



Political  
Economy  
of Socialism

Institute of Social Sciences

# Political Economy of Socialism



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Институт общественных наук

ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ СОЦИАЛИЗМА

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## Chapter 1

### THE COMMUNIST MODE OF PRODUCTION AND ITS TWO PHASES, A DEVELOPED SOCIALIST SOCIETY

Political economy of communist formation is the science studying the laws governing the production, distribution, exchange and consumption of material wealth under communist mode of production. It was created by Marx, Engels and Lenin, concretised and enriched by the Marxist-Leninist parties and by the experience of building socialism and communism. Today, communist mode of production has transcended the boundaries of a purely scientific theory and became a reality. Socialism, the first phase of communist society, has been established in a whole number of countries, the world socialist economic system has emerged which grows stronger and develops extensively and intensively. Ever more nations on different continents, having cast off the capitalist yoke and imperialist domination, are embarking on building socialism or opting for socialist orientation.

The section of political economy covering the first phase of communist society--socialism, is the most developed theoretically and has stood the test of time. Therefore, political economy of communist society is called political economy of socialism.

It deals with socialist production relations and economic laws expressing them. They are studied in the process of their constant development and improvement, as they acquire more and more communist traits from the initial stage of socialism towards the stage of its complete maturity when developed socialism begins to grow over into communism. In other words, political economy of socialism, just like Marxist-Leninist political economy in general, is based on Marxist dialectics. This finds its concrete expression in combining the historical and the logical in studying the relations of production. In keeping with this approach the course in political economy of socialism should begin with an analysis of economic laws governing the establishment of socialism, i.e., the period of transition from capitalism to so-

cialism, rather than with the immediate study of production relations and economic laws of socialism.

Political economy of socialism, like political economy in general, is based on the party and class principles. This is clear, above all, from the fact that it studies the laws governing the development of communist society from positions of the working class, all the working masses. Political economy of socialism helps one to get an idea of the vast advantages of socialism over capitalism, the motive forces behind the dynamics of its development and prospects for its growing over into communism. Another proof of its party and class character consists in that it helps inculcate in the masses the Marxist-Leninist world outlook, which is a decisive factor for the final victory of the new social system in today's rivalry between the two world systems-- socialism and capitalism. And, finally, the party and class character of political economy is borne out by the fact that it does not just explain the economic laws of communist society's development but is a powerful instrument in restructuring the world and accelerating the transition from capitalism to socialism on the world scale, the process begun by the Great October Socialist Revolution. It brings closer the day of the final victory of communism on earth.

### 1. General Traits of the Communist Mode of Production

The study of political economy of communist formation begins with the consideration of the more general traits inherent in the communist mode of production as a whole, i.e., in all the stages and periods of communist society's development.

Domination of Social Ownership  
of the Means of Production

The domination of social ownership of the means of production is the most important trait of the

communist mode of production. In other words, social ownership of the means of production is the economic basis of the communist formation. The content of private ownership is the



possession of the means of production by individual persons or groups of people who use them to exploit other people. In contrast to it, social ownership is the joint possession of the means of production by the working people who use them for their own benefit.

The domination of social ownership is a distinguishing feature of the communist mode of production which determines the entire system of production relations prevailing in society. They are relations of cooperation and mutual assistance of people free from exploitation.

Private ownership of the means of production is the economic basis of exploitation of man by man. In societies where producers are deprived of the means of production, i.e., of the means of subsistence, they have to work for owners of the means of production, i.e., for exploiters, in order to survive. In communist society there is neither exploiters nor the exploited, neither people appropriating other people's labour nor those who have to work for others. Communist society is based on free labour, i.e., labour for oneself and society as a whole.

Economic Development  
Based on Planning

In communist society social production develops according to plans. The establishment of social ownership of the means of production

rules out the rivalry and anarchy of production inherent in the capitalist mode of production. It also removes such scourges of capitalism as the cyclic development of production and economic overproduction crises. The drawing up and implementation of the economic and social development plans bring about the balanced development of society.

In communist society planning is not just a form of development of social production, it is also a universal form of operation of economic laws inherent in communist formation. These laws are cognised by society and consciously used for the benefit of the whole nation. In other words, spontaneity, as a universal form of motion in capitalist society, gives way to planning.

## Universal and Directly Social Character of Labour

In communist formation labour becomes universal. The abolition of private ownership of the means of production and of exploitation of man by man destroys the objective basis for receiving unearned incomes, and all members of society have to work in equal measure. "He who does not work, neither shall he eat" is the basic principle of the communist mode of production. The universal character of labour is guaranteed by the real, and not formal as is the case under capitalism, right to work and the absence of unemployment.

In communist society labour loses its covertly social character: on the one hand, it ceases to be private labour, that of an individual producer working at his own risk, and, on the other, social labour as a part of the aggregate social labour aimed at satisfying the needs of society. In communist society, labour becomes directly social, i.e., it is expended on producing commodities and services required by society. Social significance of labour, its socially useful character is manifest immediately, already in the process of production and not only at the market, as is the case under capitalism. Thus the contradiction between private and social character of labour, inherent in simple and capitalist commodity production, is overcome.

## The Purpose of Social Production

The communist mode of production has a fundamentally new purpose, in contrast to capitalism where, due to private ownership of the means of production, the production is focussed on gaining profit and satisfying the interest of capitalists. Social ownership makes production serve the interest of the working masses who are the direct producers of the material wealth. This means that, for the first time in history, meeting the needs of all members of society is the motive force behind the communist production. The purpose of communist production is man and his needs and the all-round development of the individual based on the growth of the people's well-being. The immediate producers, who in all the antagonistic societies were reduced to the role of "live labour implements", become the genuine masters

of the world around them. All the advances of science and technology are placed at the service of the working masses.

#### The Distribution of the Material Wealth

The purpose of social production in communist society accounts for the radically new character of the distribution of the material wealth. Unlike capitalism where it favours the interests of the exploiter classes, under communism the material wealth is distributed for the benefit of the working people. Equality in the sphere of production is supplemented with equality in distribution. As the communist mode of production develops and improves, so do the principles of distribution.

#### The Character of Economic Contradictions in Communist Society

The abolition of private ownership of the means of production and the establishment of social ownership and communist production relations change the character of economic contradictions: non-antagonistic contradictions replace antagonistic contradictions of the capitalist production. According to Marxism-Leninism, no society can progress without resolving the arising contradictions. Under communism the economic development is underpinned by non-antagonistic contradictions arising between the various aspects of economic processes and phenomena endemic to the communist socio-economic formation. The non-antagonistic contradictions are resolved through the development and improvement rather than the dying out of a conflicting aspect as is the case under capitalism. Hence, their harmonic unity is secured but at a qualitatively higher level.

#### The Productive Forces and Production Relations: Their Interaction

The interaction between the productive forces and the relations of production is one good example of non-antagonistic contradictions in communist society. They develop harmoniously for social communist appropriation corresponds to social character of production. At the same time, the productive forces develop more rapidly as they are a more dynamic aspect of the single social production. The production relations begin to

lag behind the productive forces and hamper their development. This, however, affects only particular elements of the production relations, namely, the relations of production proper, distribution, exchange or consumption, rather than the entire system of production relations. In the process of the people's conscious activity, the backward elements of production relations improve and thus a complete correspondence of the entire system of production relations to the higher development level of the productive forces is achieved once again. The production relations come to exert stronger influence on the development of productive forces.

Today, the Soviet Union is passing through the stage of improving the mechanism of the economic management through implementing the July 12, 1979 Resolution of the CC CPSU and the USSR Council of Ministers "On the Improvement of Planning and Enhancing the Impact of the Economic Mechanism on the Efficiency of Production and the Quality of Work"<sup>1</sup>. The improvement of the economic mechanism will promote the economic ties (relations) between the individual industries and enterprises and make them more dependable and stronger, thus securing a fuller correspondence of these aspects of the socialist production relations to the development level of the productive forces. This, in turn, provides the necessary conditions for the subsequent progress of developed socialism's social production towards communism.

Public Management                      Centralised management is a sine qua non for the development of the large-scale socialized production at all stages of the communist socio-economic formation. Centralised management is combined with extensive democracy: initiative and independent action of the working masses in the centre and in localities: at enterprises, institutions and other economic units.

Under socialism, the first phase of communist formation, the economy is run by the state with broad involvement of the working people's representatives.

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<sup>1</sup> To be dealt with in greater detail in the subsequent chapters of this textbook.

Under communism the state will wither away, but this does not imply that there will be no administration. Communist society will be the most developed and highly organised one, requiring no special state machinery to run its affairs. Its place will be taken by economic bodies which would run the country's economy according to plan.

Such are the basic features of the communist formation formulated by Marx, Engels and Lenin on the basis of an analysis of laws governing social development and borne out by the entire practice of building socialism and communism.

## 2. Two Phases of Communist Society

There are two phases in the development of the communist formation, socialism—the initial phase, and communism, the highest phase. The need for these two phases was discovered by Marx. Any socio-economic phenomenon cannot emerge immediately in its mature form. It inevitably passes through stages of emergence, consolidation and development, and only then does it reach the stage of full maturity. These processes are represented by the transition period from capitalism to socialism, and by the two phases of communist society, socialism and communism.

Socialism is the initial or the lower phase of the communist formation. Under socialism, society is not yet completely free from the vestiges of capitalism and socialism cannot but bear the "birth-marks" of society which gave birth to it, as Marx aptly observed. Socialism is communism at its early stage of development, and there neither the productive forces nor the relations of production attain the degree of full maturity as compared to communism proper. Therefore, Lenin defined socialism as incomplete or immature communism. Conversely, the highest, communist stage of society's development is marked by the unprecedented level of the productive forces, by the complete eradication of the capitalist survivals in all spheres of social life, and by the all-round development of the communist production relations.

As the two phases of one and the same socio-economic formation and mode of production, socialism and communism have common traits. The above mentioned features are endemic to

the both phases of communist formation, which implies that they are basically identical. At the same time there are considerable differences between them. They concern the development level of productive forces and the degree of maturity of production relations.

Let us consider the phases of communist society in greater detail.

#### The Development of Society's Material and Technical Basis

The material and technical basis of socialism and communism is a large-scale machine production based on

advanced technology and ensuring the steady growth of labour productivity in all spheres of the economy and high growth rates in industry and agriculture.

At the same time, the material and technical basis of communism is much better developed than that of socialism. Under communism, the productivity of labour is the highest, and the abundance of material benefits and services is created, which cannot be achieved in socialist society.

#### Forms of Social Ownership Under Socialism and Communism

Social ownership of the means of production is the basic feature of the com-

munist formation. Under socialism, the initial phase of communism, two forms of socialist ownership of the means of production exist: state property (belonging to the whole people) and collective-farm-and-cooperative property. The former is the common property of the whole people, and the latter is group property belonging to individual collectives. Single communist ownership of the means of production belonging to the whole people will be the foundation of communist society. This means the development of the two forms of property and their gradual subsequent merging into single communist property of the whole people.

#### The Development of Social Structure

The existence of two forms of socialist property signifies that classes continue to exist in socialist so-

ciety. There are two friendly classes, the working class and the collective-farm (cooperative) peasantry, whose interests

are basically identical. Social ownership and common aim-- the building of communism, account for the community of the basic economic and, consequently, political interests of these classes.

The abolition of the exploiter classes and the antagonisms between classes is a major step forward towards creating a classless society. Communism is a classless society where all people work together.

#### The Change in the Character of Labour

The radically new character of labour is endemic to the communist formation: from the forced labour typical of all the antagonistic formations it becomes free labour for oneself and for the benefit of the whole society. The emancipation of labour gives birth to the new attitude to one's work, with labour becoming a prime and honourable duty for the majority of people. The conscientious work rather than bulging pockets determines the status and position of each individual in society.

Under socialism, however, substantial differences still remain between intellectual and physical work, skilled and unskilled, industrial and farm labour. This accounts for the preservation of different categories of workers who differ from one another in their skills and position in the process of production and, to a certain degree, in their labour and life conditions. These distinctions are of objective character since they are connected with the underdevelopment of the material and technical basis of society.

Under socialism, people continue to regard labour as means of livelihood. They work not only because they realise the necessity of the socially useful labour but also because they want remuneration for their work. Since labour is not totally free from arduous physical effort and is yet to become man's prime vital need, socialist society stimulates the process of labour and keeps it under the strict control: it fixes the duration of the working day, sets work quotas and provides material and moral incentives. Despite the overall radical change in the attitude to one's job, there are still instances of negligent attitude to work, violation of labour discipline and other negative phenomena.

Communist attitude to work, i.e., labour becoming man's prime vital need, emerge only when the adequate productive forces are created and the socialist production relations develop into communist ones. To achieve this, the arduous physical labour should be mechanised, and work made easier and more creative, and working hours shortened. Only the material and technical basis of communism can serve as an objective basis for transforming socialist into communist labour. Besides, to make labour the prime vital human need requires the moulding of a new man, the man of communist society. The building of communism sees the overcoming of the capitalist survivals in people's consciousness, above all in their attitude to work; the necessity to work for the benefit of society becomes a habit, and subsequently man's prime vital need.

#### Distribution Under Socialism and Communism

Both the development level of the material and technical basis and the character of labour objectively necessitate the ap-

plication of the socialist principle "From each according to his abilities, to each according to his work" which was scientifically grounded by Marx. Insofar as the material and technical basis of socialism cannot yet ensure the abundance of the material benefits, it necessarily restricts the consumption by the members of socialist society. On the other hand, labour is yet to become the prime vital need of people and therefore it has to be stimulated. All this objectively necessitates the distribution according to the work done. This implies that every member of socialist society has to work according to his abilities and receive remuneration according to the work done. This kind of distribution presupposes the material interest of people in the results of their work, which is a powerful motive force boosting the production and the productivity of labour under socialism.

"From each according to his abilities, to each according to his needs" is the communist principle of distribution. In communist society, people will be free from the economic bonds to the profession chosen and the need to earn their livelihood; they will have greater opportunities to devote



all their abilities and energies to the occupation they like. Thus their labour will be used most effectively for the benefit of society. At the same time, the high level of production ensuring the abundance of the material benefits and services and the conscientious attitude to work as the prime vital need will make possible the distribution according to needs. The vital requirements, such as food, clothes, housing, medical services, education, etc., will be fully met.

Such are the common traits and specific features of the two phases of the communist formation. Socialism is the initial stage of communism, but it is a much more developed and perfect society compared to capitalism. This has been borne out by practice. In socialist society there is no anarchy of production and economic crises, exploitation and oppression, poverty and unemployment which constitute the incurable ills of the capitalist system. Socialism asserts the equality of people in the economic, political and social spheres and promotes the progress of production and the steady growth of people's well-being.

### 3. The Developed, Mature Socialism: Its Basic Economic Features

Each phase of the communist formation passes through certain stages of development. According to the degree of maturity of the productive forces and relations of production the development of socialism passes through two stages: (a) the initial stage of socialism, and (b) the stage of developed, mature socialism.

The USSR is the first, and for the time being the only, country that has built developed socialism. And this is only natural because the Soviet Union was the first to accomplish a socialist revolution and build the foundations of socialist society. Today, this country heads the building of communism. In the second half of the 1930s, when socialism was built, in the main, in the USSR, the country entered the initial stage of socialism. The 1960s saw the beginning of the stage of developed socialism. The other socialist community countries

are either at the period of transition from capitalism to socialism or at the initial stage of socialism. The congresses of their communist and workers' parties emphasise that they are successfully building a developed socialist society.

In his day Lenin predicted the stage of developed socialism. But the founders of Marxism-Leninism did not, and moreover could not, elaborate the theory of developed socialism. Only practical experience could provide the answer as to what developed or mature socialism really is. The Communist Party of the Soviet Union has analysed and generalised the experience accumulated so far and, on this basis, elaborated the theory of developed socialism and practical policies of further perfecting socialism and the gradual transition to communism. The 24th, 25th, and particularly the 26th, congresses of the CPSU revealed the content and the specific features of developed socialism and mapped out ways and means for the gradual transformation of developed socialism into communism. The communist and workers' parties of the socialist community countries which have already embarked on the building of developed socialism made no small contribution to the theory of developed socialism.

The 24th CPSU Congress analysed the experience gained by the USSR at the stage of developed socialism. "In our country, it will be recalled, socialism triumphed back in the latter half of the thirties. This was followed by more than three decades of the Soviet people's heroic labour and struggle. Our economy of that time and our present-day economy are based on the same type of relations of production, on the same economic laws, the laws of socialism. However, there are important new features that distinguish the modern economy from the economy of the late thirties. An immeasurably higher level has been achieved in the national economy, in socialist social relations, the culture and the consciousness of the broad masses. The developed socialist society to the future of our country has been built by the selfless labour of the Soviet people"<sup>1</sup> - as it was noted in the CC CPSU Report to the 24th Party Congress.

<sup>1</sup> 24th Congress of the Communist Party of the Soviet Union. Documents, Moscow, 1971, pp. 47-48.

As a stage in the onward movement of socialism, developed socialism has the same basic features as its initial stage. At the same time it acquires new content and a number of specific traits. Its main content consists in that socialism has reached such a stage in its development when all the basic necessary conditions, both material and technical, and socio-economic, are created for a full-scale building of communism.

