist parties.

The actual content of the programme for the establishment of democratic control over the economy in general, and democratic nationalisation in particular, varies from country to country. But the feature all these programmes have in common is the demand to curb the power of the monopolies and to create an economic basis for anti-monopolistic democracy. The methods vary because the national forms of state-monopoly capitalism, the traditions of the working-class movement, the level of consciousness achieved by the mass of the working class, and the correlation of the class forces in the country are different.

In recent years the communist parties have rightly emphasised the great importance of capitalist economic programming. But the Communists demand democratic planning, not state-monopoly programming. The slogan of democratic planning includes the following three major propositions:

First, the communist parties do not advocate the abolition or curtailment of economic programming. They are not fighting the monopoly bourgeoisie over the necessity for state intervention in the economy; but over the nature and direction of economic programming.

Second, the communist parties expose the true nature of state-monopoly programming, and show that capitalist programming is the inevitable consequence of the growth of state-monopoly capitalism. In modern conditions the oligarchy, which controls the state machinery, uses programming for its narrow, selfish class interests.

Third, the Communists realise that to fight the finan-

cial oligarchy they must set up their own positive economic programmes in opposition to state-monopoly regulation. That is why the communist parties give major attention to working out constructive economic development programmes.

In keeping with the above, the democratic programmes provide for higher wages, better working conditions and housing, more money for education, culture, science, a wider system of social security, upholding of the interests of white-collar workers and intellectuals and the working peasantry, and a better life for women and young people. The programmes outline measures to help the smaller and medium enterprises, to protect them against the monopolies. The communist parties' economic programmes meet the vital requirements of the development of the productive forces. The working class thus offers a solution for the acute general national problems, which capitalism is unable to solve owing to its exploiter essence.

The struggle against the monopolies and the system of state-monopoly capitalism has become especially important in the setting of the crisis of the 1970s and early 1980s.

Analysis of the practical actions by the bourgeois state shows that state-monopoly regulation is far from alleviating the contradictions of capitalism and only aggravates them.

In this context the Communists intensify their struggle to uphold the interests of the working people, expose bourgeois ideologists and renegades of all hues who attempt to relieve the capitalist system, its ruling monopoly élite and the state-monopoly system of the responsibility for the crisis. They put forward a democratic alternative to state-monopoly regulation.

It should be emphasised that the current economic programmes of the communist and workers' parties of the capitalist countries are spearheaded not only at the bourgeoisie but also at reformism whose proponents portray state-monopoly capitalism as "islands of socialism" and deem it possible to achieve socialism without the socialist revolution and the leading role of the working class and its communist vanguard.

On the other hand, these programmes are spearheaded at "left" opportunism and dogmatism, whose advocates accuse the

Communists of giving up the struggle against capitalism and reject the revolutionary importance of the struggle for deep-going socio-economic changes.

In reality, the achievement of the democratic alternative to state-monopoly capitalism, the undermining and liquidation of monopoly property which is the economic basis of modern state-monopoly capitalism, the cohesion of all anti-monopoly forces under the leadership of the working class headed by its communist vanguard, will signify, as Lenin put it, "inevitably and unavoidably" "a step, and more than one step, towards socialism".<sup>1</sup>

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 25, p. 362.

## Chapter 10

### SCIENTIFIC AND TECHNOLOGICAL REVOLUTION AND AGGRAVATION OF SOCIO-ECONOMIC CONTRADICTIONS OF CAPITALISM

As was shown in the preceding chapters, the principal features of imperialism and state-monopoly capitalism are closely connected with the progress of society's productive forces. The mid-20th century witnessed pronounced qualitative changes in the development of the productive forces -scientific and technological revolution (STR). From the viewpoint of dialectics of historical evolution of social production the scientific and technological revolution is an upheaval in the productive forces, their profound transformation on the basis of the latest scientific and technological achievements. The STR is characterised by the immensely growing role of science which turns into a direct productive force; major advances in production techniques, such as automation with employment of electronic devices, use of atomic and other new kinds of energy, new raw materials, obtained as a result of achievements in chemistry, use of computers in communications and production management; new opportunities of governing social processes, as well as essential changes in the nature of labour.<sup>1</sup> The STR is a law-governed stage of the scientific and technological progress, with periods of rather smooth evolutionary development giving way to revolutionary leaps.

The capitalist epoch witnessed several such leaps, of which the main were the industrial revolution (end of the 18th - beginning of the 19th century) that gave a powerful impetus to the development of large-scale capitalist machine industry, and revolution in social sciences (late 19th - early 20th century), which laid down the foundations for modern shifts in science and technology. The current scientific and technological revolution is connected with characteristic

<sup>1</sup> See Scientific and Technological Revolution and Contradictions of Capitalism. International Scientific and Technological Conference, Nauka Publishers, Moscow, 1981, pp. 6-8 (in Russian).

features of the worldwide transition from capitalism to socialism, general march of the world revolutionary process.

The study of contradictions brought about and aggravated by the STR is important for the analysis of causes and tendencies of such phenomena of modern capitalism as numerous and many-faceted crises, the arms race, climbing unemployment, inflation and high prices. The study helps communist parties elaborate their economic policies to meet the working people's interests, and in their struggle to reorganise society along socialist lines.

Since the scientific and technological revolution is a composite phenomena, different sciences deal with the individual aspects: the course of political economy examines its economic, social-class aspects under capitalism and related socio-economic contradictions.

The works by Marx, Engels and Lenin, documents of the CPSU and international communist movement deal with the theory and methods of analysing the scientific and technological revolution, its specifics and consequent results under capitalism.

### 1. Two Tendencies in the Development of Science and Technology Under Capitalism

Marx and Engels About  
Technological Progress  
Under Capitalism

The founders of Marxism-Leninism were first in social thought to thoroughly analyse the entire history of science and technology in direct connection with the change in production relations and to ascertain the character of this connection and laws of the scientific and technological progress under the capitalist mode of production. The profound analysis of the technological progress' internal structure allowed Marx to show the socio-economic role of its individual tendencies and component parts. Thus, he found out that changes in the nature of instruments of labour play a decisive role in the development of social relations and that the process had begun of transformation of science into a direct productive force.

Further, Marx and Engels proved that capitalism played

a progressive role, as compared with the preceding formations, in the development of the productive forces in general and in improving technology and knowhow in particular. They also exposed the contradictory character of the technological progress under capitalism, the limited nature of its capitalist stimuli and of applying its results. This limited nature arises from the fact that under capitalism the scientific and technological progress is a function of capital and serves the aim of raising profits and intensifying exploitation rather than public interests. Marx and Engels irrefutably proved that employment of new machinery in the capitalist enterprises led to more vigorous exploitation of labour by capital, causing damage to the main productive force--workers. Alongside the growing labour productivity, new instruments of labour, machines become a means of increasing labour intensity in the hands of capitalists. The founders of Marxism showed in their works that the technological progress stimulates unemployment and is a major structural element of operation of the general law of capitalist accumulation.

Marx, Engels and Lenin dealt at length with studying the scientific and technological progress as a factor of capitalist socialisation of production. The growing social division of labour, "cooperation of machines", concentration and centralisation of production, capital and labour power in ever expanding enterprises, speeded up by using the latest scientific and technological breakthroughs, are conducive to higher rates of its socialisation and lead to further aggravation of the basic contradiction of capitalism.

Lenin on Contradictions of the Scientific and Technological Progress at the Imperialist Stage

In his studies of imperialism Lenin substantiated and further developed the provision on the two tendencies in technologic-

al progress under imperialism: (1) towards retarding the technological progress by monopolies due to their dominant position in production and the market and resulting opportunities for deriving monopoly profit; (2) towards rapid development of technology, since under imperialism the rise in



productivity and intensiveness of labour leading to increase in relative surplus-value is the main instrument for obtaining higher profits. The second tendency prevails among these two. Otherwise, there would not have been the movement of the productive forces, but their stagnation. Lenin wrote: "The possibility of reducing the cost of production and increasing profits by introducing technical improvements operates in the direction of change."<sup>1</sup> He also stressed that capitalism incredibly retards the productive forces' development, otherwise "much progress could be achieved on the basis of the level of technique already attained"<sup>2</sup>.

Lenin paid particular attention to analysing the technological progress' impact upon social processes, defining the essence of the scientific and technological progress as the replacement of human labour by functioning of a machine. He laid a special emphasis on the significance of the technological progress as a factor of climbing unemployment and aggravating class antagonism in general. "Thus, improvement in technology signifying increased labour productivity and greater social wealth, becomes in bourgeois society the cause of greater social inequality, of widening gulfs between the rich and poor, of greater insecurity, unemployment, and various hardships of the mass of the working people."<sup>3</sup> Lenin drew the conclusion on widening discrepancy between capitalist production relations and achieved technological level: "Capitalist technology is increasingly, day by day, out-growing the social conditions which condemn the working people to wage slavery."<sup>4</sup> The scientific and technological progress, he said, accelerates the preparation of material conditions for socialism. "By concentrating the means of production and exchange and socialising the process of labour in capitalist enterprises, the improvement in technology more and more rapidly creates the material possibility of capitalist production relations being superseded by socialist relations."<sup>5</sup> He put a special stress on the impact of the technological progress upon intensifying

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 276.

<sup>2</sup> Ibid., Vol. 25, p. 488.

<sup>3</sup> Ibid., Vol. 24, p. 467.

<sup>4</sup> Ibid., Vol. 19, p. 62.

<sup>5</sup> Ibid., Vol. 24, p. 460.

the anarchy and unevenness of capitalist development in its imperialist stage.<sup>1</sup> Lenin showed that the development of science and technology under imperialism proceeds equally unevenly, interruptedly and in contradictory forms.

All these characteristic features, laws and contradictions of the scientific and technological progress under capitalism are particularly evident in the present-day scientific and technological revolution.

## 2. Basic Features of the Scientific and Technological Revolution

Remaking the Productive Forces      Let us deal in detail with the STR's content. Remaking the productive forces in the course of the STR constitutes a whole complex of phenomena and processes in science and technology, in their interaction. In totality these processes alter the very character of the productive forces of society. Cardinal changes are under way in all their components and elements: in instruments and objects of labour, sources and means of receiving energy, in the system of communication, production management, methods of research, forms of links between science and production, and, finally, in the main productive force - the working man. Specific trends of the STR are: automation of production and its management with the help of computers, chemicalisation of production and creation of new materials with afore-set properties, use of atomic energy in various spheres of production and services, development of jet, laser, space and other types of technology.

The scientific and technological revolution is closely linked to social production relations both in its origins and causes, and in its consequences and results. The current deep-going revolutionary changes in social relations are combined with the revolution in science and technology, which is a component part of the process of replacing capitalism by socialism.

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<sup>1</sup> V. I. Lenin, Collected Works, Vol. 22, pp. 208-209.

The scientific and technological revolution directly reflects a tremendously high level of maturity of material prerequisites for socialism in modern society: productive forces, obeying, in one part of the world, to the development laws of the capitalist mode of production in the period of its decay, and, in another part of the world, to the laws of the socialist mode of production which has entered the period of developed socialism.

The revolutionary changes in science and technology under socialism differ from that under capitalism. The latter seeks to employ the scientific and technological breakthroughs in its own interests, namely, to increase profit and consolidate its position in the struggle against socialism, to intensify exploitation of the working people. However, in the final count, the STR leads to further aggravation of contradictions of this system.

Under socialism the achievements of the STR serve the interests of society as a whole. The STR's results combined with advantages of the socialist system is one of the crucial levers of building the material and technical base of communism. Precisely in the womb of socialism, in the Soviet Union, the STR produced the most important breakthroughs, among them the first automatic line, first Earth artificial satellite, first atomic power station, first flight of man in space.

For capitalism mastering the STR's achievements has been, from its very inception, one of the problems of capitalism's "survival" as a system.

Nowadays, the scientific and technological revolution has become an important field of historical competition of the two systems.

Science as Direct  
Productive Force

The revolutionary character of scientific and technological breakthroughs of recent decades is evident in all

the basic processes, constituting, in their totality and interaction, the scientific and technological revolution.

The leading role of science in developing social production, its conversion, on ever larger scale, into a direct

productive force is one of the principal features of the STR. The current revolutionary shifts in all spheres of social production were prepared by achievements in such fields of modern science as nuclear physics, radioelectronics, above all, microelectronics, chemistry, mathematics, management, cybernetics, biology, as well as signal discoveries on the "junction" between sciences: in biophysics, molecular biology, biochemistry, bionics, astrobiology, molecular electronics, heuristics, etc.

The achievements of modern science, its penetration into the depths of matter, internal structure of atom, space, secrets of biological processes, revolutionise various industrial branches, construction, transport, communications, agriculture.

The decreasing gap between scientific discoveries and putting them to practice reflects the growing effectiveness of science's intruding into production. Whereas it took one hundred years to create power-stations since the discovery of electricity, 80 to create the first steam-engine since the discovery of steam power, 56 years to make the first telephone since the discovery of the possibility to transmit human voice over distance; the discovery of telecasting images over distance was put to practice in 12 years, of semiconductors' properties in three years, and of the opportunity to produce laser ray, only in two months.

The mid-20th century witnessed a powerful intrusion of science into production, with a new stage setting in turning science into the direct productive force.

By the direct productive force of science Marx meant knowledge, materialised by man, embodied in technology, machinery, in the major means of production, operating under the control of human mind, i.e. participation of science in the very production process, both in the form of the means of production created in accordance with its discoveries ("hand-made instruments of human brain")<sup>1</sup> and in that of regulating the production process. The development of constant capital was, according to Marx, an indicator of turning science into the direct productive force.<sup>2</sup>

<sup>1</sup> K.Marx and F.Engels, Collected Works, Vol.46, Part II, p.215 (in Russian).

<sup>2</sup> Ibid.

Under the current scientific and technological revolution the productive force of science operates in all economic fields, including in the services and management. This force is used as a means of social intercourse, spread of information, research into formerly inaccessible fields (space, intranuclear processes under very high temperatures and pressures, in vacuum, etc.). Science embraces all elements of production: constant and circulating capital (synthetic raw materials), technology and organisation of labour and administration of society and production.

The integration of natural and social sciences is truly important in revolutionising the productive forces. The STR enhances the role of not only natural but also social sciences. They are employed, for example, at all levels of management. However, a truly scientific administration of society is possible solely in the socialist society on the basis of Marxist-Leninist social science.

Changes in Character  
of Labour

In the course of the scientific and technological revolution qualitative changes take place in the main productive force, man himself, in the place he occupies in the production process, in the character, quality and productivity of his labour, the level of his education and culture. All these changes, in the final count, come as a result of man's activity. (1) The automation of production and other trends of the scientific and technological progress allow to improve labour conditions and eliminate hard physical work. (2) The share of control and creative functions of labour grows, whereas the portion of labour expended directly to act on the object of labour diminishes.<sup>1</sup>

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<sup>1</sup> Way back in the 19th century, Marx analysed the impact of machine system upon the character of labour in large-scale capitalist production and revealed the tendency towards removing labour from the very process of production. He wrote: "Labour acts already not so much as that included in the production process, but, on the contrary, as the labour which makes a man a controller, a regulator of the production process proper... Instead of being a principal agent of the production process, the worker only stands close to it" (K.Marx and F.Engels, Collected Works, Vol.46, Part II, p. 213 /in Russian/).

Automation, radioelectronics, telecontrol and other modern instruments of production make technically possible the complete removal of living labour from the production process.

(3) The STR alters the character of social labour and produces possibilities for steeply raising its productivity. Already now, in its initial stage, the STR increases the manufacture of certain types of produce several times over, with the same or even reduced number of workers. Automation, if used alongside other forms of scientific and technological progress, would be able to raise the productivity by 100 or 200 per cent and even more in manufacturing certain types of output. However, the realisation of possibilities of increasing labour productivity provided by the STR depends on the totality of production, material and technical, and socio-economic factors, which are conditioned, above all, by the general laws governing a given social system.

Further Growth of Social  
Character of Labour

The current revolution in the productive forces has certain production-technological and socio-class tendencies. In terms of the production-technological tendency that is a leap towards overall mechanisation and automation of production. The socio-class tendency is the transition to such production structure which corresponds to the communist formation. At the same time the very development of the scientific and technological revolution is the process of more profound socialisation of the productive forces and expansion of the material base for socialism.

All the basic tendencies of the STR increase the social character of production. The employment of scientific and technological achievements in production accelerates its specialisation and cooperation nationally and internationally and promotes the all-round interconnections within the economy. The division of labour becomes more pronounced when not only separate parts of finished product but even individual operations to manufacture them are performed in different enterprises, or even in different countries. Simultaneously the tendency develops towards universalisation of plant and

technology, the same technological achievements are employed in various branches (say, atomic energy and laser). Under these conditions new impulses are given to productive cooperation. The latter half of the 20th century witnessed the emergence of a new sphere of socialising and productive forces - the utilisation of nature which, being global in character, raises the economic interdependence of all countries in the world.

In the developed capitalist countries the STR promotes the formation and further development of important material conditions for building socialism, such as high scientific and technological potential; administrative potential highly developed and equipped with the latest technical means; industrialisation of agricultural production; quantitative and qualitative growth of the principal revolutionary force, the vanguard of all the revolutionary forces - the working class, the army of wage labour.

All the above progressive processes in furthering the productive forces come up against the limited framework of private capitalist interests and ownership. The basic contradiction of capitalism, that between the social character of production and private capitalist appropriation, becomes even more acute. The further the scientific and technological revolution marches forward, the stronger is its impact on the economic and social foundations of capitalist society, and the more evident becomes the necessity of such social changes that are incompatible with the very existence of the capitalist system.

International Meeting of  
Communist Parties on  
Contradictions of the STR  
Under Capitalism

The documents of the 1969  
International Meeting of Communist and Workers' Parties held in Moscow stressed that the scientific and technolo-

gical revolution provided humankind with unprecedented opportunities of transforming nature, creating huge material wealth and multiplying man's creative abilities. Whereas all these opportunities should benefit everybody, capitalism makes use

of the STR for increasing profit and enhancing the exploitation of the working people. "The scientific and technological revolution accelerates the socialisation of the economy; under monopoly domination this leads to the reproduction of social antagonisms on a growing scale and in a sharper form."<sup>1</sup>

The mounting STR aggravates, above all, the "contradiction between the unlimited possibilities opened up by the scientific and technological revolution and the roadblocks raised by capitalism to their utilisation for the benefit of society as a whole. Capitalism squanders national wealth, allocating for war purposes a great proportion of scientific discoveries and immense material resources".<sup>2</sup>

The scientific and technological revolution sharpens yet another contradiction - between the social character of modern production and its state-monopoly regulation. Finally, as the Meeting noted, the STR intensifies the contradiction between labour and capital and makes more pronounced the antagonism between the interests of the overwhelming majority of the nation and those of finance oligarchy.

Bourgeois Distortions  
of Essence of STR

The bitter ideological struggle  
rages round the issues of the  
scientific and technological

revolution. At its initial stages many bourgeois ideologists predicted the onset of the "golden age" for capitalism. The economic crises in capitalist world in the 1970s-early 1980s convincingly prove that the STR did not cure capitalism of its defects. In this connection current are now somewhat renewed variants of theories of gradual "transformation" of capitalism into a society free of the class struggle, in which "pure" science and technology will replace politics. These theories characterise revolutionary shifts in science and technology as a completely autonomous process, independent of social relations, which gradually absorbs all social and political institutions. Most bourgeois definitions of the STR's essence are characterised by this "technological determinism" and often reduce the characteristics of the STR only to one of

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<sup>1</sup> International Meeting of Communist and Workers' Parties, Moscow 1969, Prague, 1969, p. 19.

<sup>2</sup> Ibid.



its directions. Thus, for example, the US sociologist Dibold writes about "cybernetic revolution", Brzezinski, about "technotronic revolution", John Galbraith, about new industrial society (with "technostructure" as its core), Fourastié, about creating "scientific society" free of political and social antagonisms, Daniel Bell, about the dominance of "intellectual technology" in "new coming society".

The class essence of "technological determinism" lies in veiling insoluble social contradictions of capitalism and in efforts to "suggest" to the bourgeoisie the idea of the possibility to eliminate the class struggle by replacing the working class with mechanisms and automatic machines.

In their analysis of the problems related to the STR bourgeois ideologists employ the "convergence" theory, i.e. the theory of growing "similarity" and "erasing the barriers" between capitalism and socialism. At the same time some of them actually acknowledge the inability to resolve social problems brought about by the scientific and technological revolution, and proclaim the transition to some new society, now or in the future. In reality, however, it is nothing more than the justification of monopoly rule under the anti-capitalist cover. Thus, the widely publicised theory of "post-industrial society" deals with capitalist corporation, i.e. monopoly, as a force which coordinates interests.

The practice of the capitalist world refutes bourgeois theories and corroborates that the STR in itself is unable to deliver capitalism of its diseases.

### 3. Scientific and Technological Revolution and Capitalist Production

Under capitalism the STR produces contradictory influence upon production. The introduction of scientific achievements in production in the developed capitalist countries promotes the accelerated economic growth rates within certain phases of economic cycle. At the same time, scientific and technological breakthroughs are combined here with crises, upheavals and failures in economic and social areas, which is understandable since monopolies and the bourgeois state are

doing their best to exploit the STR's gains in their class interests, not to the benefit of society.

#### STR and Economic Growth

The scientific and technological revolution in its early stage

when achievements in science and technology began to be introduced in production on a large scale somewhat improved economic situation in the developed capitalist countries. It is particularly true of the 1960s. Rapid rise in investment in science, in renewing constant capital contributed to expanding Department I of social production and the market of consumer durables. The growth rates of the gross national product accelerated.

The STR is responsible for major structural changes in production. New branches determining the general technical level of the economy began to develop at accelerated rate: engineering, particularly radioelectronics and computer production, nuclear energy, automation, production of polymers, etc. The correlation between branches of material production and the services altered in favour of the latter. The share of those employed in agriculture fell drastically due to production concentration and tremendous influx of modern machinery to this branch and rise in labour productivity.

While facilitating production growth and structural shifts in the economy, the STR's achievements are, at the same time, used to enhance omnipotence of monopolies and state-monopoly capitalism.

The accelerated, under the impact of the STR, concentration process and further growth of state-monopoly capitalism lead to still greater polarisation of society, concentration of economic power in the hands of gigantic monopoly conglomerations, commanding various industries, banks, communications, research-and-production and military-industrial complexes and being "represented" in government bodies and the system of state economic regulation.

Under capitalism progress in science and technology invariably entails increasing unevenness and disproportions in the economic development. Pointing out the rapid rate of technical progress in the imperialist epoch, Lenin emphasised

also that it "gives rise to increasing elements of disparity between the various spheres of national economy, anarchy and crises".<sup>1</sup>

During the STR this unevenness appears to be still more acute. Disproportions among production branches grow and correlation between them alters all the time. Over the last twenty years the vigorous expansion of the services sphere is particularly evident, as a result the share of industry has decreased. Unevenness at the microlevel, i.e. on within enterprises, consists in that at one and the same plant there are sectors of highly automated production alongside those where manual labour still persists. This situation arises from the fact that it is more profitable to capitalists to pay to a larger number of unskilled workers rather than to introduce new automated machines.

Aggravating Contradictions  
of Capitalist Reproduction

The STR does not eliminate but, on the contrary, intensifies the contradictions of reproducing social capital and makes economic crises more serious. Three economic slumps of the 1970s and early 1980s, as well as the most severe postwar economic crisis of 1974-1975, are directly connected with the capitalist form of the unfolding scientific and technological revolution.

Rapid development of science and technology, speeded-up introduction of resulting achievements in production allowed to protract the upsurge phase in the 1960s. However, subsequently, the above factors intensified the crisis falling-off of production and made economic declines occur more often than before.

The global scale of economic recessions and crises in recent decades largely hinges on the accelerated process of internationalisation of capital, which is likewise linked to the capitalist way of introducing the STR's achievements in production. The emergence of new technological opportunities of studying the market situation of commodities and capital, transportation, establishment of diversified network of sub-

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 209.

sidiary enterprises of major monopolies throughout the world, production management from a single centre, situated thousand kilometres away from objects it administers, sharply increase the volume of international economic ties. Hence it is quite natural that major capitalist nations "export" crises embracing the entire capitalist periphery.

The unemployment of the 1970s and early 1980s, unprecedented since World War II, results, to a large degree, from production automation and rationalisation and leads to reduction of jobs. This is also corroborated in periods of relative upswing, in the ascending phase of the cycle.

Tendency Towards Retarding  
Technological Progress Under  
Present-Day Conditions

In his time Lenin revealed  
the tendency towards re-  
tarding technological pro-  
gress by monopolies, which

operates in the modern capitalist economy alongside the factors speeding up the scientific and technological progress. A number of other factors, those slackening its pace and limiting its scale in comparison with the available material and technical potential are also under way. The main among them are private ownership, interests of monopolies, which seek to convert the scientific and technological achievements into another source of their enrichment, bitter competition and non-productive expenditure connected with it, huge idle production capacities. Monopolies often buy up and shelve patents for technical inventions.

Apart from the organisations that ensure rapid introduction of the scientific achievements in production, and charge high for the services, in the USA there are special patent pools that buy up patents in order to prevent the innovations being widely applied and thus guarantee easily obtainable profits to "their own" monopolies.

Low wages of a considerable part of the working population, particularly women, "coloured" and emigrants, are one of the major brakes on technological progress under capitalism since they allow to augment profit by increasing the number of workers and without expenditure for new technology. The export of capital to countries where labour power is cheap

adversely affects technological progress.

Monopolists introduce new technology into production not only for the sake of saving on payment for labour power, but also to compensate for idle equipment, whose share is now immense owing to the growing chronic underloading of production capacities. Hence the increasingly limited scope of using new techniques.

The narrowness of the market, with its unstable and unreliable character, also impedes the development of new technology in the capitalist countries. Monopolies take measures to make articles morally and physically obsolete with the aim of expanding the market. For example, they manufacture automobiles, transistors or electric bulbs of lower quality to curtail their durability, thus forcing the purchaser to buy new commodities more often. Alongside the above obstacles in the way of the unfolding scientific and technological revolution, the capitalist countries command considerable reserves and potential in this sphere. Among them are: the already available and rapidly expanding scientific and technological reserve, improved computers, extensive application of micro-electronics, vast use of industrial robots, deepening and expanding automation of production, application of the latest discoveries in biology. As long as scientific and technological achievements are in the hands of monopolies or under their control, they are no more than the reserves of the capitalist system's self-preservation.

In terms of the world capitalist economy the uneven development of the scientific and technological revolution assumes truly contrasting dimensions. The bulk of technical innovations is concentrated in the USA. Today Japan and the Federal Republic of Germany are catching up with the USA, though the gap in favour of the latter is still wide.

The STR's effect is also felt in the developing countries. However, discrepancy in the level of scientific and technological achievements between the developing and industrialised capitalist countries is not only great as it is but tends to increase still more, particularly it concerns their introduction in production.

The specific feature of the STR in the developing

countries consists in the fact that their own economies are passive as regards the furthering of the STR, for their industrial potential is still underdeveloped. The developing countries technically depend, to a varying degree, upon the industrialised capitalist countries, upon imperialist monopolies.

#### 4. Scientific and Technological Revolution and Growing Capitalist Exploitation

Under capitalism the application of the STR's achievements is characterised by a clear-cut class orientation. Monopolies make use of them for increasing profits, consolidating their positions in the scramble for market and new spheres of investing their capital.

In the period of the STR monopoly profits gain unwitnessed scope even during economic crises. What is more, profits are increasingly concentrated in the hands of big companies, conglomerates and transnationals, which widely apply the latest scientific and technological achievements and produce the most updated technical devices and equipment, such as radio-electronic apparatuses, means of automation, etc.

With the most of the latest technical innovations in their hands the military monopolies boast of particularly high rate of profit.

The growing number of people exploited by capital, rise in the share of wage labour are also connected with the possibility of increasing the effectiveness and rates of production development as a result of using the scientific and technological achievements. Contrary to the bourgeois scholars' assertions, the working class in the non-socialist world continues to grow quantitatively and qualitatively. This is explained by the fact that masses of the working people are released in branches where formerly small private economy predominated (e.g. crop-growing) owing to mechanisation and integration of production, development of new branches of machine industry and formation of new detachments of labour power with higher qualification.

Growing Labour  
Intensity

The influence the STR exerts upon the working class of capitalist countries is contradictory. It is indisputable that the working people derive certain benefits from it: better food, clothing, dwelling, means of communication and living conditions. Higher are the educational level of the working class and its qualifications. The number of workers connected with technology and, to a certain degree, with science grows. At the same time, as a result of the STR the life of the working people becomes even more difficult.

The adoption of new techniques facilitating the growing of labour productivity is accompanied by greater labour intensity. The introduction of automation, electronics and computers augments the labour intensity in terms of the worker's nervous system and psychology. Hence the increasing number of cases of mental disorders, nervous breakdowns, and cardio-vascular diseases among the workers and employees. Statistics proves that accidents in industry and occupational diseases have become more frequent.

The varying degree of automation and mechanisation of individual production sectors forces the workers engaged in non-automated fields to keep up with the rates achieved in branches equipped with updated techniques. Hence the increase in the overall rate of labour. The exploitation of the working class in the form of obligatory overtime work enhances. The share of the creative aspects of labour decreases for many workers. The exploitation increasingly involves brainworkers - engineers and research workers.

Climbing Unemployment

The use of the STR's achievements in the monopolies' mercenary narrow-class interests steeply aggravates the problem of unemployment. Approximately two-thirds of capital investments in the main capitalist countries are spent to replace the outdated equipment by the new, more productive machinery. Thus, labour power is increasingly excluded from production.

Certain bourgeois economists allege that expanded production of the new means of labour allows to "compensate" for the jobs lost as a result of the updating of technology. True,

the STR opens up new spheres of activity involving additional labour power. The peculiarity of these new branches, however, is that they either demand workers of correspondingly new qualifications or, on the contrary, draw into production non-qualified workers hastily trained to perform simple operations, whereas the experienced qualified workers and young people, just about to start working, are left out of jobs.

Therefore, despite the speeded-up development of new branches absorbing considerable labour power, the multimillion army of unemployed is swelling in the capitalist countries.

The fact that the ranks of the unemployed are replenished not only by the workers but also by engineers and scientists, the people at the forefront of the scientific and technological revolution, is one of the salient features of unemployment, caused by the STR.

Unemployment and dismissals connected with the introduction of new technology lower the working people's living standard both directly and indirectly forcing the discharged qualified workers to agree to lower pay or harder work.

Crisis of the Education                      The new scientific and technological level of social production demands higher level of general education as well as vocational training. The average term of instruction grows in the capitalist countries. But the more time is spent on education the costlier it is and less accessible for the "lower sections" of society.