A developed socialist society is established as a result of the all-round development of socialism, when all its laws are known and its advantages over capitalism are utilised in all spheres of social life. At the initial stage of socialism the wiping out of the surviving "birth-marks" of capitalism to a large extent determines the content of socialism's development and improvement. Under developed socialism, the role of the survivals of the past decreases, though still remain, and their removal does not constitute the main content of society's development towards the highest stage of communism. A developed socialist society relies on its own foundation--the adequate productive forces and collectivist economic relations. The development and improvement of the productive forces and production relations of developed socialism constitute the main content of the process of gradual transition from socialism to communism.

Such is the main content of the category of developed socialism. It finds its most complete expression in the specific economic features of developed socialism.

The Material and Technical  
Basis of Socialism: Its High  
Level of Development

A powerful material and technical basis is a most important feature of developed socialist society.

This material and technical basis is a highly developed large-scale machine production embracing all the spheres of the economy. The USSR has a multisectoral industry, large-scale socialist agriculture, highly developed transport and other sectors of economy equipped with advanced technology. One can gain an idea of the tremendous success the USSR has scored in developing its material and technical basis if one

compares the Soviet economy at the initial stage of socialism with its economy at the stage of developed socialism. The development level of the material and technical basis can be gauged from the following data: from 1940 to 1982 the cost of the basic production assets grew 18-fold, the GNP--14,5-fold and the production of industrial goods--23-fold.

The USSR has a unified power grid, an integral transport system and large territorial-production complexes. This was fundamental for creating an integral economic complex. "The economy of the USSR is an integral economic complex comprising all the elements of social production, distribution, and exchange on its territory."<sup>1</sup> This is an important feature of developed socialism's material and technical basis. Lenin's prevision of "the transformation of the whole of the state economic mechanism into a single huge machine, into an economic organism that will work in such a way as to enable hundreds of millions of people to be guided by a single plan"<sup>2</sup> has become a reality.

That the Soviet economy develops as an integral economic complex implies that it is not merely a sum-total of the economies of individual republics and regions, but is an integral economic mechanism based on the community of the economic goals and interests of all Soviet nations, big and small, and a result of their close cooperation and the rapid evening out of their economic development levels.

The Transition to the  
Intensive Development  
of the Economy

At the initial stage of socialism the Soviet economy developed extensively because the economic backwardness inherited from capitalism had to be overcome. By 1941, when nazi Germany unleashed the war against the USSR, the Soviet Union has overcome its age-old backwardness and emerged first in Europe and second in the world in terms of industrial output. However, the level of production in the USSR was considerably lower than in the United States.

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<sup>1</sup> Constitution (Fundamental Law) of the Union of Soviet Socialist Republics, Moscow, 1977, Ch. 2, Art. 16, p. 27.

<sup>2</sup> V.I. Lenin, Collected Works. Vol. 27, pp. 90-91.

Many new factories and whole industries had to be built to close this gap, and a quick solution of the task lay in the extensive economic development.

The situation changed radically when the USSR entered the stage of developed socialism and a powerful production, scientific and technological potential had been built in the country. The USSR now accounted for 20 per cent of world industrial output. The extensive way of economic development fulfilled its tasks. The 24th CPSU Congress set the task of embarking on the intensive economic development.

The powerful economic potential and the vast resources make it possible to set the task of receiving more tangible returns from the use of production assets, capital investments, material, financial and manpower resources, of making the end economic results grow faster than the material and labour expenditures.

The intensive economic development implies a greater efficiency of production and better quality of work in all spheres of the economy. The higher productivity of labour is fundamental for the growth production under the intensive development, because it almost totally ensures the growth of national income. This means that the increased output of existing enterprises is achieved with the stable or even smaller number of the employed. The accelerated growth of the productivity of labour implies a more efficient use of scientific and technological advances based on fusing science and production, a further comprehensive mechanisation and automation of production, the use of progressive technology and new types of raw materials, advanced forms and methods of labour organisation, higher general and professional levels of workers, etc. Also, better quality of goods is of paramount importance.

The 26th CPSU Congress has set the Soviet people the task of completing the transition to the intensive development of the economy by the end of the 1980s.

Mature Relations of  
Production

The maturity of the socialist production relations is an important feature of developed socialism.

The production relations matured as a result of the develop-

ment of the productive forces and the improvement of socialism's material and technical basis. In a developed socialist society the socialist economic relations undergo ultimate restructuring on the collectivist principles inherent in them and the relations of production reach their full maturity. The full maturity of the socialist production relations finds expression in the higher level of socialisation of production, in the strengthening of the two forms of socialist property--the state property (belonging to the whole people) and the collective-farm-and-cooperative property, and in their gradual convergence until complete merger in the course of the transition to communism, in better planning, and in the improvement of the economic management mechanism. The socialist forms of production dominate the economy.

The mature socialist relations of production begin to acquire more and more communist traits, i.e., they gradually grow over into communist ones.

The distinctions between town and countryside and between mental and physical work are being overcome, the forms of distribution according to work improved, and the role and the share of distribution through social consumption funds grow considerably.

#### The Full Maturity of Socialism's Economic Laws

The operation of the economic laws of socialism is the most important indicator of the degree of maturity of the socialist production relations. These laws operate on the basis of the socialist relations of production, and, therefore, mature together with them. Under developed socialism, when production relations reach full maturity, economic laws make themselves felt more fully and consistently. This opens broad vistas for the better understanding of these laws and using them more efficiently.

For instance, the high degree of maturity of the law of saving working time, which Marx defined as the primary economic law of the communist formation, made possible the transition of the Soviet economy to the intensive development and higher efficiency of production.

The higher degree of maturity and fuller operation of the law of planned, balanced development of social production formed an objective basis for further improving the economic proportions and the entire mechanism of economic management according to plan. The latter was embodied in the resolution of the CC CPSU and the USSR Council of Ministers "On Improving the Planning and Enhancing the Impact of Economic Mechanism on Raising the Efficiency of Production and the Quality of Work". The resolution contains a set of measures aimed at completing the restructuring of economic mechanism to meet the requirements of intensive development.

The Further Growth of  
the People's Wellbeing

The law of increasingly fuller satisfaction of the constantly growing material and cultural needs of all members of socialist society via the growth and improvement of social production is the basic economic law of socialism. And the growing degree of maturity of this law is of special importance in revealing the advantages of developed socialism. The highly developed productive forces and the improved production relations provide a material foundation for the basic economic law of socialism to operate to the full. This is manifest in the ever fuller satisfaction of the material and cultural requirements of the people, in the rapid qualitative and quantitative growth of their living standards, in the development of culture and the improvement of the people's working and living conditions.

Under developed socialism, the development of the socialist social relations results in the stronger moral and political unity of the people, their higher consciousness and greater involvement in work and social and political affairs. In developed socialist society the socialist way of life is finally formed.

The Soviet Experience in  
Building a Developed Socialist  
Society and Its Significance

The developed, mature socialism that has been built in the USSR and is under construction in the other socialist countries is the greatest achievement of the Marxist-Leninist theory and the practice of existing socialism.

It is at this stage that the advantages of socialism over capitalism are revealed most forcefully, socialism attracts more and more people and the influence of existing socialism on the world revolutionary process grows stronger.

The Soviet experience in building developed socialism is of extreme value to countries that follow or will follow the USSR on the road to communism. Developed socialism is an objectively necessary stage and this makes it impossible to leap over or bypass it. The experience of socialist and communist construction in the USSR incontrovertibly demonstrates that advance to communism is being accomplished through the stage of a developed socialist society. This is a necessary, natural, and historically long period of the formation of the communist system.

The use of the Soviet experience does not mean its mechanical copying by other countries because the building of developed socialism can have various forms and distinctive features depending on the level of socio-economic development, international situation, national specifics and traditions. For instance, in most socialist community countries the transition of the economy to intensive development has begun already in the process of building developed socialism, which facilitates the solution of this task. But whatever the distinctions might be, the main content of this process and the basic economic features of mature socialism are of universal significance. The experience of building socialism and communism accumulated so far is a joint possession of the international communist movement.

#### 4. The Laws Governing the Growing of Socialism into Communism

As was noted above, the establishment of a developed socialist society in the USSR means that socialism has reached such degree of maturity when the material, technical and socio-economic conditions have been, in the main, created for a gradual transition to communism. In other words, the transition to the highest phase of communism has become a feasible task. Moreover, the material and technical basis and soci-



al relations of developed socialism acquire the first, albeit embryonic, clearly discernible traits endemic to the highest phase of the communist formation.

The Communist Party of the Soviet Union has analysed the experience gained in building developed socialism and its functioning and worked out theoretical and practical aspects of a gradual transition from socialism to communism, thus contributing greatly to the development of Marxism-Leninism. The documents of the 24th, 25th and 26th congresses of the CPSU formulate the main laws governing the growing of socialism into communism.

The transition from socialism to communism is an objective and planned process. It is effected gradually without a social revolution, because socialism and communism are the two phases of the same communist mode of production, of the same communist socio-economic formation. The objective, gradual and planned character of the transition from the lower to the highest phase of communist society are the basic laws of this transition.

The tasks on the solution of which hinges society's progress to communism are: (a) the creation of the material and technical basis of communism, (b) the transformation of the socialist social relations into communist relations, and (c) the moulding of a new man, the member of the communist society.

The Creation of the Material and Technical Basis of Communism

The development and improvement of social relations parallels the development of the productive forces.

Consequently, the creation of the material and technical basis of communism is the chief task of communist construction. And this task is being tackled in the USSR.

The creation of the material and technical basis of communism implies "complete electrification of the country and perfection on this basis of the techniques, technologies, and organisation of social production in all the fields of the national economy; comprehensive mechanisation of production operations and a growing degree of their automation; wide-

spread use of chemistry in the national economy; vigorous development of new, economically effective branches of production, new types of power and new materials; all-round and rational utilisation of natural, material and labour resources; organic fusion of science and production, and rapid scientific and technical progress; a high cultural and technical level for the working people; and substantial superiority attained over the more developed capitalist countries in productivity of labour, which constitutes the most important prerequisite for the victory of the communist system.

The creation of the material and technical basis of communism means the creation of adequate material conditions of production. That is how the CPSU congresses define this process in the URSS:

(1) The rapid scientific and technical progress based on the promotion of scientific research and innovation on a wide scale and the quickest application of their achievements in production.

(2) The fullest possible use of primarily intensive factors of economic growth, such as higher efficiency of production, greater productivity of social labour, better quality of work and output and more stringent regime of economy.

(3) The further improvement of the entire economic management mechanism, of the forms and methods of planning and running the economy, and better material incentives.

(4) The utmost use of the international socialist division of labour, the advantages of the socialist economic integration, and the promotion of cooperation and mutual aid between the socialist countries.

Life shows that the Soviet people cope successfully with the task of building the material and technical basis of communism. This is borne out by the implementation of the economic and social development plans in the country.

The Development of the Socialist  
Production Relations into  
Communist Relations

The further improvement  
of production relations  
of developed socialism,  
their growing into com-

munist ones, will take place in the course and on the basis of the development of the material and technical basis of de-

veloped socialism into that of communism. The main content of this process lies in that the characteristic features of communist production relations emerge at the stage of developed socialism and subsequently mature and grow stronger.

First, the two forms of the socialist property in the means of production improve and develop and merge into a single communist property. This is fundamental for wiping out socio-economic distinctions between town and countryside and the two classes in socialist society.

Second, the socio-economic distinctions between mental and manual work are also overcome, because these two forms of labour converge and the former enrich the latter. The material basis of this process is mechanisation and automation of production and the better and wider use of scientific and technological advances under developed socialism.

Third, labour, which used to be a means of livelihood, becomes the primary human need, thanks to its changed character and more sophisticated technology. Moreover, the higher level of people's consciousness makes them work voluntarily, according to the calling, for the benefit of society. The development of the material and technical basis of communism, which ensures the abundance of material wealth, and the fostering of communist attitude to work in people create the conditions for a gradual transition from distribution according to work to distribution according to one's needs. In a developed socialist society this process is greatly accelerated by distribution of material benefits and services via social consumption funds.

The building of communism in the USSR and the completion of building developed socialism in the other socialist countries have an international significance. The working people in the socialist community countries regard the successful building of socialism and communism as their internationalist duty.

## Chapter 2

### ECONOMIC LAWS GOVERNING THE EMERGENCE AND ESTABLISHMENT OF SOCIALISM

History is mankind's transition from the lower to the higher forms of social organisation. This is a law-governed process of one form of social production being replaced by another, more progressive one. The main content of the modern epoch is the world-wide transition from capitalism to socialism initiated by the Great October Socialist Revolution as a result of which, for the first time in history, socialism--a new, and more progressive socio-economic system--replaced capitalism.

Today socialism has triumphed in a number of countries and this makes it possible to define both the general laws and the specific forms of its establishment and development. Moreover, the latter vary considerably depending on countries and circumstances.

Socialism does not automatically replace capitalism: it inevitably implies an acute class struggle culminating in a proletarian revolution accomplished by the working class in alliance with other working strata of society.

#### 1. The Need for a Socialist Revolution and a Period of Transition from Capitalism to Socialism

Socialist Forms of Production: Specific Features of Their Emergence	Before socialism the replacement of one antagonistic mode of production by another was merely a change in the forms of exploitation of man by man. Whatever the difference between the pre-socialist antagonistic socio-economic formations--slave-owing, feudal or capitalist--might be, they all had a common economic basis--private ownership of the means of production which engenders exploitation. That is why any new pre-socialist form of economy could spontaneously arise and develop within the preceding mode of production. Under socialism there is neither private ownership of the means of production nor exploi-
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tation of man by man. Herein lies its fundamental distinction from all the preceding forms of economy. Socialist production relations and forms of economy cannot arise spontaneously within the preceding socio-economic formation.

The material and subjective prerequisites for a transition to socialism emerge under capitalism. On the one hand, the development of capitalism results in a greater socialisation of production and the creation of gigantic enterprises which subsequently transcend the national borders and turn into transnational monopolies. Such scale of production becomes incompatible with private ownership of the means of production. On the other hand, the working class in the capitalist countries grows numerically and matures politically and its organisation improves thanks to Marxist-Leninist parties that stand at its head. However, social ownership of the means of production, the economic foundation of socialism, cannot emerge of itself, spontaneously, within capitalism, because all the basic means of production belong to the bourgeoisie which, and history has borne this out, would never give them voluntarily to the working people for this would deprive it of political and economic privileges.

Consequently, the organisation of socialist production must inevitably begin with a socialist revolution, i.e., the establishment of the dictatorship of the proletariat when the latter, in alliance with other working peoples, takes political power in its hands. It is a sine qua non of the socialist transformation of society carried out under the leadership of a Marxist-Leninist party.

Socialist revolution changes the situation where the majority of society, the working people, must work for the exploiting minority. It wrests the power from the exploiter classes and gives it to the working class allied to other working people. In this way conditions are created for the establishment of social ownership of the means of production. The working people begin working for themselves and their society and not for their exploiters. To begin with, the exploitation of man by man is restricted and subsequently abolished altogether. As a result of the socialist revolution the working people for the first time in history become cons-

cious makers of their history and the means of production they operate serve increasingly to satisfy their needs.

The Need for a Period of Transition from Capitalism to Socialism. Its Content and Tasks

The need for a period of transition from capitalism to socialism is caused by the specific features of the socialist revolution and the

impossibility of socialist production relations emerging within capitalism. Consequently, it is linked with the absence of ready-made socialist economic forms within pre-socialist formations and the tasks of establishing socialist production relations in society as a whole. Naturally, having won power, the working class is able quickly, within several months, expropriate the monopolists and big landowners, but the abolition of the middle and petty bourgeoisie requires considerably more time and effort. Still longer period and greater effort are needed for transforming small-commodity production and for putting peasants, artisans and other small producers on the socialist road.

The creation of the material and technical basis of socialism--a large-scale machine production dominating all branches of the economy, also necessitates the transition period from capitalism to socialism. A large-scale machine production emerges under capitalism, but the latter is unable to complete its creation to the moment when a socialist revolution is accomplished. The creation of such a basis during the transition period also requires a certain amount of time.

Hence, the period of transition from capitalism to socialism is a period of revolutionary transformation of capitalist society into socialist society through the abolition of the system of production relations inherent in capitalism, the formation of socialist production relations and the creation of the material and technical basis of socialism.

The transition period begins with the seizure of power by the proletariat in alliance with other working people and ends with the triumph of the socialist production relations, the creation of the material and technical basis of socialism and the establishment of the new, socialist social superstructure.

Socialist Nationalisation of the Key Branches of the Economy (Production, Distribution and Exchange)

It is a distinctive feature of the socialist revolution that it is carried out in the absence, in any

form, of socialist relations within the society. Consequently, the creation of the foundations of the socialist economy, based on social ownership of the means of production, is the primary task of the victorious proletariat. Hence the need for the quickest possible seizure of key positions in the national economy.

For the large-scale capitalist industry, banking, transport, wholesale trade, and communications this implies socialist nationalisation. Practice shows that socialist nationalisation must be carried out immediately after the working people have taken power in their hands. This is made necessary by the following circumstances:

(1) The need to deprive the power of the big bourgeoisie and monopolies of its economic basis.

(2) The need to provide the economic basis for the dictatorship of the proletariat, i.e. state power established by the socialist revolution. It is common knowledge that in modern epoch no state power can exist without an adequate economic basis.

(3) The need to prepare the ground for further socio-economic transformations.

Socialist nationalisation differs radically from capitalist nationalisation. The latter merely transfers enterprises belonging to individual capitalists and joint-stock companies to the bourgeois state without effecting any radical changes in the economy since the bourgeois state is an agency running the affairs of the bourgeoisie and serving its interests.

Socialist nationalisation hands large-scale capitalist property over to the working people and thus lays the groundwork for radical changes in social production relations.

The forms, time-terms and methods of socialist nationalisation in different countries differ depending on the actual situation. There can be:

(1) an immediate nationalisation without compensation

(confiscation) of the monopoly property followed by the nationalisation of medium- and small-size enterprises (with or without compensation depending on the situation);

(2) an immediate nationalisation without compensation (confiscation) of the monopoly property followed by socialisation of medium- and small-size enterprises via various forms of state-monopoly capitalism (for instance, by means of transforming private-capitalist enterprises into mixed ones).

As the experience of the socialist countries shows, there is a possibility of applying any of the above methods depending on the actual situation.

Soviet Russia, for instance, nationalised the large-scale industrial enterprises, banks, basic means of transport, external trade, etc. immediately after the working people had taken power. As for industry as a whole, the Soviet government planned to socialise it gradually, introducing the workers' control as an initial measure. The complex international and domestic situation, however, made it imperative to step up the process of nationalisation and practically all, even small-size industrial enterprises has been nationalised in 1918-1920. Nationalisation was effected via confiscation, i.e. no compensation was paid to the owners of enterprises.

In other socialist countries, enterprises which belonged to some foreign monopolies<sup>1</sup> and the local big bourgeoisie were nationalised without compensation soon after the working people had taken power. Socialist socialisation of the rest of industry and trade took a relatively longer period. (In the GDR, for instance, the private-capitalist sector in industry was only liquidated in the early 1970s). Alongside confiscation, the European and Asian socialist countries made wide use of partial compensation to former owners and various forms of state capitalism, e.g. creation of mixed enterprises.

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<sup>1</sup> In the most European countries, for instance, enterprises belonging to German and Italian monopolies were confiscated after World War II. At the same time, enterprises belonging to US, British and French monopolies and to the monopolies of other anti-Hitler coalition members were nationalised with partial compensation. According to the 1954 Geneva agreements, the Vietnamese government also paid compensation to France for the enterprises subject to nationalisation.



The Revolutionary Reforms  
in Agriculture

Socialist nationalisation of  
the basic means of production  
applies to capitalist property,

but in every capitalist country there exist the big landowners' property and the semi-feudal forms of exploitation connected with it. This property is done away with by means of agrarian reforms. These reforms help strengthen the worker-peasant alliance and pool their efforts for overthrowing the rule of capitalists and landowners and establishing the working people's power. Agrarian reforms awaken the bulk of the peasantry to political struggle and help channel their revolutionary vigour into solving socialist tasks. They lay the groundwork for shaping new economic relations between the town and countryside thus facilitating the further building of socialism.

The countries of victorious socialist revolution carry out agrarian reforms under the slogan: "Land should belong to those who till it".

Practical implementation of these reforms, i.e. the country's agrarian policy, however, depends on many circumstances, including the private-property traditions existing in this or that nation, the position, moods and psychological make-up of the peasantry, etc. There can be two ways of implementing the agrarian reform:

- (1) nationalisation of all land;
- (2) partial nationalisation whereby only part of arable land becomes state property with the bulk of it given to the working peasants as their private property.

The former way is more advantageous for rapidly carrying out socialist transformations. But in the countries where private property traditions have firm roots this measure might be opposed by the peasantry. Therefore, partial nationalisation is more preferable there with peasants retaining land in their private ownership.

The USSR and the Mongolian People's Republic nationalised all land since private property in land had not been traditional among the peasantry there. Sizable part of this land was handed over to peasants gratuitously for their perpetual use.

Other countries, having embarked on the road of building socialism, tackled this problem differently. The agrarian reforms effected by the Marxist-Leninist parties eased considerably the economic condition of the bulk of the peasantry and did not run counter both to their private-owners' psychology and the working conditions in their economies. These reforms put an end to the landlord, latifundist and monopolist forms of economy, annulled the peasants' debts, and gave them land as private property.

#### The Creation of the Socialist Economic Management System

The shaping of the economy during the transition period from capitalism to socialism is by no means reduced solely to creating the socialist economic forms. Important as they might be for effecting initial socialist transformations, these measures do not contain the element of accounting and control over the production and distribution of goods. And these are vital for managing the economy, or, to use Lenin's words, to socialise production in practice.

The commodity production is preserved in the economy of the transition period. Therefore it is vitally important to put the commodity-money relations on a planned basis and use them in building socialism. To this end the working class nationalises banks, creates its own monetary, financial and credit system, does away with the spontaneous price-setting for basic goods; and thus gains control over the home market. Simultaneously, it establishes state monopoly of foreign trade, etc.

The above measures do away with the capitalist forms of economic management. In its place, the worker-peasant government establishes its own system of economic management and creates its own managerial apparatus which executes the will of the working people and serves the tasks of building socialism.

## 2. Economic Structures, Classes and Contradictions in the Transition Period

Characteristics of Economic Structures and Classes      The economy of the transition period is multistructure. It contains elements of both socialism and capitalism. During the transition period, socio-economic structures condition the existence of corresponding classes in the country.

The socialist structure is represented by all the nationalised industrial, trade and agricultural enterprises, transport, banks and various cooperatives. It is based on social property-- state and cooperative--which arose as a result of nationalisation and the establishment of cooperatives, respectively. According to the forms of property, socialist structure contains state and cooperative sectors.

The share of socialist structure in the national production of different countries varies at the initial stage of the revolutionary development. Nevertheless, in any of them it plays the leading role in the economy because socialist structure is a higher type of economy and its production relations are more progressive compared to other economic structures. It comprises the key branches of the economy and is promoted by the socialist state. This structure is linked with the working class which becomes the ruling class during the transition period.

The small-commodity structure is chiefly represented by peasants, artisans and small traders who use no hired labour.

The private-capitalist structure includes capitalist enterprises in industry, trade and agriculture. During the transition period its initiative is restricted in all socialist countries. The most of the private-capitalist enterprises cannot function without establishing economic ties with state or cooperative enterprises, since they need raw materials, fuel, electric power, equipment, finance, transport, etc. This structure accounts for the existence of the capitalist class at a certain stage of the socialist transformation of society.

Apart from the above-mentioned structures, there may exist state-capitalist and patriarchal structures in the economies of countries during the transition period.

State capitalism has different forms and is mainly represented by enterprises co-owned by the state and private owner, as well as enterprises rented by local and foreign capitalists from the state under contracts, which lay down the range of goods, the terms of sales and hiring the manpower, etc.

The use of local and foreign capital in economic development helps advance those branches of economy which the state cannot yet develop on its own and promotes the productive forces.

The patriarchal (subsistence) structure comprises small individual peasant households having practically no constant ties with the market because they consume almost all they produce.

The multistrukture economy of the transition period differs in principle from the capitalist economic structure. The distinctions include, among other things, the following:

(1) The socialist structure, non-existent under capitalism, emerges during the transition period and becomes the leading economic structure.

(2) The private capitalist structure loses its formerly dominant positions in the economy and becomes a subordinate structure for the activity of private enterprises is regulated by the socialist state by means of labour legislation and laws on investments, profits, etc. The same holds true of state capitalism. Moreover, these structures have no development prospects because they exist only as long as they are beneficial to the socialist national economy and no longer.

(3) The small-commodity structure, though predominant in most countries at the initial stage of the transition period (at least in terms of the gainfully employed population and, in some cases, in the production of the GNP (the gross national product) and national income) also has no prospects for development. However, during the transition period it occupies a different position than under capitalism. While under capitalism it is characterised by a sharp stratifica-

tion of the small-commodity producers (the ruination of the majority of them and the enrichment of a few), the leading trend in the economy of the transition period is the evening up of the living standards of the mass of small producers at a certain average level. The socialist state does not allow for a sharp differentiation among the small-commodity producers by using such economic levers as taxes, credit, relevant legislation, etc. With time, the small-commodity structure is transformed into the socialist one through small producers voluntarily joining the cooperatives.

#### Contradictions During the Transition Period

The period of transition from capitalism to socialism is marked by a number of contradictions.

For instance, there arises an antagonistic contradiction between the emergent and developing socialism and the undermined but still existing capitalism. "Who will beat whom?", that is how the question stands. In class terms this contradiction is embodied in a struggle between the working class, allied with the other working people and possessing state power and commanding heights in the economy, and the bourgeoisie divested of state power but retaining part of enterprises and finances. This is a fundamental contradiction of the transition period, solved only by the victory of socialism in the country.

There are also non-antagonistic contradictions during the transition period. One of them arises between the socialist and the small-commodity structure. The former, as a rule, dominates industry, the latter, agriculture. The content of this contradiction lies in that the socialist industry develops according to the laws of extended reproduction while the small-commodity peasant economy in keeping with the laws of simple reproduction. As a result, constant disproportion exists between industry and agriculture. This contradiction is reflected in the class relations between workers and peasants within the framework of their alliance and is solved through the voluntary cooperation of the peasantry.

During the building of socialism many countries pass through the non-antagonistic contradiction between the advanced social system and its backward technico-economic basis. This contradiction is solved by socialist industrialisation.

### 3. The Creation of the Material and Technical Basis of Socialism

The Need to Create the  
Material and Technical  
Basis of Socialism

The creation of socialism's material and technical basis is a paramount task during the transition period.

This basis can be defined as a socialised large-scale machine production in all branches of the economy, based on the wide use of modern scientific and technological advances and the countrywide planning.

The ways and means of creating socialism's material and technical basis vary and depend on the development level of the productive forces in a given country when socialist revolution is accomplished there. already possess a material and technical basis. Certain measures should be taken in the industrialised countries to improve the material and technical basis. The spontaneous development of capitalism has resulted in an uneven development of individual enterprises and industries both in terms of their technological equipment and location. Even the most industrialised countries have "underdeveloped" geographic regions and industries which catch up with the most developed ones during the transition from capitalism to socialism. (In Czechoslovakia, for instance, Slovakia was a relatively backward region when capitalism was overthrown in the country). Thus, a plan-based reshaping and improvement of the system of productive forces is necessary in any country building socialism.

It is well known, however, that in most countries now following the socialist road, the productive forces were at a low, or at a relatively low, level of development when socialist revolution triumphed there. Most probably, the majority of states are going to face a similar situation in future. In any case, the socialist-oriented states have already faced it. The material and technical basis of socialism there has been, is and will be created in the process of socialist industrialisation.

Socialist Industrialisation      Socialist industrialisation is a set of economic and political measures implemented by the people's power to build a multisectoral large-scale industry based on the advanced technology and capable of producing machines for all branches of the economy.

Within the framework of the overall objective of creating socialism's material and technical basis, socialist industrialisation solves a number of important specific tasks.

(1) It provides opportunities for a rapid and steady rise of the labour productivity which is indispensable for the establishment of the socialist economy.

(2) It changes the structure of the economy, according to the leading role to large-scale industry which influences all the other branches of the economy.

(3) The development of industry promotes the numerical growth of the working class concentrated at large modern enterprises.

#### Distinctions Between the Socialist and Capitalist Industrialisation

The primary difference is the way in which socialist industrialisation is carried out. In contrast to capitalist industrialisation which is a

spontaneous process, socialist industrialisation is a plan-based process organised and carried out by the socialist state.

The latter also differs from the former in sources of accumulation. These can be subdivided into internal and external, regardless of the social system. Internal sources are that part of the national surplus product which is used for accumulation. External sources are the resources coming from abroad and used for the same purposes.

An analysis of the ways and means of forming an accumulation fund lays bare the distinctions between the capitalist and the socialist industrialisation.

In the course of capitalist industrialisation accumulation is achieved by means of various forms of merciless exploitation of the working class and other working people. External sources of accumulation are the plunder of colonies and dependencies and the war loot, foreign loans and direct

foreign investments.

Under the building of socialism, internal sources of accumulation are fundamentally different from those characteristic of capitalism. The main internal sources of accumulation for socialist industrialisation are:

(a) part of profits of socialist enterprises;

(b) part of surplus product created by the small-commodity production and redistributed for industrialisation needs by means of price mechanism, etc.;

(c) taxes levied from the remaining exploiter classes and, to a certain extent, from the working people (this being a secondary source).

Among the external sources for financing industrialisation during the transition to socialism the only acceptable one is foreign loans and credits, including compensation deals concluded on terms not infringing on economic or political independence of the recipient socialist countries.

Socialist industrialisation also differs from capitalist industrialisation in its higher rate of implementation thanks to social ownership of the means of production and planned development of the economy. In such leading capitalist states as the United States and Britain industrialisation, i.e., the creation of the material and technical basis sufficient for the capitalist mode of production, took from 70 to 100 years. The USSR, the world's first socialist state, took 20 years to become an industrialised state, while other socialist countries with the assistance of the more developed socialist community countries can, and some did, carry out industrialisation during a shorter period.

Last but not least, socialist industrialisation has other socio-economic consequences than capitalist industrialisation.

The latter objectively results in socialisation of production and consequently, in the aggravation of the basic contradiction of capitalism, that between social character of production and private capitalist form of appropriation. It aggravates the problem of employment and all other socio-economic contradictions of capitalism.



Conversely, socialist industrialisation helps solve the contradictions of the transition period, above all that between the emergent and developing socialism and the weakened but still existing capitalism. It brings closer the victory of socialism and opens wide opportunities for raising people's living standard, shortening the working day and solving the employment problem, because the main goal of socialism is the all-round satisfaction of people's needs and not the maximum profit.

Socialist industrialisation closes the gap between the economic development levels of individual regions within a given country, including the regions with national minority in multinational countries.

The first ever socialist industrialisation was carried out in the Soviet Union where the conditions for it were the hardest.

The productive forces in the USSR were at a relatively low level of development when it embarked on the building of socialism. Moreover, it was the only socialist country on the globe, encircled by hostile capitalist states which were ready to blockade it economically and invade it militarily. This made it vital to close the gap in economic development between the USSR and industrialised capitalist states in the shortest possible time and develop all industries, including those which required considerable outlays and favourable conditions which were then non-existent in the country.

The USSR had to rely exclusively on internal sources of accumulation, because capitalist states either gave it no loans at all or offered them on crushing terms which it could not accept.

To become an industrialised nation, the Soviet people had to sacrifice much, but they realised only too well the need for industrialisation.

In other socialist countries, industrialisation was and is carried out in more favourable conditions. Today it does not require the straining of every effort as was the case in the USSR. The absence of the capitalist encirclement and the existence of the world socialist economic system are instrumental in this respect: the more developed socialist countri-

es render economic assistance to the less developed ones.

Also important in this respect is the fact that thanks to the existing international socialist division of labour the countries that have embarked on the socialist development now have an opportunity to use the advantages it offers and develop mainly those industries for which they have the most favourable conditions (natural resources, historical tradition , etc.) and buy other industrial output on the world socialist market, i.e. from other socialist states.

#### 4. Socialist Transformation of the Small-Scale Peasant Farming

Socialist Transformation of the Small-Scale Peasant Farming and Its Distinctive Features

All the working people, above all the peasantry, have a vital interest in establishing a large-

scale socialist machine production in both industry and agriculture.

In state sector this objective is achieved via establishing state farms, the highly mechanised agricultural enterprises, on nationalised land.

The establishment of state farms, however, by no means exhausts the socialist transformation in the countryside. The bulk of the peasantry cannot stand aloof from social and technical progress, however small their economies might be.

The need for a socialist reorganising of small-scale farm production stems from the development of the productive forces in agriculture and the specifics of the socialist production relations.

Small-scale peasant holdings have no prospects in terms of the growth of the productive forces because they are based on simple reproduction. Modern agricultural machinery or progressive farming methods can hardly, if at all, be applied there. Small-scale peasant holdings are unable to provide enough foodstuffs for the growing urban population or raw materials for industry. Neither can they improve the living standards of peasants themselves.

No less important is the fact that small-scale farming is unable to develop along socialist lines. The economic laws inherent in commodity production based on private property result in spontaneous emergence of capitalist elements. To remove the possibility for the restoration of capitalism and to establish the domination of the socialist production relations, it is necessary to transform small-scale farming into a large-scale socialist agriculture.

Socialist transformation of small-scale farming is the more difficult task of the transition period. On the one hand, the peasant is the private owner, a potential bearer of the capitalist production relations. On the other hand, he is a toiler, a natural ally of the working class. Therefore, coercion is inapplicable to him.

#### Lenin's Cooperative Plan

In his cooperative plan, Lenin had mapped out the ways and means for implementing socialist

reforms in the countryside.