Rapid changes in techniques, technology and organisation of production, emergence of ever new fields of knowledge, specialisation in science and technology demand the workers' ability to perform the work efficiently in any production situation. This is why they must have a rather wide scope of knowledge of basic natural and social sciences, of all the main principles of operation of modern technical means.

The working class in its stubborn struggle achieves certain improvements in its education and vocational training. Nevertheless, the existing system of education far from corresponds to the level of qualification of workers required by the present-day stage of scientific and technological progress.



Monopolies and bourgeois governments are not interested in high expenditures necessary to restructure and expand the system of education. Neither do they favour the promotion of general cultural level and outlook of the workers, which would contribute to the working people's greater activity and their struggle for access to education.

With the overall rise in the level of the working people's vocational training the share of hastily trained workers of average qualification grows. It concerns operators of automatic lines whose labour lacks constructive functions.

Changes in the Structure  
of Economically Active  
Population

The growth in the number and share of the wage-labour army exploited by capital caused by the scientific and technological

revolution is of a twofold character. The ruined petty proprietors and their families form the army of non-qualified and semi-qualified workers. Simultaneously grows the number of engineers, technicians, scientific intelligentsia and workers in the sphere of production management. All these people make up an "aggregate worker" creating today material wealth of society.

The structure of the working class also changes with workers of new professions playing greater role. The process of proletarianisation of the middle sections, engineers and scientists is under way. Part of the new sections of hired workers from among former small proprietors and intellectuals are either included into the working class or draw closer to it in their position and living standard. All this equips the working class with new possibilities of striking broad anti-monopoly coalitions. At the same time these processes create new problems for the working-class movement. The level of class awareness of new sections of the working class is lower, as a rule, than of the industrial proletariat. The part of the petty bourgeoisie and intelligentsia undergoing proletarianisation introduces their own traits into the working class.

Growing Militarisation  
of Economy

The lion's share of the scientific and technological achievements is used for military purposes in the capitalist countries. By employing the scientific and technological achievements for the arms race, capitalism brings with itself the threat of a destructive world war, thus taking away material and labour resources from production.

The huge war machine, organised according to the latest achievements of the science of administration, commands the latest means of mass destruction. It is ready to start at any moment mass annihilation of people and destruction of humankind's culture. This monstrous mechanism is fostered by imperialism for the sake of monopoly profit and preserving the very system under which profit is the supreme aim. Such is one of the major results of "using" the scientific and technological achievements by modern capitalism.

The arms race takes away 400 billion dollars a year from mankind, i.e. over one billion dollar a day. The US military expenditures grew three-fold over the last twenty-five years. Particularly high are the US expenses for military research: from 2.3 billion dollars in 1954/55 to 13 billion in 1979/80 (nearly six-fold).

Thirty-five per cent of the overall number of scientific workers are employed in the military sphere of the capitalist world. It involves 40 per cent of all allocations to the R & D. All this means that the existing and even future potential of humankind is squandered exhaustively.

Ecological Crisis

Among the negative aftereffects of the scientific and technological revolution are the pollution by all kinds of waste of the water and air, rivers and forests, penetration of pollutants into the soil, the organisms of animals and plants, and enormous artificial radiation, etc. The situation arises in which the natural self-reproduction of equilibrium is disturbed. Mankind is faced with ecological problems. However, only in the capitalist part of the modern world they have acquired the character of ecological crisis. The principles

and methods of regulating the relationship between society and nature in the context of monopoly rule are based on private ownership and subordinated to the tasks of extracting maximum profit. This considerably impedes the resolution of ecological problems. In the pursuit of cutting down production costs, in the bitter struggle with competitors monopolies develop "polluting" enterprises without taking due measures to the utilisation of waste, thus contaminating atmosphere, soil and water by harmful chemicals. Military preparations and tests of the latest types of weapons greatly damage nature. Monopolies forced by the public do take certain purification measures and construct corresponding installations, but shift the expenses on the consumers including them into the prices of consumer goods. This further aggravates social contradictions.

Democratic circles and Communists put forward alternative programmes on the protection of environment. The aggravation of ecological and other problems gave rise in the West to the alarming forecasts as regards humankind's future up to the extremely pessimistic predictions of its perish. For example, recent reports of the so-called Rome Club advance the repudiation or severe limitation of the economic growth as the means of solving the above problem. What is positive in these studies is that they draw the attention of world opinion to the problems which actually face mankind and provide an analysis of a great deal of facts and data.

However, the numerous forecasts do not take into account many factors concerning, first, the capability of modern science and technology to discover new ways of solving the arising problems, and, second, socio-economic potentialities of the new, socialist system in the struggle for overcoming the STR's negative consequences.

The relationship between man and nature should be regulated consciously. However, it is complicated by the capitalist principles of social production prevailing in the Western countries.

In the socialist countries the purification of environment and struggle against pollution is raised to the level of state policy. It is based upon public ownership in the means

of production and planned economy, upon the activeness and initiative of the working people.

The problem of protecting the environment is today one of the most acute issues of the class struggle and a suitable platform for uniting the widest democratic forces aimed against monopolies that block the solution of ecological problems in the interests of society.

#### 5. Scientific and Technological Revolution and Problems of Anti-Monopoly Struggle

The scientific and technological revolution, its economic and social results are closely connected and interconnected with the class struggle. Fighting for its interests the working class restricts the possibilities for monopolies to derive absolute surplus-value and forces them to adopt new techniques. The capitalist way of introducing new techniques imparts other forms to the exploitation. The working class wages its struggle against the capitalist use of technology, its negative afterresults for the working people.

The communist parties proceed from the fact that only socialism can eliminate these negative consequences completely. At the same time, even prior to socialism there are possibilities to restrict the use of the scientific and technological achievements in the interests of monopolies and ensure the opportunity to benefit their fruits for the working people.

The working-class movement fights against dismissals, for providing guaranteed jobs for all those released from production in connection with introducing new techniques, for all-embracing insurance of the unemployed, for shorter working day with guaranteed wages.

In the struggle against the growing labour intensity, the working-class movement puts forward demands of lower physical and nervous tension of the worker arising from the introduction of new techniques, just technical rate fixing, higher wages corresponding to greater output, "intellectualisation" of labour, changing its stupefying monotonous character, creation of favourable conditions for improving workers' qualification.

To improve working conditions workers seek to conclude collective agreements with companies which would take into account all aspects determining the worker's labour in connection with the adoption of new techniques and provide on this basis for measures of labour protection and technical rate setting. Particularly important in this connection is the demand to create such conditions which would exclude or minimise occupational diseases.

In the sphere of education and vocational training it is highly imperative to raise the workers' qualifications simultaneously with introducing new techniques. In this case the workers will not loose in their earnings, but receive correspondingly higher wages. The system of education should be restructured in accordance with demands of the STR, democratised so that the children of workers and working peasants have equal opportunities to study with the children from bourgeois families.

In the sphere of production management the working class fights to get access to elaborating and effecting technical policy, to let trade unions to participate in solving the issues related to automation of production and changes in technology, to closing down of factories, health and labour protection measures.

The anti-monopoly struggle advances such demands as nationalisation and democratic control over the key industries of the national economy where the bulk of scientific and technological achievements is concentrated. This demand is also connected with the scientific and technological revolution. A number of the communist parties put forward the programme of demands aimed at democratising science, ensuring democratic control over directions of its development, expenditure on the R & D.

In general, the demands of the communist parties are aimed at turning the entire scientific and technological policy towards new priorities: better conditions and more interesting and constructive labour, humanised living conditions and solution of other urgent problems facing mankind on the threshold of the 21st century.

The working class's demands pertaining to the scientific

and technological revolution are a component part of the general democratic programme advanced by the Communists as the basis for cooperation and joint actions of all democratic, anti-monopoly forces. These demands are intrinsically combined with the advancement along the road of realising the historical mission of the working class - revolutionary re-making of society along the socialist lines.

**WORLD CAPITALIST ECONOMY  
AND LAWS OF ITS DEVELOPMENT**

The first steps towards internationalising the capitalist economy were marked by the involvement of all people in the network of the world market. The exchange of commodities tied in the capitalist countries, colonial powers and colonies. Commodity exchange with the colonies was non-equivalent and marked by the exploitation and plunder of the colonial peoples.

World trade promoted the international division of labour and the specialisation of individual countries and regions in specific spheres of economic activity and in specific branches. The parent countries spread one-sided specialisation in their colonies. The tendency towards "internationalising the capitalist regime" gained momentum in the 19th century.

**1. Essence of World Capitalist Economy.  
Historical Stages in Its Development**

Motive Forces Behind  
Formation of World  
Capitalist Economy

The transition to imperialism meant further expansion of capitalism and the involvement of all countries in the system of colonial oppression and of the financial strangulation of the overwhelming majority of the world population by a handful of "advanced" countries.<sup>1</sup> By the early 20th century, the leading capitalist countries included, alongside Britain and France, Germany and the United States. Capitalism made rapid progress in Russia. There was practically no country or people in the world which had been bypassed by "capitalist progress".

The transition to imperialism intensified the international division of labour. Production for foreign markets be-

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 22, p. 191.

came a component part of the national reproduction process. The colonial and dependent countries became the parent countries' agrarian and raw-materials appendages. The role of credit grew in international intercourse.

The "transplanting" of capitalism to the backward and colonial countries by way of foreign enterprise was well under way.

Essence of World  
Capitalist Economy

Defining the role of international relations within the social structure, Marx considered them secondary,

tertiary, derived in general, transmitted relations of production.<sup>1</sup> This may be used as the underlying methodological proposition when analysing the capitalist world economy that had taken shape by the late 19th century. The relations of production, which are dominant within individual national economies, are reproduced (sometimes in specific forms) in the sphere of international economic intercourse.

The world capitalist economy is a totality of national economies bound together by the relations of economic dependence and exploitation, domination and subordination. The world capitalist economy is characterised by antagonistic contradictions, conflicts and crises, which eventually stem from the capitalist relations of production, from their development and change (the latter taking the form of monopoly domination, state-monopoly capitalism).

Lenin developed the theory of world capitalist economy and that was his great historic achievement.

Lenin's Analysis of  
World Capitalist Economy  
in Early 20th Century

In his political analysis of the world capitalist economy, Lenin emphasised that large-scale production which had

gone beyond the national boundaries was its material basis, while the financial oligarchy was its leading class force. On more than one occasion Lenin noted that the export of capital

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<sup>1</sup> See Marx, A Contribution to the Critique of Political Economy, Progress Publishers, Moscow, 1978, p. 215.



and commodities, the economic division of the world by capitalist alliances and the territorial division of the world by the imperialist powers were the most important methods of forming and establishing the domination of the financial oligarchy over the world. Lenin wrote that capitalism became "a world system of colonial oppression and of the financial strangulation of the overwhelming majority of the population of the world by a handful of 'advanced' countries".<sup>1</sup>

Characterising the world economy, Lenin made special emphasis on the uneven capitalist development of its component parts and on different economic and political situations in individual countries and regions. Lenin stressed the multitude of state forms and the uneven distribution of colonies. The "extreme diversity" of economic and political conditions accompanied by a leap-like growth of the component parts of world capitalism was a natural result of the inevitable struggle for the imperialist redivision of the world.

Following the triumph of the Great October Socialist Revolution in Russia, the capitalist economy ceased to be universal. Moreover, after the emergence of a number of socialist countries, the system of the world capitalist economy has been coexisting with the world socialist economic system. The sphere of influence of world capitalism has shrunk. The national liberation revolutions and the collapse of the former colonial empires have dealt crushing blows on the world capitalist system.

Specifics of Today's Stage  
in Internationalisation of  
Economy in Capitalist Countries

The documents of the  
world communist movement  
and the resolutions of  
the congresses of the

CPSU and other fraternal communist, workers' and revolutionary-democratic parties analysed the subsequent development of the world economic relations of capitalism.

International economic and political relations have acquired special relevance today.

In recent decades the following factors have amplified the role of international economic relations.

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 191.

1. The present stage in the internationalisation of production is marked by universal economic ties. International economic relations involve not only the sphere of circulation (through foreign trade and finances), but also penetrate into the deep-lying spheres of reproduction (coordination of production programmes, technology and science). The international division of labour now includes not only the general (division according to spheres of economic activity) and the particular (division among branches), but also the singular (division inside a branch). This international division of labour involving separate details and operations is the highest stage in its development and leads to a close-knit intertwining of national economies. Completing parts now account for some 30 per cent of the world capitalist imports and 60 per cent of the sales of machines and equipment.

2. The carriers or motive forces of international economic relations have changed. Formerly these relations were maintained by capitalist firms and banks, whereas now giant international corporations and financial groups have stepped in. The latter's turnovers and controlled assets sometimes exceed the gross national products of many countries. In 1980, the aggregate turnover of 50 biggest capitalist corporations reached \$1,200 billion. In the capitalist world, only the United States has a GNP of such proportions.

Leaps in the spread of international monopolies are a peculiar spontaneous reaction of adaptation of the production relations of monopoly capitalism to the present-day state of society's productive forces.

At the same time the present-day level of production and the sharp aggravation of the contradictions of the world capitalist economy also call for the inter-state level of regulation of international economic relations. State-monopoly regulation transcends national boundaries, and so there emerge international economic groupings of capitalist countries.

In the postwar period, inter-state associations seized strong positions in the sphere of world capitalist circulation. They set up the International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT) and the

Organisation for Economic Cooperation and Development (OECD). In the late 1950s, regional inter-state economic groupings began to emerge. Their regulatory activities involved trade, monetary relations, production, and the political super-structure.

In the 1970s, there appeared the Tripartite Commission made up of representatives of the international monopolies and state-monopoly bodies of the United States, Western Europe and Japan. In the crisis year 1975, there began top-level meetings of leading imperialist countries (the "big Seven"), which have since become regular. As a rule, world economic problems are high on their agenda, including the coordination of the forms and methods of state-monopoly regulation.

At the present-day stage of internationalisation of the capitalist regime, the international state-monopoly forms of regulation of world economic processes have become a component part of the socio-economic structure of world capitalism. At the same time, the private-proprietary essence of modern capitalism, the contradictory and conflicting nature of its regular economic conditions, amplified by its class limitations, are behind the instability, inefficiency and, eventually, untenability of today's international state-monopoly regulation.

3. Present-day international relations, taken globally, have become a scene of the class struggle between the two social world systems. The chief antagonism of bourgeois society -- that between labour and capital -- has acquired global dimensions and taken on the form of competition between the two opposite social systems. Socially, therefore, worldwide economic relations are of a complex and differentiated nature, reflecting a transitory structure of the global economy.

At the same time the sphere of world economic relations ties in the capitalist and socialist countries as economic partners. Cooperation in foreign trade, technology and science is a natural consequence of the development of the productive forces, of the international division of labour.

Commenting on the bourgeois idea of isolating the first socialist country, Lenin said with an amazing foresight: "There is a force more powerful than the wishes, the will and

the decisions of any of the governments or classes that are hostile to us. That force is world general economic relations."<sup>1</sup>

International economic and political relations deeply affect both the domestic policies of the capitalist countries and the forms and methods of their foreign expansion, especially in the developing countries.

## 2. Export of Capital

Lenin began his analysis of the regular features of the world capitalist economy with the export of capital, viewing it as a means of economic division of the world in the "figurative meaning of the word".

### Essence of Export of Capital

As distinct from the export of commodities, export of capital is the export of value yielding surplus-value, profit. When commodities are exported, value changes its form on the world market, the population of the importer country is exploited through the sphere of circulation (non-equivalent exchange) and these relations are consummated with a commercial deal (trade agreement). When capital is exported, however, capitalist relations are "transplanted" to the importer country and its working people are exploited in the very process of production, creating surplus-value for the foreign capitalist. When the product produced by the capital-importing country is sold on its domestic market, its people are also exploited through the sphere of circulation. The export of capital does not consummate a contact between the contracting countries—it only opens the way for the long-term relations of dependence.

The end goal of the export of capital is to obtain profit whose rate is higher than that in the country of origin. At the same time the real motives of foreign investment may not always take this unambiguous form. These motives may include the wish to infiltrate the home market of the capital-importing country, to get access to its natural resources or

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 33, p. 155.

high technology, or pursue purely political or military-political objectives.

Possibility and Necessity  
of Export of Capital  
Under Imperialism

It goes without saying that the export of capital, as an economic relation, had emerged long before the advent of

imperialism. But it became a typical phenomenon under monopoly capitalism. The large-scale export of capital became possible due to the existence of a relevant material and socio-economic foundation. By the late 19th century, transport and communication reached an adequate level of development, rudimentary conditions for industrial development were created in most countries, many of them were involved in the "world capitalist turnover" and accumulated rich experience in international commercial intercourse.

The need to export capital from developed imperialist countries arose due to the formation and accumulation of relatively surplus sums of capital which could not be applied at profit within national boundaries. The search for spheres of profitable capital investment was made more complicated by the domination of monopolies, seeking to seize such spheres, to limit access to them and to fix monopoly-high prices. Lenin had every reason to characterise this feature of imperialism as a sign of the socio-economic relations turning "overripe" and decayed. Any developed capitalist country has a multitude of spheres of social life, "neglected" by capital. These include public utilities, social security, agriculture, to name but few.

Forms of Export  
of Capital

There are two main economic forms of the export of capital - productive and loan. The export of capital in the

productive form is effected through the establishment by monopolies of their branches abroad or through their participation in the capital of mixed enterprises. There are two forms of the productive export of capital - direct and portfolio investments. Direct investments are those which give the capital exporter a controlling interest in a foreign enter-

prise. Portfolio investments are formally insufficient to give the investor control. The export of loan capital takes the form of loans.

The export of capital gives rise to new economic relations.

The large-scale export of capital may bring about various economic consequences for the capital-exporting country, such as a lower rate of accumulation in its national income, slower economic growth rates and negative trends in its balance of payments. The export of capital affects the export of commodities in a contradictory way. Indeed, by putting up "approach fortifications" in the form of its branches and customer services and by offering loans, the capital-exporting country steps up the export of commodities. At the same time the product made by its foreign-based branches may replace the exported goods and even successfully compete with them on foreign markets.

Such economic consequences also vary for the capital-importing country. Here, much depends on the time, its specific political situation and economic potential. As regards backward countries in the early 20th century, the import of foreign capital, on the one hand, sped up their capitalist development, on the other, led to their economic dependence on the imperialist centres, supplemented and strengthened the political dependence of underdeveloped countries. Today, when the imperialist powers' monopoly on maintaining economic relations with the developing world is undermined, when the newly free countries may enjoy assistance and support from the socialist community, the finance capital of the imperialist states has to adapt itself to the new international situation. Of course, the striving to impose the relations of domination and subordination upon its partners from the developing world will always remain inherent in imperialism. Today, however, it has become more difficult to realise this striving, and the export of capital to a developing country does not necessarily lead to its economic and political enslavement by the capital-exporting country.

Specific Features of  
Export of Capital Today

In recent years the total sum of foreign capital investments by leading capital-exporting countries has increased 9 fold. The export of capital rose at rates much higher than those of the foreign trade turnover and industrial output in the capitalist world.

The geography of foreign capital investments has also changed.

Mutual investments in the developed capitalist countries account for the bulk of private capital investments (over 70 per cent). The share of private investments in the developing countries decreased by nearly 25 per cent.

The intensive traffic in investments between developed capitalist countries is due to a number of causes. These include: (1) material and technical factors stemming from different levels of labour productivity in different branches; (2) different scales of wages and social benefits; (3) sales over the customs tariff barriers; (4) the correlation of currency exchange rates and domestic prices favourable for the export of capital. In the past decade, however, the imperialist monopolies began showing increasing interest in investing their capital in the developing countries owing to the energy and raw materials crisis.

State-monopoly capitalism strengthens its positions in the sphere of export of capital. The export of government capital is on the increase. This pursues not only economic but also political objectives. The state export of capital (in the form of loans and credits) played a special role in the first postwar years (the Marshall Plan in particular). In the subsequent period, however, these forms of export of capital became less important in relations between imperialist powers, and the role of private long-term investment increased. The state forms of export of capital retain their significance in inter-state relations between developed and developing countries, though the latter seek to establish their own control over enterprises that are being built or operate with the participation of foreign corporations. They also seek to use the imported capital to develop branches and industries needed to achieve economic independence.

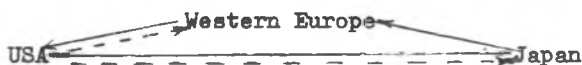
The alignment of imperialist forces in international enterprise activities has markedly changed over the past 50 years. In 1981, the US share in the capitalist countries' direct foreign investments was 46 per cent (in 1960 it was 55.1 per cent, in 1938 - 21.8 and in 1929 - 31.9 per cent). The corresponding figures for other countries were as follows: Britain - 8.2 per cent in 1981, 19.8 in 1960, 43.4 in 1938 and 37.8 per cent in 1929; France - 4.1 per cent in 1981, 9.9 in 1960, 7.4 in 1938 and 2.3 per cent in 1929; West Germany - 7.8 per cent in 1981, 2 in 1958, 1.3 in 1938 and 2.3 per cent in 1929; and Japan - 9.3 per cent in 1981 and 0.5 per cent in 1960.

US participation in the international export of capital is much higher today than in the prewar period and remains predominant among its rivals. Ninety per cent of the new investments of American monopoly branches in Western Europe and Japan are financed out of the value created inside the capital-importing countries. These are the profits of American sister-companies and the bank credits obtained in the host country.

West European and Japanese entrepreneurs had for a long time been trying to find "cracks" in the US market and invest money in trading and insurance business. Now this practice has receded into the past. West European and Japanese corporations have penetrated and act on their own in the American chemical, petrochemical, auto-making, electronics, aluminium, food and other industries. Between 1973 and 1983 alone, direct West German investments in the United States increased 600 per cent.

The trends characterising West European investments in the US economy are also, in a way, typical of Japanese investments in Western Europe. The value of Japanese investments in Western Europe is three times as great as West European investments in Japan.

Changes in the flow of direct capital investments between the main imperialist centres may be shown as follows:





(The predominant flow of investments in the 1950s-1960s is shown by the interrupted line, and that in the 1970s - by the uninterrupted line.)

As regards the developing countries, the imperialist centres have divided the spheres of influence as follows:

USA	Western Europe	Japan
Latin American countries (56.4 per cent of direct foreign investments)	African countries (70.6 per cent of direct foreign investments)	Asian countries (38.4 per cent of direct foreign investments)

Rivalry between American, West European and Japanese exporters of capital is now intertwined with the growing export of capital from the OPEC countries. Also prominent in international business are South African, Australian and Canadian companies. More often than not they are sister-companies of giant American monopolies.

Bourgeois economists distort the true causes, objectives and consequences of the export of capital. Specifically, they present the inflow of foreign capital in the developing countries as a factor raising the living standard of the local population. Unmasking such bourgeois theories of the export of capital is a potent weapon in exposing the evils of the international domination of the financial oligarchy in the capitalist world. Analysis shows that the export of capital further exacerbates the contradictions of capitalism and makes the world capitalist economy more shaky.

### 3. Economic Division of World by Capitalist Alliances and Its Modern Forms

It is most appropriate to begin the study of the economic division of the world by international monopolies with finding out the causes underlying their emergence. The prime cause is the concentration of production and capital, which initially develops within each capitalist country and then reaches the level of global concentration, which is "in-

comparably higher than the preceding stages". This stage was called "supermonopoly" by Lenin.<sup>1</sup>

### Emergence of International Monopolies

By the late 19th and early 20th centuries the concentration of production and capital reached such a high level that a significant part of the world product in some industries became concentrated in the hands of several giant monopolies operating on a global scale. Thereby the economic possibility was created for the emergence of international unions of the biggest capitalists from different countries. On the other hand, the formation of international unions of capitalists became not only economically possible but also imperative.

International capitalist alliances existed before imperialism, too. Lenin wrote that any joint-stock society involving capitalists from various countries was in fact an internationally organised alliance of capitalists. Under imperialism, such alliances became so important and powerful that they divided the world among themselves economically.

By the late 19th century there were some 40 international agreements on the division of the world commodity markets. In 1910, there were 100 such agreements. On the eve of World War II, the total number of international monopolies increased to 1,000. According to UN estimates, in the early 1980s there were nearly 14,000 international monopolies, though the last say belonged to as few as 500-600 biggest corporations.

### Essence and Basic Forms of International Monopolies

International monopolies are giant corporations - concerns, trusts (or agreements between them). Their sphere of action involves the entire world capitalist economy, rather than one capitalist country. They are used by the monopoly bourgeoisie in different countries as a weapon in their scramble for markets, raw materials sources and investment opportunities. As a rule, international monopolies are characterised by a

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 246.

high degree of diversification and combination, rapid introduction of new technology, high mobility in stationing their branches and foreign departments, ability to switch over from one sphere of expansion to another, making due account of various factors that may affect the rate of profit.

The international monopolies may be subdivided into three basic groups. The first includes agreements between bigger monopolies in several countries on the division of markets, raw materials sources, production quotas, joint research and development and production of a specific article. (These are international cartels and syndicates.) The second group includes highly organised monopolies that control the finance capital of one country but operate in different countries. (These are normally referred to as transnational companies or transnationals.) The third group includes giant concerns, in which the controlling blocks of shares of the leading company are distributed between capitalists from two or more countries. (These are usually called multinational companies or multinationals.)

Under the impact of the scientific and technical revolution, and in the setting of state-monopoly capitalism and the crisis of the capitalist system in the 1970s and early 1980s, the development of international monopolies has sharply accelerated, their role in the world capitalist economy and the political life of capitalist society is increasing and qualitative shifts occur in international finance capital, which is the backbone of modern capitalism.

Accelerated Development of International Monopolies      International monopolies have been especially active in recent years for a number of reasons. These are: (1) the aggravation of the crisis of the world capitalist economic system; (2) the intensification of the struggle waged by the peoples of the former colonial and dependent countries against imperialist exploitation; (3) the intensification of the struggle between imperialist powers and monopoly groups for the spheres of capital export, raw materials sources and markets; and (4) the increasing instability of world capitalism.

Monopoly economic expansionism is taking on new features. Very indicative was the colloquium "Socialism and the Multinationals" organised by the French Socialist Party. One of its documents said in part, that the whole world drinks Coca-Cola, shaves with Gilettes, washes with Colgate Palmolive, drives Chryslers or Fords on Michelin tyres and Esso, Elf, BP or Shell gas. Trademarks now stand for consumer goods, such as Frigidaire, Kodak, Singer, Polaroid, etc. These octopuses of the planet - the multinationals - reach out with their tentacles to every corner in the world, disregarding political or geographical frontiers.

Foreign economic expansion by the biggest monopolies deepens crisis phenomena in the world capitalist economic system. By manoeuvring, these monopolies succeed in obtaining the highest possible profits even at a time when industrial production in the leading capitalist countries goes through periodic slumps, when international trade is stalemated and when the monetary system malfunctions.

In the 1970s and early 1980s, the multinationals' growth rates (sales) were two times higher than those of GNP in the capitalist countries. According to calculations made by the Institute of International Workers' Movement of the USSR Academy of Sciences, in the period between 1960 and 1979 the turnover of 50 biggest international monopolies increased 340 per cent.

Increased Role of International Monopolies in World Economy

The international monopolies have concentrated immense economic power. In the early 1970s, they controlled some 20 per cent of the gross social product of the capitalist world, whereas now their share exceeds 40 per cent. They control more than 50 per cent of the home and foreign trade and over 90 per cent of the capitalist countries' direct foreign investments. Five hundred most powerful international monopolies control 80 per cent of the output of the capitalist electronics industry, 95 per cent of the pharmaceutical industry and 76 per cent of the general engineering industry.

In 1979, the list of biggest international monopolies

was headed by the giant oil corporation Exxon, followed by General Motors, Mobil, Ford, and Texaco.

The concentration and centralisation of monopoly capital have assumed such a scale that the share of international corporations in capitalist production and trade has in recent years been increasing mainly due to mergers and takeovers among these giants, along with their quantitative growth. One of the most recent "mergers of the century" was the takeover by General Electric of the mining milliardaire corporation Utah International.

Some Western experts believe that if the present rate of concentration and centralisation of capital remains unchanged, by the end of the century as few as 300 corporations will dominate capitalist production. According to some estimates, the turnover of the international monopolies abroad will, by the year 1998, account for 53 per cent of the value of the gross national product of the capitalist world. Some economists went as far as making utopian prognoses of the possible emergence of a "united capitalist trust", very similar to Kautsky's theoretical concept of ultraimperialism. Lenin made a thorough analysis of this concept and noted that a tendency to a world monopoly should not be confused with its practical realisation. Moreover, this tendency should not be divorced from the uneven development of the component parts of the capitalist economy. Each monopoly formalises the correlation of forces of its participants (financial and economic). Uneven growth inevitably changes this correlation, breaks up the agreement and invigorates rivalry. Lenin wrote: "There is no doubt that the trend of development is towards a single world trust absorbing all enterprises without exception and all states without exception. But this development proceeds in such circumstances, at such a pace, through such contradictions, conflicts and upheavals--not only economic but political, national, etc.--that inevitably imperialism will burst and capitalism will be transformed into its opposite long before one world trust materialises, before the 'ultra-imperialist', world-wide amalgamation of national finance capitals takes place."<sup>1</sup>

<sup>1</sup> V.I.Lenin, Collected Works, Vol. 22, p. 107.

Extension of Spheres  
of Activity

In the early 20th century international capitalist unions were formed primarily in the sphere of circulation, in the 1950s-60s the predominant direction was industrial production, whereas now international monopolies have greatly extended and ramified their range of action. They continue to reach down to the very depth of the system of social reproduction and penetrate into various industries which are key to economic development and to finding solutions to outstanding problems of capitalist accumulation. As a result, the structure of international monopolies becomes more mature and diversified. They turn into complex multi-sectoral trust-like associations and giant industrial-commercial-financial groupings.

Bourgeois economists see a direct link between the expansion and diversification of the production activity of the international monopolies and the increased competition and bleak economic prospects resulting from the crisis in the late 1970s and early 1980s. One UN document says that as the ability of the transnational corporations to exercise leadership in the production of a particular produce narrows down, they begin searching for other ways of expansion, specifically through diversification.<sup>1</sup>

All major international monopolies now operate in more than one industry. They extend their influence to most of the branches in the mining and processing industries and to the key sectors of the services industry. (Some 50 per cent of all their assets are in the processing industry, 20 per cent in the production of raw materials, fuel and energy, and the rest in the sphere of trade and finances.)

International monopolies have become the chief intermediary supplying the leading imperialist powers with raw materials and fuel, and also the main exporter of commodities, and services and the principal earner of foreign currency. They hold key positions in international production and technical cooperation, and also in branches related to providing services for international commodity turnover, such as transportation, technical consultation, commercial information and

<sup>1</sup> See Transnational Corporations in World Development. A Re-examination. N.Y., UN, 1978, p. 49.

advertising.