According to this plan, cooperatives are the most natural and understandable form of drawing peasants into large-scale socialist farming, the worker and peasant state being the owner of the basic means of production.

Lenin outlined the basic principles of socialist cooperation, stressing that it must be a voluntary and gradual process. Socialisation of agriculture must be based on persuasion, rather than coercion, and the material interest of the peasantry. This law-governed process, guided by the Marxist-Leninist party and the socialist state, proceeds in the struggle with the forces and traditions of the old society.

Lenin's cooperative plan organically includes a number of preliminary steps aimed at creating the material, political and psychological prerequisites for drawing the peasants into the joint cultivation of land and collective farming. The more important among them are:

- (1) complete or partial nationalisation of land and its gratuitous transfer to the peasants for use or ownership;
- (2) the utmost possible promotion of the simple, lowest

forms of cooperation--credit, supply, marketing cooperatives, associations for joint land cultivation--which are preliminary steps towards the highest form of cooperation--production associations;

(3) the implementation of socialist industrialisation providing agricultural machinery required by large-scale socialist farms;

(4) the creation on nationalised land of large-scale state farms setting examples of rational farming;

(5) the setting up of machine-and-tractor, and machine-hire stations helping on easy terms the poor and middle peasants and cooperatives in running their economies;

(6) the credit and taxation policies aimed at promoting the cooperative movement and granting privileges to cooperatives in taxation and crediting.

#### Specific Forms of Socialist Transformation of Agriculture in Different Countries

Soon after the victory of the October Revolution, Soviet Russia set about organising socialist agricultural enterprises. Some

1,316 state farms and nearly 16,000 agricultural cooperatives were set up from November 1917 to 1922. These were the first centres of socialism in the countryside organised by poor peasants and farm hands.

Simple types of agricultural cooperatives were predominant at the initial stage of cooperation in Soviet Russia. They were represented by associations for the joint cultivation of land, where labour was socialised in the process of the joint tilling of land. More often than not, labour implements and draught animals were also socialised. Actually these were small collectives with low level of socialisation.

The year 1929 saw the rapid emergence of agricultural artels, the higher type of cooperatives, and from 1930 they came to dominate Soviet agriculture.

Agricultural artel was the foundation of the Soviet cooperative (collective-farm) system. It socialised land, labour, draught animals, machines and implements, and basic production buildings, leaving buildings on subsidiary plots, dwellings, part of productive animals and poultry in personal ownership

of collective farmers. Agricultural artel most fully harmonised personal and social interests of its members, conformed to the voluntary principle of collectivisation and promoted the all-round development of productive forces in agriculture. In 1940 agricultural artels (collective farms) united 98 per cent of the peasantry.

To help the collective farms the Soviet government set up machine-and tractor stations which provided farm machinery and skilled personnel to work on collective farms.

The other socialist countries have made wide use of Soviet experience, despite the fact that cooperative movement there had a number of specific features. In most socialist countries the important portions of land were given to the peasantry in private ownership and only partially nationalised.

Hence, in such socialist states as Bulgaria and the GDR the simple (lowest) types of production cooperatives ("mutual assistance teams") were replaced by production cooperatives of an intermediary type. When peasants joined the cooperatives of this type their land was considered as their initial share while remaining their property. The peasants' incomes thus comprised a remuneration for the quantity and quality of the work done and a sort of rent for the land they transferred to cooperatives. Incomes began to be distributed according to the work done only at the subsequent stage of cooperation, under the transition to cooperatives of a higher type which differ from Soviet collective farms only in that they, and not the state, are the owners of the land.

In the majority of the socialist community countries (except Poland and Cuba where private sector's share in agriculture is still great) socialist transformation of agriculture was effected within a short historical period. In Bulgaria, for instance, socialist sector accounted for 97,3 per cent of agricultural output in 1959. In Hungary, in early 1961, 85 per cent of all arable land belonged to socialist sector, and in Vietnam (late 1960) 85 per cent of all peasant households were united in production cooperatives, with 10 per cent of them being cooperatives of a higher type.

## 5. General Laws of Socialist Construction and Its Specific Features in Different Countries

An analysis of general laws governing the period of transition from capitalism to socialism has a direct bearing on a very important theoretical and practical problem, that of the general laws and specific features of building socialism in some countries. This problem is particularly important today because numerous ideas on the "models of socialism" and the "national-type socialism" are being increasingly spread.

The experience in building socialism in the countries that have opted for that road bears out the existence of a number of general laws common for all countries building the new society. It provides convincing evidence, among other things, of the following:

- the question of power is to be the main issue in a revolution. It is either the power of the working class, acting in alliance with all the working people, or the power of the bourgeoisie. There is no third possibility;

- transition to socialism is possible only if the working class and its allies, having gained real political power, use it to end the socio-economic domination of capitalist and other exploiter;

- socialism can be victorious only if the working class and its vanguard, the communist and labour parties are able to inspire and unite the working people in the struggle to build the new society, to transform the economy and all social relations along socialist lines;

- socialism can consolidate its position only if the working people's power is capable of defending the revolution against any attacks by the class enemy (and such attacks are inevitable, both internal and, most of all, external).

An analysis of the development of countries that have embarked on the socialist road shows that the above general laws are common for any of them.

Nevertheless, socialist revolution and transition to

socialism in this or that country are bound to differ from the analogous processes that have taken or will take place in other countries.

Depending on the circumstances, socialist revolution, for instance, can be accomplished either through an armed uprising or peacefully, specifically, by winning a parliamentary majority and creating, on this basis, a socialist government. But socialist revolution, regardless of the way in which it was accomplished, invariably divests the bourgeoisie of political power and gives this power to the proletariat.

The basic means of production can be socialised in different ways: socialist nationalisation has different forms (confiscation or partial redemption), sequence and rates in different countries. Cooperation of small-commodity producers and other socio-economic reforms have different forms and rates of implementation.

Last but not least, different countries stand at different levels of economic development when socialist revolution is accomplished there. Moreover, they have their own national traditions, and internal and international situation also varies greatly. This accounts for the different duration of the period of transition to socialism, diverse rates of socialist construction, dissimilar nature of difficulties they face and varying degree of acuteness of the class struggle. That is why the transition period in different countries has its own distinctive features.

But whatever the distinctions might be, they concern the method, and not the essence of socialist transformations, rather "how is it to be done?", than "what is to be done?".

Among the economists and sociologists studying the general laws and specific features of building socialism in individual countries there are those who fall into either of the two equally harmful extremes.

The first is represented by the theory of the so called national-type socialism. According to this theory it is the national specifics, rather than general laws, that play the decisive role in socialist revolution. Consequently, its proponents allege, every country must follow its own road to socialism, stemming from its national specifics.

The theory of the "national-type socialism" is intended to divert the world revolutionary movement from using the experience gained by the USSR and other socialist countries in building socialist society. This theory distorts the scientific conception of socialism and frequently serves as a screen for struggle against real socialism.

Another extreme lies in that many dogmatists resort to revolutionary phrase-mongering to deny altogether the existence of national specifics of socialist revolution in different countries. They insist on implementing revolutionary reforms in keeping with certain ready-made schemes, by using once and for all given forms and methods. This point of view hampers the revolutionary energy and initiative of the working class and makes the Marxist-Leninist parties into dogmatic organisations ignoring the vast variety of historical and national conditions in different countries.

Marxism-Leninism creatively applies general laws of socialist revolution with due account for the specific internal and external situation in every country. Only correct combination of general laws with national specifics of every given country can guarantee success in carrying out socialist revolution and socialist transformation of society.

## 6 Results of the Transition Period: the Victory of Socialism

The period of transition from capitalism to socialism ends when socialist mode of production has become predominant, i.e. when socialism has, in the main, been built. In other words, economic laws of preceding formations lose their force and ultimately give way to socialist economic laws.

The record of building socialism shows that, whatever the conditions of transition from capitalism to socialism, or forms, methods and rates of socialist construction, the victory of socialism signifies that:

firstly, socialism's material and technical basis has been built;

secondly, capitalist private property has been done away



with and socialist property in the form of state property (belonging to the whole people) and collective-farm-and-co-operative property has been established, which results in the emergence and development of new relation of the work force to the means of production which rules out the exploitation of wage-labour;

thirdly, a new type of distribution of consumer goods and services according to the quantity and quality of work done in the sphere of social production and via social consumption funds has been created.

All this results in the domination of the socialist production relations in society.

The victory of socialism implies the accomplishment of cultural revolution which does away with the illiteracy of the population in backward countries. It also implies the higher cultural, technical and general education level of the people, the training of skilled personnel for all branches of the economy and the emergence of the people's intelligentsia.

The completion of the transition period, the building of a socialist society lay the groundwork for its subsequent consolidation, for completing socialist construction by creating a developed socialist society and for a gradual transition to communism.

## Chapter 3

### ECONOMIC PROBLEMS OF SOCIALIST ORIENTATION

The main road to socialism lies in the transition from capitalism to socialism through a socialist revolution overthrowing the rule of the bourgeoisie and establishing the dictatorship of the proletariat which carries out socialist transformations and secures the victory for the socialist production relations. We have analysed the laws governing the transition from capitalism to socialism in the previous chapter. However, under a world-wide transition from capitalism, to socialism, the socially and economically backward countries may come to socialism directly from precapitalist formations, bypassing capitalism. Today, a number of countries in Asia, Africa and Latin America are following this way of development, which came to be known as socialist orientation.

#### 1. The Possibility for Backward Countries to Come to Socialism Bypassing Capitalism (Socialist Orientation)

The Essence of Socialist Orientation

Socialist orientation is the peculiar and highest stage in the national liberation revolution

which prepares the ground for a subsequent transition to socialism by creating the socio-economic and political conditions for subsequent socialist transformations and the material and technical basis sufficient for carrying out these transformations.

Hence, socialist orientation can be defined as a democratic stage in the national liberation revolution in socially and economically backward countries whose essence is a restricted development of national capitalism depriving it of the possibility to become the dominant mode of production and the creation of conditions for subsequent socialist transformations on the basis of priority development of state and cooperative sectors in the economy. It is a peculiar, presocialist state

in the development of socially and economically backward countries lacking, for the time being, necessary conditions for carrying out socialist transformations proper.

Today, the countries where there still exists the possibility for socialist orientation (apart from those already following this way) include most states of Tropical Africa, some Mid-East and Southeast Asia countries, and some states in Central and South America. Other countries which belong to the group of developing countries, have reached such level of capitalist development that a transition to socialism there can be effected only through a socialist revolution overthrowing the ruling bourgeoisie, rather than socialist orientation.

As a special, pre-socialist stage of development, socialist orientation has certain features in common with the period of transition to socialism and tackles some of the tasks which countries where capitalism has reached a high or medium level of development solve during the period of transition from capitalism to socialism. These include among other things the ousting of foreign monopoly capital, the abolition of big landed estates and the creation of state sector to benefit the working people.

At the same time, important differences exist between socialist orientation and the socialist construction proper. The main distinction is that socialist orientation does not imply the dictatorship of the proletariat. The establishment of proletarian dictatorship signifies the completion of the stage of socialist orientation and the beginning of socialist transformations proper. Socialist orientation may be interrupted and the question "who will beat whom" can be decided in favour of the bourgeoisie or bourgeois-feudal coalition, rather than the working people. In practical terms it may come about as a result of a coup d'état supported by international imperialism, as was the case in Ghana, or the degeneration of the ruling upper crust of the revolutionary democracy (e.g. Egypt, Somalia), or, at last, as a result of a military imperialist invasion (Grenada). Moreover, a country where socialist orientation have been interrupted may reach such a level of capitalist development that its return to socialist

way of development would, as we said before, require a proletarian revolution overthrowing the ruling bourgeoisie, rather than socialist orientation.

Consequently, socialist orientation is a process accompanied by an acute class struggle and not just an automatic transition from pre-capitalist formations to socialism.

The Classics of Marxism on  
the Transition of Economical-  
ly Backward Countries to So-  
cialism

Some imperialist ideologis-  
ts affirm that the idea of  
socialist orientation, i.e.,  
the possibility of former  
colonies and dependencies

to come to socialism bypassing capitalism, is "the Kremlin's invention". But this problem is not new in the Marxist-Leninist teaching. Marxists-Leninists have theoretically substantiated and proved in practice that socialist orientation is the quickest and relatively painless way of overcoming socio-economic backwardness for countries that have cast off the colonial yoke because it is socialism that secures an uninterrupted economic and cultural growth and raises the well-being of the people most rapidly.

In their works Marx and Engels stressed that capitalism is not an inevitable stage in the historical development of all nations. Marx, in particular, wrote that his analysis of the capitalist development in Western Europe should by no means be transformed into an "historic-philosophic theory of the general path of development prescribed by fate to all nations, whatever the historical circumstances in which they find themselves"<sup>1</sup>.

The founders of Marxism maintained that, given the victory of a proletarian revolution in industrialised countries and the aid by their victorious proletariat, the economically backward nations can go over to socialism bypassing capitalism. Engels wrote: "It is not only possible but inescapable that once the proletariat wins out and the means of production pass into common ownership among the West-European nations, the countries... where tribal institutions or relics of them are still intact, will be able" to considerably shorten "their advance to socialist society and largely sparing themselves

<sup>1</sup> Marx, Engels, Selected Correspondence, 1975. pp.293,319-320.

the sufferings and the struggles through which we in Western Europe have to make our way"<sup>1</sup>.

Amplifying on this he pointed out that when industrialised countries have built socialism, "when the retarded countries have seen from their example 'how it's done', how the productive forces of modern industry are made to work as social property for society as a whole--only then will the retarded countries be able to start on this abbreviated process of development".<sup>2</sup>

In advancing the idea of a possible transition to socialism by economically backward countries, Marx and Engels maintained that given definite conditions some nations could bypass one or another formation in the course of their development without upsetting the general process of the historical development of society, i.e., consecutive change of socio-economic formations. This can, and does, occur when the formation which is being bypassed by these nations has exhausted its possibilities in terms of world social progress and a new and more progressive formation has arisen in the world than that to which these countries might have come through their "natural" evolution.

History abounds in instances of such an "abridged" or "accelerated" transition from one formation to another bypassing the one in between. Thus, the Slavonic peoples, the Germans, etc., came to feudalism directly from the primitive-communal system bypassing the classical slave-owning system. Many Asian and African nations were forcibly "drawn" into capitalism when they stood at the primitive-communal or tribal or early feudal stage of development.

The idea of a possible transition to socialism from pre-capitalist formations does not run counter to the Marxist teaching on the consecutive change of socio-economic formations as a law of mankind's progress.

Marx and Engels, however, did not analyse in detail the possible mechanism of such a transition: the forms of power, the role of the peasantry and the proletariat, etc. And this

<sup>1</sup> K. Marx, F. Engels. Selected Works in three volumes, Vol. 2, p. 403.

<sup>2</sup> Ibid., pp. 403-404.

is only too natural, because they examined the problem of the backward countries' transition to socialism bypassing capitalism chiefly as a hypothesis. At that time this problem did not, and could not, face the world revolutionary movement as an immediate objective. Marx wrote that "the problem itself arises only when the material conditions for its solution are already present or at least in the course of formation".<sup>1</sup> At the end of the 19th century this problem was defined only in general terms because conditions were non-existent for the backward countries' transition to socialism bypassing capitalism.

Lenin's Stage in the Development  
of the Socialist Orientation  
Theory

Lenin paid much attention  
to the analysis of problems  
relating to the economically  
backward countries' transition  
to socialism

bypassing capitalism. He creatively developed the ideas advanced by Marx and Engels in the new historical conditions, and built up a well-balanced and multifaceted theory of possible ways of transition to socialism by backward countries. Even at the earliest stages in his theoretical and revolutionary activity Lenin stressed that Marxism had never raised by an absolute the experience of West European countries' historical development or maintained that capitalism was an inescapable stage in the development of all countries.<sup>2</sup> Later on he repeatedly returned to this problem, but his ideas on the possibility of transition to socialism by economically backward countries bypassing capitalism received their most consummate expression in his works written in the early 1920s. Speaking at the Second Congress of the Communist International Lenin said: "Are we to consider as correct the assertion that the capitalist stage of economic development is inevitable for backward nations now on the road to emancipation and among whom a certain advance towards progress is to be seen since the war? We replied in the negative. If the victorious revolutionary proletariat conducts systematic propaganda among

<sup>1</sup> K. Marx, Contribution to the Critique of Political Economy, Moscow, 1977, p. 21.

<sup>2</sup> See V.I. Lenin, Collected Works, Vol. 1, pp. 394-95.

them, and the Soviet governments come to their aid with all the means at their disposal--in that event it will be mistaken to assume that the backward peoples must inevitably go through the capitalist stage of development... with the aid of the proletariat of the advanced countries, backward countries can go over to the Soviet system and, through certain stages of development, to communism, without having to pass through the capitalist stage".<sup>1</sup>

In amplifying on this basic tenet, Lenin substantiated an idea of the transitional stages in the development of national liberation movement and its development from an anti-imperialist into an anti-capitalist movement and also described possible forms of the political organisation of society at that stage, i.e., determined the special role of the revolutionary democracy in backward countries. In his last works Lenin drew an important theoretical and practical conclusion to the effect that "in the impending decisive battles in the world revolution, the movement of the majority of the population of the globe, initially directed towards national liberation, will turn against capitalism and imperialism"<sup>2</sup>. In other words, he established that transition of former colonies and dependencies to socialism bypassing capitalism becomes an objective law governing mankind's development in the epoch of the general crisis of capitalism. Lenin's doctrine on the ways of transition to socialism by the socially and economically backward countries was a great contribution to the theory of scientific socialism, specifically, the general theory of mankind's transition to socialism. Today, the theory of the economy in the transition period, as the theory of the establishment of the socialist production relations, includes not only problems of transition from capitalism to socialism, but also problems of transition to socialism from precapitalist formations, bypassing capitalism.

Present Stage in the Development  
of the Socialist Orientation  
Theory

After Lenin's death, the  
doctrine on the possibility  
and specific features  
of transition to so-

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 31, p. 244.

<sup>2</sup> Ibid., Vol. 32, p. 482.

cialism of economically backward countries was further developed in the documents of the Comintern, particularly its Sixth Congress which devoted special attention to this problem. However, until the mid-1950s, which saw the rapid disintegration of imperialism's colonial system, this doctrine did not feature prominently in the documents of international communist and working-class movement or theoretical works by Marxist-Leninist authors. A reason for this was that in the 1920s-1940s only one independent country--Mongolia--had traversed the path of socialist orientation and set about effecting socialist transformations proper. International communist movement and Marxist scholars did not have enough material to further develop and specify propositions advanced by Marx, Engels and Lenin.

By the early 1960s, however, the situation changed as Vietnam had completed successfully the general democratic stage of revolution and set about building socialism,<sup>1</sup> and socialist-oriented countries emerged in Africa (Ghana and Guinea). In the early 1970s there already were some 10 socialist-oriented states, though in Ghana and Mali socialist orientation was interrupted in the 1960s. The number of socialist-oriented states was growing rapidly and by the mid-1980s there were more than 20 such countries though two more states--Egypt and Somalia--had abandoned the road of socialist orientation. The fact that many newly free socialist-oriented countries (Afghanistan, Angola, Benin, Ethiopia, Mozambique, the People's Republic of the Congo, the People's Democratic Republic of Yemen and others) adopted Marxism-Leninism as their political and ideological foundation was a distinguishing feature of the 1970s.

The socialist-oriented states are a most reliable reserve for the geographical expansion of the world socialist system, for spreading socialist social relations throughout the globe.

This made it imperative to further develop and specify the Marxist-Leninist doctrine on the transition to socialism of economically backward countries and analyse the experience gained by the remote regions of the USSR, Mongolia, Vietnam and the socialist-oriented states in Asia and Africa in

<sup>1</sup> At that time it applied only to the Democratic Republic of Vietnam.



their transition to socialism.

The theory of socialist orientation has been further developed in the documents of the CPSU (particularly in the decisions of the congresses of the CPSU) and the international communist and working-class movement (in particular, the documents of the international meetings of communist and workers' parties in 1960 and 1969). Important propositions relating to the newly free countries' transition to socialism bypassing capitalism are contained in works by the leaders of the CPSU and the fraternal parties. Many Soviet and foreign Marxist authors analyse urgent problems of socialist orientation. Today, Marxism-Leninism has provided answers to many problems of socialist orientation which only ten years ago seemed not just insoluble but simply unimaginable. At the same time, the theory of socialist orientation is only asserting itself and many problems await their solution and explanation.

## 2. Criteria of Socialist Orientation

The determination of criteria of socialist orientation is central to the study and theoretical generalisation of the experience accumulated by the newly free countries effecting the transition to socialism bypassing capitalism. This is necessary because many leaders in the countries which follow the capitalist way of development make wide use of socialist phraseology and proclaim socialism as their goal, seeing the growing popularity of socialist ideas in the modern world and their attractiveness for peoples in Asia, Africa and Latin America. The now propagated concepts of "national type socialism" (African-type or Arab-type socialism) are designed to counter-balance the theory of scientific socialism and distract the working people from Marxism-Leninism. Some heads of state in Asia, Africa and the Middle East use pseudo-socialist doctrines and other demagogic tricks to conceal the reactionary essence of their social concepts and foreign and home policies from their own peoples and world public.

Besides, the group of socialist-oriented states is not homogeneous. Many of them follow socialist orientation on the

basis of scientific socialism (Afghanistan, Angola, Ethiopia, Mozambique, the People's Republic of the Congo and the People's Democratic Republic of Yemen, to name a few). The leaders of other countries have not yet adopted the Marxist-Leninist position, though they objectively move in this direction. Leaders of some countries reject Marxism-Leninism altogether, though raising no obstacles to its spread.

The different socialist-oriented states have adopted different stands with regard to local capitalist property. Some countries abolish capitalist property even of medium size, many other socialist-oriented states, on the contrary, preserve and protect the property of the local bourgeoisie and in some of them, judging by their policy-making documents, it is a long-term policy. Other differences also exist, but at the same time, all the socialist-oriented states have certain common features which can be regarded as criteria of socialist orientation. These include gradual elimination of the positions of imperialist monopoly, of the local big bourgeoisie and the feudal elements, and restriction of foreign capital. They include the securing by the people's state of commanding heights in the economy and transition to planned development of the productive forces, and encouragement of the cooperative movement in the countryside. They include enhancing the role of the working masses in social life, and gradually reinforcing the state apparatus with national personnel faithful to the people. They include anti-imperialist foreign policy. Revolutionary parties expressing the interests of the broad mass of the working people are growing stronger there.

Thus, the criteria of socialist orientation can be subdivided into four groups:

- a) internal political criteria;
- b) economic criteria;
- c) social criteria;
- d) foreign policy criteria.

**Internal Political Criteria**                      The main criterion of socialist orientation is the nature of political power. History shows that either a Marxist-Leninist or a revolutionary-democratic party must wield power in a socialist-oriented country, the party that promotes the interests of the working class and other working people. The national bourgeoisie should be deprived of the monopoly of political power.

**Economic Criteria**                      The character of economic transformations is the main criterion of socialist orientation. These include restriction and subsequent liquidation of foreign monopolies' rule and creation of state and cooperative sectors together with opportunities for their priority development. They also imply state regulation of the economy, introduction of elements of science-based planning, rigid control over local capital, etc.

All these measures are to this or that extent implemented in every socialist-oriented country and therefore they can be regarded not only as criteria but also as general economic laws governing the transition to socialism bypassing capitalism.

Enterprises belonging to monopolies which before the revolution held key positions in the economy were nationalised in all the socialist-oriented states. In the People's Democratic Republic of Yemen these enterprises were nationalised by the 1969 law; branches of such foreign monopolies as Shell, Mobil Oil, Texaco, etc. were nationalised in the People's Republic of the Congo. In implementing such measures a reasonable approach should be taken, nationalisation being carried out on a selective basis preventing economic upheavals. Mozambique, for instance, nationalised at first only abandoned enterprises or those whose owners were found guilty of economic subversion. The rest of foreign and large-scale local enterprises were put under strict state control.

Nationalisation laid the groundwork for organising a state sector which is constantly growing on the basis of capital construction. In the early 1980s state sector in the

People's Democratic Republic of Yemen accounted for 62 per cent of industrial and 20 per cent of agricultural output in the country. Together with cooperative sector it provided some 90 per cent of produce in the country's agriculture and fishery and accounted for 50 per cent in domestic trade. In Algeria state sector produced some 80 per cent of the country's GNP. A powerful state sector has been created in Angola which includes, along with banks, trade firms and insurance companies, SONANGOL, a state company set up in 1977 and engaged in extracting, refining and marketing oil and gas.

Reorganisation has boosted the economy. Thus in the PDRY, output grew 170 per cent in industry, 230 per cent in construction and 160 per cent in fishery during the first five-year-plan period (1973-78). Angola and Mozambique are restoring their economies severely damaged by economic subversion by Portuguese colonialists and external aggression.

It is noteworthy that some capitalist-oriented states also implement some of the above-listed measures. Nigeria, India, Saudi Arabia and some other countries have limited the operation of foreign monopolies. Besides, practically all developing countries introduce elements of planning and expand their state sectors. In the socialist-oriented states, however, this policy has a special class and social content as it is implemented in the interest of the working people, rather than to replace the rule of foreign capitalists by that of local ones.

Hence, a new attitude to work by workers and peasants emerge in these countries. In the PDRY, a movement similar to socialist emulation drive is gaining momentum at enterprises of state sector. In Mozambique, workers are active in production decision-making, in commissions allocating housing, in effecting democratic reforms in the village, etc.

Social Criteria

Social factor is a decisive criterion  
of socialist orientation. Social po-

licy of the socialist-oriented states must be carried out only in the interest of the working people and aimed at providing full employment and medical services for all, promoting public education, and narrowing incomes gap paralleled by a general

rise in the working people's well-being, despite the fact that it frequently causes serious economic difficulties.

Despite economic difficulties, many socialist-oriented states scored great success in social sphere. They introduced free education and free or low-cost medical service, with sizable part of the GNP being allocated for these purposes. Algeria, for instance, sets aside 11 per cent of its GNP for education against the USA's 7 per cent. The socialist-oriented states are vigorously combatting unemployment and working to raise the people's living standards. The People's Republic of the Congo raised the minimum wages by 70 per cent by the mid 1980s and its white-and blue-collar workers receive allowances and other benefits from social funds in addition to their wages and salaries. In 1980-81 in Mozambique average wage grew 100 to 300 per cent against 1975; in Ethiopia, peasants' incomes almost doubled compared to 1974, thanks to the abolition of feudal system of taxation and land rent and higher purchase prices for farm produce. The reduction in house rent increased real incomes of the majority of urban population, especially those in the low-paid brackets. In the early 1980s the Democratic Yemen put an end to unemployment (the army of the unemployed totalled over 60,000 in 1967) and reduced house rent. Rent for medium-size and large apartments went down from 200-300 equivalent dollars before the revolution to 10-15 dollars. Wages and salaries of low- and medium-paid workers and employees were raised. At the same time, the growth in the living standards is hampered by price-rises. The governments in the socialist-oriented countries try to offset the negative consequences of this process by taking certain measures, such as setting up special funds, etc.

#### Foreign Policy Criteria

Foreign policy pursued by a country is another criterion of socialist orientation. The main thing here is its attitude to the world socialist system, in particular the USSR, though the anti-imperialist thrust of its foreign policy is also an important criterion. Anti-communism and anti-Sovietism are incompatible with socialist orientation. It is not a chance

occurrence that adoption of an anti-Soviet stand was the first step of Egyptian leadership in abandoning the road of socialist orientation.

### 3. Contradictions and Difficulties on the Road of Socialist Orientation

The Comparative Effectiveness of Socialist Orientation

The preceding section contains the data testifying to successes scored by the

majority of the socialist-oriented countries in implementing their economic and social policies. However, the development of these countries proceeds in difficult conditions. This did not go unnoticed by imperialist ideologists who maintain that socialist orientation is either inefficient economically or is less effective than the capitalist way of development.

Official statistics, however, refute these and similar assertions. Let's compare data on the growth of the GNP in these two groups of countries:

#### The GNP Growth in 1971-80 in Socialist- and Capitalist-Oriented Countries (percentage)

<u>Socialist-Oriented States</u>		<u>Capitalist-Oriented States</u>	
Benin	- 8-9	Kenya	- about 5
Tanzania	- 4-5	Bangladesh	- 4-5
Algeria	- 8-9	Pakistan	- 6
the PDRY	- 8.5	Zaire	- annual decrease 2-3 per cent

An analysis of situation in countries that have abandoned socialist orientation clearly exposes the slander of socialist orientation spread by imperialist ideologists. If socialist orientation is as ineffective or bad as is alleged by bourgeois economists and sociologists then countries that have abandoned it and returned to the capitalist way of development should prosper. However, the situation in Ghana, Mali,

Egypt and Somalia which have returned to capitalist orientation shows quite the opposite.

Egypt with its favourable economic possibilities is most demonstrative in this respect. With its petrodollars and money coming from Suez Canal and adequate industrial potential, Egypt has been receiving vast aid in the form of loans and free subsidies. The giving up of progressive socio-economic reforms worsened Egypt's economic position instead of accelerating its economic growth. The document published by the national Progressive (Left-wing) Unionist Party of Egypt in 1980 contains data testifying to stagnation in production. In 1976-79 there was an annual decline in production of 2-3 per cent, and 1980 saw a small increase. Inflation was mounting, dependence on foreign monopolies was growing and the gap was widening between the riches of a handful of parasitic elements and the poverty of the bulk of working people. The document stated that the country's economy faces an impasse since with the growth of its difficulties its dependence on imperialism increases.

Contradictions of Socialist  
Orientation

Difficult conditions and hardships that many socialist-oriented countries have to overcome are, to a large extent,

of objective nature. They are engendered by objective contradictions, natural for the stage of socialist orientation in general, and the specific position of some socialist-oriented states.

Contradictions typical of all socialist-oriented states include:

a) Contradiction between the progressive way of socio-economic development and the remaining ties of socialist-oriented states with the world capitalist economic system.

In practical terms, this contradiction is manifest in that most newly free socialist-oriented states are tied to the world capitalist market and depend on credits, technology and food-stuffs supplied mainly by imperialist powers.

All the developing nations economically depend on international imperialism which pursues a special policy vis-à-vis

the socialist-oriented states. It either grants no credits or loans to these countries or gives them on onerous terms. In the late 1970s Burma's economic development plans fell through because they were to be financed from Western sources. Western powers did not provide the loans in the amount Burma needed. The International Monetary Fund imposed extremely rigid terms on Tanzania for getting a loan. Not infrequently imperialist monopolies deliberately contain the development of production at their enterprises in socialist-oriented states to put them in a difficult position. In the People's Republic of the Congo the 1975-77 plan of development was not fulfilled largely because of the sabotage by the oil monopolies AGIP and ELF-Congo which hampered oil output growth in the country.

b) Contradiction between the need to use foreign private capital and its adverse effect on the national economy.

This contradiction is closely connected with the first one but has its own specifics. Foreign firms and companies operating in the newly free socialist-oriented states promote capitalist relations there by supporting local private enterprise growing due to the development of commodity-money relations. It is a natural process in the capitalist-oriented states. In the socialist-oriented states this creates additional difficulties, specifically, it compounds the solution of the question "who will beat whom" in favour of the working people and hampers a plan-based economic development and the establishment of control over the national economy.

c) Contradiction between progressive way of socio-economic development and backward economic basis.

Most socialist-oriented states (except Algeria and some other countries) have extremely limited resources for financing their development. Annual per capita income in Afghanistan, Benin, Burma, Ethiopia and Tanzania was 150-200 dollars in the late 1970s. Naturally, they have only limited possibilities for accumulation. Moreover, due to their socialist orientation they allocate considerable resources for meeting social needs of the people: promoting public education and health care, subsidising prices for the necessities



of life, housing rents, etc.

Apart from difficulties connected with the above contradictions found in the socialist-oriented states, there are also additional difficulties specific for these countries. One of them is subversion by imperialism and local reactionary circles which in some countries acquired particularly acute forms.

This is true, above all, of such countries as Afghanistan, Angola, Ethiopia and Mozambique, where imperialism has unleashed aggression either directly or through local reactionary forces. Before the formation of Zimbabwe, damage incurred by Mozambique from direct Rhodesian aggression exceeded £ 500,000,000. Military operations against the UNITA bands and South African invaders required that enormous sums, originally set aside for economic rehabilitation, be spent on purchasing arms necessary for the defence of the Motherland. Ethiopia suffered and continues to suffer huge losses because of Somalia aggression and subversion of Eritrean separatists.

Subjective Difficulties  
of Economic Development

Apart from objective difficulties, economic development of the socialist-oriented states is contained by certain phenomena and processes of subjective nature, though, of course, they are also connected with the above objective contradictions.

These difficulties stem above all from the need to provide consistent political guidance in the spirit of socialist orientation. The revolutionary democracy is heterogenous: it comprises higher echelons and rank-and-file party and state workers and military experts, the majority of whom are loyal to the cause of revolution, and a middle stratum consisting of high-ranking civil servants, military top brass and the technocratic intelligentsia who often waver politically and ideologically. It is they who implement the decisions made by higher echelons and are most susceptible to corruption and potential initiators of a shift to the right.

To this one should add numerous shortcomings and errors in the economic policy. True, most of them are, to a certain

extent, of objective character due to lack of experience and insufficient competence of managerial personnel. At the same time, some socialist-oriented states insufficiently study the experience gained by the socialist community countries and pay little attention to training managerial personnel, etc.

The socialist-oriented states can eradicate shortcomings and surmount subjective difficulties through improving economic mechanism, raising skill and responsibility of managers, and tightening labour discipline.

A more thorough study of economic laws governing society's development, notable economic laws of socialism, is of considerable importance here. Experience gained by the socialist community countries at different stages of their development should also be analysed and applied.