The international monopolies implement their global strategy on various levels. First, part of their production and marketing operations is transferred to other countries, which does not merely mean their geographical relocation but the setting up of international structures ensuring optimal profits and expansion. The international monopolies are able to alter their so-called peripheral apparatus, to adapt their profit-making policies to the needs of production, market situation and competitive struggle in order to make in one country (or sector) for what they have lost in another. Second, the global strategy gives them additional fringe benefits stemming not only from the fact that they expand the sphere of exploitation, but also from the possibility to extract profit from making use of various political and social factors.

Internationalisation  
of Banking

The unprecedented expansionism of the international industrial monopolies combined with the intensification of all forms of international economic relations has given a powerful impulse to the internationalisation of banking activities. This was also facilitated by the high level of concentration of banking capital, the growing diversification of banking activities, and also by the emergence of a new international market for loan capital, viz., the market of Eurocurrencies, an effective instrument in expanding the activities of banking monopolies.

This sphere has undergone especially marked changes in the past decade. Between 1971 and 1976, for instance, the total assets of 50 biggest capitalist banks increased 140 per cent.

The quantitative growth, however, was not the main thing. At that time a qualitatively new form of internationalising banking activities - international banks (or associations) - emerged and began to spread over.

Today there operate over 100 international bank associations involving the biggest banks from most of the capitalist countries. Only four of them (EBIC, ABECOR, Europartners,

Orion) have combined assets in excess of \$400 billion.

Insurance business, too, has transcended the boundaries of national states in recent years. Seventy per cent of the activities of the biggest international insurance monopolies of the United States, Britain, France and Switzerland account for foreign operations.

Advertising agencies are closely tied in with international banking, industrial and insurance companies. These agencies have also become a sort of transnational corporations with branches scattered over many countries. Their assets and profits run into billions.

The increasing power of international banking and industrial monopolies and the qualitative changes in their organisation (the growing diversification of giant international concerns and the emergence of a new type of international banking monopolies) underlie the stepped-up intertwining of banking and industrial capital on an international basis.

The coalescence of international banking and industrial capital took on various forms. Most important of them in the 1970s and early 1980s were: the "holdingisation" of international industrial concerns, which has turned some of them into financial conglomerates; and the traditional penetration of banks into industrial production, which was given a new impulse by the development of international banks and the growing might of national banking monopolies.

According to expert estimates, the banking monopolies, insurance companies and pension funds own 25 per cent of the shares of international industrial and trading companies. Not infrequently their control extends even to big international industrial monopolies. For example, they own 34 per cent of the shares of IBM (the capitalist world's biggest electronics company), 53 per cent of Aluminum Company of America and Caterpillar Tractor.

International  
Finance Capital

The unprecedented concentration of international industrial monopolies, the growing internationalisation of banking, the ever increasing coalescence and interweaving of international industrial and banking monopolies and the rapid growth of



their activity - all these factors show that international monopolisation has risen to a qualitatively new stage. It is safe to say that the 1970s and early 1980s have become a period when the preceding quantitative changes have terminated and turned into a qualitative leap in the formation of international finance capital of a new type, the capital which has markedly boosted monopoly domination in the economy and policy of the capitalist world.

This type of finance capital is distinguished by the following: (1) a new organisational set-up based on international industrial concerns (corporations) and international banking monopolies; (2) growing cosmopolitanism not only in the sphere of action of international financial-oligarchic groupings, which extend their tentacles to the remotest corners of the capitalist world, but also, in many cases, in the structure of monopoly property; and finally (3) a qualitatively new level of domination of the international financial oligarchy in today's capitalist society.

Very indicative is the development of three biggest US finance-monopoly groups, which also head the list of the biggest international financial groupings. These are the Morgan group, the Rockefeller group and the California group. By the mid-1970s, the total assets controlled by these groups increased from 150 to 250 per cent as against 1963, having reached \$254.4 billion, \$163.2 billion and \$172.3 billion respectively (in current prices).

Analysis of numerous data pertaining to the operations of international industrial and banking monopolies, their intertwining and coalescence gives every reason to state that just a few dozen giant international finance-monopoly associations hold dominant positions in the world capitalist economy today.

According to Fortune, a well-informed US business magazine, there exists a "nucleus" in the Western economy, which includes as few as 60 industrial-financial groups, the leading part being played by representatives of a thousand families. They are the real masters of the modern capitalist world.

The development of international monopolies makes it imperative for the anti-imperialist, democratic forces to step

up their counteraction.

The international working class is called upon to play (and it does so) the leading role in the struggle against international finance capital. Over one third of the working class in the industrial capitalist countries are now employed at enterprises owned directly by the international financial-oligarchic elite. Indirectly, however, more than half the working people in the capitalist and developing countries are exploited by a handful of international financial groups.

With the growth of international monopoly, the working people increasingly strive for the solidarity of action against these super-exploiters. The political vanguard of the working-class movement - the communist parties - are well aware of the tasks posed by these new features in the development of international finance capital. The Communists increasingly realise that the internationalisation of monopolies is a genuine economic basis of the natural tendency to a closer union of all the forces participating in the world revolutionary process.

#### 4. Lenin on Territorial Division of World and Struggle for Its Redivision

The contemporary critics of the Leninist theory of monopoly capitalism equate the concept of territorial division of the world with the initial stage in the development of imperialism. So, insofar as the colonial systems are now gone, they maintain, Lenin's concept of the imperialist division of the world has become irrelevant.

In reality, however, the territorial division of the world among the "great" powers was only a component of the imperialist division of the world. The latter takes on both economic forms (the export of capital and the expansion of international monopolies) and political forms (the territorial division of the world). The territorial division of the world, just as the struggle for its redivision, was effected not only by military methods, but also by way of diplomatic pressure, blackmail, discriminatory agreements, etc.

The completion of the territorial division of the world

meant a stage in the development of capitalism when the "great" powers could no longer extend their power by way of freely seizing the so-called unoccupied territory because by the end of the 19th century there was no such territory which could become an object of colonial expansion.

At the same time, the territorial division of the world (just as the imperialist division of the capitalist world) combines several processes involving the inevitable redivisions of the spheres of influence (this is due to the uneven development of the rivals).

From the viewpoint of time, the territorial division of the world is not parallel to the economic division. Lenin said that by the early 20th century the territorial division had been completed, whereas the economic division had only begun gaining momentum.

The subsequent development of society confirmed the righteousness of Lenin's conclusion that the political and the economic division of the world are two uneven processes.

Today, when world capitalism is losing ground in its competition with the socialist world and when the colonial regimes have been swept away by the huge wave of national liberation revolutions, inter-imperialist contradictions no longer result in worldwide armed conflicts. Although monopoly capital has retained its aggressive nature, head-on military confrontations between imperialist powers are not likely today. Yet the influence of the military on the economy and policy of the imperialist countries is still considerable. The material apparatus for launching an aggression still exists and the danger of unleashing a war against both the newly free national states and the socialist community has not yet been averted. In the postwar period, the forces of aggression have initiated over 40 wars and armed conflicts. Given this, work for peace remains the vital cause of all peace forces throughout the world.

The rapidly expanding activities of the international monopolies and the state-monopoly stimulation of foreign expansion have become the prevailing forms of the imperialist struggle for the redivision of markets, spheres of influence and economic territories. As regards the developing nations,

most widespread are methods of their economic subjugation and attempts to integrate them in the system of the world capitalist economy.

## 5. Capitalist Integration

Essence of Integration Processes

The essence of international integration processes has been debated for a long time. Some

bourgeois economists equate integration with international economic cooperation.

The so-called functionalists maintain that integration is only possible through market relations, while states can only carry through "negative" integration (i.e. they can only remove customs barriers and all sorts of obstacles to a free play of market forces). The so-called institutionalists, on the other hand, absolutise state and inter-state intervention in the economy, saying that "orchestration" by political bodies alone can ensure integration.

What distinguishes then integration from the other international economic processes?

1. Integration implies the development of stable connections as regards the division of labour between national economies. Enterprises, branches and regions within the zone of integration mutually supplement one another. An international economic complex thus emerges.

2. Deep-going structural changes occur in integrating countries and new economic proportions form, which are geared to regional, rather than national, requirements.

3. Integration is an international, largely regulated economic process. The activity of state and inter-state institutions comes here to the foreground. Such institutions express the interests of the ruling class.

4. Integration is regional in character. It is much more intensive between countries which are close to each other geographically and have a more or less similar level of economic and political development.

Hence the following general conclusion: integration is a socially determined process which is only possible between

countries belonging to a common socio-economic system.

Let us compare the above general features of integration with the specific features of the most developed integration group in the capitalist world - the European Economic Community (EEC or Common Market).

Its material base consists in the creation of a West European economic complex expressing a relatively high level of the internationalisation of production. On the basis of regional intra-branch specialisation, the Common Market has produced a number of "European" products, ranging from rocket launchers and communication satellites to passenger cars and medical appliances.

But the internationalisation of production in Western Europe simultaneously involves further, leap-like internationalisation of capital. In this sense, West European integration is a brilliant confirmation of the Marxian historical tendency to capitalist accumulation, as applied to the second half of the 20th century.

The giant concerns and banks of the member-countries became the "carriers" of West European integration.

Monopoly capital relies extensively on inter-state support. The market and state regulation closely intertwine. Their synthesis is reproduced on a new, international level. The national systems of state-monopoly capitalism develop into a regional system of state-monopoly regulation. The role of the capitalist state as the basis increases. West European integration is a product of and, simultaneously, a new stage in the development of state-monopoly capitalism.

Inner Contradictions of  
West European Integration

Integration in Western  
Europe is a good example  
to show contradictions in-  
herent in capitalist integration.

The gap between spontaneous market forces and the regulatory mechanisms of the Common Market is growing wider within the region. The subjects of economic integration (the international monopolies of West European and US origin and banking corporations) vie with one another, spread the infection of disintegration and enter into conflicts with EEC international

bodies. As the integration process grows deeper (attempts to streamline the member-countries' tax and credit-and-finance systems), relations within the chain: international monopoly - state - EEC bodies, become increasingly strained and complex.

Especially serious is the contradiction between the development of integration "in breadth" and "in depth". The admission of new members to the Common Market inevitably amplifies differentiation between the partners and disturbs the balance of forces that has taken shape and has been fixed in relevant documents. The reduction of various national interests to the same denominator is growing more complex and the intensive development of integration is hampered.

Political considerations are a key factor in deciding whether or not a new applicant (such as Greece, for instance) should be admitted to the Common Market. They prevail both within the ruling quarters of the applicant and within the EEC leadership. Any further expansion of EEC membership will inevitably lead to another upswing in the competitive struggle, especially in agriculture and finance. This will entail new difficulties in taking anti-inflationary measures and in carrying through the employment policy. According to IMF estimates, the admission of the three South European countries to the Common Market will imply the "liquidation" of nearly 40 per cent of their small businesses.

These inner conflicts of the integration process are forms through which the basic contradiction of state-monopoly capitalism is expressed and developed on a regional scale.

The tendency toward consolidating the forces of West European imperialism does not alleviate rivalry between Britain, West Germany, France and Italy, on the one hand, and the smaller EEC members, on the other. The member-countries are worried by the prospect of West Germany turning into the leading force in the international division of labour in Western Europe. The smaller EEC members (Belgium, Holland, Luxembourg, Denmark and Ireland) often advance a common platform, which sometimes is backed up by the associated members. The aggregate economic potential of Europe's smaller countries is rather impressive: they account for a third of West Europe's total industrial output and 38 per cent of its export

of commodities and capital. Yet, due to a number of reasons (such as different economic indicators and conflicting interests, different levels of affiliation with the bigger partners and different impacts of crisis phenomena), centrifugal tendencies in this group are sufficiently strong and frequently frustrate the attempts of the smaller member-states to form a united front.

The existence of the Common Market lends some special quality to imperialist rivalry, because the struggle is now waged within an economic bloc. Moreover, West European businessmen more and more openly acknowledge that inter-continental rivalry is more serious than that within the European continent.

EEC is an independent member in the line-up of the imperialist "super-stars" (EEC, USA, Japan). The inter-imperialist contradictions around the Common Market include such spheres as foreign trade, export of capital, technology, energy, and influence in the developing world. The leading quarters of the imperialist centres have markedly different views as regards the future of their cooperation with the socialist countries.

Integration  
and Communists

Lenin's thesis that state-monopoly capitalism is the last rung on the ladder of capitalism and the fullest material preparation of socialism, its threshold, holds good for the integration process in Western Europe and other regions of the capitalist world.

At the same time state-monopoly integration makes the preparation and realisation of revolutionary changes in the region much more complicated. The national detachments of working people are confronted not only with national monopoly capital which relies on the support of the neighbouring imperialist countries, but also with the economic blocs of state-monopoly forces. They have been sufficiently consolidated in the struggle against social progress. For example, economic sanctions taken by the EEC governing bodies may seriously disrupt the existing proportions and cause economic dislocation in a weak link of the capitalist chain. Besides, this integra-

tion bloc heavily relies on NATO, which is its military and political foundation.

Success in the struggle against state-monopoly integration growing deeper is contingent on a number of conditions, including on whether or not the working-class movement's counterstrategy is developed or a democratic alternative is offered to counter the monopolies.

In defining their attitude to the particular forms of integration, specifically the Common Market, the communist parties make account of the specifics of a given country, the duration of its membership and the political situation.

Opposing the "Europe of trusts", the communist parties emphasise the need to use to their advantage the internationalisation of the productive forces. The Communists oppose closed imperialist blocs and work for broad and equitable cooperation among all countries.

#### 6. Crisis of World Capitalist Economy

Essence of Crisis of  
World Capitalist Economy

Characterising the essence of  
the crisis of the world capita-  
list economic system, Lenin

called it dislocated and broken-up.<sup>1</sup> This crisis is seen in the sharp aggravation of all the contradictions of the world capitalist economy.

The crisis of the world capitalist economy is an intrinsic feature of the general crisis of capitalism.

The present stage of this crisis is characterised by a notable increase in the role of the world system of socialism, which has become the dominant trend in the progress of society. Capitalism is affected in many ways by the world socialist system, both in its centres of power and in its formerly peripheral regions. What the socialist countries have accomplished in economic development and in raising the living standards of people amounts to a whole era.

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 35, p. 451; Vol. 31, p. 222.



**Exacerbation of Contra-  
dictions Between  
Imperialist and Develop-  
ing Countries**

World socialism has shown to the peoples of the newly liberated countries that the international economic relations based on the domination of the

financial oligarchy are not eternal and that they can be liquidated and replaced with the relations of true equality and cooperation. The world socialist system exerts an ever increasing influence on the peoples' struggle to consolidate their political and attain economic independence.

The broad economic, scientific and technical cooperation of the newly liberated countries with the world system of socialism has undermined the monopoly of imperialism in granting credits, supplying equipment, maintaining trade and cultural contacts and training national personnel. Relying on support from the world socialist system, the newly free countries come out with increasing resolve for radical changes in their economic relations with imperialism. The striving of the overwhelming majority of young nations for putting an end to imperialist plunder and exploitation is a typical feature of the crisis of the world capitalist economy and a factor contributing to its exacerbation.

As a result, the role of the newly free countries within the world capitalist economy has markedly increased and their position in the struggle against imperialism has grown stronger. The present stage of this struggle is primarily characterised by the fact that, given the existing correlation of the world class forces, the young national states are now able to oppose imperialist diktat, resolutely uphold their economic and political rights, liquidate foreign monopoly property and exercise national sovereignty over their natural wealth. This struggle is headed by countries which have chosen the socialist path of development, which consistently pursue an anti-imperialist foreign-policy course and consolidate their economic, political and cultural cooperation with the socialist community. The Soviet Union has concluded treaties of friendship and cooperation with many socialist-oriented countries.

Inter-imperialist Contradictions Today      The sphere of imperialist domination is narrowing down as a result of the breaking of ever new links in the chain of international capitalist oppression, and this exacerbates contradictions between industrial capitalist countries.

The uneven economic and political development of capitalism whips up inter-imperialist rivalry. The operation of this law in today's world capitalist economy is seen from the following table.

Share of Individual Countries in World Capitalist Industrial Production

	<u>1948</u>	<u>1980</u>
USA	54.6	30.9
Japan	1.2	39.7
Common Market (the Nine)	23.3	25.4
including:		
France	4.6	6.1
FRG	3.6	8.8
Britain	10.2	4.3
Italy	2.0	3.4

The penetration of monopolies into the national economy of individual capitalist countries has sharply increased. In this setting, inter-imperialist rivalry cannot be measured in quantitative terms alone, such as the share in world capitalist industrial output, the share in world exports and gold reserves, etc. The scale of foreign capital penetration into the economy of an industrial country should also be measured in terms of qualitative shifts taking place within various imperialist groups and alliances.

The present-day revolution in science and technology and the consolidation of state-monopoly capitalism greatly affect inter-imperialist struggles.

As has been noted above, as a result of the uneven economic and political development of the capitalist countries, which has grown in recent years, there have emerged three

centres in the capitalist world, instead of one that had existed up to the mid-1950s, when the United States ruled supreme. These are: (1) the United States of America, with Canada; (2) Western Europe, which, despite all its inner contradictions, on the whole opposes the USA; and (3) Japan, which attempts gradually to rally around itself the Pacific capitalist countries. But struggle is being waged not only between these centres, but also inside them; engaged in conflicts are not only national imperialisms, but also big international monopolies, which sometimes confront individual bourgeois states or international institutions. Inter-imperialist rivalry is spreading to all spheres of international economic relations.

Crisis of World Capitalist  
Economy and World Trade

The correlation of forces on the world capitalist market is constantly changing. Having rehabilitated and expanded their industrial potential, West European countries and Japan now successfully compete with US monopolies. As a result, the US share in world exports has dropped from 32.5 per cent in 1947 to 11.9 per cent in 1980. The share of West Germany, however, has increased from 3.5 per cent in 1950 to 10.6 per cent in 1980; and that of Japan - from 1.6 to 7.1 per cent accordingly. West European and Japanese monopolies, whose production costs are frequently lower than those in the United States, compete successfully with US companies not only on the world market, but on the US domestic market too. From the mid-1970s on, 70 per cent of the radio sets, 49 per cent of the sewing machines and 15 per cent of the cars sold in the United States were imported. In the early 1980s, foreign auto-making monopolies, primarily the Japanese, controlled almost 25 per cent of the American market.

The monopoly scramble for markets has become state-monopoly in character. Monopoly interests are upheld by the bourgeois state which not only protects the national market from foreign competition, but also takes every possible action to push and support monopoly capital in its expansionist drive on the world market, pursues the policy of government subsidies and target investments in export-oriented branches,

concludes customs agreements, exerts trade and political pressure, takes blackmail actions, etc.

A real "trade war" is being waged between the main centres of imperialism against the background of the increasing instability of capitalism and recurrent crisis phenomena. Individual imperialist powers and monopolies are trying to use the system of state-monopoly regulation to resolve the problem of markets but all these attempts have proved to be futile.

The economic difficulties experienced by the world capitalist economy in the 1970s and early 1980s have markedly reduced the stimulating effect of foreign market sales on the economy in general. Physically, the growth rates of foreign trade turnover have slowed down, although the value of this turnover in current prices continues to grow as a result of continuous price increases and dollar devaluation. Foreign trade prices go up in leaps. In 1976-77, for example, the prices of ready-made articles grew at approximately the same rate as those of energy, and even exceeded the latter in 1978. In 1979-80, the oil prices soared almost 50 per cent. In 1977-79, the prices of certain types of raw materials increased at a higher rate than those of industrial output.

Inflation and the instability of national currencies have a negative effect on the proportions of commodity exchange both on home and foreign markets and lead to growing disproportions in the capitalist economy at large.

The main centres of imperialism have recently stepped up their scramble for markets in the developing world.

In the 1970s, the arsenal of protectionist measures has been considerably updated. More stringent measures of "non-tariff" protectionism have been taken. These include import limitation and licensing, anti-dumping taxes, etc. The United States is trying to impose "voluntary" export limitations on its trade partners, which have received wide currency in recent years.

The leaders of seven biggest capitalist countries met in London in 1979 and approved the conception of "organised trade". This implies the conclusion of inter-governmental agreements dividing world commodity markets between individual monopoly groups. This conception enables the imperialist

powers to impose on the weaker exporter-countries both the volume of their exports and the prices, irrespective of the competitiveness of their product.

In the early 1970s, the industrial capitalist countries provided some customs preferential benefits for the developing nations. On the one hand, they were forced to do so under the pressure of the socialist and developing countries, which joined their efforts to ensure the implementation of the relevant UNCTAD resolutions. On the other hand, by granting these benefits, the imperialist states wanted to earn political "capital" and pass themselves as champions of economic progress in the developing world. At the same time they sought to receive even greater economic advantages at the expense of the developing countries, to promote exports from a small group of developing states which have outstripped their colleagues and now follow in the wake of the imperialist powers, and to liven up the activity of the branches of their monopolies in those countries.

It should be noted that the system of customs preferences accorded by the West to the developing countries, is far from embracing all the exports of these countries and its term is limited to 10 years. The industrial capitalist countries have reserved the right unilaterally to take discriminatory measures against certain items of export from the developing nations.

Experience shows that the liberalisation of trade, widely publicised by the developed capitalist countries, has boiled down to mere promises. The imperialist powers manipulate tariff preferences and take a differentiated approach to individual developing countries. Export benefits for marketing their ready-made goods to industrial capitalist countries are largely granted to Brazil, Singapore, Taiwan, South Korea and Hong Kong, which account for over 60 per cent of the industrial exports from the developing world.

The terms of trade enjoyed by the developing countries have been steadily deteriorating and this tendency still continues. The agreement on the establishment of the Common Raw Materials Fund, which is intended to compensate for the losses incurred by the developing countries as a result of the fluc-

tuation of prices for raw materials and tropical goods on the world market, and also the agreements on specific types of raw materials and foodstuffs are in most cases not observed owing to the blocking action by the imperialist powers and international monopolies.

Crisis of International  
Monetary Relations of  
Capitalism

The modern capitalist economy is in the grips of a profound monetary and financial crisis.

Essentially, it involves a chronic and grave malfunction of the financial systems and international monetary relations of the capitalist world. This malfunction is caused by growing monopoly rule, the coalescence of monopolies and the state, the unbridled arms race and the uneven economic development of the capitalist countries.

The organisational principles of the postwar monetary system of capitalism were laid down in 1944. They reflected the far-reaching changes within the imperialist system brought on by the economic crisis of the 1930s and World War II. The International Monetary Fund was instituted and the United States secured recognition of the dollar as the main world reserve currency. Along with gold, the dollar became the world legal tender. The United States committed itself to exchanging freely for gold dollars offered by foreign central banks at the 1934 rate of 35 dollars per troy ounce of pure gold (31.1 grams). The dollar, as the international legal tender accepted on a par with gold, rose to a dominating position in the sphere of capitalist monetary relations.

The Bretton Woods (USA) Agreements laid the foundation for the system of the gold and foreign exchange standard. In international payments, gold continued to serve as the ultimate means of settling balances of payments and a major element of currency reserves. At the same time, the paper dollar was used as a legal tender in international payments and for accumulation of reserves.

A characteristic feature of the Bretton Woods system was also the maintenance of the official fixed currency parities in relation to the dollar (and, in the final analysis, to gold). In accordance with the Agreements, the market rates

of exchange could fluctuate within the limits of 1 per cent from the official parities set by the International Monetary Fund. Until August 1971, the capitalist central banks had maintained the relationship between the national paper currencies and gold by exchanging US dollars from their reserves for gold.

This situation, where the dollar became the only currency based on a gold parity, was attributable to US economic power after World War II, while the other capitalist countries were harassed by economic difficulties and dependent on the United States financially and economically. In that period, there was an acute dollar shortage in all capitalist states, particularly in Western Europe.

The confidence of the capitalist countries in the stability of the dollar was all the greater that the United States had a large gold reserve at the time. In 1948, for example, the official gold reserves of the entire capitalist world (barring gold in private possession) totalled \$32.5 billion, the US share being \$24.3 billion.

Yet, after the late 1950s and particularly in the 1960s, the dollar-based postwar capitalist monetary system became sharply discrepant with the needs arising from the development of the productive forces and international economic relations.

By that time important changes had taken place in the balance of power between the industrial capitalist states. The economic and financial strength of the former US debtors grew, and their currencies became increasingly stable (from the standpoint of the balance of payments and gold reserves), while the US positions in the world capitalist economy deteriorated. Since the late 1950s, the US balance of payments has had a chronic deficit, which was primarily due to huge US foreign military spendings.

At the same time, the official price of gold became increasingly unrealistic. Between 1934 and 1971, the dollar purchasing power fell by about 70 per cent. The prices of all goods on the world markets of all capitalist countries climbed roughly 200 per cent. Wholesale and retail prices on the home markets of all capitalist countries soared still higher.

Therefore, the monetary equivalent of production costs of all goods manufactured in the capitalist world, gold extraction included, markedly grew. High production costs and low rates of profit in the gold-mining industry prohibited a growth in gold output, which has been increasing negligibly, if at all, in the past few years. For its growth rates, gold extraction lagged far behind world industry and trade. What is more, the gold produced was increasingly stored up in private fortunes and consumed by industry. As a result, at the end of 1968, the centralised gold reserves of the capitalist countries were smaller than in 1961.

Simultaneously, speculative transfusion of capital from one country to another in view of the growing instability of the dollar assumed a wide scope. The biggest international industrial and banking monopolies, members of the financial oligarchy were actively involved in currency speculation. The United States was therefore faced with increasing difficulties in saving the dollar as a reserve currency of the capitalist world.

To improve the existing system of monetary relations, an international agreement was signed to establish, within the IMF framework, special world paper money known as "Special Drawing Rights" for currency (1970). These "rights" entitle each IMF member-country to sums of foreign exchange equal to its contribution to the Fund in gold and its national currency. The issue of special certificates - "paper gold" in the form of SDRs--failed to take the heat out of the monetary crisis. In the summer of 1971, the United States suspended dollar exchange for gold. In the early 1970s, the dollar was devaluated. The official price of gold was raised to \$42 (1973).

Because of the suspension of dollar exchange for gold, the so-called free gold market began to play an increasingly greater role. On the free gold market, the price of gold is contingent on supply and demand. In the first half of the 1970s, the price of gold fluctuated from \$175 to \$200 per troy ounce.

These serious blows on the capitalist monetary system have sharply aggravated the competitive struggle for commodity



markets.

In 1976, an attempt was made to introduce new principles of the capitalist monetary and financial relations. These principles were secured in the Jamaica Agreements. The official price of gold was annulled and gold was excluded from payments made by IMF and its members. The central banks could buy and sell gold on the free market. Besides, the Jamaica Agreements actually sanctioned the so-called floating rates of exchange, which allow for a far-away departure from the officially fixed rates, depending on many internal and external factors.

But the floating rates of exchange lead to negative foreign-trade consequences, especially when long-term agreements are signed. In a crisis situation, this leads to production slow-down and lay-offs, especially in export-oriented branches.

The Jamaica Agreements could not alleviate inter-imperialist rivalry in the monetary sphere. The United States and EEC countries, and also Japan continue debates on the role of gold in the system of international monetary relations. The problem of the dollar reserves in the hands of US partners has not been settled yet. In the 1980s, inter-imperialist rivalry has spread to bank interest rates.

The monetary crisis exposes the inefficiency of the state-monopoly regulation of capitalist international economic relations.

Disbalances in international payments and payments deficits are increasing.

The monetary and financial crisis of imperialism aggravates the antagonisms between the imperialist powers and the developing countries. The monetary and financial situation of most developing nations remains extremely grave because of their limited reserves of foreign exchange, lop-sided economy and the deteriorating market situation for their traditional exports. In 1981, the foreign debt of the developing countries exceeded \$500 billion.

In the past few years, bourgeois politicians and economists put forward many schemes designed to terminate the crisis of the capitalist monetary system. Their implementa-

tion, however, can only temporarily abate the violence of crisis phenomena. The monetary crisis of capitalism is chronic. Measures proposed by bourgeois ideologists and politicians can do nothing against the causes of this crisis.

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The Berlin Conference of the Communist and Workers' Parties (1976) noted that the analysis of the present-day stage in the crisis of the world capitalist economic system makes it possible to conclude "that the economic and social structure of capitalist society is becoming more and more inconsistent with the needs of the working and popular masses and with the requirements of social progress and of democratic political development".<sup>1</sup>

Imperialism and the reactionary forces are trying to resolve the contradictions of the world capitalist economy by increasing the power of international monopolies and improving the existing international state-monopoly regulatory mechanisms. In doing so, they continue the exploitation of peoples and create a threat to international peace.

The Soviet Union, the other countries of the socialist community, the progressive forces in the capitalist and developing countries are working towards establishing democratic international economic relations, strengthening peace, consolidating detente and expanding comprehensive mutually advantageous cooperation between all countries on the basis of equality and justice.

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<sup>1</sup> For Peace, Security, Cooperation and Social Progress in Europe, Berlin, June 29-30, 1976, Moscow, 1976, p. 38.

SOCIO-ECONOMIC PROBLEMS OF DEVELOPING COUNTRIES

1. Place of Developing Countries in the World  
Capitalist Economy

Collapse of Imperialism's  
Colonial System

The territorial division of the world by the "great" imperialist powers was one of the distinguishing features of imperialism at its early stages of development. This meant that the capitalist system of world economy had included, from the very moment of its emergence, the "centres" and "periphery" - the colonial system of imperialism, embracing colonies, semi-colonies and dependencies enslaved and oppressed by the imperialist states.

The colonial system of imperialism brought to life new phenomena and contradictions in world economy.

First, the colonial system of imperialism combined internationally various forms of exploitation and plunder of oppressed peoples: direct fleecing of colonies (through taxes, exactions and confiscations) was coupled with economic forms of exploitation, based on exports of capital. Forced labour of colonial peoples was widely employed alongside capitalist exploitation of wage labour. In fact, it was a disguised form of slavery.

Second, it combined exploitation of colonial peoples with their political subjugation, national and racial yoke. Thereby, people in Asian, African and Latin American countries were barred from deciding their own future. The "strategy" of their development was elaborated in the centres of world imperialism and put to practice by the colonial administration.

Third, it fettered the productive forces' development in colonial and dependent countries and made their economies abnormally one-sided. Thereby, the economic lagging behind of African, Asian, and Latin American nations, which was a tendency in the mid-19th century, became a law in the imperialist

epoch.

All the above made the colonial system of imperialism extremely contradictory and short-lived.

The colonial system of imperialism took shape at the turn of the 20th century, but already in the 1920s this system's crisis began evolving into its disintegration after World War II. In the 1970s the liquidation of colonial empires had been practically completed.

Crisis, disintegration and ultimate collapse of the "classical" colonial system are connected with the aggravation of its internal contradictions and operation of external factors. With the emergence of the proletariat, intelligentsia and national bourgeoisie in colonial and dependent countries the struggle against colonial yoke, for national emancipation intensifies. However, as long as the dominance of imperialism embraced the entire world, the forces that had created and supported the system of colonial oppression outnumbered those fighting for national liberation.

The October Revolution and the first socialist state essentially weakened imperialism and drew the oppressed peoples into the world revolutionary process.

The formation of the world socialist system after World War II finally undermined the positions of "classical" colonialism allowing the colonial peoples to fight successfully for their independence and achieve political sovereignty by many of them.

The world socialist system becoming the decisive force determining the ways of humankind's development created conditions for final collapse of the colonial empires.

Thus, the stronger positions of world socialism and successful national liberation revolutions are interconnected and interdependent and make up a single revolutionary process.

External Features of  
Developing Countries

The disintegration and subsequent  
collapse of the colonial system  
of imperialism led to the emerg-

ence of many sovereign states - over 100 countries in Asia, Africa and Latin America.

These countries, usually called developing, differ from

one another in many respects: in the level of the productive forces' development, socio-political orientation, forms of the state set-up, etc. At the same time, they have common features allowing to unite them in a single group. These features typical of all developing countries, are connected with their past and current position. They are the following:

(a) In the past - these countries were colonies or semi-colonies of the imperialist powers. Over centuries they were brutally and openly plundered and exploited.

(b) At present - these are backward, economically poor developed countries, with low level of the productive forces (as compared with the countries of Western Europe, North America and some others), considerable share and even predominance of pre-capitalist production relations in some of them.

Thus, accounting for nearly 75 per cent of the capitalist world's population, developing countries manufacture some 1 per cent of its industrial output and 13 per cent of exports. In the mid-1970s in the capitalist world there were 350 million families engaged in agriculture, of which 250 million employ hand-hoes and wooden ploughs and some 90 million cultivate their plots with iron ploughs and draught animals.

The synthetic indicator of the newly-free countries' poor development, though incomplete and approximate, is the widening gap between them and the developed capitalist countries in the per capita gross domestic product. Indicative in this respect are the following figures:

Per capita GDP (dollars) in the 1970 prices<sup>1</sup>

	1870	1950	1970	1976
Industrialised countries (Europe)	560	1,550	2,960	3,420
Developing countries	160	135	225	275

<sup>1</sup> The 1970 and particularly 1976 figures give but an approximate idea of the developing countries' position in general since they include the data on the OPEC and some other countries with high per capita GDP (New Caledonia - 3,800, Djibouti - 1,800, Singapore - 2,700 etc.).

"Poor Development" Is  
World Economic Category  
of Imperialism

Poor development consists not only in that some countries economically lag behind other countries, it is a world economic category of the monopoly stage of capitalism (imperialism).

This category is linked with the operation of the following factors:

(a) It emerged in connection with the international capitalist division of labour which allotted to colonies and dependencies the role of supplier of raw materials and food-stuffs to parent states. The international capitalist division of labour within the framework of world economy divided the world into developed and poorly developed countries. The exploitation of colonies made the difference (initially negligible) in the level of the productive forces' development rapidly increase owing to unequal relations the colonialists forced upon the peoples in Asia, Africa and Latin America.

(b) The unevenness of capitalist development, particularly intensified in the imperialist epoch, contributed still more to widening the gulf between the "centres" and "periphery" of the world capitalist economy.

(c) The operation of these factors turned former colonies and semi-colonies, upon achieving state sovereignty, into autonomous, but dependent, producers exploited by imperialism.

Dependence upon imperialism blocks the road of surmounting economic backwardness which, in its turn, is conducive to preserving the relations of dependence upon imperialism.

The following are the conditions of reproducing the above relations and simultaneously external forms of manifesting the poor development category:

(a) dominant position of the imperialist powers' monopoly capital in the economy of the capitalist world, including that of developing countries;

(b) deformed, one-sided structure of developing countries' economy arising from this dominance.

(c) corresponding structure of external economic ties of developing countries.

Thus, "poor economic development" of Asian, African and Latin American countries was not the result of their internal evolution. Imposed by external forces, it is a product of colonialism kept up by neocolonialism up to the present time.

## 2. Neocolonialism

**Essence and Forms  
of Neocolonialism**

The collapse of the colonial system of imperialism does not mean that imperialism has renounced its effort to continue the exploitation of former colonies. It only changed its tactics and strategy, seeking to adjust them to the present situation. Neocolonialism replaced classical colonialism. Neocolonialism is a system of economic, political, ideological, military and other measures aimed at achieving two principal objectives: (a) to keep former colonies within the world capitalist system of economy and (b) to preserve the conditions allowing to exploit and plunder the liberated states.

To attain these aims neocolonialism unites in a single mechanism the power of the monopoly capital and of the imperialist state. Hence it may be regarded as one of the modern forms of state-monopoly capitalism.

The employment of chiefly camouflaged forms of control over former colonies is a characteristic feature of neocolonialism. In a thousand ways the imperialists are trying to bind these countries to themselves in order to deal more freely with their natural riches, and to use their territory for their strategic designs. Among the most widely spread forms of neocolonialism we find the following:

(a) Support (sometimes setting up) of reactionary regimes, obedient weapon in the hands of imperialist powers and transnational monopolies. As an example, we may refer to American imperialism's backing of the shah's regime in Iran right until the latter's downfall, help it renders to the reactionary regimes in El Salvador, Guatemala and others.

(b) Export of private and state capital in one's own and others' former colonies. This process, once a mechanism of

dividing the world economically, is now an important instrument of neocolonialism.

(c) Drawing of the newly-free countries into the economic alliances headed by former parent states, for example, the association of dozens of countries of Africa, the Pacific and the Caribbean with the European Economic Community (EEC).

The association is simultaneously a form in which collective neocolonialism--comparatively recent variety of neocolonialism--manifests itself.

Neocolonialist strategy and tactics are not something given once and for all. Their evolution is connected with the change in the world situation and the balance of forces between imperialism and the three principal revolutionary torrents of today, with the aggravating contradictions of world imperialism. The evolution of neocolonialist strategy and tactics is also connected with the alterations in internal conditions of reproduction in the industrialized capitalist countries (for example, the change in economic structures brought about by the scientific and technical revolution). At the present stage the "extreme" economic backwardness of developing countries is at variance with "normal" functioning of the mechanism of the international capitalist division of labour, impeding the exploitation of their peoples with the help of modern methods and means.

Therefore modern neocolonialism is seeking to speed up, to a certain degree, the development rates of young states and modernise their economies (naturally along the capitalist lines) with the aim of integrating the developing countries in the existing system of the world capitalist economy as a sufficiently developed but dependent link. Transnational monopolies are the principal instrument of this new strategy.

Concrete Forms of the  
Developing Countries'  
Economic Dependence  
on Imperialism

The oldest form of the developing countries' dependence upon imperialism is that in the sphere of international trade. The traditional tying up of the young states'

export to the markets of the imperialist countries forms its basis. Up to 80 per cent of export from Asian, African and



Latin American countries fell on these markets at the beginning of the 1980s. The current one-sided economic specialisation of most liberated countries is responsible for the fact that the bulk of their export consists of just a couple of commodities, primarily raw materials.

As a result, the developing countries are sustaining enormous losses at least on three lines.

(a) Losses arising from monopoly rule in price formation (non-equivalent exchange). For example, the UN special session (autumn 1980) provided the following figures - the final consumers in the developed countries pay for raw materials imported from the developing countries approximately 350 billion dollars annually, whereas the latter receive mere 35-40 billion dollars from the above sum. The rest is appropriated by the transnationals.

(b) Losses owing to unfavourable conditions of production, in particular low level of labour productivity. Prices in the world market are set on the basis of the same laws which operate in the home market - market prices are determined by socially necessary rather than individual conditions. Hence, the developing countries find themselves to be commodity producers spending more time than it is socially necessary to produce a commodity.

(c) Losses connected with the discrimination of commodities exported by the developing countries to the Western markets.

Dependence upon imperialism in international trade is supplemented by financial dependence: the developing countries are forced to seek loans and credits of the leading imperialist powers, international financial institutions and big private banks. As a result, foreign debts of the young states grow apace. By the beginning of 1985 they were close to 800 billion dollars, a truly astronomical figure. Paying off these debts devours increasingly great part of what they receive from exports.

It is also a feature of financial dependence that national currencies of many young states are tied up to the basic capitalist currencies: US dollar, British pound sterling, French franc. Any depreciation of these currencies automati-

cally leads to the depreciation of liberated countries' currencies.

The so-called technological dependence connected with the scientific and technological revolution is a comparatively new form of dependence. Technical progress in the capitalist world is monopolised by a handful of imperialist powers and transnational monopolies. Eight major monopolies in the centres of world imperialism ensure 35 per cent of all expenses on industrial research in the capitalist world. Technological dependence bars the young states from access to new machinery and technology.

Transnational monopolies set monopoly-high prices for new machinery and technology and dictate the conditions to the developing countries under which the latter can introduce technical innovations. For instance, they often ban exporting entire or part of output, produced with the help of new machinery or technology. In certain cases the transfer of technology is conditioned by obligatory purchases of industrial supplies, equipment and spare parts from the firm indicated by the owner of technology.

Dependence in the sphere of food-supply of most developing countries upon international imperialism, is a comparatively new form of dependence. It is a paradoxical phenomenon since the majority of these countries are agrarian. Food-supply dependence consists in that the bulk of young states provide themselves to a lesser degree with home-produced foodstuffs and are forced to import them in ever greater quantity, expending their hard currency reserves which are truly scanty as it is. This type of dependence is connected, above all, with the low level of productive forces and labour productivity in agriculture of the developing countries and also with ousting of cereals by industrial crops under the pressure of imperialist powers and transnational corporations.

In analysing the development of relations of dependence of some states upon imperialism we may trace two tendencies:

(a) Tendency towards the strengthening of exploitation of the developing countries by transnational corporations and imperialist powers and shaping of new forms of dependence.

(b) Tendency towards certain easing of dependence re-

sulting from the successes scored by national liberation revolutions, collective actions of the developing countries against imperialist exploitation (for instance, the experience of the OPEC countries), and closer economic cooperation with the socialist community countries.

### 3. Socio-Economic Structure of Developing Countries

Typical of the developing countries are;(a) non-integrated national economy, deformed economic structures and (b) heterogeneous character of social structures.

Non-Integrated National Economy      The absence of a single mechanism of reproduction, embracing the entire national economy, i.e. divided, non-integrated economy - is a major feature, characteristic of practically all the developing countries and determining the "state of poor development". In these countries there are three, loosely interconnected economic sectors: natural or "traditional", "domestic commodity production" and "export". Foreign monopolies command the latter sector which is enclave in character.

The economic division is a heritage of colonialism which forcibly introduced the "export" sector into the subordinated countries' economy and developed, to a certain degree, commodity-money relations, without which the exploitation of wage labour is impossible. Simultaneously, colonialism artificially preserved feudal and tribal relations. These served as a basis for creating deformed colonial economic structure, which has not much changed in most developing countries since they won political sovereignty.

Non-integration of the developing countries' economies, as we said earlier, adversely affects the reproduction process, which proceeds obeying different laws in these three sectors.

Natural, "traditional" sector is characterised by simple reproduction on the basis of pre-capitalist production relations and is carried out in infinite multitude of "autono-

mous" economic subjects, unconnected or almost unconnected with one another. The combination of crop-growing and cattle-breeding with at-home processing of certain kinds of industrial raw materials is typical of this sector. It has practically no connection with the national economy as a whole. For example, the natural economy with its share of 50 to 80 per cent in the formation of the national income of the developing countries, provides only one per cent of tax revenues.

"Domestic commodity" sector in terms of reproduction mechanism, corresponds, to a certain degree, to that in developed countries, reflected in Marx's and Lenin's schemes of realising gross national capital. However, first, it encompasses only a part of the national economy and, second, its reproduction mechanism lacks material elements of Department I.

"Export" sector also has practically no connections with the national mechanism of reproduction, particularly when in the hands of foreign monopoly capital. Its ties with this mechanism are restricted by two factors: "export" or "foreign" sector pay taxes and profit deductions. Moreover it employs some portion of labour power, mainly unqualified.

Multistructural Economy -  
Socio-Economic Form of  
Manifestation of Deformed  
Economy

Non-integrated and multisectoral  
nature of economy of the deve-  
loping countries is a form ex-  
pressing the specific, stable  
multi-structure economy typical

of these countries.

Lenin was first to introduce the notion of uklad (economic structure, type of economy) with reference to the condition of the Soviet economy during the transition from capitalism to socialism; it is also fully applicable to the developing countries' economy. This notion most fully accords to the scientific analysis of their socio-economic and class structure.

The developing countries' economy includes:

(a) natural-communal structure involving the overwhelming majority of economies in most developing countries, though sometimes this does not correspond to its share in the gross national product;

(b) feudal and semi-feudal structure may be of open or disguised character with the former being characteristic of Middle East, North Africa and South-East Asia and the latter of a number of countries in Tropical Africa following the capitalist road, where tribal chiefs "personify", according to Marx, the exploiters of semi-feudal type.

(c) small commodity production in town and countryside represented, as was already said, by the peasants who work for the home market and do not resort to hired labour, as well as by craftsmen and small traders;

(d) private capitalist economy represented by foreign and local capitalists. Though international monopolies, on the one hand, and small-scale national capitalist enterprises, on the other, play differing roles in the process of reproduction, they both embody the same production relations - exploitation of hired labour by privately-owned capital;

(e) state capitalism represented by state and mixed enterprises (in countries of the socialist orientation this economic structure acquires specific character of which will be said later on).

Thus, a special ("stable") kind of multi-structure economy, that emerged as a result of deforming influence upon the socio-economic structure of the young states by international imperialism, is a typical feature of the developing countries. There exists the combination of individual structures, unusual for the Western states in the past and for the countries, effecting the transition from capitalism to socialism.

Social and Class Structure  
of Developing Countries

The social and class structure of the young states reflects their socio-economic

structure. Hence in many of them the process of formation of basic classes and social groups has not been completed. There are classes and social strata that either had not existed or have already disappeared in the developed capitalist countries. Despite the complicated nature of the developing countries' class structure one may single out, more or less accurately, the following existing classes and social groups.

1. The peasantry is the most numerous and destitute

class. Certain Western authors classify it as the "proletariat of the third world". Like in the industrialised capitalist countries the peasantry is heterogeneous in the developing countries. In Tropical Africa, for example, the peasantry is made up mainly of "members of communes", subjugated (particularly in capitalist-oriented countries) to exploitation on the part of tribal chiefs, feudal lords, rural capitalists, and representatives of the bureaucratic bourgeoisie. The small and middle peasants also exist there.

2. The bourgeoisie is also a heterogeneous class involving the following groups. (a) The compradore bourgeoisie connected with foreign capital. (b) The local bourgeoisie investing their capitals in various economic branches, mainly, in unproductive sphere. Today, a part of local bourgeoisie is maintaining increasingly wider ties with foreign capital, i.e. establishes mixed enterprises. That is why it is often difficult to differentiate between the compradore bourgeoisie and the upper crust of local bourgeoisie. (c) The bureaucratic bourgeoisie includes high-ranking officials in the state apparatus, the generals, etc. It rapidly grows in all the developing countries, particularly, in those following the capitalist road.

3. The petty bourgeoisie in the developing countries includes small entrepreneurs, craftsmen, peasants, working for the market and combining their basic activity (agricultural production) with small-scale usury and trade. It also involves middle and low-paid intelligentsia: low-ranking officials, lecturers, representatives of "liberal" professions.

4. The semi-proletariat includes small craftsmen and traders and a part of peasants. Its principal feature is that its members own the means of production that do not provide their subsistent wage. Therefore, they receive most of their income from selling their labour power. This group, owing to the differentiation of small commodity producers, grows numerically, particularly in countries of Tropical Africa. This social group is the potential closest ally of the working class.

5. The working class includes the urban and rural proletariat selling its labour power. Its features are similar

to those of the proletariat of the industrialised capitalist countries, though differ from the latter in some aspects.

(a) This is a "young" class, although it emerged prior to the local bourgeoisie at foreign enterprises.

(b) It is employed primarily in agriculture, trade and the services sphere.

(c) Non-qualified workers make up its bulk.

(d) The developing countries are characterised by a fairly low level of the concentration of the proletariat.

(c) The bulk of the working class is the "proletariat of the first generation", which has not broken away from the countryside completely.

Despite all these differences from the proletariat in the developed countries, which are generally negative from the viewpoint of its revolutionary potential, the working class in the developing countries is the most progressive class, most persistent fighter against imperialism, for national and social emancipation.

6. Landowners comprise a social group in possession of land. They do not cultivate it, receiving incomes in the form of land rent. This group includes feudal lords, semi-feudal and big landowners in countries of Latin America, North Africa, Middle East and South-East Asia; tribal chiefs in some countries of Tropical Africa; the church (for example, in Ethiopia before the revolution the church possessed approximately a third of land fund, in Senegal, most land belongs to the sect of murids which is thus a big landowners); certain representatives of the bureaucratic bourgeoisie.

7. "Marginal sections" resemble, to some degree, the lumpen-proletariat in the developed countries, described by Marx. The main difference lies in its origin. The bulk of "marginal sections" does not consist of ruined petty commodity producers and former wage labourers, thrown out of the "normal economic activity". These are "members of communes" and ruined semi-proletarians, leaving the countryside because the "traditional sector" disintegrates and they are not able to find permanent jobs because of insufficiently rapid rates of the national economy's development. Like in the industrialised countries they are destitute or live by chance earnings

as street vendors or doing odd jobs.

8. The officer's corps should be made into a special social group in the developing countries, the more so since in many of them it is a sole organised force, acting either independently or in the interests of this or that class force. Indicative of this are frequent coups-d'état the military stage in the developing countries.

The State in the Developing Countries      The specific multistructure economy in the developing countries reflects the alignment of class forces and presupposes the state's leading position in their socio-economic structure. Completely relevant are in this case Engels' provisions that:

(a) political power, following on the whole economics, exerts in its turn the influence upon the latter due to its relative independence;

(b) as an exception a situation may occur when the classes in opposition achieve such an equilibrium of forces that state power becomes, for a time, independent to a certain degree as regards various classes (mainly, the two basic antagonistic classes) as a seeming intermediary between them.<sup>1</sup>

The above means that at the early stages of the liberated countries' development, irrespective of the subsequent socio-political orientation, the state is objectively called upon to fulfil three functions in the economic sphere:

- regulation of relations with foreign capital, dominant in the national economy by the moment of winning political sovereignty;

- facilitating the liquidation of archaic, pre-capitalist structures, impeding development;

- furthering diversification of the economy and formation of the modern productive forces.

Hence, the functioning of the state (provided it is not headed by the puppets of imperialism or reactionary, feudal quarters) is objectively and primarily of progressive, anti-

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<sup>1</sup> See K. Marx and F. Engels, Selected Works in three volumes, Vol. 3, Progress Publishers, Moscow, 1973, pp. 328-334.



imperialist and anti-feudal character, promoting technico-economic and socio-economic progress.

#### 4. Developing Countries' Struggle for Overcoming Economic Backwardness

Restricting the Activity of Foreign Monopoly Capital

One of the main directions of the struggle for overcoming economic backwardness and, to

a certain degree, for doing away with dependence upon imperialism, is the policy aimed at restricting (in the socialist-oriented countries at abolishing) the positions of foreign monopoly capital. The most radical solution of the issue of foreign capital would be its nationalisation. Juridically it is justified since the right to nationalise (even without compensation) is a component of state sovereignty. However, economically the issue of nationalisation is extremely complicated. This problem is of particular significance for the socialist-oriented countries. Leaders of the countries that have chosen capitalist orientation quite easily get on with foreign monopolies. Moreover, precisely the latter together with former metropolies turn some of them (Gabon, Taiwan, Singapore, for example) into the "prosperity show-windows". However, the leaders of these countries are forced to somewhat restrict the activity of transnational corporations.

In any case the nationalisation must be thoroughly prepared. Practice has shown that it should be preceded by some preliminary measures, in particular, the training of managers, study of the potential market for selling the produce of nationalised enterprises, etc. A premature and economically unfounded and unprepared nationalisation, as practice in many countries has shown (Ghana, Mali, Burma and others), may damage the national economy.

Practice has also proved that the most expedient policy in respect to foreign capital, until the national government is not ready to take it in its hands, is the policy of "struggle and cooperation". Restricting the dominance of foreign monopoly capital and simultaneously its usage for

accelerating the development of the national economy presuppose the following measures:

- limitation of repatriating profits through such measures as administrative ban, favourable taxation of profits reinvested;

- greatest possible restriction of autonomy so as to prevent foreign companies from concentrating excessive economic power and political influence in their hands. Of major importance is in this case strict governmental control over the activity of foreign companies and their ties with local entrepreneurs, officials in the administrative apparatus, etc.;

- selective admission of foreign capital sectorally and territorially. In a number of countries (for example, India, Nigeria) economic spheres are divided into three groups: (a) spheres where no foreign capital investment is allowed; (b) spheres allowing foreign capital only as a companion of local private or state capital. The share of foreign capital does not usually exceed 50 per cent; (c) spheres allowing foreign capital without restriction up to 100 per cent. Similar restrictions may be established in respect of various regions of a country accepting foreign capital.

Severe political struggle rages round the principles and conditions of using foreign capital in the young states, including those of socialist orientation. Its outcome will depend upon the correlation of class forces in a given country, upon the choice of socio-political system.

Solution of  
Agrarian Question

Between the various developing countries there are essential differences in ways of solving the agrarian

question.<sup>1</sup>

Agriculture of African, Asian and Latin American countries has common features arising from their poor development. First of all, except some Arab oil-producing countries

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<sup>1</sup> For example, problems facing agriculture in North Africa differ from those typical of most countries of Tropical Africa. Even within the framework of such countries as India the condition of agriculture and agrarian issues considerably differ within each of 14 states.

and industrial agglomerates such as Singapore, agriculture continues to play a dominating role in the economies of newly-free countries with 60 to 90 per cent of economically active population employed in agriculture producing the bulk of the gross domestic product.

Second, both on technico-economic and socio-economic planes agriculture of the developing countries is extremely backward with the predominance of archaic, pre-capitalist forms of ownership. Land is cultivated with primitive instruments and the agrotechnics is as primitive. Hence extremely low labour productivity in this branch so important for the developing countries. For instance, whereas in New Zealand one agricultural worker provides food for 40 persons of non-agricultural population, in Ghana, for only 1.5 and Niger, nearly two persons.

Therefore, radical changes in agriculture are a vital necessity for all the developing countries, irrespective of their socio-political orientation, upon which depends the class character of these changes, whose interests they will satisfy and in what ways they will be realised. Many economists believe that the future of national liberation revolutions in these countries will be determined by the scale of agrarian reform, i.e., development rates of agricultural production and degree of involving the peasant masses in active political life. Agrarian policy of practically all liberated countries includes three aspects:

- carrying through of agrarian reforms;
- cooperation of peasants;
- technical modernisation of agriculture.

Agrarian reforms are necessitated by the existence and in certain countries by the prevalence of pre-capitalist forms of ownership of land: communal, feudal or semi-feudal, petty-peasant. What is more, in the majority of the developing countries the peasant bulk is either landless or owns only tiny plots. Alongside these forms, in some of these countries did exist and exists now large-scale capitalist landed property (plantations).

In most liberated countries agrarian reforms envisage:  
(a) confiscation of part of land in possession of big owners

and its distribution among landless and land-hungry peasants and (b) reduction of rent for landless peasants.

Agrarian reforms have been carried out practically in all the developing countries where existed large-scale landed property of feudal or colonial type. However, their intensity and consistency, as practice has shown, depends primarily upon the countries' socio-political orientation. The most profound and purposeful were agrarian reforms in such socialist-oriented countries and the People's Democratic Republic of Yemen, Ethiopia and others. In the capitalist-oriented countries agrarian reforms for all the adopted laws are not in the main completed with most land to be confiscated remaining in possession of big owners. In a number of countries agrarian reforms led to rapid growth of large-scale peasant farms of capitalist type. This is even true of some socialist-oriented countries such as Algeria and Egypt in the days of Nasser.

For a number of liberated countries the cooperation of peasants is the most important of agrarian transformations. (For example, in most countries of Tropical Africa the basis slogan of agrarian reforms proper - "land to those who till it" - is not practically brought forward.) In many developing states cooperatives began to spring up as early as the colonial epoch and, to a certain degree, under the colonial administration's influence (India, Senegal, etc.). After winning independence the cooperation assumes mass character in many countries.

Many liberated countries seek peculiar forms of drawing peasants into cooperatives on the basis of the communes ("socialist villages" in Tanzania, setting up fokolane villages in Madagascar, etc.). Use of the commune for progressive re-making of countryside is a complicated undertaking because of the contradictory nature of this, on the whole outdated socio-economic institution. On the one hand, the commune has sprouts of the collective spirit, on the other, archaic social relations. There exist certain democratic traditions in the commune as well as autocratic power of the elders and the exploitation of its rank-and-file members by the tribal nobi-

lity.<sup>1</sup>

The scope of cooperation and profundity of agrarian reforms depend, above all, on socio-political orientation of a developing country. In the socialist-oriented countries cooperation is more developed than in the capitalist-oriented ones. Success or failure, particularly in the socialist-oriented countries, mostly hinge on the degree to which the Leninist cooperation principles are applied. Whatever the drawbacks and difficulties in this process, drawing peasants into cooperatives is invariably progressive in character, allowing to avoid the reduction in marketability of agricultural production, a possible side-effect of agrarian reforms. It raises peasants' living standards, changes their social psychology, engenders the feeling of mutual assistance and the necessity of collective labour.

Technical modernisation of agriculture consists in introducing modern instruments and means of production (beginning with the simplest, since many peasant farms in the developing countries employ the instruments dating back to the first centuries of the present era), chemical fertilisers, new varieties of seeds, up-to-date agrotechnical methods and so on. The state bears the main burden setting up the network of farm machines hire centres and agrotechnical courses, financing large irrigation installations, organising state-run farms. The latter's function is not only to organise production within the framework of the farms but also to produce a "demonstration effect".

Marxist-Leninist political economy, acknowledging the importance of the technical modernisation of agriculture, holds that without socio-economic transformations it will not give expected results. For example, "green revolution" in a number of capitalist-oriented African and Asian countries failed to radically resolve the task of raising the output of

<sup>1</sup> Marxist economists do not have unity of opinion on the issue of using the commune for facilitating the cooperation process in the socialist-oriented countries. Some consider that the commune hampers the revolutionary remodelling of the countryside, while others assert its ability to be a transitional form to socialism. In any case it is clear that the cooperation policy on the basis of the commune should take account of both positive and negative aspects of this institution.

agricultural produce. On the contrary, it brought impoverishment to millions of tenants, metayers and agricultural workers, thereby, "green revolution" intensified social tension in the capitalist-oriented developing countries, leaving unresolved the technical and economic tasks of the agrarian sector.

Industrialisation in the  
Developing Countries

Among the problems, facing the developing countries in their struggle for surmounting economic backwardness and attaining economic independence, industrialisation is the most prominent one. Precisely industrialisation is to modernise socio-economic structures inherited from colonialism. This, in turn, should decrease the one-sided dependence upon imperialism.

Correct understanding of the essence and tasks of industrialisation is a key to seizing up of all related problems, allowing to critically evaluate the various trends in the strategy of industrialisation in various newly-free states. It helps to understand the causes of imperialism's severe resistance to this process, as well as those of successes and failures of industrialisation in individual developing countries.

Industrialisation means radical restructuring of the national economy on the basis of raising the share of industry and introducing large-scale mechanised production in all economic branches. This should lead to a sharp growth in social labour productivity.

The following tasks facing the newly-free countries are to be solved in the course of industrialisation:

(a) to establish modern material and technical base of the national economy relying upon the latest breakthroughs in science and technology;

(b) to eliminate the isolation of various structures within the national economy and the deformed character of economic structures, and to turn the economy into a single economic whole;

(c) to improve the living standard of most working people on the basis of higher effectiveness of social production and labour productivity. (This provision is contained

in the industrialisation programmes of all the developing countries, irrespective of their socio-political orientation, though in the capitalist-oriented states it is not put into practice, as a rule.);

(d) to do away with the inequitable position of the developing countries in the world capitalist economy.

This understanding of the essence and tasks of industrialisation presupposes that the process is not reduced only to building a certain number of industrial enterprises regardless of what type of produce they manufacture. Genuine industrialisation is setting up such enterprises and branches, whose development would influence the national economy as a whole and produce a "chain reaction" of the overall economic progress.

Industrialisation is not just a technical and economic but also a socio-economic process connected not only with the productive forces' growth but also with changes in production relations and, consequently, with class struggle. Hence the methods of industrialisation in the socialist-oriented countries differ from those in the capitalist-oriented states in the following: the sources of financing the industrialisation programme, the classes that pay for it; whose interests it meets; who owns the economic potential which is being created (the state, national or foreign capital); to what degree it facilitates the attainment of economic independence (for example, in "prospering" Singapore about 70 per cent of industrial investments belong to foreigners).

Although over the last 20 years the majority of the developing countries paid much attention to the programmes of industrial development (over this period their industrial production grew 3.4-fold as against 2.4-fold in the industrialised capitalist countries), they did not score significant successes in industrialisation (except for Algeria, India and a couple of other countries). Their share in the world industrial production increased from 11.9 to 15.6 per cent from 1960 to 1976, but dropped to approximately 9 per cent by 1980. From year to year the majority of the newly-free states fail to carry out their industrial development plans.

These failures are connected with both the subjective

errors of these countries' leaders and the operation of objective factors that complicate the process of industrialisation.

The subjective factors consist in the fact that the industrialisation programmes in most developing countries have been worked out without proper consideration for concrete conditions in each country: the level of industrial development by the moment of adopting the programme, the size of the territory and population, mineral raw materials resources, the level of infrastructure development, and finally, availability of real resources (both internal and external) of financing the industrialisation. The models of industrialisation aimed at "improving traditional exports" - primary processing of mineral and agricultural raw materials and replacement of certain imported consumer goods - proved to be a failure. Industrialisation was divorced from the requirements of the national economy.

The objective factors consist in certain peculiarities of industrialisation in developing countries, difficulties in drawing on the experience of both capitalist industrialisation in the West European countries and the USA and socialist industrialisation in the USSR and other socialist countries. These form the socio-economic aspect of industrialisation. The industrialisation in the newly-free states differs from the "industrial revolution" in Western Europe and the USA, above all, in its aims. Profit was the objective of capitalist industrialisation, not the setting up of multi-sectoral independent economy. Hence the intensified exploitation of wage workers, lower standard of living, climbing unemployment, factors unacceptable even for the capitalist-oriented countries.