## Chapter 4

### SOCIALIST SOCIAL OWNERSHIP OF THE MEANS OF PRODUCTION

Every mode of production is a unity of the productive forces and production relations. This is also true of socialism which is the initial phase of the communist mode of production. Under socialism, the productive forces possess a high level of development, which accounts for social character of the process of production. The socialist production relations correspond to the high development level and social character of the productive forces.

#### 1. Social Ownership of the Means of Production as Economic Foundation of Socialism

Constitutions of socialist countries formalise that socialist ownership of the means of production is the economic foundation of socialism. For instance, the 1977 Constitution of the USSR states: "The foundation of the economic system of the USSR is socialist ownership of the means of production"<sup>1</sup>. The domination of socialist social ownership of the means of production is the basic economic feature of socialism.

Social ownership is established as a result of the abolition of private ownership of the means of production and their socialist socialisation. This is made necessary in order to resolve the antagonistic contradiction between social character of production and private-capitalist form of appropriation existing under capitalism. This basic capitalist contradiction is resolved by socialist revolution which replaces the private-capitalist form of appropriation by social one which corresponds to the high development level attained by the productive forces and to social character of production.

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<sup>1</sup> Constitution (Fundamental Law) of the Union of Soviet Socialist Republics, Novosti Press Agency Publishing House, Moscow, 1977, p. 23.

Socialist ownership arises at the beginning of the transition period from capitalism to socialism. On winning political power, the working class immediately expropriates the exploiter classes--the bourgeoisie and the landlords, which results in the chief means of production and circulation in industry, transport and communications becoming property of the socialist state. Socialist property becomes predominant in all spheres and sectors of the economy in the course of socialist transformations effected during the period of transition from capitalism to socialism.

In the mid-1930s, when the transition period was coming to an end in the USSR, 99 per cent of the basic production assets were socialist property. The share of the socialist sector was 99.1 per cent in national income, 99.8 per cent in industrial output and 97.5 per cent in gross agricultural product. Subsequently it grew steadily and reached 100 per cent when the USSR set about building developed socialism.

In the other socialist community countries the share of socialist economy is also high: 100 per cent in gross industrial output in Czechoslovakia and Mongolia; 99.6 per cent in Bulgaria; 99 per cent in Hungary; 85.2 per cent in the GDR; 99.7 per cent in Poland; and 99.9 per cent in Romania. (Data for the early 1970s).

Socialist ownership of the means of production implies above all that the associated producers act as single owner of the means of production and that every individual member of society is their equal co-owner, related to them on equal footing with other members of society. On this basis, all the associated producers appropriate jointly and collectively the fruits of social production.

Bourgeois economists seek to disprove the obvious fact that ownership, as an economic category, is none other than a definite relation of production. They define the concept of ownership as a certain set of men's relations to things and present ownership as a psychological phenomenon, an eternal and abstract idea. In social terms, the bourgeois definition of ownership is designed to eternalise private property as, allegedly, the only form of ownership consonant with man's nature.

Marxism-Leninism regards ownership as the decisive element of production relations which embodies relations between men with respect to things rather than men's relation to things, as bourgeois ideologists maintain. Ownership, as an economic category, must not be identified with objects of property. One and the same object of property can embody different relations between people with respect to this object. In claiming that ownership is not a production relation, bourgeois economists try to conceal or camouflage the basic production relation of capitalism--that of private-capitalist ownership, of inequality of men with respect to the means of production. The trick is designed to prevent the replacement of private by social ownership of the means of production.

Distinctions Between Social  
Ownership and Capitalist  
Ownership and Advantages of  
the Former over the Latter

Social ownership differs radically from capitalist ownership and has obvious advantages over it. Its basic distinction lies in that it embodies fundamentally

new production relations and expresses quite a different character of appropriation of material benefits. Private-capitalist property places men in unequal positions in relation to the means of production. It implies that the basic means of production are owned by a privileged minority--the class of capitalists. Socialist ownership is social ownership and therefore it embodies the equality of people with respect to the means of production, i.e. the working people jointly own them. Socialist society differs from all the socio-economic formations based on private property in that under socialism there is neither propertied classes nor classes deprived of the means of production.

This is the basic and most important distinction between socialist and capitalist ownership, and a number of other no less significant distinctions derive from it.

Firstly, socialist social ownership of the means of production rules out exploitation of man by man. The means of production are the common property of the working people and no one can use them to exploit labour of other people. Direct

producers are owners of the means of production and for the first time ever begin to work for themselves and their society. Under capitalism the matters stand quite differently. The means of production belong to the class of capitalists and are capital and a means of exploiting wage-labour. Under socialism, due to the domination of social ownership, means of production are not, and cannot, become capital. Instead, they constitute production assets of enterprises.

Secondly, social property unites people while private capitalist property alienates them. Private property splits society into multitude of isolated private owners. Each capitalist runs his business at his own risk, promoting his own interests first and foremost. Private property breeds egotism and cupidity. Socialist social property puts an end to producers' alienation inherent in capitalism. Socialism is a system of associated producers. Social property unites people and breeds the sense of collectivism and relations based on comradeship and mutual aid.

Thirdly, socialist ownership gives rise to community of working people's economic interests. Capitalist ownership, on the contrary, engenders clash of interests and fierce rivalry between capitalists in which the weaker ones go under while the stronger grow stronger still. It gives rise to the antagonistic class struggle which expresses an antithesis between the economic interests of the propertied and the poor, capitalists and proletarians. Contrary to this, socialist social property rules out any possibility of some getting richer at the expense of others, because promotion and augmentation of socialist property and social production is the source of well-being for every member of socialist society. Community of economic interests of working people under socialism stems from the fact that well-being of each depends on the well-being of society as a whole. This interdependence gave birth to the new, heretofore unheard-of, relations of cooperation in achieving common goals. This community of economic interests engenders moral and political unity of all members of socialist society.

Socialist Ownership of the Means of Production and the System of the Socialist Production Relations

The domination of socialist social ownership of the means of production is the basic distinctive feature of socialism.

It is the economic basis of socialism and determines the nature of the entire system of socialist production relations.

The domination of social property accounts for the new character and method of uniting the workforce with the means of production. Marx wrote: "The specific manner in which this union is accomplished distinguishes the different economic epochs of the structure of society from one another"<sup>1</sup>. In the antagonistic formations the connection of workforce with the means of production is coercive and effected through extra-economic or economic coercion (under capitalism it is effected by means of turning labour power into a commodity bought by the capitalists). Under socialism, however, matters stand quite differently. Here, social ownership directly connects associated producers with the means of production and this connection is of directly social, plan-based and non-commodity character. The hire of workforce under socialism has nothing in common with the capitalist buying and selling of labour power. It is a plan-based involvement of producers into working at socialist enterprises which they own as associated owners.

When the means of production belong to the working people, and every individual, work collective and society as a whole are interested in increasing production, only then do relations of production become those of comradely cooperation and socialist mutual assistance of workers free from exploitation. In place of the class antagonisms and opposition between town and countryside and between mental and physical work socialism establishes fraternal cooperation between the friendly classes of workers and peasants and relations of comradely cooperation and mutual aid between work-

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<sup>1</sup> Karl Marx, Capital, Vol. II, pp. 36-37.

ers by hand and by brain. And herein lies one of socialism's greatest gains.

Social ownership makes it possible and necessary for social production and the entire economy to develop according to a science-based plan.

The transformation of labour into free labour for oneself and for society as a whole is a graphic demonstration of socialist production relations being the relations based on comradely cooperation and mutual assistance. The community of economic interests gives rise to new labour incentives which differ from the ones existing under capitalism.

Bourgeois ideologists try to prove that capitalism is more advantageous than socialism because it presupposes private initiative. Socialism rules out private initiative of capitalist gain and for the first time ever gives rise to the unheard-of activity and initiative of the working people at large. In socialist society every member takes an active part in solving all economic and social tasks facing both a given enterprise and socialist state as a whole. By working constructively people raise the efficiency of socialist production and achieve higher production indices and better labour organisation. Socialist competition is the peak of people's constructive initiative. It is a mass drive of the working people to achieve utmost production indices. Compared to private capitalist initiative, socialist emulation is a phenomenon of a higher order. Life shows that socialist emulation has become a powerful motive force of production in the socialist countries.

## 2. Two Forms of Socialist Ownership of the Means of Production. The Personal Property

Historical Need for Two Forms of Socialist Ownership of the Means of Production

Under socialism, which is the initial phase of communist socio-economic formation, socialist ownership

of the means of production exists and develops in its two forms: state property (belonging to the whole people) and collective-farm-and-cooperative property (belonging to a



certain group of people). These two forms of socialist ownership do not arise spontaneously, their existence is governed by objective laws.

They arise as a result of operation of specific laws governing progress towards socialism in town and village. Socialist revolution inherits two forms of private property from capitalism: large-scale property of capitalists and landlords and small-scale private property of petty commodity producers, the peasants and artisans, earned by their labour. The revolutionary transformation of large-scale property into socialist property is effected through expropriation of capitalists and landlords by means of nationalising their enterprises, while small-scale property is transformed into socialist property through organising cooperatives which peasants and other small owners join on a voluntary basis.

Consequently, state property (of the whole people) emerges as a result of nationalisation of the chief means of production in industry, agriculture, banking, transport, trade, etc. Conversely, collective-farm-and-cooperative property arises on the basis of the means of production owned by associated petty-commodity producers. These two forms of socialist ownership of the means of production grow and develop in the course of building the material and technical basis of socialism and, subsequently, of communism.

Common and Distinctive Features  
of the Two Forms of Socialist  
Property. The Leading Role of  
State Property

State property belonging  
to the whole people is the  
principal form of property  
in socialist society and  
embraces the chief means  
of production.

All land (in the USSR and Mongolia), its mineral resources, waters, forests, factories, mines, state farms in agriculture, their products, railway and other transport, means of communication, state-run trade and purchase organisations, most urban housing, scientific and cultural institutions--all are the exclusive property of the state.

There is a fundamental difference between state property under socialism and capitalism. Under capitalism state is an instrument of the ruling capitalist class and serves the in-

terests of the exploiters. Hence, state property is nothing else than the collective property of capitalists having therefore the exploitative character.

Bourgeois economists often try to identify state property in the socialist countries with state-monopoly property in the imperialist states in order to camouflage the exploitation of workers under imperialism.

Under socialism state is an instrument of the working people and serves their interests. State socialist property, therefore, belongs to the whole people and rules out the exploitation of man by man.

Collective-farm-and-cooperative property in socialist countries embraces part of the land (except the USSR and Mongolia), agricultural machinery, production buildings, socialised livestock, auxiliary facilities processing farm produce which belong to agricultural cooperatives and also agricultural products produced by them. Besides, it includes trading organisations belonging to consumers' cooperatives with their stocks, enterprises (with production assets and products) owned by producers' cooperative, as well as dwelling houses, houses in summertime settlements, etc.

These two forms of property are of the same type: they express social character of production and appropriation, rule out the exploitation of man by man, establish relations of cooperation and mutual aid, presuppose the socialist principle of distribution according to the work done and through social consumption funds and develop according to plan.

At the same time, there are certain distinctions between them. The most important one is the degree to which the means of production are socialised. State property belongs to the whole people, while collective-farm-and-cooperative property is owned by individual work collectives, i.e., is group property. At state enterprises all the means of production and products are socialised on the scale of society as a whole. In the collective-farm-and-cooperative sector the means of production are socialised on the scale of individual economies. The former is therefore of a higher order than the latter and embodies a higher level of socialisation of production.

State property constitutes 90 per cent of all the basic production assets and embraces all the commanding heights in the economy. State property is a more mature form of socialist ownership and plays the leading, determining role with respect to collective-farm-and-cooperative property within the process of development of the entire socialist social production. The leading role of state property is inherent in its very nature and manifest at all stages of socialist and communist construction. During the transition period from capitalism to socialism the property of the whole people makes possible the emergence and consolidation of collective-farm-and-cooperative property, causes its socialist character as well as the community of economic interests of the two classes in socialist society--the working class and the collective-farm peasantry. At the stage of developed socialism state property (of the whole people), playing a leading role, ensures society's gradual transition from socialism to communism.

It should be noted that there is one more form of socialist property, which has no direct relation to the basic means of production, namely, the property of trade unions and other public organisations which they use to carry out their functions according to their rules.

Right revisionists spare no effort to revise Lenin's tenet on state property as the more mature form of socialist ownership. They maintain that group property is the highest form of socialist ownership and therefore advocate the transfer of all the means of production to individual collectives. However, in effect this type of "socialism" amounts to renunciation of centralised economic management, of plan-based development, and would mean economic differentiation of producers, rivalry and anarchy in social production.

Practical success scored by the socialist countries in developing large-scale production convincingly shows that the objective advantages of socialism over capitalism can be realised only given the leading role of state property and organising activity of the state in the sphere of the economy.

## Two Types of Socialist Enterprises

The two forms of property objectively led to the emergence of two types of socialist enterprises.

The first type includes state enterprises based on state property. The second comprises cooperative enterprises (collective farms) relying on collective-farm-and-cooperative property.

Both these enterprises are socialist enterprises of one and the same socio-economic character. They are of the same type because:

1) both of them are based on socialist ownership of the means of production and relations of cooperation and mutual assistance of workers free from exploitation;

2) in both of them production is carried out according to plan with the aim of building socialism and communism, in the interests of more and more fully satisfying the constantly growing material and cultural requirements of the people;

3) in both of them goods are distributed in conformity with the principle of socialism-according to the quantity and quality of the work done.

Alongside the fundamentally common features, there are certain differences between them, stemming from the specific features of the two forms of property:

1. At state enterprises basic means of production belong to the whole people, while in collective farms and cooperatives they are the property of their work collectives.

2. Goods produced by state enterprises belong to the state and are distributed (sold) according to a state plan, while goods produced by cooperatives (collective farms) belong to the given collective of producers. The bulk of goods they produce is purchased by state procurement organs according to state order and the rest is disposed of by cooperatives at their own discretion.

3. State enterprises being a state property are run by the managers appointed and replaced by competent government bodies with broad participation of representatives of work collectives. Cooperative enterprises are run by collectives themselves which elect chairman and members of the board at their general meetings.

4. At state enterprises remuneration for the work done is effected through wages and salaries established and guaranteed by the state. In cooperatives (collective farms) remuneration is possible both in the monetary form (from a cooperative's funds) and in kind. In case of need state extends credits to cooperatives to set up funds for remuneration for the work done.

State enterprises hold a leading place in the economy of the USSR and the other socialist countries precisely due to the leading role of state property.

The two forms of socialist property and the two types of enterprises account for the existence of two sectors—state and collective-farm-and-cooperative—in the economy of socialist states. State sector includes state enterprises, while collective-farm-and-cooperative sector embraces all the collective farms in the USSR (agricultural cooperatives in the other socialist states), as well as producers', trading and other cooperative organisations. These two sectors are interconnected and constitute a single socialist economy.

Development and Convergence of  
Two Forms of Socialist Property  
Under Developed Socialism

At the stage of developed socialism two forms of socialist property and two types of socialist enterprises develop and

converge intensively.

This concerns above all state property and enterprises. They develop towards the further socialisation of production. This is borne out by the growth of production, primarily in the state sector. The volume of industrial production which is entirely included in the Soviet state sector grew 23-fold between 1940 and 1982.

The improvement of forms of social organisation of production, i.e., optimum concentration and specialisation of enterprises and deeper cooperation between them, also testify to the development of state property and enterprises. Ties between enterprises (including those between state and cooperative enterprises) and between branches of the economy diversify and grow stronger: they merge into a single economic

complex in which the leading role belongs to state property. Relations between individuals and work collectives with respect to joint appropriation of material benefits improve considerably: collectivism, mutual assistance and coordination of efforts of those engaged in social production grow markedly and economic development becomes increasingly plan-based, which serves the improvement of the economic management system. The USSR, for instance, accelerates the organisation of production and scientific-cum-production amalgamations. They account about 50 per cent of industrial output. Other forms of economic management also improve.

The development of state property (of the whole people) is also seen in that collective farmers and members of cooperatives immediately participate in using state property on increasingly wider scale. They make wider use of centralised social consumption funds through which they receive free education, medical services, social security and insurance (pensions, allowances, etc.) on a constantly growing scale.

Collective-farm-and-cooperative property and cooperative enterprises also develop apace, which is evident, firstly, from the growth of cooperative production. In 1965-1979 Soviet agricultural output grew by more than 20 per cent with the overall number of collective farmers decreasing by 26 per cent. Secondly, the share of social economy of cooperatives (collective farms) in the personal incomes of their members also grows considerably. Thirdly, production relations in cooperatives become ever closer in their character to those at state enterprises. This concerns wages and labour organisation, various kinds of incentives, etc.

The creation of joint enterprises producing and processing agricultural produce is of especial importance for the development of both forms of socialist property. In the USSR, for instance, agriculture develops through intensive industrialisation and putting farm work on industrial basis. This is inconceivable without establishing agroindustrial complexes and other associations financed jointly by several collective or state farms, and other state agencies. Such associations and agroindustrial complexes can hardly be established by individual farms on their own. Their creation has, in

effect, given rise to new forms of socialist social ownerships derivative from the two basic forms of socialist property. This refers to the inter-collective-farm property which includes enterprises and agencies belonging to several collective farms, and state-and-collective-farm property embracing enterprises and agencies built jointly by state bodies and collective farms. The number of such joint enterprises and agencies grows constantly in the USSR.