By its socio-economic aims industrialisation in young states of Africa, Asia and Latin America is closer to the experience of socialist industrialisation in the Soviet Union. However, it is carried out within the world capitalist system, experiencing the impact of the factors of dependent development. Besides, industrialisation in most developing countries, except for the socialist-oriented states, does not set as its aim creating conditions for the victory of socialist production relations.



Another specific feature of industrialisation in the developing countries is that it takes place in conditions of the current world-wide scientific and technological revolution. On the one hand, this factor facilitates the industrialisation process, since the newly-free countries may use already available achievements in science and technology. On the other, however, the same factor complicates their position. First, new machinery and technology are monopolised by world imperialism (cooperation with socialist countries undermines this monopoly, but has not yet abolished it.) Second, modern enterprises, built according to the world standards, demand huge capital investments. The British professor Blackett calculated in the late 1960s that the construction and equipping of modern machine-building or chemical plant required investments amounting to approximately 28,000 dollars per one person employed. In current prices this makes up some 50,000-60,000 dollars. Third, modern enterprises are designed for mass production, whereas narrow home markets are typical of most developing countries. Fourth, industrialisation in the context of the STR makes high demands on workers, engineers and technicians, also a problem for the young states.

Unfavourable impact of a number of the above factors may be reduced by the radical socio-economic transformations within the country. Industrialisation should be organically linked with the people's needs for its fruits to benefit the bulk of the working people rather than transnational monopolies and local élite. Industrialisation can promote the growth of labour productivity in agriculture, for example, only if it is preceded or at least accompanied by remaking agrarian relations in the interests of the poor and landless peasants.

Burdened with many difficulties, industrialisation is, nevertheless, absolutely necessary. Without genuine industrialisation it is impossible to do away with economic backwardness and dependence upon imperialism.

The Role of the State  
Sector in Socio-Economic  
Transformations

By fulfilling its economic  
functions the state acts  
either as a regulator of  
economic life or as an

entrepreneur. The latter function is performed by the state sector which emerges and develops on the basis of the three sources:

- (a) automatic transition of the former colonial administration's property into the hands of the state;
- (b) nationalisation of property belonging to foreign and local capitalists, as well as big landowners (formation of state land fund);
- (c) capital construction.

The present stage of national liberation revolutions is characterised by constantly increasing share of the state sector in the national economies of the newly-free states, despite reprivatising tendency in some of them. According to UN statistics, the state sector's share in the gross domestic product of the young states ranges from 10 to 30 per cent, and from 30 to 90 per cent in investments. In most of these countries the state is the only or major owner of transport and communications. From 60 to 80 per cent of electric power producing capacities belong to the state. In many developing countries the state completely or partially ensures production in metallurgical, oil-extracting and oil-processing industries, in machine-building, cement and some other branches of industry. The state increasingly participates in banking and insurance, in foreign trade deals, to name but a few.

The state sector's share in the national economy of the developing countries and the scale of estatiation mostly depend on the socio-economic orientation of a given country. As a rule, it is especially high in socialist-oriented countries. However, it would be erroneous to define the type of orientation proceeding solely from the share of the state sector in a given country's economy. In such Arab capitalist-oriented countries with power centralised to a great degree, as Saudi Arabia, Kuwait, Emirates, the share of the state sector is higher than in a number of countries which have made socialist choice.

For all its importance, quantitative aspect does not reveal the socio-political and class character of the state sector. It obeys to different laws in capitalist-oriented and in socialist-oriented countries.

Laws governing the development of the state sector in the countries of capitalist orientation. In the newly-free countries with the national bourgeoisie in power the state sector is a variety of state capitalism - collective property of the national (often also compradore and bureaucratic) bourgeoisie. It uses the state sector to form the economic basis of its own development as a class, striving to rule not only politically but also economically.

Within the state sector, the state, acting as an "aggregate capitalist", advances capital and employs wage labour power. The national bourgeoisie, relying upon the state power and state sector, provides itself with commodities and services produced in this sector. It thereby appropriates a certain portion of surplus-value produced in it.

Besides, the state sector speeds up the progress in some economic spheres (of infrastructure above all) promoting the extended reproduction of national private capital.

With all its deficiencies and limited possibility to exert influence on the development of the national economy in the capitalist-oriented countries, the state sector in these countries is of progressive character. In many of them (for example, the Ivory Coast) it is the only subject expressing the interests of the national economy. (National private capital is weak there and invested mainly in trade, the services and real estate.)

Embodying the interests of the bourgeoisie, it also expresses, in certain spheres of its activities, the interests of the whole nation and those of the struggle for developing the productive forces and for economic independence. Even in the countries of capitalist orientation (with the exception of puppet countries) the state sector has an anti-imperialist charge, since the growth of national capitalism in the developing countries necessarily implies the opposition between these countries' bourgeoisie and international monopoly capital.

Laws governing the development of the state sector in the countries of socialist orientation. There it becomes an efficient and powerful lever of remaking poorly developed colonial economic structure.

The advancement along the road of socialist orientation changes the social and class nature of the state sector. At the initial stages of socialist orientation the state sector remains a form of state capitalism, though specific, functioning mainly in the working people's interests rather than in the interests of the national bourgeoisie. Subsequently, it loses its state-capitalist character and turns into the basis for future socialist transformations.

In the developing countries of socialist orientation the state sector is the most mature and dynamic economic form, provided the economy is profitable. It serves as the basis for productively utilising national resources, pursuing national economic policy in the working people's interest, promoting the introduction of national economic planning.

The state sector facilitates realising one of the principal tasks of socialist orientation - quantitative and qualitative growth of the working class, an indispensable condition for setting about direct socialist transformations.

Finally, in the socialist-oriented countries the state sector plays a decisive role in external economic relations.

On the whole, the role of the state sector in the socialist-oriented countries is qualitatively new in comparison with the capitalist-oriented countries; it becomes the pillar of the material base for the emergence of new production relations.

## 5. External Economic Relations of Developing Countries

Struggle of Developing Countries for Restructuring International Economic Ties	The developing countries' struggle to do away with their socio-economic backwardness involves the restructuring not only of internal but also external economic relations. Particularly important in this respect is the realisation of the programme of anti-imperialist actions aimed at defending the developing countries' sovereign rights, eliminating the system of exploitation and discrimination in world economic relations. This programme is known as the struggle for a new international
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economic order (NIEO). The developing countries link the establishment of NIEO with the liquidation of economic colonialism, restructuring of existing international economic relations, elimination of unequal position of the newly-free countries in the system of the international capitalist division of labour.

The struggle for NIEO is a component of the struggle for the developing countries' economic independence, i.e. for eliminating one of the elements of underdevelopment - dependence upon international imperialism. According to Marxist-Leninist methodology the anti-imperialist struggle of newly-free states should be regarded as a specific form of the class struggle on the international scene. It is waged jointly by all or the majority of the developing countries (Group of 77, non-aligned movement) and by a group of countries (OPEC), and by each individual developing country.

The struggle to make imperialist powers and transnational monopolies first give heed to the demands of the peoples they exploit and, in the final account, satisfy these demands, develops in two directions:

First, collective pressure on the positions of imperialism (for example, OPEC policy on the issue of oil prices, conditions of its extraction, transportation, sales, etc.).

Second, collective negotiations at international forums (such as UNCTAD and UNIDO, conferences of non-aligned countries, regular and special sessions of the United Nations, "North-South" talks and others).

Nowadays, the second direction is the main one for the demands the young states put forward at these forums cover a wide scope of questions connected with the issue of the restructuring of the existing international economic relations.

Imperialists, though recognising, in words, the justifiability of the developing countries' demands, pursue obstructionist policies turning down these issues or postponing their solution. Simultaneously, they try to undermine these countries' unity, set OPEC against non-petroleum countries, cause split within OPEC itself, etc.

However, the obtaining situation does not indicate that the developing countries are suffering defeat in the struggle

against imperialism. It is a fact that national liberation struggle is an irrepressible process, but its success is not always achieved as a result of consistent and purposeful actions and depends upon the alignment of opposing forces. In their struggle for NIEO the developing countries rely on such a powerful weapon as the assistance of the USSR and other socialist countries.

At the same time, the acknowledging of the developing countries' legitimate demands on the issue of NIEO does not rule out criticism of certain shortcomings of the NIEO programme:

First, many representatives of the developing countries reduce the new international economic order to transferring financial resources from the developed to developing countries, i.e. to changes in the sphere of distribution and redistribution. Less attention is paid to other aspects of the new economic order. For all the necessity of this transfer, the programme of the developing countries' progress and overcoming backwardness should not be brought down to the redistribution of world income. The inflow of finances, if it is not accompanied by radical transformations of socio-economic relations within the developing countries themselves, cannot change their position in the world economy.

Second, simplified and incorrect division of countries into "rich" and "poor" is often used in the demands for a new economic order. No borderline is drawn between socialist and capitalist countries and equal demands are made on both. This non-class approach ignores the fact that imperialist powers have grown rich through colonial plundering. The transnationals are plundering liberated countries even today. On the contrary, the socialist countries never took part in robbing Asian, African and Latin American countries, they themselves were objects of imperialist plunder prior to revolutions.

For all these drawbacks, the fact that the issue of new principles of international relations has been raised is of truly historic significance, showing that the struggle against neocolonialism has risen to a new, higher level.

Economic Cooperation of  
Developing Countries

One of the crucial tasks facing  
the developing countries in  
their battle for economic in-

dependence is **establishing of closer economic cooperation** (at least on the regional or subregional level), which may cover trade, coordination of plans for development, joint utilisation of resources and other spheres.

The expanding economic cooperation between the developing countries can bring the following positive results:

First, it makes possible to more effectively utilise the resources of the developing countries, construct powerful industrial complexes capable to service entire regions, eliminate unnecessary and expensive, in the conditions of small countries, duplicating, when minor projects are set up manufacturing the same type of output.

Second, it expands markets by liquidating or at least restricting the competition on the part of the multinationals and by reducing production costs for it gives the opportunity to introduce mass production and standardisation.

Third, it will strengthen the developing countries' position in their struggle against imperialism. True, when isolated small countries find themselves "face to face" with powerful imperialist states, transnational monopolies or even state-monopoly associations of the Common Market type, they find it difficult to uphold their economic interests. The closer economic cooperation equips the newly-free states with a mighty instrument of fighting imperialism.

Mutual Trade of  
Developing Countries

The mutual exchange of goods opens  
up vast opportunities for expanding  
economic cooperation among the  
developing countries.

Trade between the newly-free countries of Asia, Africa and Latin America (particularly between the first two regions) is a comparatively new phenomenon. It could emerge only in the context of the disintegration of the colonial system of imperialism and it is in the making at present. Today, the bulk of the foreign trade of the newly-liberated states falls on the industrialised capitalist countries. Their mutual trade is

estimated to make up no more than five to eight per cent of world trade. However, it, like mutual economic cooperation in general, becomes an objective necessity for successful development of the liberated states.

Both objective and subjective difficulties stand in the way of furthering mutual trade of the developing countries. Objective difficulties lie in the fact that the economies of many neighbouring countries of Asia, Africa and the Middle East do not mutually supplement each other. As a rule, they produce almost the same commodities and often have nothing to sell to one another.

The progress in mutual trade is impeded by the underdevelopment or complete absence of transport communications, sometimes even between two adjacent states. (Financial Times wrote that a letter sent from Venezuela to Bolivia would cross twice the Atlantic before reaching its destination.) These difficulties include aftermaths of the colonial economic structure inherited by the young states and phenomena connected with collective neocolonialism - association of many newly-free countries with former metropolises or the Common Market. Subjective difficulties consist in the erroneous economic policies, conducted by the governments of certain developing countries (high customs-duties, administrative bans).

The newly-free states take certain efforts to intensify and diversify their mutual trade and attempt at creating regional markets, which may be regarded only as first steps in organising the mutually advantageous exchange.

Problems of Economic  
Integration of  
Developing Countries

Of considerable support for the developing countries may be joint financing of certain projects, as well as specialisation and cooperation on the basis of regional economic integration. This tendency, ever more prominent in the developing countries, is a manifestation of the objective process of production internationalisation, under way world-wide. Regional economic integration exerts influence upon both external and internal sources of accumulation, since it allows to make more rational use of the latter. Regional integration helps to deal with



market problems because large modern enterprises created on its basis may supply markets not of a single but of several participating countries. This fact is especially important in view of the greater size of modern enterprises and narrow national markets in many liberated countries.

One should bear in mind that the majority of these countries are small in terms of territory and number of population. For example, of 50 independent African states over half have population of less than 5 million people, whereas the population of 16 of them is below 1 million. There are many small states in Central America, the Caribbean Basin and Oceania. Meanwhile, modern economy demands large economic units capable to organise large-scale production.

Today, there exists a number of regional economic agreements in Latin America, Africa and the Middle East. For example, in Africa alone there are over 20 subregional economic associations. However, they are limited, as a rule, by the sphere of customs-tariffs: Common Market, free trade zones or customs unions. Such regional agreements play a certain role, but they are not sufficient for a radical solution of socio-economic problems confronting their participants.

Despite obvious advantages of economic integration and its extension beyond the framework of mutual trade, serious difficulties stand in the way of this process. Of these the main one is nationalism, a negative but quite understandable phenomenon, considering that the majority of the developing countries comparatively recently have become politically independent. From the viewpoint of nationalism the conclusion of more intimate economic agreements is regarded by many developing countries as a loss of "part of sovereignty".

Another impediment for closer integration are differences in socio-economic systems in the countries, potential parties to regional agreements, territorial disputes between many of them, and political instability within some of these countries. Finally, various possible participants in such agreements are unequal in their economic potentials and a major economic force would predominate in an association. The examples of such predominance are Kenya in the former East-African association and Nigeria in the economic community of

West Africa. The above also augments the national tendency.

On the whole, the establishment of closer economic cooperation between the developing countries even regionally demands huge preliminary work and implementation of social and political transformations. Only in this case they can make full use of the advantages of economic integration, adhering to the national investment policy based on the rational international division of labour.

Economic Cooperation of  
the Developing Countries  
with the Countries of the  
World Socialist System

The economic cooperation of the countries of the world socialist system with the developing countries acquires ever increasing significance and is from year to year beneficial to the development of the national economies of the newly-free states and the formation of a system of new, equitable international division of labour and mutually advantageous economic relations.

The socialist countries build their relations with the developing countries on the basis which differs in principle from that prevailing in the world capitalist economy, the fact objectively conditioned by the nature of socialist society.

In their relations with the developing countries the socialist states proceed from the understanding of the tremendous historical significance of the liberated countries: struggle for economic independence. The interests of the developing and socialist countries in the struggle against imperialism objectively coincide, this being a reliable foundation for their cooperation.

The socialist countries' planned economy makes economic ties between socialist and developing countries more stable and keeps up their steady growth. This is another objective condition for expanding these ties. The elements of planning in the developing countries' economies provide, in their turn, prerequisites for promoting various forms of cooperation.

This cooperation develops most fully with the socialist-oriented countries, since the USSR and other socialist countries strive to help them demonstrate not only social and political but also economic advantages of the socialist choice,

make it easier for their peoples to build a new life and further the rapid improvement of their population's standard of living.

However, cooperation is not confined to only these countries. Economic cooperation increasingly develops between the socialist countries and the capitalist-oriented newly-free countries, which have taken an anti-imperialist stand and fight against imperialism and neo-colonialism (such as India, Nigeria, Jordan, Cameroon). The socialist countries do not cooperate only with those states where power belongs to the outright pro-imperialist, neo-colonialist regimes (Guatemala, El Salvador, etc.).

Cooperation between the world socialist system and developing countries is multiform: foreign trade exchange, granting credits, construction of economic projects and cultural facilities, technical assistance, aid in training personnel, to name but a few.

The socialist countries organise foreign trade with a view to promoting the liberated countries' dynamic economic development with the principle of mutual advantage being strictly observed. The following measures correspond to the above considerations: making up commodity lists of imports and exports, concluding long-term agreements, increasing the share of finished and semi-finished products in the socialist countries' imports, easy terms of payment for the developing countries.

Favourable terms of trade between the two groups of countries brought about rapid growth of the volume of commodity circulation. Over 1951-1978 the volume of trade between the socialist community countries and the newly-free states of Asia, Africa and Latin America grew 32 times over. Nearly 15 per cent of the CMEA members' trade fall within these countries. Economic and scientific and technological cooperation occupies prominent place in relations between these two groups of countries. The socialist states help the developing countries to acquire machinery and equipment, granting them easy-term credits. Particularly important are deliveries of equipment for production complexes. Credits are usually redeemed by traditional export commodities of the developing

countries or the output of the enterprises built with the assistance of socialist countries.

Thus, the socialist countries not only assist further the newly-free countries in developing their national economies but also create favourable conditions for expanding their exports, which in its turn, facilitates the solution of the tasks faced by the developing countries of improving their balance of payments and paying off foreign debts.

On the whole the share of credits granted by the socialist countries in the sum of finances allocated to the young independent states for development purposes is relatively small. However, in some cases, these credits are exceptionally important as additional sources of financial economic development plans of individual states. Thus, the aggregate capacity of electric power stations built in the developing countries with Soviet aid alone was 6.3 mln kw/h in early 1979, metallurgical plant - 7.3 million tons, oil-extracting enterprises - 62 million tons, etc. In all, by the beginning of the 1980s 4,400 industrial and other economic projects had been or were being built in the developing countries with the assistance of socialist countries. In recent years, the socialist countries began to render efficient assistance to the young states in developing their agrarian sector, in particular, in raising its productivity.

Training of national personnel occupies especially important place in relations between socialist and developing countries.

This type of cooperation includes the construction of educational establishments in the developing countries, sending there teachers from socialist countries, admission of citizens from the developing states to educational institutions in the socialist countries, training local technicians and qualified workers in the process of building industrial and other projects.

Only at projects constructed and functioning with the Soviet participation, 450,000 persons from the developing countries were trained. Tens of thousands of young people from the newly-free states have graduated from or study in institutions of higher learning, technical and vocational schools of

the USSR and other socialist countries.

An important form of external economic ties, economic cooperation not only stimulates foreign trade between socialist and developing countries but positively influences the changing character of the young states' relations with the industrialised capitalist countries.

Over recent years, the successful fulfilment of the comprehensive programme of economic integration of the socialist community countries brought about new forms and trends of their cooperation with the liberated countries. The most important among them are:

- The organisation of multilateral cooperation between the CMEA members and young states. Whereas earlier only bilateral agreements between individual socialist and developing countries had been practised, from the second half of the 1970s agreements of CMEA-developing country type came into being, for example, with Iraq and Mexico. Other developing countries showed interest in this form of cooperation. Multilateral cooperation is called upon to stimulate trade, economic, and scientific and technological ties between socialist and developing countries and enhance their effectiveness. (For example, bilateral trade is held back by the fear of one of the sides to have unfavourable balance of trade. In the context of multilateral cooperation the unfavourable balance of a developing country in its trade with one of the CMEA members may be compensated by the favourable balance in its trade with another.)

- The development of production cooperation among the two groups of countries includes joint measures by partners during construction and mastering production capacities, organisation of production and marketing of finished products. In this case we have not just cooperation in the sphere of circulation but also production cooperation aimed at improving the international division of labour.

Nowadays, production cooperation takes but first steps.

(a) Cooperation on the basis of deliveries of equipment and services on compensation principles. (For example, an enterprise in a developing country delivers the bulk of its produce to the CMEA member which built it.)

(b) Cooperation on the basis of deliveries of intermediate produce. In this case, an enterprise of one country supplies to another a certain portion of units or spare parts for manufacturing a finished product.

(c) Cooperation on the basis of setting up joint enterprises which is not yet widespread. However, the Soviet Union, Bulgaria and the GDR participate in such undertakings, mainly in extractive industry.

Production cooperation between socialist and developing countries is one of the most promising forms of expanding ties between them.

However, the development of economic relations between the socialist and developing countries, like any new undertaking, is confronted with certain difficulties, arising, first of all, from still existing economic dependence of the young states upon world imperialism. This means, first, that their economy is, for the most part, tied up to that of imperialist powers. The bulk of young states' exports goes to these powers, which still remain the main suppliers of equipment and related spare parts and of consumer goods. Second, transnational monopolies continue to dominate in many developing countries, controlling considerable part of their exports and imports, many finance and credit agencies and bringing pressure to bear upon their governments.

Consideration should be also taken of the subversive activities of imperialists and local reactionary circles, sowing distrust of socialist countries and claiming that their economic, scientific and technological assistance to the young states is nothing but the "export of revolution" and "communist expansion".

The "economic activity" of Maoists is also detrimental to the development of relations between socialist and developing countries. The People's Republic of China, which is considered a socialist country, systematically supplies the developing countries (particularly African countries) with outdated equipment, demanding in return either convertible currency or strategic raw materials, thereby compromising the socialist countries. That is why the further development of cooperation is unthinkable without a persevering struggle

against opponents of consolidating the union of world socialism with national liberation movements. This union is highly important for the developing countries, since the Soviet Union and other socialist community countries have been, and will be, the most sincere and consistent allies of the young states in their struggle against imperialism and neocolonialism. The Report to the 26th CPSU Congress stated: "The CPSU will consistently continue the policy of promoting cooperation between the USSR and the newly-free countries, and consolidating the alliance of world socialism and the national liberation movement." All other socialist community countries adhere to this stand.

## GENERAL CRISIS OF CAPITALISM

1. Imperialism's Place in History

The historical place of imperialism, as a stage of capitalism, is determined by its combining the general and the particular: (1) imperialism is capitalism, therefore its main features are the continuation and development of the main features of the capitalist mode of production in general; (2) imperialism is a specific, the highest and the last stage of capitalism, a stage when the requisites for the transition to socialism have grown ripe. In the concluding chapters of his Imperialism, the Highest Stage of Capitalism, Lenin summed up his analysis in the following way: "Capitalism only became capitalist imperialism at a definite and very high stage of its development, when certain of its fundamental characteristics began to change into their opposites, when the features of the epoch of transition from capitalism to a higher social and economic system had taken shape and revealed themselves in all spheres."<sup>1</sup> This prompted Lenin to formulate three specific features of imperialism. "Imperialism," he wrote, "is a specific historical stage of capitalism. Its specific character are three-fold: imperialism is (1) monopoly capitalism; (2) parasitic, or decaying capitalism; (3) moribund capitalism."<sup>2</sup>

Imperialism Is  
Monopoly Capitalism

Lenin also gave a more detailed definition of imperialism, which includes five main features.

"Imperialism," he wrote, "is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the

<sup>1</sup> V.I.Lenin, Collected Works, Vol. 22, p. 265.

<sup>2</sup> Ibid., Vol. 23, p. 105.



division of all territories of the globe among the biggest capitalist powers has been completed."<sup>1</sup> Economically, the development of capitalism into imperialism is mainly characterised by the substitution of capitalist monopolies for capitalist free competition.<sup>2</sup> Imperialism, therefore, is a monopoly stage of capitalism<sup>3</sup>, and the establishment of monopoly domination is the basic economic feature, the quint-essence of imperialism.<sup>4</sup>

Monopoly plays an important role in determining the place of imperialism in history, because it aggravates to the extreme all the contradictions of capitalism, especially its basic contradiction - that between the social nature of production and private capitalist appropriation. Monopoly raises the capitalist socialisation of production to a new, higher level. The concentration and centralisation of production and capital on the basis of monopoly domination is greatly expedited, leading to the appearance of giant enterprises and extending the division of labour to ever more complex monopoly associations, such as cartels, trusts, combines, giant concerns and corporations. The bulk of labour power is concentrated in capitalist production, which is turning into a single economic mechanism. The internationalisation of production, capital and markets is intensified. Monopoly creates conditions for introducing some elements of planning in production. Yet private property in the means of production incapacitates the planned development of social production as a whole. The expanded contacts between individual enterprises, joint-stock companies and private owners are treated by bourgeois economists as mere "interlocking" of all these relations. Lenin, however, showed that this is "socialisation of production, and not mere 'interlocking'".<sup>5</sup> Lenin believed that in this sense monopoly was the beginning of a transition from capitalism to socialism.<sup>6</sup> "Monopoly," he wrote, "is the transition from

<sup>1</sup> V.I. Lenin, Collected Works. Vol. 22, pp. 266-267.

<sup>2</sup> Ibid, p. 265.

<sup>3</sup> See Ibid., p. 266.

<sup>4</sup> See Ibid., Vol. 23, p. 105.

<sup>5</sup> Ibid, Vol. 22, p. 303.

<sup>6</sup> See Ibid., Vol. 23, p. 107.

capitalism to a higher system."<sup>1</sup>

Monopoly domination has brought about certain changes in the form of capitalist appropriation. Monopoly super-profit, through which monopoly property is realised, has become a new form of surplus-value. Yet, whatever the form, appropriation remains private in its character and essence both under imperialism and in the pre-monopoly period. The growth of banking monopolies and the establishment of the rule of financial capital lead to the distribution of the national income in favour of the least numerous group of the bourgeoisie, viz., the financial oligarchy. Lenin wrote: "The bulk of the profits go to the 'geniuses' of financial manipulation. At the basis of these manipulations and swindles lies socialised production; but the immense progress of mankind, which achieved this socialisation, goes to benefit...the speculators."<sup>2</sup>

Monopoly is the product of competition which underlies the growing concentration of production and capital. At the same time monopoly and competition are two opposites. Yet, as has been shown earlier, competition is not removed by monopoly domination. Monopoly exists "over and alongside" competition. This "coexistence" is far from peaceful; it involves struggle and conflicts whose scale by far outstrips that in the pre-monopoly period. The combination of monopoly domination and the new forms and scale of competition makes the inner contradictions of capitalism especially acute.

The socialisation of production, sped up by the monopolies, implies the ever fuller preparation of the material requisites for socialism. Lenin wrote: "The socialisation of labour, which is advancing ever more rapidly in thousands of forms and has manifested itself very strikingly, during the half-century since the death of Marx, in the growth of large-scale production, capitalist cartels, syndicates and trusts, as well as in the gigantic increase in the dimensions and power of finance capital, provides the principal material foundation for the inevitable advent of socialism."<sup>3</sup> The higher the level of the capitalist socialisation of production,

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 22, p. 266.

<sup>2</sup> Ibid., Vol. 22, p. 207.

<sup>3</sup> Ibid., Vol. 21, p. 71.

the more imperative is the transition to social ownership of the means of production and to a planned economy.

Imperialism Is Parasitic,  
Decaying Capitalism

Insofar as imperialism is monopoly capitalism and the tendency toward decay, as Lenin noted, is intrinsic to any monopoly under the private ownership of the means of production, imperialism is bound to acquire features of parasitic, decaying capitalism.<sup>1</sup> Lenin's concept of parasitism and decay is far from being schematic or exaggerated. It adequately reflects the capitalist reality in all its complexity and fully retains its relevance when applied to the development of capitalism today.

Decay is seen primarily in that the monopoly price of commodities and services, which is characteristic of imperialist capitalism, removes, to a certain degree, the stimulus for technical and other progress and makes it economically possible to retard it. The actual retardation of technical progress by the monopolies (and consequently of the development of the productive forces) is practised even in the setting of the scientific and technological revolution (see Chapter 10). This tendency, however, is offset by more powerful factors, such as the main laws governing the development of capitalism. These include the law of surplus-value, the drive for profit and the use of various method to increase it (one such method implies introduction of technical innovations to raise the productivity of labour). The role decay is playing in the system of monopoly capital was thus described by Lenin: "Certainly, the possibility of reducing the cost of production and increasing profits by introducing technical improvements operates in the direction of change. But the tendency to stagnation and decay, which is characteristic of monopoly, continues to operate, and in some branches of industry, in some countries, for certain periods of time, it gains the upper hand."<sup>2</sup>

This proposition is of great methodological importance for the analysis of all forms of the decay of capitalism. This

<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 23, p. 106.

<sup>2</sup> Ibid., Vol. 22, p. 276.

decay does not exclude economic growth. Moreover, it is observed against the background and on the basis of the overall growth of the productive forces. Lenin exposed various forms of decay, including the numerical growth of rentiers (who add to their fortunes by "coupon clipping" on securities), the export of capital ("double parasitism"), the appearance of rentier countries, the plunder of natural wealth, the reduction of the share of active population, the exploitation of foreign workers, and, finally, the bribing of the "upper crust" of the working class by monopolies. The latter became economically possible thanks to high monopoly profits. As a result, the "workers' aristocracy" has emerged as a social base of opportunism in the working-class movement.

These forms of parasitism are intrinsic to modern capitalist society, as well, though their scale has become wider. This is borne out by the wealth of today's financial magnates, accumulated through speculation on stock exchanges, especially involving the securities of arms-manufacturing companies who stake on millions of human lives (take, for instance, the military supplies of US monopolies for the Vietnam War). This has also been confirmed by the large-scale export of capital and by the super-profits obtained by the monopolies in the developing countries owing to low wages and raw-materials prices there. This has also been confirmed by enormous profits ripped by the international monopolies and by the development of US state-monopoly capitalism into a global usurer and the gendarme of the capitalist world.

The plunder by the international monopolies of the natural wealth of African and Arab countries is another vivid manifestation of the decay of modern capitalism. The several million foreign workers, deprived of their rights and discriminated against in capitalist Western Europe, are also ample proof of the relevance of Lenin's propositions regarding the decay of capitalism.

The contemporary forms of capitalist decay are characterised by their relevance to the militarisation of the economy, to the policy of the most aggressive imperialist circles, to the growing scale of war preparations and the production and stockpiling of ever more destructive mass annihilation weapons.

Militarisation promotes other forms of decay, such as inflation, an increase in the mass of non-productive labour, the plunder of natural resources and the degrading moral standards of bourgeois society.

The attempts to use militarisation as a means of overcoming economic difficulties, recesses and crises lay bare the deep-going processes of decay within the system of capitalism and expose its inability to resolve problems creatively.

Another specific feature of capitalist decay is that such its forms as inflation, unemployment and militarisation, which are most burdensome for the working people and which once were periodic and transient, have now become permanent.

Today the process of decay has engulfed the entire system of world capitalist economic relations. A form of parasitism, such as the export of capital, has a steadily growing share in the economic relations between the capitalist countries and in their relations with the developing world, while the international forms of capitalist exploitation are expanding. International monopolies stimulate the growth of international economic parasitism. Within the sphere of financial relations, decay has taken the form of an almost permanent crisis of the monetary system and of equally stable state budget deficits.

No less relevant is Lenin's proposition that monopoly domination creates economic possibilities for bribing the working-class "élite". This bribery has taken on varied forms, including "social partnership", tying the workers to small private property and implanting trade-union bureaucracy. This is borne out by the action taken by the leaders of some trade-union organisations, such as AFL-CIO, to back up government measures to cut budget appropriations for social needs and to inflate military spendings.

Law of Uneven Economic and Political Development of Capitalism. Imperialism Is Moribund Capitalism

Lenin called the uneven economic and political development of capitalism its objective law. This law has been operating since the very inception

of the capitalist system. Essentially, economic unevenness

consists in different levels and rates of development at individual enterprises, in separate branches and individual capitalist countries and in their changing correlation. This is a result of the spontaneous and anarchic character of social production under capitalism and fierce competition in the pursuit of profit, in the scramble for markets to export their commodities and capital. The establishment of monopoly rule has widely broadened the gap between the levels and rates of development in various capitalist countries. Unevenness has assumed a leaplike and conflicting character. The monopolies further broaden the gap between the growth rates of individual parts of the world capitalist economy. As a result, the correlation of forces between separate countries and groups is constantly changing.

Thus, the first postwar years in the capitalist world were marked by absolute US economic diktat, whereas in the past decade West German and Japanese monopolies competed successfully with their American counterparts. Three main centres of imperialism have emerged: the United States, Western Europe and Japan. Countries with a medium level of capitalist development, including in Latin America, are increasingly active in international competition.

Uneven economic development leads to uneven maturing of the material requisites for socialism in individual countries. Differences in the level of capitalist contradictions in individual countries and regions are growing and becoming more pronounced. There emerge hotbeds of social tension and inter-imperialist conflicts, which are constantly shifting from one region to another.

Uneven political development stemming from changes in the alignment of class and political forces is also on the increase, alongside uneven economic development under imperialism. Revolutionary outbursts, the counter-attacks of the reactionary forces, changes in the form of bourgeois power, imperialist wars and acts of aggression committed by the most powerful imperialist states against other countries impart a leap-like character to the political development of the capitalist world.

The discovery and study of the law of uneven development

was used by Lenin as a basis for revising an important proposition of the Marxist theory of socialist revolution, viz., that its victory was only possible if it triumphed in the leading capitalist countries simultaneously. But the operation of the law of uneven development under imperialism made it possible for the socialist revolution to triumph in individual countries or groups of countries. This theoretical proposition was borne out by the October Revolution in Russia and the subsequent revolutions in East European, Far Eastern, South-East Asian and Latin American countries.

The operation of the law of uneven development makes it possible and inevitable for the two opposite social systems - socialism and capitalism - to coexist and compete for a lengthy historical period.

Lenin called imperialism moribund capitalism. This was a major conclusion made on the basis of analysis of the highest and last stage of capitalism. This conclusion was prompted by the study of the capitalist contradictions engendered and exacerbated by monopoly domination, primarily the basic contradiction of capitalism. The high level of socialisation of production within monopolies, the monopolies themselves and monopoly as a basic feature of imperialism are in themselves factors showing that capitalism is dying. The preparation of ever more mature material requisites for socialism also signifies the dying of capitalism. Moreover, the inner antagonistic contradictions, the inter-imperialist contradictions and conflicts and the contradictions between the imperialist countries and the national liberation movement have reached under imperialism such a point beyond which the socialist revolution begins.

After 1917, world socio-political development has been following exactly this course. Capitalism, as a system, loses one battle after another; it is dying and yielding place to socialism. This process, however, is also uneven, leap-like. Grave economic and political crises are intertwined with periods of economic growth, technical progress and general development of capitalism's productive forces.

State-monopoly regulation is used to preserve the system of capitalist exploitation. There are instances when capital-

ism temporarily "takes revenge", for which purpose it summons all counter-revolutionary forces. Yet, as a system, capitalism retains all its evils which cannot be rectified. It is unable to enter a new period of prosperity and remains a system without a future, it is "moribund" capitalism.

## 2. Essence and Stages of General Crisis of Capitalism

Having discovered and studied the laws governing the emergence and development of imperialism, the highest and last stage of capitalism, Lenin brought out a qualitatively new phenomenon within this stage, viz., the general crisis of capitalism. Lenin's works give an analysis of the essence of the general crisis of capitalism, of its main forms and its place in history.<sup>1</sup>

Lenin's works, the documents of the Communist International, the materials of international meetings of communist and workers' parties, the resolutions of the CPSU and other communist and workers' and revolutionary-democratic parties and the studies by Marxist-Leninist economists have described the essence of the general crisis of capitalism, its characteristic features and laws governing its development.

The theory of the general crisis of capitalism is important because it gives a key to understanding the content of our time and the most important features characterising modern capitalism at a time when its revolutionary overthrow has started and is gaining momentum.

Lenin on Essence of  
General Crisis of  
Capitalism

Lenin emphasised that the general crisis of capitalism means a crisis of the entire world capitalist system, its disintegration and decay, its collapse under the blows of the socialist revolution, the beginning of a new age in world history - the age of the revolutionary transition to socialism. The general

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<sup>1</sup> See V.I. Lenin, Collected Works, Vol. 26, p. 386; Vol. 27, pp. 403, 499; Vol. 29, pp. 59, 100; Vol. 33, pp. 498-499.



crisis of capitalism began after World War I had ended and the Great October Socialist Revolution triumphed. As a result, capitalism had lost its dominant position in the world as a social system.

In describing the essence of the general crisis of capitalism, Lenin emphasised that:

- This is a whole epoch of various crises, collapses and wars; in their totality they constitute a crisis of capitalism on a global scale, a crisis of the "whole of world capitalism".<sup>1</sup>

- This is a period when "the era of the world proletarian, communist revolution has begun"; the October Socialist Revolution, which was bound to be followed by similar revolutions, was "only the beginning of the world socialist revolution"<sup>2</sup>; this was the beginning of the "birth pangs" of "capitalist society, which is pregnant with socialism", a society where the material prerequisites necessary for socialism had ripened. The October Revolution was "the first period of travail"; it had "pushed the imperialists, who have gone too far, nearer to the edge of the precipice".<sup>3</sup>

- This is a combination of the "internal disintegration of capitalism" and the "external" pressure it is subjected to on the part of the oppressed peoples.

- This is the "unprecedented exacerbation of all capitalist contradictions".

- This is the existence of the two "systems of property", engendered by the crisis of capitalism, viz., the socialist and the capitalist, and their inevitable rivalry which would weaken the international positions of capitalism.

- This is a crisis which can only be overcome through the revolutionary transformation of the capitalist society into a socialist one.

The International Meeting of Communist and Workers' Parties (1969) further elaborated these propositions and emphasised that the general crisis of capitalism means "the

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 33, p. 499.

<sup>2</sup> Ibid., Vol. 26, p. 386; Vol. 27, p. 403; Vol. 29, p. 100.

<sup>3</sup> Ibid., Vol. 27, p. 499; Vol. 28, p. 51.

irreversible decline of capitalism".<sup>1</sup>

Lenin wrote that the socio-economic foundations of the general crisis of capitalism consisted above all in that capitalism, as a system, is "becoming mature and overmature", that it "has outlived itself" and "has become the most reactionary hindrance to human progress".<sup>2</sup> This was the result of the development of capitalism on the basis of all its regularities, especially of the establishment of monopoly domination which ensured noticeable progress in preparing socialism's material requisites and, at the same time, increased the capitalist oppression of the working class, of the broad popular masses in general.

The Leninist view of the general crisis of capitalism has nothing in common with the idea of "sealing off the productive forces" and passively waiting until the exploiter system collapses automatically. This view implies not only objective processes, but also action on the part of the subject of the revolution—the working class, the popular masses. So, it implies stepping-up the revolutionary initiative of the masses and revolutionary parties.

When studying the crisis of capitalism, the students should avoid two dangerous misconceptions.

First, the concept "general crisis of capitalism" should not be reduced to the concept "economic crisis", which merely embraces one sphere in society's life or one country. The general crisis of capitalism embraces all the spheres of social life (economic, political and ideological) and all the countries of the world system of capitalism. Capitalism has always managed to emerge from an economic crisis because periods of crisis were followed by depression, recovery and boom, whereas the general crisis of capitalism is continuous and irreversible. Once it has set in, it will continuously deepen, ending up in a revolutionary overthrow of the capitalist system on a world scale.

Second, the development of the general crisis of capi-

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<sup>1</sup> International Meeting of Communist and Workers' Parties. Moscow, 1969, p. 12.

<sup>2</sup> V.I. Lenin, Collected Works, Vol. 29, p. 517; Vol. 31, p. 224.

talism should not be treated mechanistically. Though this crisis is irreversible, it deepens unevenly in the course of history. It has its own tides and ebbs, depending on the combination of quantitative and qualitative changes which may involve both individual features and aspects of this crisis and the whole system of such features.

Main Stages in General  
Crisis of Capitalism

The general crisis of capitalism has been deepening from the moment it has set in. Essentially,

this process consists in the deepening of the main contradiction of capitalism at a time when there are two social systems which coexist and struggle. At the same time, this is an uneven crisis which periodically passes through phases during which all the contradictions of capitalism extremely exacerbate and turn into acute conflicts. These periods are characterised by many-sided, complex crises of capitalist society, which grip, alongside the economy, capitalism's policy, ethics and international relations. These are "attacks" of the general crisis of capitalism.

Marxists-Leninists in various countries have studied the development of the general crisis of capitalism and have jointly arrived at the conclusion that it passes through three stages. This division was based on capitalism's main and determining feature, viz., the split-up of the world into two opposite systems and the ensuing struggle between them. Each consecutive stage differs from the preceding one primarily in the degree the world capitalist system has decayed to and in the degree the world socialist system has developed to and its international role increased. At the same time, each stage in the general crisis of capitalism is characterised by other features. All the stages are characterised by four main features, which correspondingly involve four groups of social relations and related contradictions. These are the following features: (1) the split-up of the world into two opposite systems - the socialist and the capitalist, and the ensuing struggle between them; (2) the crisis of the imperialist colonial system, developing into its disintegration and complete break-up; (3) the exacerbation of the economic contradictions

between the imperialist powers and the aggravation of economic instability and stagnation; and (4) the growing crisis of bourgeois politics and ideology. The qualitative specifics of each stage depend on essential changes in the alignment of economic, social and political forces within individual capitalist countries and in the world at large.

The first stage of the general crisis of capitalism began when World War I had been started and lasted up to World War II, i.e. it embraced the period between the two world wars. This stage included the emergence of the first socialist state - the Soviet Union, the postwar crisis (the first "attack" of the general crisis of capitalism that hit the whole fabric of capitalist society), the period of relative stabilisation in the development of capitalism, the world economic crises of 1920-21, the seizure of power by fascism in Germany, the socio-political crises of the late 1930s and the onset of the crisis of the imperialist colonial system.

The second stage embraced the period from the beginning of World War II up to the mid-1950s. At this stage, the world socialist system emerged. The colonial system of imperialism began tumbling down under the blows by the national liberation movement. The second stage was marked by a series of economic crises, which were to a certain extent restrained by the postwar rehabilitation effort in the belligerent countries.

During both the first and the second stages, the working people went through severe hardships and sufferings, the strike movement mounted, the class struggle took on a variety of forms, and the inter-imperialist contradictions aggravated to the extreme, which eventually resulted in two world wars. Capitalism was affected by the socialist system at both stages, yet the latter's impact was greater at the second stage owing to the emergence of the world socialist system.

In the second half of the 1950s, a new, third, stage of the general crisis of capitalism began. This was accompanied by the following processes and phenomena: the triumph of socialism in a large group of European and Asian countries, whose population accounted for a third of the world's total; the increasing development of the world socialist system into

a decisive factor of social development in general; a new upsurge of the national liberation struggle and the rapid break-up of the colonial system under its blows; a steep increase in the economic instability of the capitalist countries and the world capitalist economy; a new aggravation of all the capitalist contradictions as a result of growing militarisation and the development of state-monopoly capitalism; a profound crisis of bourgeois politics, ideology and ethics.

The third stage of the general crisis of capitalism differs from the preceding two in that "it has set in not as a result of the world war, but in the conditions of competition and struggle between the two systems".<sup>1</sup>

Deepening of General  
Crisis of Capitalism  
at Its Third Stage

In the subsequent period, the general crisis of capitalism continued to deepen, having become especially acute in the 1970s-80s.

A further aggravation of the general crisis of capitalism was witnessed during these years. Its further deepening and aggravation consisted in the following:

1. The sphere of imperialist domination has narrowed, and the positions of world socialism have expanded and strengthened. Formerly, only the northern part of Vietnam was socialist, whereas now socialism is being built on the territory of the whole country, which has repelled the barbaric intervention of US militarism and united into one republic - the Socialist Republic of Vietnam. Laos and Democratic Kampuchea have also embarked on the path of socialist development. The democratic revolution in Portugal and the revolutions in Ethiopia, Afghanistan, Angola, Mozambique and some other countries have also dealt some painful blows on the positions of imperialism.

2. The prestige and force of attraction of the socialist system have increased. It has made tremendous headway in all the spheres of society's life. A developed socialist society has been built in the Soviet Union and is being built in a number of other countries. Imperialism has undertaken

<sup>1</sup> See *The Struggle for Peace, Democracy and Socialism*, Moscow, 1963, p. 44.

several attempts to reverse the development of individual socialist countries, sometimes making use of the military might of the most powerful imperialist state (as was the case in Vietnam). Socialism has proved to be able to secure wide international recognition of the new, just and humane principles of international relations.

The socialist system affects the various spheres of people's life in all countries. The achievements of the peoples of the socialist countries in the development of the economy and socialist democracy are a powerful stimulus in the struggle of the peoples of the newly free countries for social reforms on the basis of justice and inspire the working people in the capitalist world in their struggle for the overthrow of the rule of the exploiters.

Over the past two decades, a significant change has been made in the field of economic competition between the two systems. The share of socialism in world industrial output grew further (from 27 per cent in 1955 to 40 per cent in 1980).

Socialism comes out with a historic initiative in solving urgent problems confronting the whole of mankind, such as aversion of a new world war, eradication of hunger and disease and protection of the environment.

3. The global conflict between imperialism and the newly free countries has entered a new phase. The liquidation of the imperialist colonial system in its classic forms has been completed. The victory of the peoples of Angola and Mozambique signified the downfall of the last colonial empire on earth. The system of economic relations between the imperialist and developing countries is in crisis.

In 1920, speaking of the crisis of capitalism, Lenin said that one of its most profound foundations was the fact that the whole capitalist world was split into a tiny group of the richest dominating imperialist powers and the mass of countries oppressed and exploited by the imperialists, countries whose combined population was five times as great as that of the tiny group. Now the situation has drastically changed: the former colonial peoples who have rid themselves of colonial oppression, are waging struggle for their inde-

pendent political and economic development, establishing their own control over their natural wealth. Many newly free countries have opted for the path of socialist development. Now there exist a group of socialist-oriented countries. This is a chief factor underlying the aggravation of the general crisis of capitalism today.

4. In the 1980s, the economic instability of the capitalist system sharply increased. In the first half of the decade capitalism was twice plunged into major economic recesses, while in the late 1970s a third recess began. Though capitalism resorts to state regulation, it is unable to overcome both cyclic and structural crises befalling its economic system and to resolve urgent global economic and ecological problems using its own resources. Quite new phenomena have emerged in the course of the economic cycle, such as the combination of a slump in production and increasing unemployment, on the one hand, and the uncontrollable growth of inflation, on the other.

In the course of the 1970s, unemployment in the capitalist countries increased two-fold.

Though economic growth in the capitalist world continues, it becomes increasingly uneven and leap-like. The drop in the share of capitalism in world economy is an undeniable fact. Economic growth rates in the capitalist countries are incomparably lower than those in the socialist world.

5. The exacerbation of the general crisis and growing economic instability have spread to all the leading industrial capitalist countries. This has greatly reduced imperialism's room for manoeuvring on the international scene. And conversely, the reciprocal influence of a crisis situation both on the economy and politics has greatly increased.

The activities of the international monopolies and the fierce competitive struggle on the international markets of capital are especially conducive to the spread of crisis phenomena all over the capitalist world. At the same time, the relative approximation of the economic levels of the capitalist countries makes the unevenness and leap-like character of their economic and political development even more pronounced. The spread of crisis processes to the economy

of the developing world has increased social tension and, simultaneously, the struggle for economic independence and just international economic relations.

6. The class struggle in the capitalist countries has entered a new phase. Socio-political crises in the capitalist world now shake to the bottom the entire ruling system and threaten the domination of monopoly capital. This is demonstrated by recent developments in Chile, Portugal and Greece. At the same time, this is a period when new social and political forces join in the struggle against imperialism.

7. The exacerbation of inter-imperialist contradictions is another characteristic feature of the third stage of the general crisis of capitalism. Rivalry between the leading capitalist countries is especially fierce due to the acute structural crisis of the world capitalist economy. The scramble for markets for commodities and capital is augmented by the struggle for raw materials and energy sources, an outcome of the energy crisis and serious raw materials and ecological problems.

The stiff competition of Japanese and West German capital with US monopolies on the world market has already affected the correlation of forces, with the American share of the world export of capital declining. The imperialist countries continue to clash on monetary issues.

8. The above processes, which deepen and exacerbate the general crisis of capitalism, affect international relations, too. The difficulties experienced by capitalism also affect its policy, including foreign policy. The late 1960s and the 1970s were characterised as a period of mounting struggle against the danger of war, for detente and strengthening peaceful coexistence of states with different social systems. The forces of peace have scored some success here. The Helsinki Accords and other agreements have formalised the results of World War II. But the aggressive forces of imperialism and the opponents of detente seek to nullify these achievements. Their policy threatens international peace and the very survival of humanity. In these conditions, the struggle for strengthening peace and detente has become a vital global problem.



### 3. Growing Instability of Capitalism

Comprehensive Nature  
of Crises in 1970s

Modern capitalism is shaken by numerous and varied crises. They include: cyclic economic crises, major socio-political crises in individual capitalist countries, energy, monetary, raw materials, food and ecological crises, the crises of state-monopoly economic regulation, of international economic relations and of imperialism's foreign policy course aimed at crushing socialism by military means, the crisis of relations between the imperialist powers and newly free countries, the crisis of bourgeois ethics, etc.

As a rule, bourgeois ideologues regard these crises as isolated phenomena and do not tie them in with the deep-lying contradictions of the capitalist mode of production. Marxists-Leninists, however, analyse their common roots and causes and treat them as phenomena showing the regularities of capitalism in general and its contemporary stage in particular.

In their totality, the above crises make up the general crisis of capitalist society as a whole. It embraces all the spheres of society's life - the economy, socio-class relations, the bourgeois state and its policy, the entire system of power in bourgeois society, its cultural life and international relations. Essentially, it is a modern phase in the exacerbation of the general crisis of capitalism.

In their assessment of the development and aggravation of the general crisis of capitalism, Marxists-Leninists have never assumed that the capitalist system will collapse overnight. They have always believed that the power of capital can only be toppled through a socialist revolution, with the proletariat and its Marxist-Leninist party playing the leading role. They have always held that the general regularities of the revolutionary change of capitalism operate (and will always do so) in this or that form, including the need to establish the political power of the working class, allied with all the working people.

Specifics of Cyclic  
Crises in Modern World

The combination of cyclic and non-cyclic crises, sharp contra-

dictions and crisis situations in various spheres have brought about marked changes in the function mechanism of the capitalist economy, both nationally and internationally.

The above new features of the growing general crisis of capitalism affected the cyclic development of the capitalist economy in the 1970s. Most of the 1960s were marked by an economic boom which followed the 1957-58 economic crisis, whereas the first half of the 1970s was already marred by two economic crises, with a short span between them. These were the 1970-71 crisis and the 1974-75 crisis. As early as the late 1970s, capitalism was plunged into another economic recession, a third over the decade.

In the 1960s, the capitalist countries considerably increased their industrial output, raised the productivity of labour and reduced unemployment on the basis of the wide use in production of the fruits of the scientific and technological revolution and the resultant investment boom. Yet towards the late 1960s, economic difficulties began mounting and a serious drop in production occurred in 1967. Unemployment grew and a grave monetary crisis set in. The concentration and centralisation of capital took on an unprecedented scale. The polarisation of the classes and their struggle increased. Ignoring these negative phenomena, bourgeois ideologues and politicians fell back on the growth of production in the 1960s to declare the advent of an "age of prosperity" for capitalist society, which "refuted" Marxism-Leninism, specifically its theory of economic crises. Development, however, have proved that their rejoice was premature.

The 1970-71 economic crisis was the first-comer in the decade's cycle. The overall economic growth rates in the 1970s were by far inferior to those in the 1960s. In 1974-75, there came an economic crisis which was the gravest since World War II. The under-capacity work of the production apparatus, a feature typical of the capitalist economy in the period of its general crisis, assumed an especially large scale.

The grave economic crisis of 1974-75 reflected the main trends in the exacerbation of the general crisis of capital-

ism in our age.<sup>1</sup>

The state increased its interference in the economy by taking measures which stimulated or, on the contrary, held back economic growth, and that was a specific feature of the cyclic development of the capitalist economy in the past decade. As soon as there appeared signs of overproduction of commodities or over-accumulation of capital, the state deliberately cut down production growth rates. This was a substitution of sorts for the mechanism of "melting" the surplus mass of commodities at slashed prices (which had been the case during the past economic crises). The surplus of industrial commodities was now not so evident on the market as it had been during the past crises. Yet such "pre-emptive" cuts in production remain a chief manifestation of the disproportion between production and the people's consumption, limited by capitalist appropriation, which is in fact the root cause of crises.

Another important factor - the scientific and technical revolution - also intruded in the economic cycle and this also added to the unprecedented depth of the 1974-75 crises.<sup>2</sup>

The rapid progress of science and technology and stepped-up introduction in production of the latest scientific and technological achievements at first smoothed out the cycle, but then made the crisis plunge of production even deeper.

There are some other specific economic phenomena contributing to the aggravation of the crisis, but these are characteristic not only of the economic crisis, but also of the other phases of the cycle. These phenomena include, among others, a rapid growth of wholesale and retail prices (particularly, consumer goods' prices). Prices continue climbing even in the period of the deepest downfall of production. This is rooted in the price policy of the biggest monopolies, making use of the increased concentration of production and capital in their hands and the resultant serious disruption of price and value proportions in international economic intercourse.

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<sup>1</sup> For more details see Chapter 10.

<sup>2</sup> The unprecedented duration of the industrial plunge and the record scales of unemployment characterized the economic crisis of 1980-82.

Also significant is the striving of the monopolies to nullify the gains of the working class, wrenched in the course of fierce economic struggles, and also to annul the successes of the peoples in the developing world, who are struggling to establish their own control over their natural wealth and fix just prices for the raw materials they export. In these conditions, the inflationary process was steered to increase monopoly profits by hiking prices, rather than by expanding production, which could reduce unemployment.

Joblessness affected the broadest sections of the industrial proletariat, including both its most skilled and politically aware detachment-workers in the heavy industry, who have deep traditions and rich experience in class struggle, and new, growing layers of hired workers-professionals and intellectuals working in industry and science, the broad sections of the working women and youth. Socially, this category of the unemployed is an explosive mass.

As a result of the mounting class battles and the upswing in the strike movement, the working class has in a number of cases succeeded in preserving jobs, otherwise the scale of unemployment would have been much greater. This is also a new feature of the general crisis of capitalism today.

#### 4. Structural Crises in Capitalist Economy

At the present stage of the general crisis of capitalism, the cyclic development of the economy is closely intertwined and interacts with powerful non-cyclic factors, particularly the crises of the structure of the world capitalist economy. The economic situation in the capitalist world is therefore determined not only by the passage of the economy through a particular phase in the economic cycle, but also by the totality of the above crises in their interaction.

The causes of structural crises are rooted in the contradiction between the social nature of production and private capitalist appropriation, in the impossibility, in the setting of capitalism, to balance, purposefully and on a global scale, the use of energy, food, raw materials, financial, ecological and other resources in the interests of

human society at large.

As a rule, the contemporary structural crises of world capitalist society are crises of underproduction. Their content, however, is varied.

**Energy Crisis** Prerequisites for an energy crisis in the capitalist world were piling up during the 1960s and 1970s. The crisis reached its peak in 1973. As distinct from an economic crisis in general, a structural crisis (in our case, the energy crisis) implies not overproduction but a shortage of certain commodities (energy) on the capitalist countries' domestic and foreign markets.

Distinction should be made, however, between the energy crisis and the energy problem.

The problem of energy is an outcome of the natural development of production in the age of the scientific and technological revolution, specifically, the inevitable build-up of power capacities and the immense range of uses for power and power resources. In the period between 1950 and 1970, the consumption of energy increased 130 per cent.

The share of oil in the power balance of the capitalist world has dramatically increased. By 1970, it was 50 per cent (as against 26 per cent in 1950). In the EEC countries, however, the figure was 68 per cent and in the United States - 78 per cent. Consequently, the problem of energy resources or fuel in today's world boils down to the problem of oil. The rates of oil consumption now exceed those of its production.

The energy crisis is a capitalist form of the exacerbation of the energy problem. Growing power consumption implies by definition power squandering, which is a concomitant of the capitalist system of power use. The energy crisis was being prepared by the whole range of monopoly activities in the preceding years, by the policy of oil extraction and processing and by the preservation of the specific international division of labour in this field.

The oil giants ensure high profits mainly by preserving a wide gap between the monopoly-low cost of oil production at the enterprises under their control and the price of the crude

oil they import, on the one hand, and the monopoly-high prices of the oil products produced by the enterprises under their control, both on domestic and foreign markets. The monopolies extracted or imported oil from developing countries at low production costs or prices and, at the same time, systematically raised prices for petroleum and other oil products. The resultant increase of their profits was ensured either by redistributing surplus-value to the advantage of the oil monopolies or by robbing the mass consumer, i.e. the working people, who in this case were exploited by the monopolies as buyers. This is a typical case of "robbing the public", which, as Lenin noted, is intrinsic to monopoly capital.

The crisis of imperialism's neo-colonialist policy toward the developing countries played a special role in bringing about the energy crisis. Now that the correlation of world forces has changed in favour of the forces of socialism, peace and national and social liberation, which are exerting a decisive influence on the course of world developments, the monopolies can no longer pursue the old-time policy of plundering the natural resources of the developing countries and exploiting their people.

The oil-exporting developing countries began establishing their own control over their national wealth, nationalised the property of foreign oil companies on their territory, raised oil prices, thereby delivering a serious blow on the system of prices instituted by the international oil oligarchy. This was a major step forward in the efforts to alter the robber-victim relationship, hitherto typical of economic relations between the imperialist and developing countries, and replace them with equitable relations.

So, the root cause of the energy crisis was buried in the very fabric of monopoly capitalism, in gearing the turnover of power resources in the capitalist world (this having reached a high level of internationalisation) to the interests of monopoly capital. Yet it would be wrong to ignore the role of the energy problem, which exists objectively and confronts the whole of humankind, becoming as urgent as ever. This problem was an important objective condition for the development of the energy crisis.

This crisis had a powerful impact on the entire world capitalist economy, inflicted heavy industrial losses, caused overall price increases, higher inflation rates, growing budget deficits in a number of capitalist countries, aggravated the economic crisis and social contradiction within the capitalist countries.

The energy problem has become an area of class struggle. The democratic forces, the communist parties advance an alternative energy policy to offset the diktat of the power corporations. The Danish Communists, for example, call in their Programme, adopted in 1976, for measures to provide the population with cheap energy. To this end, they urge democratically to nationalise the power sector in industry and set up new, democratic bodies to manage it.

Growing Problems of  
Raw Materials and Food

The aggravation of the capitalist contradictions has exacerbated the problem of raw materials.

The revolution in science and technology has brought about considerable shifts in the structure of the raw materials balance. There has been an increase in the share of new types of raw materials, such as fissionable materials for the atomic industry, plastics, polymers and artificial diamonds. Also increased is the share of secondary raw materials, especially in metallurgy, where scrap metal is increasingly used for remelting. As a result, essential changes have occurred in the geography of raw materials production, particularly in the mining industry and on the world raw materials market.

The rapid growth of industry both in the developed capitalist countries and the industrially developing newly free states has drastically raised the demand for raw materials, which is much higher than their prospecting, extraction and production quotas.

The shortage of raw materials is deeply rooted in the total failure of the neo-colonialist strategy of providing the industrial capitalist countries with raw materials by plundering the national wealth of the developing countries. But the latter now establish increasingly tight control over their mineral and other resources. The Western monopolies'

opportunities for fixing ridiculously low prices for the raw materials they buy from the developing countries are dwindling. In a bid to preserve their rate of profit, the buyer monopolies began inflating the prices of the manufactured goods they produce. As a result, the raw materials crisis has enhanced the inflationary process throughout the world capitalist economy.

The growing raw materials crisis is another sign of the general crisis of the capitalist system, of its contradictions, disproportions and uneven development.

Crisis phenomena have also spread to the food problem. Agricultural production growth rates have made a deep plunge over the past 5 or 7 years. Hunger has struck millions of people, especially in the developing world. The food crisis was mainly caused by unprecedentedly poor harvests in the first half of the 1970s, when the weather conditions in many regions of the world were extremely unfavourable. Yet this was not the only reason. Food prices also soared as a result of inflation raging throughout the capitalist world. Moreover, the short supply of farm produce was intentionally caused by many big agricultural producers who, seeking to increase their profits and maintain high prices for their produce, cut down their grain production.

So, the growing food crisis is not exclusively the result of bad weather; it is tied in with the inner contradictions of the world capitalist economy.

##### 5. General Crisis of Capitalism and Revolutionary Process

Growing Class  
Antagonisms

The present stage in the exacerbation of the basic contradiction of capitalism is characterised by growing socio-class contradictions. Although bourgeois politicians and ideologues hoped otherwise, all the attempts to create "class harmony" in the capitalist world have failed. The main class antagonism of bourgeois society - that between the proletariat and the bourgeoisie - has grown more acute. The pressure exerted by monopoly capital on the middle strata - the town and village petty



bourgeoisie, the intellectuals - has become stronger.

The mounting dissatisfaction of the working people with their position is deeply rooted not only in their difficulties in satisfying their vital needs, not only in the material conditions of their life in general, but also in the growing social inequality, in the widening gap between the living standards of the working masses and the bourgeois strata of society, in the increasing discrepancy between the higher level of requirements in society at large and their satisfaction by the working class, between the material and technical possibility of satisfying these requirements and their actual satisfaction.

Capitalism, suffering defeats in the course of history, learns its lesson, manoeuvres, tries to avoid a contingency in which a social outburst would shatter it to the very foundation and eventually result in its collapse, and makes certain concessions to the working class. The workers' fierce class struggle brings in some improvements.

However heavy the burden of crisis, inflation and unemployment may be, it would be much heavier if the working class did not give a powerful and organised rebuff, if it did not wage a selfless struggle for its rights, against lay-offs, for higher wages to make for soaring prices, against cuts in social spendings, etc., and if it has won no social gains in the preceding period.