#### Personal Property

Under socialism, personal property relations exist along-side social property relations. Bourgeois economists allege that socialism abolishes personal property. Exposing this anti-socialist slander, Marx and Engels maintained that socialism does not deprive anyone of the possibility of personally appropriating a certain part of material wealth. Socialism does not abolish personal property, but for the first time in history opens up a real opportunity for the broad working masses to increase their personal property.

Under socialism, the personal property embodies relations arising between individuals with respect to appropriating goods intended for personal consumption. The personal property includes earned incomes and savings, individual dwellings, articles of everyday use and convenience.

In trying to conceal the exploitative character of private capitalist property, bourgeois economists identify it with the personal property under socialism. There are, however, fundamental differences between the two. Private property includes above all the means of production, while the personal property embraces articles of personal consumption. The former is based on the exploitation of working people, unpaid- for labour of wage workers being its source, whereas the personal property in socialist society is formed exclusively by individual labour, and is, therefore, based on earned income.

The volume of the personal property depends on the growth of social property because the source of the personal property of all the members of socialist society is their labour, above all, in social production. The rapid growth of social property creates the necessary conditions for con-

stantly improving the working people's well-being, and personal well-being of every individual is determined by his personal contribution, quantity and quality of the work he does. The better he works and the greater his contribution to social production--the larger his share in the aggregate personal consumption fund.

Subsidiary individual holdings are a variety of the personal property under socialism. They may include vegetable and fruit gardens, livestock and poultry. The all-round development of social production does not imply that personal subsidiary holdings have been rendered unnecessary. On the contrary, they are an important additional source in the supply of vegetables, fruits, meat and dairy products. State and cooperative enterprises give assistance to their workers who have individual subsidiary holdings by providing them with young animals, fodder and the other means of production to promote subsidiary farming.

The personal property in subsidiary farming supplements state property and collective-farm-and-cooperative property. It is based on individual labour and rules out any possibility of exploitation of man by man.

### 3. Economic Laws of Socialism. Their Character

New economic laws, the laws of socialism, emerge and start operating on the basis of socialist social ownership of the means of production and socialist production relations. The abolition of capitalist production relations removes the objective economic conditions for the operation of capitalist laws. The law of surplus value, of rivalry and anarchy of production, the universal law of capitalist accumulation and other capitalist economic laws cease to operate and give way to socialist economic laws. These include the basic economic law of socialism, the law of planned development of social production, the law of steady growth of labour productivity, the law of distribution according to the work done, etc. They are specific laws inherent in socialism, i.e., laws that emerge and operate only on the basis of socialist production relations. These laws, except the law of distribution accord-



ing to the work done, will also operate under communism.

Under socialism, general economic laws operate alongside its specific laws. General economic laws operate in all the economic formations; e.g. the law of correspondence of production relations to the character of the productive forces. Besides, the law of commodity production--the law of value, continues to operate within the system of socialist economic laws until the commodity-money relations exist in society, i.e., until communism has been built.

#### Objective Character of Socialist Economic Laws

As all the other economic laws socialist economic laws have objective character, i.e., they arise and operate independently of man's will and consciousness. They are objective laws because their operation is determined by the objectively existing socialist production relations. In their turn, the latter depend on the development level and character of the productive forces.

Disregard for or denial of the objective character of socialist economic laws leads to voluntarism in the economic policy and paves the way to adventurism in the economic management. When they clash with reality, however, such policies go bankrupt sooner or later. The laws "mete out severe punishment" to those who disregard their objective requirements.

Unscientific approach to economic laws may lead to another extreme--the making of economic laws a fetish, i.e., ascribing to them such qualities which make them an unknowable force dominating the man. Fetishism is as harmful as subjectivism. The former results in the denial of the guiding role of the Marxist-Leninist party and the state in the economic development and to the disparagement of the constructive role of the masses, while the latter leads to voluntarism in politics.

#### Differences Between the Economic Laws of Socialism and Capitalism

The objective character of socialist economic laws does not imply their spontaneous operation as is the case under capitalism. The economic laws of socialism fundamentally differ

from the capitalist economic laws both in their essence and operation.

The most important distinctive feature of the socialist economic laws consists in that they reflect the essence of the socialist production relations. In contrast to the capitalist economic laws which reflect relations of exploitation, subjugation and oppression, they express relations of cooperation and socialist mutual assistance of men free from exploitation.

Under capitalism these laws operate as a force dominating men because society is unable to control the interrelationship between production, distribution, exchange and consumption. This interrelationship operates spontaneously. In capitalist society commodity producers are guided by their personal interests and relations among them are marked by acute rivalry. In this context economic laws operate amid the chaos of actions of individuals, as a certain average tendency which the producers become aware of only as a fait accompli.

In contrast, socialist society comprehends the essence of the economic laws by its collective reason relying on social ownership of the means of production which unites all enterprises and institutions into a single economic organism and secures the community of interests of all members of society. Having understood the economic laws, people start to act in conformity with them. In other words, the socialist economic laws operate as a perceived objective necessity.

Under socialism, economic laws are consciously used for the benefit of the working people. Cognition of the economic laws is not an end in itself. They are cognised to be applied in practical activity. In this way society foresees the end results of its activity and is able to consciously guide its progress.

This does not mean, of course, that socialist economic laws as a perceived necessity operate automatically. The subjective factor is also important. Men must grasp the essence of the economic laws and act accordingly. Disregard of the economic laws is fraught with grave consequences, and a thorough study of these laws is therefore an important task for

the whole society. That is why political economy of socialism as a science of laws governing production, distribution, exchange and consumption of material wealth and services acquires tremendous importance under socialism. It helps people to gain a more profound knowledge of the economic laws and consciously use them in building a communist society.

People are the makers of history, but they can be the conscious makers of history in the full sense of the word only under socialism and communism when all the economic laws are harnessed by people. Only then can they accelerate the historical progress.

Thus, the socialist economic laws express socialist production relations and operate as a force controlled by society. These specific features are common for the entire system of laws operating under socialism.

#### 4. The Economic Role of the Socialist State

The socialist state comes to play a fundamentally new role given the domination of socialist social ownership of the means of production and the leading role of state property, belonging to the whole people.

The state is the most important component of social, political superstructure over the economic basis of society. The latter defines the character of the state. At the same time, being the most important element of social superstructure, the state is relatively independent and does itself influence the economic basis. That is why it represents a powerful economic force in all the socio-economic formations. However, in all the pre-socialist formations the state does not own the basic means of production and its economic role is, therefore, limited.

Conversely, under socialism all the basic means of production (industrial enterprises, mines, transport, communications, trade) as well as finances belong to the state and this changes its character in general and its economic role in particular. Its character changes because with the abolition of the antagonistic classes the state ceases to be an instrument of domination, coercion and oppression in the hands

of the privileged minority. The socialist state is the state of the working people.

The socialist socialisation of the means of production makes the state an important lever of economic management. And this is much more than just the growth of its economic role, because the state acquires a qualitatively new function, that of running and organising the national economy.

The Economic and Organising  
Function of the Socialist  
State

The economic and organising  
function implies a planned ma-  
nagement of the economy by the  
socialist state in the name

and for the benefit of the whole people to ensure the steady progress to communism. It is a multifaceted activity encompassing all the socio-economic processes. Its basic elements include the following:

1. The planning of the volume and the structure of production in both the state and collective-farm-and-cooperative sectors of the economy; the volume and the structure of capital investments; the growth rates of labour productivity; a planned distribution of material and manpower resources among various sectors and spheres of the economy, i.e., a plan-based determination of the economic proportions; and the planning in all types of transport.

2. The planning of the volume of the commodity circulation (including agricultural produce purchases); the setting of fixed prices for goods and services provided by the system of state and cooperative trade and the services, and regulating collective-farm market prices; organising, on a planned basis, the functioning of the credit and finance system; and the planning of money circulation.

3. A plan-based organisation of distribution according to the work; organisation of the wages and salaries system and the planning of its level on the basis of broad application of material incentives, which makes it possible to most fully use the feedback effect of distribution on production.

4. A plan-based carrying out of foreign economic relations. The socialist commodity countries base their mutual relations on cooperation, comradely assistance and the socialist

economic integration. They give countries that have cast off the colonial yoke and opted for independent development an all-round assistance in creating their national economies. The socialist states have established mutually advantageous trade relations with the capitalist countries pursuing the policy of peaceful coexistence between countries with different socio-economic systems, in the name of peace in the world.

5. The carrying out of the economic and organising function includes the steady raising of material and cultural standards of the people, which is the highest goal of socialist society and hence of the socialist state.

6. The carrying out of this function is inseparable from instilling labour discipline, communist attitude to work and thrifty attitude to social property (regime of economy) which are aspects of its political and educational function aimed at promoting the initiative of the masses. The organisation of socialist emulation constitutes an important element of both the political and educational and the economic and organising function of the socialist state.

The Economic Policy of  
the Socialist State

The economic and organising function of the socialist state, that of running the national economy,

fundamentally changes the essence, place and role of the economic policy. It now becomes the basis for the guiding of the economic and social processes by the state and for the conscious application of the economic laws to promote the all-round development of society. It is not only a beacon in socio-economic development but is a form of practical organisation of the people's activities aimed at building socialism and communism.

The economic policy of the socialist state is practicable only if it is scientifically founded. This means that it must be science-based, i.e., proceed from the level of production achieved and the resources available. It must also map out the correct prospects for social development on the basis of accurate account of society's growing needs and operation of the economic laws. The economic policy must proceed from the concrete historical internal and international conditions

affecting the country's development and set the people realistic tasks and attainable objectives. The socialist state's economic policy is worked out by the ruling Marxist-Leninist party guided in its activity by the scientific theory of Marxism-Leninism. This is the main condition of its being scientifically grounded.

The primacy, in a certain sense, of politics over economics is another important aspect of the economic policy's scientific grounding. And this primacy must be taken a due account of. Economics and politics are closely intertwined, with economics being primary and politics secondary. Economics determines politics: under the capitalist economy the policy of the bourgeois state serves the ruling capitalist class, while the socialist economy makes the policy of the socialist state promote the interests of the working class, all the working people. The determining role of economics with respect to politics does not rule out and, moreover, presupposes a certain primacy of politics over economics. As Lenin aptly put it, this primacy consists in that politics is a concentrated expression of economics, its generalisation and consummation. This implies that, firstly, under socialism the feedback effect of politics on economics is so powerful that in socialist society the former is a means of transforming the latter. Secondly, this implies that the solution of economic task depends above all on corresponding political measures, on the correct political approach. And finally, the primacy of politics over economics means that any economic measure of the socialist state must be regarded from the viewpoint of political consequences it would entail.

The socialist state's economic policy is not an immutable dogma given once and for all. This is due to the fact that, firstly, the new, even greater tasks face the state in the process of building socialism and communism once the previous ones have been solved. Secondly, the methods, ways and means of economic management develop and improve as the time passes. But whatever the changes, there is always a continuity in the socialist state's economic policy. And this is only natural, since every new stage in the development of the economic policy is the continuation of the preceding one and stems

from what it has achieved. Taken together they constitute the successive steps in the single process of implementing the gigantic plans for building socialism and communism drawn up by the Marxist-Leninist parties.

The Economic Strategy of a Marxist-Leninist Party

The economic strategy of the Marxist-Leninist party--the political vanguard of the

people--is the pivot of the socialist state's economic policy. It outlines the ultimate goal of the economic policy, its main direction as well as ways, means and methods of achieving it. The CC CPSU Report to the 25th Party Congress noted: "Just as any other strategy, the Party's economic strategy begins with the formulation of tasks, with the identification of fundamental, long-term aims. The most important of these has been and remains a steady rise of the people's living standard and cultural level. Economic strategy also covers a precise determination of the means, of the ways of attaining the set aims".<sup>1</sup>

The drawing up of the economic strategy is of paramount importance because it lends the scientific character to the entire economic policy, makes it purpose-oriented, and subordinates all aspects of socialist and communist construction to achieving the main strategic objective. The economic strategy allocates priorities and defines ways and means best suited for the solution of specific tasks. It determines the steps necessary to mobilise the masses for implementing the policy drawn up by the party and the government.

The Basic Features of the CPSU's Economic Strategy at the Stage of Developed Socialism

Today the Soviet people are implementing the economic strategy drawn up by the CPSU for the stage

of developed socialism. The guidelines of the Party's economic strategy under developed socialism were outlined and further specified by the 24th and the further Party Congresses.

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<sup>1</sup> Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. XXVth Congress of the CPSU, Moscow, 1976, p. 48.

Under developed socialism, the economic strategy of the CPSU is based on the achievements in the economic development made during the years of Soviet power as well as advantages offered by developed socialism. It takes into account the qualitatively new development level of the productive forces in Soviet society and the mature socialist production relations and proceeds from the objective needs of the country's economic development.

One of the most important distinctive features and the primary goal of the CPSU's economic strategy at the stage of developed socialism is the further raising of the people's living standards. In the developed socialist society the economic policy is centred on securing a steady growth in the people's material and cultural standards.

The transition from the extensive to intensive economic development is another distinctive feature of the Party's economic strategy at the stage of developed socialism. The solution of the rest of the tasks, including that of raising the people's well-being, depends on the achievement of this cardinal objective. The transition to the intensive economic development presupposes a broad application of scientific and technological advances in production, an all-round increase in the efficiency of production, the improvement of the quality of work in all the economic links and the achievement of the higher ultimate results.

The instilling in the working people of a thrifty attitude to social property is another important direction of the CPSU's economic strategy. The solution of the tasks set by the Party before the Soviet people is unthinkable without a thrifty attitude to social property and an ability to make rational use of everything the country has.

The economic strategy of the CPSU is based on the growing production initiative and socio-political activity of the masses. And here the countrywide socialist emulation is the most graphic example. Socialist emulation spells out innovation by the people. Underlying it are the people's high level of consciousness and initiative. It is this initiative that helps to reveal and tap the potentialities of production, and



enhance efficiency and quality. Under developed socialism the countrywide socialist emulation has acquired various forms. These include the drives for adopting upwardly revised plans, for fulfilling and overfulfilling production quotas, for saving fuel and raw materials, for working without rejects, for increasing output of top quality products, for gaining the honorary titles of teams and collectives of communist attitude to work. These basic forms of socialist emulation have become a powerful booster in the development of social production and an earnest of the successful fulfillment of the tasks set by the CPSU before the Soviet people in the building of a communist society.

## Chapter 5

### THE BASIC ECONOMIC LAW OF SOCIALISM

#### 1. The Essence of the Basic Economic Law of Socialism

Each socio-economic formation has its own system of economic laws. And each individual economic law embodies a certain cause and effect relationship, an aspect of production relations. A system of economic laws embodies a totality of production relations prevailing in a given socio-economic formation.

The system of economic laws hinges on the basic economic law which determines the essence of the entire social production. This objective law expresses the immediate goal of production in a given socio-economic formation and a means for achieving it.

The Goal of Socialist  
Production

The basic law of capitalism embodies the immediate goal of capitalist production--appropriation of the surplus value by the capitalists, i.e., their enrichment. This aim is conditioned by the objectively existing production relations and is, therefore, of objective nature. In trying to conceal the real goal of capitalist production, bourgeois economists maintain that social production under capitalism is aimed at meeting the people's consumption needs. The untenability of this assertion consists in the deliberate identification of the direct goal of capitalist production with the natural ultimate purpose of production, i.e. the satisfaction of the people's needs (consumption). Under capitalism the private interest of the capitalist owners of the basic means of production lies between the ultimate goal of social production (consumption) and the process of production itself. And it is precisely this private interest that determines the immediate goal of capitalist production--the enrichment of the capitalists. Consequently, under capitalism the immediate goal of production and its ultimate purpose run counter to each other.

The victory of socialist revolution establishes the domination of socialist production relations and brings into operation the basic economic law of socialism which expresses the new, fundamentally different goal of social production.

Under socialism, the means of production belong to the whole people and relations between people are based on cooperation and mutual assistance. Here the satisfaction of the people's needs is the immediate goal of social production. Thus, under socialism the immediate goal of social production coincides with the natural ultimate purpose of social production--the people's consumption. And this is the driving force of socialist society and one of the advantages of socialism over capitalism.

The orienting of production towards meeting the needs of all the members of society is an objective process and an economic form of implementing socialist social ownership of the means of production. Private ownership of the means of production makes production serve the enrichment of the privileged minority while socialist social ownership orients production on meeting the needs of all the members of society.

The goal of socialist production was discovered and formulated by Marx and Engels at a time when socialist production was still non-existent. In analysing the general laws governing society's development they drew a theoretical conclusion that the satisfaction of the needs of all the members of society would be the goal of production under socialism. Engels wrote that socialism opened for the first time ever a "possibility of securing for every member of society, by means of socialised production, an existence not only fully sufficient materially, and becoming day by day more full, but an existence guaranteeing to all the free development and exercise of their physical and mental faculties".<sup>1</sup>

Lenin further developed the conclusions drawn by Marx and Engels concerning the goal of socialist production. In drawing up the draft Programme of the RSILP to be adopted by the

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<sup>1</sup> F. Engels, Anti-Dühring, Moscow, 1977, p. 343.