Importance of Theory of  
General Crisis of Capitalism  
for Revolutionary Process

The scientific characteristic of the general crisis of capitalism and of the content of our time is of great importance for the practical revolutionary movement. It makes it possible for the proletariat and its allies to develop correct strategy and tactics for their struggle against the rule of the financial oligarchy and rightly to assess the alignment of class forces in the world revolutionary process.

The theory of the general crisis of capitalism, just as Lenin's theory of imperialism in general, continues and develops Marx's theory of the historical tendency of capitalist accumulation and the inevitability of the revolutionary

overthrow of capitalism. Marx emphasised that the historical tendency of capitalist accumulation consisted in the preparation and development of the objective and subjective prerequisites for the transition from capitalism to socialism.

As has been shown earlier, the social nature of production is immensely enhanced in the period of imperialism, especially at the present stage of the general crisis of capitalism, while property is being increasingly concentrated in the hands of a tiny group of capital magnates. This exacerbates to the extreme the basic contradiction of capitalism, viz., the contradiction between the social nature of production and private capitalist appropriation. As a result, the inner instability of capitalism grows and it becomes shaky economically and politically. This makes the transition to socialism as topical as ever.

The contradiction between the socialist and capitalist systems, which emerged following the triumph of the Great October Socialist Revolution, increasingly affects all inner processes in the capitalist world. This is the main contradiction of our time, leading to aggravation of all the other imperialist contradictions and to exacerbation of the general crisis of capitalism. The world socialist system has become the leading force of the revolutionary remaking of the world.

All the above processes imply the following. First, the sphere of capitalist economic domination is shrinking and capitalism is losing its former positions in the world because ever new countries are breaking away from the capitalist system and embark upon the road of socialist development. Second, successes scored by the socialist countries have a revolutionising effect on the working people in the capitalist world. Third, the growing economic potential of socialism creates conditions more favourable for rendering the peoples of the developing countries assistance in their struggle for economic independence and social progress. Fourth, the successes of the socialist community increasingly affect the economy and policy of the imperialist states, promote international peace, mutually beneficial cooperation and detente.

Subjective prerequisites for the transition to socialism also increasingly develop in the capitalist world. The

numbers and social role of the proletariat are growing, as are its organisation and level of class awareness. The intellectuals, working peasantry and middle strata in town and country are being actively involved in the anti-monopoly struggle. The anti-imperialist struggle of the peoples of the developing countries is also gaining momentum. The role of the communist, workers' and revolutionary-democratic parties is growing. The working class, headed by its communist revolutionary vanguard, is rallying the non-proletarian masses of working people, all those who are dissatisfied with the domination of the monopolies and the state-monopoly system. The working class upholds, with increasing resolve, the ideals of peace and democracy, opposes the system of capitalist exploitation and demands that it be replaced with socialism - a social system having no private property in the means of production and no exploitation of man by man.

Increasing number of people throughout the world come to realise that capitalism is a society without a future. Imperialism can no longer impose its system throughout the world. The future of the peoples increasingly depends on the socialist states, on the working-class and democratic movement in the capitalist countries and on the national liberation movement in the developing world.

CRITICISM OF MODERN BOURGEOIS POLITICAL ECONOMY,  
REFORMISM AND REVISIONISM

1. Crisis of Bourgeois Political Economy

Essence of Crisis of Bourgeois Political Economy	The general crisis of capitalism, i.e. the collapse of capitalism and the emergence of socialism, embraces not only economy and policy, but also ideology, including political economy.
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The crisis of bourgeois political economy is a form of the general crisis of capitalism, and this new quality determines the essence of modern bourgeois political economy, its objectives, the specific forms of the apology of capitalism, the meaning of practical proposals made by bourgeois economists and their relevance.

The October Revolution in Russia and the triumph of socialism in the USSR struck a crushing blow on bourgeois political economy and overthrew its main postulate that capitalism is allegedly making eternal and absolute progress. At that time, however, bourgeois economists found a way out, declaring socialism in the USSR a typically "Russian road" not applicable in any other country. But the emergence of the world socialist system following World War II gave the lie to this assertion. Unable to refute the fact that new countries had taken the road of socialism, bourgeois economists advanced a thesis that socialism was allegedly ineffective. But these allegations, too, are being disproved by the growing might of socialism and its achievements in raising the people's living standard and rapidly developing social production and technology. Now many bourgeois economists have to admit that socialism is a "rather effective system".

The history of bourgeois political economy in the age of the general crisis of capitalism explicitly shows that it was compelled to retreat again and again, faced with the successes of socialism. This, however, does not mean that

bourgeois economists have given up their attacks on socialism. On the contrary, this is the principal line of their onslaught.

Bourgeois economists cannot produce a science-based answer to the question what future awaits capitalism. Now only few economists believe that capitalism is an ideal system. The problem of capitalist future, now central in bourgeois political economy, prompted the emergence of futurology, regarded by some as a special branch. Its objective is theoretically to substantiate the viability of capitalism, to evolve theories which would be an effective weapon against the revolutionary movement. The capitalist world is being shaken by a series of crises - cyclic, structural, socio-political, monetary, inflationary, etc. Yet not one of them has been scientifically explained by bourgeois economists.

Crisis of Bourgeois  
Political Economy and  
Its Forms

The main objective of modern bourgeois political economy is theoretically to justify monopoly domination, exploitation, militarisation, and also to slander Marxism-Leninism. In the past, too, bourgeois economists justified and decked out capitalism. Yet today, in the age of the general crisis of capitalism, in the age of transition from capitalism to socialism, when developments expose bourgeois propaganda, the ideological defence of capitalism has become a particularly urgent problem. This has given rise to a series of new forms of the apology of capitalism, one such form succeeding another. The inability of bourgeois economists to produce a theory which would attract the masses shows that the ideological function of bourgeois political economy is in crisis.

The range of problems discussed by bourgeois economists has expanded in our time. Central here is the problem of the future of capitalism and the outcome of the economic competition between the two world economic systems. Many works deal with the changing role of the bourgeois state, reproduction, technical progress, money circulation, the situation in the developing world and its prospects for the future. But all these problems are treated by the ideologues of the monopolies from their own positions, without going deep into the essence

of processes. Their task is to use these processes and phenomena to evolve all manner of theories to uphold capitalism morally.

Now that the power of the world system of socialism is growing and the contradictions of capitalism are becoming more acute, immense importance is attached to the participation of economists in drawing up economic policies, finding ways to bolster up the shaky foundation of capitalism and giving recommendations to big business. This social task compels bourgeois political economy to reorganise, which is reflected in the development and use of an improved macro-economic analysis (the analysis of indicators and processes in the economy as a whole, rather than in individual sectors or enterprises), in the spread of mathematical and statistical methods of research and in the emergence of econometrics.

Bourgeois political economy is characterised by the wish to adapt itself to the new situation in order to save capitalism. This, however, does not remove modern capitalist contradictions or alleviate the crisis of bourgeois political economy. Bourgeois narrow-mindedness and the need to defend capitalism are an insurmountable obstacle to a scientific analysis of problems pertaining to the regulation of the capitalist economy. The very nature of this economy, the private ownership of the means of production, excludes the possibility of planning the national economy. This is why all formulae and models advanced by bourgeois economists prove to be impracticable and insolvent. So, here too, the crisis of bourgeois political economy is evident. The insolvency of the practical recipes of saving capitalism makes its moral defence even more difficult and only exacerbates the crisis of bourgeois political economy.

#### **Anti-Communism**

Anti-communism has become the main ideological and political weapon of the bourgeoisie in the age of the general crisis of capitalism, especially at its third stage. This is the result of the growing might of world socialism. Anti-communism is an expression of the reactionary bourgeois circles' deadly fear of the triumphant march of socialism. It signifies bourgeois ideo-

logues' recognition, albeit forced and disguised, of capitalism's inevitable failure. They are unable to put forward a positive programme, which would inspire the masses, and therefore they maliciously slander communism and come out against all which is progressive.

Essentially, anti-communism boils down to slandering the socialist countries and falsifying Marxism-Leninism and the policy of communist and working-class parties.

Many bourgeois economists can no longer deny that the socialist community has scored outstanding successes. Therefore they concentrate on belittling these successes. They do not recognise the fact that these achievements are based on the power of the proletariat, on the socialist ownership of the means of production, on the planned and balanced development of the national economy, on the socialist emulation movement and on many other advantages of socialism.

The profound crisis of bourgeois political economy is also seen in something else. Coming out against socialism and in favour of capitalism, bourgeois ideologues ascribe capitalism features which are actually inherent in the socialist mode of production. Such forms of the apology of capitalism have become widespread in the age of capitalism's general crisis. They include a series of myths about the "transformation" of capitalism, a variety of concepts of "hybrid" systems and the convergence of the two systems. All these theories are designed to camouflage the abyss between capitalism and socialism and distract the masses from the struggle for socialism.

Very often bourgeois economists advance their own "models" of socialism, advocating pseudo-socialism. In a bid to deceive the masses, they play up their enthusiasm for the ideas of socialism and channel it in another direction, thereby sidetracking their struggle for genuine socialism. Such methods show that bourgeois ideologues can no longer openly defend capitalism and launch an all-out attack on socialism.

Refuting Marxist-Leninist economic theory is a major component of anti-communism. In the past, many bourgeois economists tried to pass over in silence Marx and his works. Now, however, that Marxism-Leninism is scoring ever new victories and its conclusions about socialism and communism have mate-

rialised, they can no longer ignore Marx's works.

Many bourgeois economists openly declare their hostility towards Marxism. Others, however, "flirt" with Marxism in an effort to win over, by demagoguery, the working people to their side. They invoke some propositions of Marx's and speak of his achievement. Yet they distort Marxism, interpreting it idealistically and rejecting its revolutionary conclusions. Some bourgeois economists refer to Marx, seeking answers to the fundamental issues of today. Recognising the relevance of some of his propositions, they try to tailor Marx's theory to bourgeois needs, thereby distorting Marxism and depriving it of its revolutionary content. They confine themselves with making use of isolated Marxist propositions, taken out of the context of the general philosophy of Marxism.

Anti-communism is the backbone of the most reactionary trends in modern bourgeois political economy. Anti-communism permeates all economic theories designed to justify the arms race and imperialist wars and substantiate neocolonialism and imperialist integration.

Bourgeois Reformism                      Futurologists of all hues believed that the 1970s were to become a period of reforming capitalism and overcoming all its contradictions and shortcomings. But they proved to be wrong - the 1970s were marked by further exacerbation of the general crisis of capitalism.

Having realised that the revolutionary forces pose a real and serious threat to capitalism, some bourgeois economists stopped theorising and began formulating concrete programmes of reforms designed to save capitalism. Take, for instance, the US economist John Kenneth Galbraith. He advocates the takeover of some low-profit industries which are vitally important for society at large, the redemption of military enterprises, the introduction of progressive taxation, the provision of a guaranteed income for each and the equal right to education. Yet he does not specify the social forces capable of carrying these reforms through. His hopes are mainly pinned on removing misconceptions as regards the meaning and function of the economic system. Galbraith's ideas show that



his programme does not seek fundamental changes in the system of capitalism, above all changes in the existing property relations. He merely suggests some minor changes to alleviate the conflicts of modern capitalism. This only makes it more evident that there can be no positive programme of measures to save capitalism.

Reformism is bringing closer together contemporary bourgeois theories and the ideas of right socialists and labourists, and also those of revisionists. Their ideas interpenetrate and a common front is being set up against Marxism-Leninism. This is also a form of social manoeuvring designed to deceive the working people and distract them from the revolutionary struggle. Socialist phraseology is also used to this end. Galbraith, for example, calls his recommendations "new socialism". Bourgeois ideologues have to reckon with the fact that the ideas of socialism are becoming increasingly popular among the broad popular masses.

The inevitable failure of all attempts to ensure stability of the capitalist economy and the successes of world socialism underlie the feelings of pessimism among bourgeois economists. The possibility of progress in economic science is called in question. Its main drawback lies in the fact that it is unable to provide answers to the most acute and vital problems (growing unemployment, inflation, poverty and environmental pollution).

The present stage of the profound crisis of bourgeois political economy is also characterised by a bitter criticism of the existent time-worn system of economic theory and practice and by a search for novel theories of economic growth in general and concepts of economic regulation in particular. This has increased theoretical and economic differentiation within bourgeois political economy. On the one hand, the position of the opponents of economic regulation has grown stronger, on the other, various reformist trends in bourgeois political economy have become more popular. This shows that a search is under way for theoretical substantiation of the new forms of economic policy, which are aimed at preventing the working people's revolutionary action by effecting reforms "from the above", and at finding new forms of monopoly-state

interaction.

The working people are not indifferent as to which concept or form of regulation has been chosen by the ruling class. That is why it is necessary to analyse current bourgeois theories so as to grasp the meaning of the economic policy being worked out by the monopoly bourgeoisie in the 1980s.

Modern bourgeois political economy is characterised by extreme eclecticism and the existence of many schools and trends. The causes are different. They include certain differentiation within the bourgeois class, different national interests of the bourgeoisie in individual countries, the finding of new forms of the defence of capitalism in the age of its general crisis, a superficial approach to economic processes when different and often opposite manifestations of one and the same process are thought to be its essence and lead to its misinterpretation, etc. If, however, bourgeois political economy is approached from the point of view of the subject-matter of its studies, the prevailing methods of study and the attitude to economic policy, the following three main trends are to be found there: (1) theories of "regulated capitalism"; (2) theories of "free enterprise" (neo-classical trend); and (3) institutional-social trend.

## 2. Criticism of Theories of "Regulated Capitalism"

The proponents of such theories have chosen macro-economy, i.e. the economy as a whole under state-monopoly capitalism, as the object of their study. Macro-analysis consists in discussing global economic problems, such as gross social product, national income, capital investments and consumption. It boils down to attempts to find regularities common for the economy as a whole. These attempts, however, constantly come up against an individualistic private-property approach stemming from private property in the means of production. So, a contradiction arises, which only exacerbates the contradictions of bourgeois political economy. The advocates of the above theories regard the bourgeois state as the chief guiding force of the economy. To justify state-monopoly regulation, they maintain that the state can help eradicate

such negative phenomena as unemployment and crises, whose existence they recognise. They present the bourgeois state as a supra-class body capable of drastically changing the laws governing the development of capitalism.

**Keynesian Theory**                      John Maynard Keynes (1883-1946), the prominent English economist, was the founder of the theory of "regulated capitalism".<sup>1</sup> According to his theory, unemployment and crises are rooted in the inadequate demand for articles of both personal and industrial consumption. This inadequacy is caused primarily by the psychology of people who, according to Keynes, feel a growing urge to save, as their incomes increase. This gives rise to "deferred demand", whereas "effective demand" lags behind the growth of production and incomes. As regards the inadequate demand for means of production, Keynes also explained it by psychological reasons, such as the fear of risk and "liquidity preference".

In reality, however, the basic contradiction of capitalism is the main cause of the inadequacy of effective demand. As a result of this contradiction, production, stimulated by the profit drive, tends to expand indefinitely, whereas effective demand tends to lag behind. Unemployment is a similar characteristic feature of the capitalist mode of production. Its causes were analysed by Marx when he discovered the universal law of capitalist accumulation.

Keynes held that the growth of private and state investments were a decisive means in increasing employment and preventing production recessions. He suggested that private investments be stimulated through a corresponding tax policy, subsidies, changing interest rates and freezing the wages. As regards government spendings, he gave priority to military expenditures. Keynes stood for "moderate inflation" to finance state spendings.

Keynes maintained that the stimulation of employment, directly connected with investments, was bound to stimulate

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<sup>1</sup> See J.M. Keynes, *The General Theory of Employment, Interest, and Money*, N.Y., 1936.

consumer-oriented industries and thus bring about a general employment increment in a multiple proportion to the original level of employment directly connected with investments. On this basis, he worked out the "multiplier" of employment. He calculated that higher investments would ensure a two or three-fold increment in employment and incomes.

The only thing correct in the multiplier theory is the proposition that there is a chain connection between the various branches and subdivisions of social production, the so-called secondary effect. The thing is that investments in one branch stimulate the extension of production in the related branches. But it was not Keynes who discovered this phenomenon. He borrowed it from the Marxist-Leninist theory of reproduction. Moreover, Keynes distorted this proposition.

Keynes based his theory on the proposition that production can develop irrespective of personal consumption. Yet under capitalism, too, production eventually depends on personal consumption. Even the production of means of production is limited by personal consumption, because it is effected not for the sake of production per se but because means of production are consumed more extensively in branches which put out articles of personal consumption. This is why initial investments are by no means made irrespective of personal consumption. Under capitalism, on the other hand, effective demand grows faster than production. This is caused by the basic contradiction of capitalism, by private capitalist appropriation.

Keynes also abstracted himself from the growing organic composition of capital. But new investments are made at a higher technical level and, consequently, require a relatively lesser number of workers.

So, the main drawback of the Keynesian constructions lies in their irrelevance.

Higher capital investments, offered by Keynes, cannot result in the elimination of unemployment. No matter who accumulates capital - the bourgeois state or private persons, it inevitably leads, due to the operation of the laws of capitalism, to unemployment. Military production, so loudly propounded by Keynes, is financed out of the working people's pockets

and leads to a further decrease in their consumption, to a slow-down in the rates of reproduction, to higher unemployment and deeper economic crises.

Bourgeois ideologues declared the Keynesian theory a revolution in political economy, while bourgeois governments began employing his recommendations in their practical economic policy. The theory had proved a very convenient ideology to shore up state-monopoly capitalism. Under the pretext of taking measures to ensure "full employment" and avert cyclic recessions, a real offensive was launched against the working class, whose wages were frozen while inflation increased. American Keynesianism became most typical. The US Administration, disregarding the state budget deficit, gave top priority to higher arms spendings as a means of ensuring a "prosperous" economy.

Capitalist reality showed, however, that Keynes's recommendations had proved ineffective in achieving the objective. His opponents hastened to declare his theory erroneous, while his supporters complained that Keynes had not taken into account many administrative difficulties, and began improving his theory. This was how neo-Keynesianism emerged.

Neo-Keynesianism                      Keynes based his theory on the situation obtaining in the 1930s, when the capitalist economy suffered depression. Neo-Keynesianism, however, attempted to develop a general theory of reproduction applicable in any situation. Neo-Keynesians declared that the main goal of their economic policy was to ensure steady growth rates, rather than full employment. They believed that the problem of employment would be solved in the process.

Neo-Keynesians extended the operation of the multiplier to a series of consecutive periods, i.e. they began treating it as a continuous multiplication process. They augmented the multiplier theory with the accelerator principle. The latter expresses the action of higher incomes on the accelerated growth of investments. The American economist A. Hansen maintains that the combined demand for means of production, caused by higher incomes, grows at a higher rate than does the demand for articles of consumption. Even the bourgeois critics of

this principle note that it makes no account of the under-capacity work of equipment, the possibility of improving it technically and using it more efficiently. This is why a higher demand for manufactured goods not always requires a higher rate of increase in the production of means of production.

Neo-Keynesians hold that the interaction of the multiplier and the accelerator ensures a continuous growth of production, employment opportunities and incomes.

Yet, owing to the contradictions of the capitalist economy, the latter cannot ensure a growth in people's consumption which would keep being proportional to the accumulation of capital and the growth of production, as the multiplier requires. Similarly, it is impossible to ensure a situation when the accelerated growth of the production of means of production under capitalism would not lead to its outpassing the production of articles of consumption and effective demand, as the accelerator requires.

Some economists have attempted to develop economic-mathematical models of "stable growth" on the basis of the combination of the multiplier and the accelerator. These are used to find out quantitative regularities and to make forecasts. Neo-Keynesians have extended the list of methods used for the state regulation of the economy through so-called budget financing (the theory of state budget deficit) and accelerated depreciation. They have introduced some changes in the credit policy, paying now more attention to long-term credits.

It is safe to say that the neo-Keynesian theories of economic growth show that political economy is drawing closer to the economic policy of state-monopoly capitalism. This process involves both the development of an economic doctrine to provide theoretical grounds for the economic policy and the development of methods of state economic regulation, and also the assessment of the results of the economic policy.

A process of differentiation is going on among the protagonists of "regulated capitalism", this being based on different interests pursued by different layers of the bourgeoisie. The ideologues of the big monopoly bourgeoisie give priority to higher arms spendings and the development of the

military-industrial complex. The left wing, which expresses the interests of the non-monopoly bourgeoisie, amplifies incomes inequality as the cause of inadequate demand and insist on a series of reforms which, however, remain within the confines of capitalism.

In the 1970s, when capitalism entered its new crisis period, the neo-Keynesian theories of economic growth (like all the other brands of such theories) found themselves in a crisis situation. It became evident that the economic policy recommended by Keynesians was unable to ensure stable economic growth rates and higher employment. But, the old problems remaining unresolved, new problems emerged. These were: unprecedented inflation, environmental pollution and deterioration in the quality of life. The hope that socio-political conflicts would be alleviated were also shattered.

Post-Keynesianism                      In the setting of the crisis wave in the 1970s, the positions of the opponents of capitalist state economic regulation and those of the "left" Keynesians grew stronger. They declared the "second crisis of economic theory" (the first was in the 1930s, prior to Keynes), saying that it was unable to provide adequate answers to pressing problems and that the Keynesian revolution had not been completed. Neo-Keynesianism was thus replaced by post-Keynesianism.

Its representatives, such as J. Robinson, N. Kaldor and P. Sraffa (Britain) and A. Eichner and S. Weintraub (USA), regard the Keynesian theory as a source of a new system of economic views. They do not share the concept of inner stability of the capitalist system and believe that the idea of instability of the capitalist economy was central in Keynes's theory. These economists criticise the "Orthodox" Keynesians for having ignored money factors, abstracted themselves from the problem of distribution and treated Keynes's theory as static, although it is essentially dynamic.

In this way post-Keynesians are trying to save the bankrupt Keynesian theory, accusing its former advocates of its misinterpretation.

Characteristically, post-Keynesians criticise the theory

of "marginal utility" and "marginal productivity of production factors" used by many bourgeois economists to explain prices, wages, profit and rent. By rejecting these vulgar-apologetic conceptions, post-Keynesians are trying to fall back on Ricardo's theory of value. But instead of using the positive aspects of his labour theory of value, they invoke Ricardo's erroneous views, once criticised by Marx (for example, a quantitative approach and the equation of value and the cost of production).

Many post-Keynesians refer to the works by the Polish economist M. Kalecki, who offered his own interpretation of distribution in the 1930s. He tried to find out how investment growth depended on the various classes' share in consumption. Some post-Keynesians, searching for the most effective methods of analysis, refer to Marx. A specific feature of post-Keynesianism is the introduction of "socio-economic institutions" (for example, trade-unions) in the sphere of research.

The problem of growth and distribution holds a key place in post-Keynesian theories. Their proponents maintain that production growth rates depend on the distribution of national income. The magnitude of income and its increment depend on savings, while the sum-total of savings is the aggregate sum of savings made out of wages and profit. Insofar as the wage earners and the profit makers have different "bents" for saving, changes in the distribution of national income will affect the total sum of savings. Consequently, the distribution of national income will affect its increment. This is the basic proposition of post-Keynesians, which they used to reconstruct Keynes's theory.

The distribution of national income is in turn a function of the accumulation of capital. The rate of capital accumulation determines the rate of profit, and consequently the share of profit in the national income. The share of wages is determined as a remainder, although the workers' struggle may make corrections in this correlation.

The attempts to tie in the distribution of national wealth and its growth rates and the proposition that savings depend on the distribution of national wealth between the capitalists and the workers are to a certain extent conducive



to bringing modern Keynesians closer to reality. Yet post-Keynesians, too, make only superficial, formal comparisons. They do not reach down to the root causes of the relations of distribution, which are buried in the sphere of material production, in private capitalist appropriation.

In the field of economic policy, the proponents of this school call for further improvements in the mechanism of capitalist economic regulation. But no specific programme has been devised so far and there are various viewpoints on this matter. The British economist N. Kaldor, for example, has constructed a model according to which higher growth rates can only be ensured by redistributing national income in favour of profit. This is used to justify the bourgeois state policy spearheaded against the working class.

Another British economist, Joan Robinson, believes that increasing wages correspondingly to the growth of labour productivity removes the difficulties in realisation and serves a powerful stimulus for economic growth. This idea is consonant with the working-class struggle for improving their position. But Robinson exaggerates the importance of this struggle. Higher wages cannot remove the contradictions of capitalist reproduction and its regularities. Robinson's views lead her to an erroneous conclusion that the monopolies and the trade-unions can cooperate.

Most of the post-Keynesians approve of the "incomes policy". They regard it as a means of fighting inflation, the traditional methods of budget and credit-monetary policies being inadequate. They try to tie in the "incomes policy" with the policy of economic growth in general, including the setting of the rates and structure of investments. This makes some economists insist on strengthening state economic regulation, making it more centralised and setting longer-term objectives.

Although they reckon with the needs of the growing productive forces, post-Keynesians merely suggest individual reforms in their theoretical constructions.

### 3. Criticism of "Free Enterprise"

#### Theories

The proponents of these theories have chosen micro-economy as the object of their studies. They seek to find ways of optimally using the available resources and achieving the best results at the lowest cost. Free competition and a stable money system, they say, are the necessary condition.

The micro-analysis consists in studying the patterns of behaviour of individual companies and prices for individual commodities. The proponents of this theory regard the economy at large as a sum of individual companies, so conclusions made on the basis of the analysis of only one firm may, they believe, be applied to society at large. These economists do not squarely reject the need for state intervention in the economy. Yet, they insist, the state must primarily ensure conditions for free competition.

The "free enterprise" theories are represented today by economists belonging to the Chicago School (M. Friedman, above all), the London School, and also by some economists adhering to the neo-classical theories of economic growth, such as R. Solow (USA) and J. Meade (Britain).

Neo-Classical Theories  
of Economic Growth

Central in the neo-classical theories of economic growth is the problem of a potentially possible growth rate which depends on the existence of growth factors and their optimal use. The so-called production function is its most vivid expression. This function takes the form of an equation in which production is the product of each factor and its "marginal product" (the product of the last unit of the production factors).

The main drawback of the production function lies in its theoretical foundation - the unscientific theory of "imputation", according to which the value of gross social product is created not only by labour, but also by other factors, to which a corresponding share of the product is "imputed". In reality, however, neither the value nor the physical volume

of the gross national product are split up into parts which are the function of individual factors of production.

According to these economists, the under-capacity work of enterprises and unemployment are caused by low investment and technical progress rates. This, they maintain, in turn is caused by a decrease in profit and stimuli for technical innovations. This thesis underlies all their practical proposals. They demand lower income taxes and higher indirect taxes.

Another deficiency of the neo-classical theories of growth consists in the fact that they completely ignore the problem of realisation, focussing their attention on production costs and obtaining maximal profits. It is evident, however, that the lowering of wages leads to the worsening of realisation opportunities.

The fiasco of neo-Keynesianism and its economic policy in the 1970s has consolidated the positions of the "neo-classical" school. Its advocates criticise all the aspects of neo-Keynesianism - long-term growth and capital accumulation, incomes distribution, employment, inflation, economic policies, etc.

This wave is known in the West as "neo-classical renaissance". It has united the economists of various hues in their wish to refute the idea of the chronic inner instability of the capitalist economy and to prove that it is still capable of ensuring the maximum volume of production and employment without the state taking some extra measures.

Monetarism                      Monetarism is a contemporary variant of the neo-classical theories. In the mid-1970s, this trend became one of the most influential in bourgeois economics. Its most prominent representatives include the American economists M. Friedman, K. Brunner and A. Meltzer.

Monetarists criticised the neo-Keynesian doctrine and its practical proposals. One of their main theses consists in the assertion that the stability of the capitalist economy is ensured by its self-regulation through competition. Crises and inflation, they say, are accidental phenomena caused by the chaotic fluctuations of the money mass.

Monetarists maintain that shifts in the monetary sphere disrupt the balanced process of reproduction. Changes in the volume of the money mass, they conclude, lead to changes in economic growth rates. This conclusion is based on a formal statistical analysis, which gives no ground for the assertion that there really exists a one-sided causal connection between these two processes. Practical measures to regulate the mass of money come up against insurmountable difficulties. In choosing the components, monetarists (1) are motivated by empiric considerations (i.e. take a subjective approach) and (2) do not expose the true causes of the money mass fluctuation and the speed of its circulation. But all this is extremely important for the regulation of the mass of money, because without this there can be no serious talk of regulating economic growth rates.

So, the monetarist scheme gives only a superficial and distorted image of the real processes of capitalist reproduction. To reduce the causes of extremely complex economic phenomena to mere changes in the money mass is altogether erroneous. The monetarist theory is aimed at distracting attention from the deep-rooted antagonistic contradictions of capitalist production and at putting the discussion of outstanding problems on quite another "track" - the sphere of circulation.

The monetarist proposals in the sphere of economic policy boil down to the following: (1) to avoid the conflict of goals, only one goal should be pursued, viz., ensuring the stability of commodity prices, to which goals all the other ones should be subordinated; (2) the regulation of the money mass is the means of attaining this goal; (3) only long-term objectives should be considered because lags in the real effect of an economic policy may have a destabilising impact. In practical terms, monetarists suggest that the mass of money be increased by 3 to 4 per cent annually, in accordance with the growth rates of the national income, irrespective of the actual course and phase of the cycle. They believe that such an increase in the money mass will remove cyclic fluctuations.

Friedman opposes any government measures to increase

employment. He believes that the level of employment does not depend on government measures and is determined by the general situation on the labour market. He maintains that if the "monopoly" of the trade-unions, which limit competition between workers, is removed, the level of unemployment will be lowered. So, according to Friedman, it is the trade-unions which are to blame for unemployment.

Monetarists also reject the Keynesian policy of increasing state expenditures. They contend that this does not change the magnitude of aggregate demand because society's gains from the state investments are lost as a result of decreased private investments. Monetarists are particularly ardent opponents of various socio-economic and cultural programmes. This only emphasises the reactionary character of their theories.

Monetarist conceptions are used by the governments of the United States, Britain, Canada, West Germany, Italy and some other countries in shaping their economic policies. The programme of rectifying the economy, proclaimed by President Reagan, for example, provides for liquidating the American budget deficit by 1986. It also provides for growing military spendings and a 10-per cent tax cut every year. This means that slashing social and other civic spendings is a key factor in this programme.

The communist and workers' parties in the capitalist countries reject both the Keynesian policy of "inflating" demand and the monetarist proposals leading to depression and unemployment and aimed at liquidating the working people's gains and curtailing the trade-union rights. They call for truly democratic reforms and for effectively curbing the power of the monopolies.

#### 4. Institutional-Social Trend

The proponents of this trend have chosen institutions, such as monopolies, the state, trade-unions, forms of ownership and forms of government, as the object of their studies. Their methodology is characterised by giving priority to the technique of production, regarding it the basis of changes within the above institutions. The nature of the relations of

production is, however, ignored. The state is regarded as an important factor in society's life, and its role is not reduced to mere anti-crisis regulation, but is augmented to effecting a programme of social reforms in order to remove the defects of capitalism and attain a "new quality of life". Galbraith is the most prominent representative of this trend.

The future development of capitalism is one of the main problems dealt with by the proponents of this trend. This includes the varied theories of the "transformation of capitalism" (neo-capitalism), the theories of industrial and post-industrial society, the theories of "welfare state", etc. All these theories seek to prove that capitalism is a viable system which can adapt itself to new conditions. Very often bourgeois economists refer to the theory of convergence, i.e. the gradual approximation of the two systems.

All these theories are based on some real facts, such as the scientific and technological revolution, the spread of joint-stock companies or the growing economic role of the state. But these facts are misinterpreted, and this misinterpretation gives ground to conclude that the nature of capitalism is allegedly changing, that exploitation, poverty and crises are being liquidated.

Theories of  
Industrial Society

The theories of industrial society are most widespread. One such theory was developed by Galbraith, who believes that modern technology dictates its own laws (imperatives) which underlie, for instance, the need for planning and the management of enterprises by the so-called technostructure (engineers, economists, finance experts, etc.). Galbraith's main mistake is that he disregards the capitalist relations in whose setting the current revolution in science and technology unfolds. Modern technology does require planned social production. But private capitalist ownership puts up insurmountable obstacles, making such planning impossible. He overlooks the fact that major decisions are made by the financial oligarchy, rather than specialists. Galbraith notes, and with good reason, that the role of the technical intelligentsia is growing. But he exaggerates this role and, which is most important, ignores

its social background. Also erroneous are his views of the working class as people engaged exclusively in manual work, and his conclusion that the role of the working class and trade-unions is diminishing.

The advocates of the theory of industrial society pinned great hopes on the scientific and technological revolution. They believed that new technology will make it possible to produce low-cost articles in big quantities, that a "society of affluence", a society of high popular consumption will emerge. Yet the capitalist reality has frustrated all these hopes. The unprecedented growth of unemployment, inflation, the drop in the working people's real incomes and the growing socio-political instability in the capitalist world have shown the complete insolvency of the theories of industrial society.

Post-Industrial  
Society

The theory of post-industrial society is becoming increasingly popular, given the crisis of the concepts of industrial society. It was developed by the US sociologist D. Bell. Characteristically, the proponents of this theory give priority to institutional-social factors. Science and scientific knowledge, they say, are the chief determining and independent force of society. They treat the productive forces outside their social form. Their theory is designed to prove that the socio-economic and political contradictions of capitalism can be resolved within the capitalist system. It is not fortuitous that it is used as a basis for making forecasts, which portray a capitalist future unmarred by crises, inflation and unemployment.

Bell advances the following five features of post-industrial society: (1) transition from the economy of commodity production to the economy of services; (2) growing predominance of the class of "professionals and technicians"; (3) predominance of theoretical knowledge as a source of innovations and policy making; (4) orientation in the future on technology control and evaluation; (5) decision-making on the basis of "new intellectual technology".

As we see, the expansion of the service sphere comes first. Yet it is not clearly defined and includes some spheres

of material production. The growth of the non-productive sphere, caused by the revolution in science and technology, is a hard fact. But this does not imply that the character of social contradictions is changing, let alone being smoothed out. Both the productive and non-productive spheres are based on the capitalist relations of production. Therefore, we can only speak of changes in the structure of consumption and in the composition of the active population, rather than of changes in the fabric of capitalist society.

Concentrating their attention on the services sphere, bourgeois ideologists overlook the fact that the leading role belongs, as before, to the production sphere, which determines the direction of technological progress and provides the services sphere with new technology. It should be also noted that prospects of non-material sphere growth is somewhat over-estimated. The employment of the STR's achievements in this sphere may slow down the growth of the number of persons employed in it.

No less erroneous is the idea of post-industrial society's social structure. According to the advocates of this conception, in post-industrial society new social relations take shape based not on ownership but on knowledge and qualification; they all refer to a decrease in the number of "blue collars" and growing number of "white collars".

True, changes in the social division of labour lead to shifts in social boundaries and composition of the working class. These boundaries expand and new detachments, including white-collar workers, join the working class. Hence the increasing numerical strength of the working class. As regards the industrial proletariat, it remains the largest detachment of the working class and its leading force. The greater share of qualified workers should be taken into account as well. Bourgeois economists take a formal approach in characterising the working class and reduce it to manual workers. Meanwhile, many categories of employees - office and commercial staff, part of engineers and technicians - in their socio-economic position do not differ from the working class and are included in it. Contrary to the predictions of bourgeois theoreticians, social significance and role of the working class grow.



Figures on the changed structure of strikes in the USA prove that class struggle unfolds in non-material sphere, too. In the total number of strikers the share of workers in the services sphere in the USA rose from 20 per cent in 1950 to 50 per cent in the 1970s.

Equally erroneous is the assertion that government is taken over by scientists. It is a fact that the role of science grows together with social progress and the scientific and technological revolution. Science becomes a direct productive force, and its increasing importance and development inevitably involve the growing number of persons employed in this sphere. Though small in size, this group is expanding and as such influences social development.

This situation is also used by the advocates of "post-industrial society" for apologia of modern capitalism.

No matter how great the influence of science has become, in no capitalist country it governs economics or politics. On the contrary, the more research develops the more it submits to the ruling class. Science in the capitalist countries serves major monopolies both in the economic and political spheres. The overwhelming majority of scientists remain at positions of minor importance. The status of scientists in power is determined not by their role in science but by their affiliation with the ruling élite.

#### Theory of Convergence

The theory of convergence is an attempt to find an alternative to communism. Its characteristic feature is the affirmation that capitalism, assimilating the best traits of socialism, eliminates its own vices. Socialism, in its turn, assimilates the best traits of capitalism and eliminates its "defects". Referring to outward, formal characteristics, bourgeois economists depict the improvement of planning as renunciation of centralised planning, expansion of commodity-money relations - as a return to the spontaneous market competition.

On the other hand, bourgeois ideologists keep persistently talk of transformation of capitalism into planned economy, of "levelling of incomes", "revolution in ownership", etc.

Various versions of the theories of convergence are based on certain actually existing common features of the economics of capitalism and socialism: modern scientific and technological progress, growing socialisation of production, greater role of the intelligentsia.

These are processes connected with the development of technology and productive forces, but their socio-economic content under capitalism differs from that under socialism, for it is conditioned by the character of social production relations. The scale, limits and socio-economic consequences of the current processes depend precisely upon this content. Thus, the STR under capitalism does not remove its contradictions or the inevitability of socialist revolution. On the contrary, it accelerates the development of material prerequisites for carrying out socialist revolution. The growth of social production under capitalism makes it increasingly necessary to do away with private property and introduce centralised planning of the entire economy. The dominance of capitalist ownership excludes planning in the interests of society as a whole.

Consequently, a gradual convergence of the two systems of the world economy and their interpenetration are out of the question.

The principal defect of the theories of convergence and all other theories of similarity between the two systems is that they are based on the formal approach and outward characteristics, on ignoring the fundamental difference between these two systems. Indeed, technical progress and the growth of common features in the forms of organising and managing production do not eliminate this fundamental difference, but augment it.

Under the crisis upheavals of the 1970s and 1980s bourgeois economists switched over to the "convergence of difficulties", maintaining that crisis situation is characteristic not only of capitalism, that economic cataclysms are a universal law of the present time, equally bearing upon socialist countries, where production, they say, also drops. It is significant that today bourgeois ideologists regard difficulties of capitalism not as something accidental but as a law-govern-

ed process. The reason behind this is the emergence of new internal and international economic, social and political factors, determining the aggravation of the general crisis of capitalism.

As regards socialist countries, facts convincingly refute the views of bourgeois ideologists. Thus, over the 1970s, the national income of CMEA members grew by 60 per cent and their industrial production developed 1.5 times faster than that of the Common Market countries. However, the economic growth rates in a number of socialist countries is today somewhat slower than before. However, this fact should not be taken in isolation from the new scope and concrete tasks of the socialist countries' current socio-economic development. The switchover to primarily intensive economic development, in particular, gives the qualitative factors priority over the quantitative ones. Difficulties under socialism may be defined, in Lenin's words, "merely the growing pains of the new socialist society".<sup>1</sup> They are overcome in the course of socialist and communist construction and must not be put on a level with insurmountable contradictions of capitalism, with its general crisis. The latter's nature is different, and prospects of development of socialist and capitalist economies are also completely different.

All theories of the "transformation of capitalism" reject the Marxist-Leninist teaching on the inevitable destruction of capitalism in a revolutionary way. However, the economic crises of the 1970s and 1980s and serious socio-political crises quite reliably prove that capitalism continues to develop according to the laws, investigated by Marx and Lenin. The documents of the CPSU of the recent years provide a profound analysis of the further aggravation of the general crisis of capitalism in present conditions.<sup>2</sup>

Thus, none of the main trends of bourgeois political economy reflects the true condition of the capitalist economy. Taking real processes as a basis for study, these scholars interpret them in a distorted and one-sided way and fail to get at their true essence.

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 42, p. 82.

<sup>2</sup> For details see Chapter 13 of this textbook.

Due to the objective process of development of state-monopoly capitalism the theory of "regulated capitalism" plays the leading role among these theories. The institutional-and-social trend gains increasing importance due to, first, the intensified class struggle and growing national liberation movement, the impossibility to ignore social relations and factors and their role in society's progress; second, the current scientific and technological revolution, which is the basis for a number of so-called technocratic theories; third, the crisis of subjective-psychological approach characteristic of Keynes and his followers (maintaining that the roots of economic crises allegedly lie in human psychology).

The influence of the neoclassical trend has also grown. Though some of its provisions are directed against the state regulation of the economy, the authors of these conceptions completely support all anti-people's measures of state interference. They are against such forms as price control, greater allocations for social purposes and the like.

Engaged in polemics and debates, all these trends pursue a single aim, that of defence of capitalism and search for ways of consolidating its foundations. Differences mainly lie in the forms and methods of attaining this aim.

"Neoclassical  
Synthesis"

"Neoclassical synthesis" is an attempt to formulate a general theory of state-monopoly capitalism, with state regulation interacting with market mechanism. It includes the basic postulates of the theories of "regulated capitalism", "free enterprise", as well as the provisions of the institutional trend (the STR and quest for the "new quality of life"). This is an attempt to bring together the entire arsenal of bourgeois political economy in the struggle against Marxism-Leninism. The American economist Paul A. Samuelson is the father of the "neoclassical synthesis".

In his view, government intervention should ward off crises, unemployment, ensure "full employment" and, at the same time, preserve, within certain bounds, competition. Hence the mixed economy - combination of private and state enterprise. In the context of "full employment" the classical

principles formulated in the theory of "marginal utility" and "marginal productiveness" come into force on which Samuelson based the theory of value and distribution.

"Neoclassical synthesis" is characterised by the same defects which are typical of the above three trends of bourgeois political economy. Its advocates neglect the analysis of the entire complex of socio-economic relations of elements of the modern capitalist system. Samuelson attempts to mechanically combine micro- and macro-analysis. Here lies the insurmountable contradiction between the subjectivist-individualistic approach, so dear to bourgeois economists, and national economic approach, which has become indispensable under modern state-monopoly capitalism.

Bourgeois economists search for a theoretical basis for regulating the capitalist economy in micro-analysis. But micro-economics with its conclusions on "marginal utility" as the basis of commodity price and other "universal laws" does not suit the aim. Samuelson's economic policy was used in the USA in the 1970s. As is known, it also collapsed just like the other theories of bourgeois economists.

#### Radical Political Economy

Radical political economy is a comparatively new trend among economic doctrines of bourgeois society. Elaborated by the American economists D. Gordon, J.G. Gurley and E.K. Hunt it was widely popular in the United States in the mid-1960s.

This trend is not uniform either in its class nature or theoretical concepts, involving bourgeois radical liberals on the one hand, and Left radicals, the New Left, expressing the interests of the petty bourgeoisie, on the other. Many of them represent the ideology of that part of the petty bourgeoisie, which is being ousted into the ranks of wage labour but which has not yet adopted the proletarian ideology. On the whole, radical political economy occupies an intermediate position between bourgeois and proletarian political economy.

The Marxist economic teaching, ideas of Proudhon, Bakunin and Kropotkin, utopian socialism of Fourier and Owen, and bourgeois reformism serve as the ideological and theoretic-

tical sources of the views of radical economists.

Criticism of capitalism and orthodox bourgeois political economy is the common feature of all shades of radical political economy. Corporations as embodiment of all the negative aspects of capitalism are subjected to particular criticism. These economists hold that market economy cannot ensure full employment and humane way of life for the majority of people.

It is significant that radical political economy recognises Marx's valuable contribution to economic science, considering its doctrine one of the sources of critical charge of the radical school.

Some representatives of Left radicals call themselves "creative Marxists", declaring that they want, proceeding from the theory of Marxism, the achievements attained by all sciences and available historical experience, to deal with the vital problems of modern Western society and create a theory conducive to eradicating the existing roots of oppression. However, these economists cannot be called genuine Marxists. The content of their concepts shows that they have not grasped the essence of Marx's doctrine. Thus, instead of the notion of surplus-value they introduce the "economic excess" category and provide their own interpretation of the exploitation of labour power.

The views of American economists P. Baran and P. Sweezy, the authors of Monopoly Capital, exerted tremendous influence on radical political economy. This book contains criticism of the US monopoly capital which, according to the authors, tends to create large economic excess but cannot ensure proper usage of this excess for consumption and accumulation. Hence chronic underuse of human and material resources. The category of "economic excess" is designed to replace that of surplus-value. The proponents of this theory seek to prove that under monopoly capitalism the law of surplus-value ceases to function and define "economic excess" as the difference between the aggregate social product and socially-necessary costs of its production. Thereby, the degree of exploitation - the ratio of surplus-value to value of labour power - is replaced by the ratio of "excess" to the gross national product or to the

portion of profit which is accumulated. In this case, the most essential fact is overlooked, namely, that surplus-value is created as a result of the exploitation of the working class in the process of production.

Baran and Sweezy reject Lenin's theory of imperialism, maintaining that modern capitalism is not the continuation of pre-monopoly capitalism but a qualitatively new system. They reject thereby applicability of Marx's teaching to modern capitalism.

According to these authors, "external factors" (foreign expansion) and whipped up arms race play major role in keeping up the reproduction process. The book does not study in detail such contradictions of capitalist reproduction as crises, inflation, and unemployment, thus revealing their underestimation of the profound nature of the inner socio-economic antagonisms of modern capitalism. The book as a whole misrepresents the contradictions of state-monopoly capitalism.

The influence of the above concept may be traced in the works of many young Left radical economists. However, crisis processes of the 70s and 80s, climbing inflation and unemployment contributed to the critical reassessment of certain notions as regards the stability in economic growth. These processes drew radical economists' attention to various forms in which the basic contradiction of capitalism manifests itself.

Nevertheless, radical economists have not rid themselves of erroneous views. They bring the problem of alienation to the foreground, proclaiming it the source of all contradictions characterising man's position in society. Left radical economists try to combine the Marxist explanation of alienation, arising from the exploiter nature of capitalist production relations and market form of economic ties, with the bourgeois philosophical conceptions. They consider themselves to be spokesmen of non-class, non-historical "absolute" values, corresponding to man's "true nature".

Radicals proved unable to reveal the interconnections between the socio-class and the universal human, the interaction of the abstract-philosophical and the general historical, and the objective conditions and causes of alienation.

Bourgeois reformists seek a solution in effecting reforms with the foundations of the capitalist system remaining intact, whereas Left radicals demand razing everything to the ground. Their ideal is the decentralised cooperative society with the hierarchic structure consonant with the theories of Fourier, Proudhon, and Owen. However, the positive programme of the New Left is feeble and they do not offer any realistic ways to realise it.

Basing themselves on the petty-bourgeois ideas of primitive egalitarian communism, they oppose both the theory of scientific socialism and existing socialism.

Some representatives of the New Left consider that the revolutionary strategy should be based on the struggle between the poor and the rich on the international arena, as well as within individual countries, rather than on the struggle between the working class and the bourgeoisie. Meanwhile, the working people of the imperialist ("rich") countries are not enemies but allies of the working people of former colonies. The "Left" often refer to the works by the African leader Fanon, particularly, to his The Destitute Planets, which exposes colonialism, capitalism and imperialism. At the same time, Fanon comes to the erroneous conclusion that the basic contradiction of the modern world lies not in the antithesis between the interests of world capitalism and world socialism but in the discrepancy between the living standards of "rich white" peoples and that of "poor coloured" peoples.

Basing themselves upon Fanon's vague arguments, some Left-extremist politicians rank him among those who demand the immediate world-wide redistribution of the wealth of the "rich North" (where socialist countries are included alongside the capitalist ones) in favour of the "destitute South". Precisely this, they say, is the decisive condition of solving humankind's problems.

It is absolutely inadmissible to equate the imperialist powers, which for ages have been plundering huge masses of population, with the countries which had been subjected to violence and oppression by the imperialists and which liberated themselves as a result of heroic struggle. This approach of Left extremists whitewashes the imperialists and glosses



over the problem of their historical responsibility for privations of people in the former colonies

The idea of the New Left that the working class in the industrialised countries has gone "bourgeois" does not differ in essence from the views of the ideologists of imperialism and help the latter to attack the trade unions whose allegedly "excessive demands" are the main cause of price rise. Extremely harmful is the contrasting of the "new working class" (which is said to include "white-collar" workers, students and intellectuals) to its other detachments. The views of the kind undermine the unity of the working-class movement.

The ideologists of imperialism support these theories whose propagation impedes the spreading of the Marxist-Leninist teaching. Nevertheless, the very emergence of radical political economy reflects the aggravation of capitalist antagonisms. It also proves that the contradictions of the world social progress manifest themselves in theory and ideology.

#### 5. Right-Wing Socialist and Revisionist Economic Theories

Right-Wing  
Socialist Theories

The leaders of the Right-wing Social-Democracy propagate the latest concepts of the ideologists of monopoly capital combined with the dilapidated dogmas of the Second International. The ideological forerunners of the present-day Right-wing Socialists (E. Bernstein, K. Kautsky, R. Hilferding and Otto Bauer) fought against Marxism on the basis of its formal recognition. Advocating the renovation of Marxism, they rejected its basic provisions on the class struggle, the socialist revolution and the dictatorship of the proletariat. After the Second World War the social-reformists shifted even more to the right and essentially gave up the formal recognition of Marxism. However, they continue to make use of the socialist phraseology, claiming that the objective of their parties is the socialist alternative or democratic socialism.

Referring to such processes as the growing number of joint-stock companies, development of state-monopoly capitalism and the scientific and technological revolution, the Right-wing Socialists maintain that modern capitalism has radically changed its nature and turned into a new social system. The Right-wing Labourites call it the first phase of socialism, other theoreticians assert that it is something intermediate between capitalism and socialism. In their view, it is the growing role of the bourgeois state and the current scientific and technological revolution, and not the class struggle, that is the motive force of the transition to a new system. The Right-wing Socialists propagate inventions about the "second industrial revolution", which allegedly greatly changes social structures. In fact, all these reasonings serve to camouflage the nature of modern state-monopoly capitalism, sticking the socialist label to it.

Today, the Social-Democrats become once again increasingly interested in Marxism. A new variety of "legal Marxism" is emerging which tries to diminish the influence of scientific socialism upon the popular masses. It should be noted that the Left-wing Social-Democrats in referring to Marx's works recognise the class struggle and the necessity of revolutionary activity.

In the 1970s, particularly after the economic crisis of 1974-1975, the social-reformists were forced to modernise their theories. In this they were also prompted by the increasingly energetic activities of the Social-Democratic Left wing which reflected the rise in the anti-monopoly sentiments of the broad popular masses.

Favouring, on the whole, the "mixed economy", the Right-wing Social-Democrats now speak of expanding the state sector through building new enterprises and partial nationalisation of the privately-owned ones. In actual fact, however, the Right-wing reformist leaders create obstacles to the realisation of these measures.

A stricted state control over the monopolies' activities and the adoption of anti-monopoly legislation are put forward as one of the demands. In fact, this means the preservation of monopoly property under which the financial oligarchy exerts

a decisive influence upon the state apparatus and uses it for its own ends.

The modernised concepts of the "social partnership", working people's "co-participation" in running capitalist firms and "participation in the profits" are now increasingly propagated. All these are presented as a means of restructuring the relations of ownership. However, the above measures do not bring about radical changes in capitalist production relations. As the experience of the Federal Republic of Germany shows the "co-participation" of the working people in running enterprises is only formal and the workers do not become owners. The bourgeoisie, holding the dominant positions in economics and politics, does not allow any genuinely democratic forms of the working people's participation in running the firms.

Today, the leaders of the Socialist International do not deny that world capitalism has found itself in the grip of crisis, that it cannot solve the problem of employment. They put forward the demands for reforms in social insurance and medical service, democratising the system of education and improving working conditions. These demands accord to the everyday needs of the working people, but cannot radically improve their situation. The bourgeois governments are not interested in financing these measures, of which indicative is the experience of those countries where governments are headed by the Social-Democrats. Their "incomes policy" is pursued in the interests of the bourgeoisie.

The socialist ideas exert greater influence upon the broad sections of the working people also due to the successes of socialism. Many Social-Democrats recognise the achievements of existing socialism. However, the leading ideologists of Social-Democracy, being the adherents of capitalism, oppose existing socialism. They took up the idea of plurality of socialist models with an aim of masking the historical inevitability of the revolutionary transition from capitalism to socialism and, referring to individual peculiarities, of camouflaging the basic features of socialism and its cardinal distinctions from capitalism. They strive to belittle the achievements of socialism and identify the socialist owner-

ship with state-monopoly ownership. However, since all these inventions are refuted by the statistics, the stress is now laid on fabrications about violations of democracy and freedom of individual. However, the blossoming of the socialist democracy, as reflected in the 1977 Constitution of the USSR, demonstrates the groundlessness of these inventions also.

The evolution of economic theories of Social-Democracy and differentiation of its ideological trends, testifies to the fact that in this field, too, the general crisis of capitalism manifests itself.

Criticism of  
Opportunist Theories

The great gains of socialism, the exacerbated contradictions between the socialist and capitalist systems are responsible for the fact that, alongside the Social-Democrats and Labourites, Right and "Left" opportunists of various shades in the communist and workers' parties intensified their attacks on the Marxist-Leninist doctrine.

The Right opportunists speak of the need to "renovate" Marxism to bring it into line with changes in the economy and politics of capitalism and with the problems of socialist construction. However, just as it was to be expected, they failed to produce a scientific analysis of new phenomena. Usually they do not advance new economic theories but substitute the inventions of Right-wing Socialists and Labourites for the Marxist doctrine.

Referring to the practical function of bourgeois political economy, they brought up the thesis that it ceases to be apologetic and suggested to "supplement Marx with Keynes", to integrate bourgeois and Marxist political economy. The revisionists forget about the class character and partisanship of political economy. Under the flag of "integration" they substitute, in fact, bourgeois theories for the Marxist-Leninist teaching.

In their efforts to embellish the nature of modern capitalism, the neo-revisionists have taken up the myth of the "welfare state". They interpret the phenomena of state-monopoly capitalism as a growing over of capitalism into socialism, identify state-monopoly capitalism with socialism, deny

the necessity of winning power by the working class, holding forth on the convergence of the two systems.

Revisionist theories have also spread to some countries that had opted for the socialist road. There revisionism acted primarily as negation of the general laws of building socialism shifting the emphasis on national peculiarities, counterposing the plan and the market, and elaborating models of "market socialism" (O. Šik).

Today, Šik is one of the propagandists of the "humane, democratic socialism" concept. The Right revisionists describe it as a third way, a "middle" road between communism and capitalism. The free play of market forces is, according to Šik, the economic foundation of "human socialism". The transition to small-scale private enterprises is suggested and is regarded as equalising property on the basis of individual economies. This newly born economic romanticism is directed against socialist society, at defending capitalism, private ownership in the means of production with all that this implies.

The negation of the general laws of building socialism causes enormous harm to socialist construction, prevents the use of the experience accumulated by other countries, and leads to isolation from the world community of socialist states.

Along with Right opportunism, "Left" opportunism, mainly in the form of the ultra-leftist views, has appeared within some communist and workers' parties.

Criticism of the  
Beijing Leaders' Views

As regards their ideological content the views of the present-day leaders of the People's Republic of China are an eclectic mixture of anarchism, Trotskyism, chauvinism, nationalism and modern anti-communism. It is an anti-Leninist, reactionary and utopian petty-bourgeois conception, which pays lip service to Marxism to disguise its anti-Marxist content.

Like bourgeois ideologists, the Beijing leaders do their best to camouflage the content of the modern epoch and its basic contradiction, and to belittle the role of the world socialist system. Ignoring the changes that have taken place

since the Great October Socialist Revolution, they pass in silence the issue of the general crisis of capitalism and its present stage. That is why they do not have a scientific and theoretical basis for a correct evaluation of the strategy and tactics of the revolutionary movement. Lenin wrote: "Only on that basis, i.e., by taking into account, in the first place, the fundamental distinctive features of the various epochs (and not single episodes in the history of individual countries), can we correctly evolve our tactics; only a knowledge of the basic features of a given epoch can serve as the foundation for an understanding of the specific features of one country or another."<sup>1</sup>

The concept of the "three worlds", put forward by Mao Zedong in 1974 and confirmed at the 11th Congress of the Communist Party of China in August 1977 is central among the ideological conceptions of the Beijing leaders aimed at justifying their anti-socialist, hegemonistic foreign policy.

The modern world, according to the Maoists, consists of the three worlds: the USA and the USSR (two "superpowers") make up the first world, the developing countries of Asia, Africa and Latin America -- the third world. The industrialised capitalist countries occupying an intermediate position between the above two worlds, represent the second world. As regards the world socialist system, according to the Maoists, it "ceased to exist owing to the emergence of social-imperialism". They consider the "third world" to be the main revolutionary force. The "second world" is of a two-fold character: on the one hand, it oppresses and exploits the "third world" countries, on the other, it is itself controlled, to varying degrees, by the two "hegemonies". Hence the conclusion on the need for the countries of the third and second worlds to unite against the "two hegemonies", in fact, against the Soviet Union.

In recent years, the Maoists have modernised their concept of the "three worlds" and "two superpowers". They began to openly justify "old imperialism of the USA", which, according to them, is suffering a "sharp decline" and is "no

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 21, Moscow, 1977, p. 145.

longer able to command all and everything in the world as before" and which "has already sustained a historical defeat". By depicting US imperialism as harmless, the Maoists slander the USSR, alleging that the "Soviet Union represents the imperialism which is more malicious, more adventuristic and more treacherous, and is the most dangerous hotbed of world war". In accordance with this interpretation, the Maoists call upon the "third" and "second worlds", and also the USA, to join in a united front of struggle against the Soviet Union. Thus, the "neo-Maoist" concept of the "three worlds" serves to substantiate the openly anti-socialist, anti-Soviet, pro-imperialist line of the Maoists in the international arena, their direct military and political siding with the forces of imperialism and war.

The fundamental defect of the "three worlds" concept lies in the repudiation of the class approach in characterising a country, in ignoring the basic features of its economic and socio-political system. Indeed, the "first world" includes the USSR, which is building communism, and American imperialism, i.e. countries representing fundamentally different systems. Nor is the "third world" homogeneous. First of all, one should take account of the differences between the countries which have chosen socialist orientation and those which continue to develop along the capitalist road. The "second world" embraces both imperialist countries and those that have not yet attained this stage.

To substantiate their concept of classifying countries of the world the Beijing leaders resort to the brazen falsification of the theory and practice of socialism, to slander. To substantiate the uniting of the USA and USSR in the "first world", they assert that "capitalism has been restored in the USSR", that the Soviet Union allegedly pursues "expansionist" foreign policy. The fact that developed socialism has been built in the USSR and its unswerving struggle for peace give the lie to these false fabrications.

The true meaning of the "three worlds" concept is the replacement of the basic contradiction of the modern epoch by the struggle against world socialism, against its main bastion - the USSR. The "three worlds" theory in its latest version

is the one of collusion with imperialism against socialism.

The Beijing leaders use the "three worlds" concept to mislead the peoples of the small and medium-size countries, pretending to be their defenders. They do their best to form a bloc of "small and medium-size countries" round the People's Republic of China and to become the leader of the "third world". With this aim in view they officially declared in 1971 that China belongs to the "third world". This is another evidence that not the class approach but great-power, nationalistic aspirations form the basis of the foreign policy of the Chinese leadership.

The Chinese leaders have advanced their own principles of the "new international economic order" which are in essence aimed at undermining, through slander and provocations, the economic cooperation of the socialist countries, prevent the establishment of economic ties among the newly-free and socialist countries, barring the young states from receiving aid and support they need so much. At the same time, the Chinese leaders persistently recommend the young states to establish economic and political relations only with the capitalist countries. This approach not only causes damage to the liberated countries but aggravates the danger of neo-colonialism's expansion. The progressive forces resolutely reject the Maoist proposals, being fully aware that they benefit exclusively the capitalist world and neo-colonialist circles.

The reactionary nature of the Chinese leaders is particularly evident in their opposition to the Leninist policy of peaceful coexistence and to detente.

Whereas in the past, they spoke of a certain possibility to prevent war, today they frankly declare that World War III is inevitable, they do their best to cause a clash between the United States and the Soviet Union, and assert that "war would facilitate the solution of global problems". The above testifies to the fact that the Chinese leaders side with the most reactionary imperialist circles.

The foreign-policy line of the Chinese leaders during the last fifteen years has greatly discredited itself the world over. Whereas in the early 1960s the Maoists posed as the most determined fighters against imperialists, today they



have exposed their real face.

General Secretary of the National Council of the Communist Party of India Rajeswara Rao stressed that the Chinese leaders "are collaborators of the imperialist, fascist, racist and reactionary regimes the world over".<sup>1</sup>

Beijing's nationalistic, anti-Soviet and splitting ideology and policy based upon it, cause direct harm to the international revolutionary movement, to the anti-imperialist struggle.

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Unsoundness of bourgeois political economy, modern reformism and revisionism becomes particularly obvious when their conceptions are compared with the development of Marxist economic thought. Documents of international meetings of communist and workers' parties, the programmes of the CPSU and other communist and workers' parties, materials of the CPSU Congresses, the works by Marxists-Leninists provide a truly scientific analysis of modern capitalism, the world socialist system and other fundamental problems of the modern world.

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<sup>1</sup> The Words of Friends, Progress Publishers, Moscow, 1982, p. 163.