Second Party Congress he wrote that socialism meant "...the abolition of private ownership of the means of production, their conversion into public property, and the replacement of capitalist production of commodities by the socialist organisation of the production of articles by society as a whole, with the object of ensuring full well-being and free, all-round development for all its members".<sup>1</sup>

The real socialism in the USSR and in other socialist community countries has borne out the conclusions of the founders of Marxism-Leninism on the fundamentally new goal of social production under socialism. In all the socialist community countries production actually promotes the well-being of the whole people and the all-round development of every individual. The economic policy drawn up by the fraternal parties and governments stems from the goal of socialist production inherent in socialist social ownership of the means of production and the entire system of socialist production relations. The Party approach, the political approach to the economy has invariably been based on the programmatic requirement--everything for the sake of man, for the benefit of man.

Consequently, the goal of socialist production is the fullest possible satisfaction of the growing needs of the people and ensuring the all-round development of all the members of society. Socialist production is aimed at satisfying not only material, but also cultural, intellectual and all the other social needs of the people.

The Means of Achieving  
the Goal of Socialist  
Production

The goal of social production is inseparable from the means for achieving it. Under capitalism, exploitation of wage labour is a means for producing surplus value. The planned development of production itself is a means of achieving the goal of socialist production.

The means for attaining a certain goal of production always is objective in character as the goal itself. Its objec-

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 6, Moscow, 1974, p. 26.

tive character also stems from the nature of production relations of a given mode of production. Thus, exploitation of wage labour as a means for obtaining surplus value stems from the nature of the capitalist production relations. Surplus value is the unpaid-for labour of the worker, a part of value created by his labour and appropriated by the capitalist. Hence, the greater the number of workers exploited by the capitalist and the higher the degree of exploitation of each worker, the higher the surplus value created. There is no other way for creating surplus value.

Under socialism, however, the people's needs are satisfied by means of distributing social product created by them, and the degree to which these needs are satisfied depends on the volume of social product created. The more material, intellectual and social wealth is created in society, the fuller the people's needs will be satisfied. The growth of social product, in its turn, depends on the growth of social production. Hence, a means for achieving the goal of socialist production is the planned development of production itself, based on socialist social ownership of the means of production.

The growth of labour productivity is central to the development of production. Consequently, the constant improvement of social production based on the wide application of scientific and technological advances and better labour organisation is vital for fully meeting the growing needs of the people. The developed socialism and mature socialist production relations as well as development level achieved by productive forces open up fresh opportunities for a steady development of production, acceleration of scientific and technical progress, a transition to intensive economic development and more rational utilisation of the country's production potential.

Thus, the fullest possible satisfaction of the growing needs of the people and ensuring the all-round development of all members of society through the steady and plan-based growth and improvement of social production constitutes the essence of the basic economic law of socialism which expresses the goal of socialist production and the means of achieving it.

## 2. The Operation of the Basic Economic Law of Socialism and the Growth of the People's Well-Being Under Socialism

The basic economic law of socialism reveals the advantages of socialism over capitalism. While the operation of the basic economic law of capitalism, the law of surplus value, intensifies the exploitation of the workers and aggravates the position of the working masses, the basic economic law of socialism promotes a steady rise in the living standards of all the members of socialist society. Lenin wrote: "In the old days, human genius, the brain of man, created only to give some the benefits of technology and culture, and to deprive others of the bare necessities, education and development. From now on all the marvels of science and the gains of culture belong to the nation as a whole, and never again will man's brain and human genius be used for oppression and exploitation".<sup>1</sup>

In drawing up their economic policies the communist and workers' parties and the governments of the socialist countries take due account of the requirements of the basic economic law of socialism and implement them consistently. Concern for the man, for the well-being of the people underlies their activities.

The USSR and the other socialist community countries convincingly show that nations which have embarked on building socialism and communism are capable of putting an end, within a short historical period, to backwardness and poverty inherited from capitalism and secure a rapid rise in the living standards of the working people.

At the initial stages of building socialism, during the period of transition from capitalism to socialism, the efforts of the party and the state aimed at improving the people's well-being are hampered by the weak material and technical basis inherited from capitalism. These difficulties were especially acute in the USSR which for a long time was the only country on the globe building a new socialist society encircled by hostile capitalist states. Nevertheless, the advantages

<sup>1</sup> V.I. Lenin, Collected Works, Vol. 26, pp. 481-82.

of socialism over capitalism make themselves felt already during the transition period. The people's living standards were steadily growing in the USSR during the transition period. Having taken power in their own hands, the working people became confident in the morrow and set about abolishing the anarchy of production, overproduction crises, unemployment and discrimination of the working people in the economic, political and social spheres. As production developed, hard physical work was being gradually ousted and working hours shortened. The socialist state introduced state social insurance, regular paid leaves, free medical service, opened up numerous nurseries and kindergartens, and handed over the country's housing fund to the working people. The cultural revolution put an end to illiteracy, introduced free secondary and higher education, set up an extensive network of schools and institutions of higher learning, and promoted a steep rise in the cultural level of the people.

The living standards of the people grow considerably faster during the building of developed socialism. The growth rates stabilise particularly at the stage of developed socialism because now society possesses a powerful material and technical basis. Securing the rise in the people's living standards and promoting their material and social well-being constitute the backbone of the Party's and the socialist state's economic policy and the principal objective of the economic development.

The Development of  
Socialist Production

The rise in the people's living standards is secured through the growth and improvement of socialist production, and this conforms to the essence of the basic economic law of socialism. The socialist countries attach primary importance to the economic development. They have achieved tangible results in this sphere. During the years of Soviet power the USSR became a major industrial country. While in terms of industrial output pre-revolutionary Russia held fifth place in the world and produced a little over 4 per cent of world industrial product, today the USSR accounts for one-fifth of world industrial output and holds the first place in

Europe and second place in the world, rapidly catching up with the major capitalist power, the United States. The Soviet Union has built many large-scale enterprises. In terms of capital investments' growth rates the USSR has left all the capitalist powers far behind.

This rapid growth of production was achieved through combining socialism's advantages with scientific and technological advances. Therefore, industries accounting for technical progress develop most rapidly.

Soviet agriculture also grew considerably. Industrial development, above all engineering, helped turn agriculture into a highly mechanised sector of the economy.

Under developed socialism Soviet economy developed most rapidly. Results of the USSR's economic development during the 1970s are given in the table below (thousand million roubles in comparable prices):

	1970	1980	1980 as a percentage of 1970
Gross social product	637	1,061	167
Industrial production	352	627	178
Agricultural production	100.4	123.7	123
Retail trade turnover	158.1	268.5	170

Following the Party directives concerning the need to raise the efficiency of production, accelerate the progress in science and technology and increase labour productivity, those industries which ensure technical progress developed particularly rapidly during the past decade. Accordingly, during that period the growth of production of the means of production equalled that of the preceding 20 years, power engineering and chemical industry output doubled, that of engineering increased by 170 per cent, of instrument-making by 230 per cent and of computers by 900 per cent.

The creation and development of the territorial-industrial complexes which secured increment in the output of oil, gas, coal, tractors, etc. in the USSR during the 1970s, was



a radically new feature in the development of the country's productive forces.

The 1970s saw a considerable improvement of agriculture's material and technical basis which acquires more and more features typical of industry.

In view of the powerful economic potential created in the USSR during the Soviet years, the 26th CPSU Congress set before the Soviet people grand tasks of developing the economy in 1981-85 and in the period up to 1990. The present decade is the decade of the completion of transferring the Soviet economy on the road of intensive development and a further rise in the efficiency of production based on accelerated technical progress, increased labour productivity and higher quality of goods. It will also witness a radical improvement in the technological and organisational standards of production. To secure the achievement of the objectives set, all effort and resources are to be concentrated on the main directions, on priority development of industries that are economically most efficient, rational distribution of productive forces and further utilisation of Siberia's natural wealth.

Improving the People's  
Well-Being

The well-being of the people is expressed in the rise of their living standards. The basic indicators here include: real incomes, employment, consumption of

material wealth, living conditions, the length of the working day and working conditions, the level of education and medical services for the population, average life expectancy, etc.

To understand the growth of Soviet people's living standard one should bear in mind that during the years of the Soviet Power real incomes of workers and employees grew more than 10 times and those of peasants 16 times.

The USSR had long ago put an end to unemployment and introduced a unified system of pensions with pensionable age being lower than in most countries. In the USSR the secondary education is universal and compulsory and financed by the state. Soviet society bears the brunt of expenditures connected with the upbringing of the rising generation. Medical service is free of charge and appropriate sanitary and hygienic measures at work have been adopted which brought the USSR to the bottom of the list of countries in terms of incidence of

occupational traumatism. Housing problem in the country is being successfully tackled with the result that the Soviet Union has left all the capitalist countries far behind as far as housing construction is concerned. Today the USSR builds as much living space as all the European capitalist states together, and rent in the USSR, moreover, is the world's lowest.

The developed socialism in the USSR opened wide fresh opportunities for boosting the people's well-being. During the 1970s the state allocated almost twice as much money for this purpose as between 1961 and 1970, with the result that per capita real income grew by 50 per cent and social consumption fund by 70 per cent.

The targets set for the present decade are even more grandiose. During the 1980s the Communist Party continues consistently to implement its economic strategy, the supreme objective of which is steady improvement of the material and cultural standards of the people's life and the creation of better conditions for the all-round development of the individual, based on further growth of the efficiency of all social production, higher labour productivity and greater social and labour activity of the Soviet people.

A number of additional but very important measures are implemented in order to achieve the targets set.

1. It is envisaged to increase consumption funds both in absolute and relative terms. Intensive economic development makes it possible to achieve higher results with smaller capital investments, and this enables the state to channel part of national income thus released for increasing consumption fund through relative reduction (but absolute increase) of accumulation fund.

2. Production of consumer goods grows at higher rates and this will make it possible to saturate home market with goods that are in high demand. To solve this task with the least capital investments possible it is planned to further increase production of consumer goods by heavy industry enterprises whose share in the overall output of consumer goods other than foodstuffs will reach over 50 per cent of the total.

3. It is envisaged to carry out a number of special programmes, above all the food and complex programmes of development of production of consumer goods and service system for the population. The food programme is aimed to improve the nutrition structure of the population of the USSR and provide the stable supply with all kinds of foodstuffs. Special attention is paid to increase the output of high quality grain, meat, milk, vegetables and fruits. The tasks assigned by the food programme will be attained by speeded development of material and technical base in agriculture, intensification of agriculture production, application of achievements of the scientific and technical revolution, further overcoming of substantial differences between town and country, approach of living standards and mode of life of working people in the country and town. The food programme encompasses the entire agricultural production as a single complex, as well as those branches of industry and transport on which the transportation, storing and processing of agricultural produce depend. Great and important tasks for improving the living standards of people will be attained also by carrying out the complex programme of development of production of goods and services for the population.

The constant improvement of the people's well-being is a general law governing the development of all the socialist countries, and this is a most important advantage of socialism over capitalism providing a tremendous revolutionising stimulus for the world communist movement.

## Chapter 6

### PLANNED DEVELOPMENT OF SOCIALIST SOCIAL PRODUCTION AND ECONOMIC MANAGEMENT

#### 1. Planned Development of Social Production-- an Economic Law of Socialism

Socialist social production develops on a planned basis. It is a joint, conscious, and purposeful production process which implies centralised production management, harmonisation and coordination of all stages of the production process. Under socialism, planning involves the national economy in its entirety. Socialist production is thus basically different from production under capitalism.

The Law of Planned Development  
of Social Production

The nature of economic re-  
lations in the process of  
social production is deter-

mined by relations of ownership of the means of production and by its objective purpose. Under socialism, social ownership of the means of production predominates. State (national) ownership plays a determining and leading role in the national economy. The national economy thus becomes a single productive entity, one giant enterprise. Workers work for themselves, for their society. It is the unity of social production, common economic interests of the people, linked with attaining the purpose of social production, that determine the unity of the production activity and its deeply conscious and purposeful nature. All this makes planned development of production on a nation-wide scale an objective necessity. Planning becomes a universal form of the process of social development, its economic law. This means that all the above mentioned elements of the planned economic development are applied on a nation-wide scale. They involve production as such, distribution, exchange and consumption of material benefits and services.

Planned development is an expression of the inherently social nature of socialist production. Economic relations bet-

ween enterprises and society as represented by the state and those among enterprises are direct and immediate, are purposeful and conscious activities of society.

Thus labour, the basic element of production process, in socialist society also becomes directly social. It is planned by the society and expended in production to manufacture goods and services needed by it. This means that individual labour, the labour of the staff of enterprises is planned by the society in advance, as an integral part of aggregate social labour and is directly included therein.

As far as economic relations among enterprises involving sales of products are concerned (commodity-money relations), they are but a supplement to direct and immediate relations established by the society in the process of elaboration and implementation of economic development plans. The sales of products, which represent the inclusion of individual labour into aggregate social labour in an indirect manner, by means of its products and their sales, are a supplementary channel, demonstrating the usefulness of expended labour for society and its social nature.

The effect of the law of planned development of social production creates all the necessary conditions for a rational utilisation of material, financial and labour resources of society, allows concentrating them on decisive, most important and promising economic directions and areas. It serves as a powerful force for progress in science and technology, which is of special importance at the present stage of scientific and technical revolution; it contributes to maximum savings of work time, to a general increase in production efficiency, and improvement of its final results. In this manner, continuous and dynamic development of social production is guaranteed.

Planned Regulation of  
Social Production

Planned regulation of social  
production is the most important  
expression of the law of

planned development. It involves production management out of a single centre and a coordination of activities of its participants on the scale of national economy as a whole. In the process of management, the necessary economic proportions are

established and maintained, reflecting both the needs of a given country and those of the socialist community as a whole. Planned regulation of production begins with a stocktaking of material, financial and labour resources of society, an analysis of dynamics of social demands determined by society's constant desire to improve the living standards of the population, as well as by all the other tasks associated with the building of socialism and communism. Besides the increase in the requirements, their structural changes are also taken into account.

In the process of planned regulation, resources of society are distributed by branches of the economy, geographical regions of the country and enterprises so that production takes place in accordance with the increasing and changing social needs. Thus strict proportions and balances are attained between all the links of the social production chain.

As a governing force of social production, the law of planned development interacts with other economic laws, primarily with the basic economic law of socialism, which determine the contents and nature of economic proportions. Planned regulation of production is performed by society as a conscious and scientifically substantiated process, involving understanding and conscious utilisation of economic laws operating in the national economy.

Scientific forecasting of impending changes in society's needs in the structure and volume of production determined by social development is an integral element of social production regulation on a planned basis. Society thus plans and coordinates its activities not only for the current, but also for the long-term time frame.

Planned regulation of social production is carried out by the socialist state in the form of immediate, directive management in conjunction with the utilisation of economic means of influencing production, such as cost accounting, prices, credit, enterprise profits, etc. The state involves work collectives of enterprises and organisations at large in the process, relying on the enthusiasm and initiatives of the working masses.

In this connection, totally "erroneous" allegations of bourgeois scholars should be mentioned, to the effect that planned regulation of social production under socialism is nothing but arbitrary action by the state authority. "Left"-wing revisionists approach planned regulation in a similar manner. The Macists, for instance, undertook to demonstrate in practice that any plan, any growth in the development of production could be successful. Right-wing revisionists who advocate socialism without centralised state regulation of the economy, which is its inherent feature, are also "in error". They advocate an anarchy of market forces with market situation and spontaneous operation of the law of value regulating production. Thus they reject the operation of the law of planned development of social production under socialism while preaching the cult of market anarchy and competition.

Savings in Work Time  
(Social Labour)

The operation of the law of planned development of social production creates the most favourable conditions for saving social work time (social labour).

Under capitalism, work time is saved as a result of the operation of the law of value. Competition forces capitalists to improve their enterprises' technology thus decreasing labour expenditure in commodity production to survive the competition and increase profits. The savings, however, are unstable, since the anarchy of capitalist social production entails a waste of labour due to fluctuations in market prices, difficulties in product sales and production crises.

Under socialism, social production is controlled by organised producers themselves. They consciously manage it in the interests of the people achieving a strict correspondence of material benefits and services produced to the structure and volume of social requirements. By rationally distributing the means of production and labour resources by economic branches, socialist society is really able to achieve maximum output at a minimum of expended social labour. Thus work time savings are accomplished. "Saving in labour time, as well as a balanced distribution of labour time by various production branches is a primary economic law operating in the conditions

of collective production. That law acquires even greater importance".<sup>1</sup>

Savings in work time (social labour) are the core of the intensive method of development of social production.

The Impossibility of Planned Social Production Under Capitalism      As distinct from the situation under socialism, under capitalism planned development of social production on a nation-wide scale is impossible. No matter how stubbornly bourgeois economists attempt to prove the opposite, their theories fail to stand the test of reality. Under capitalism, only the need arises for planned development of social economy. It is created by the social nature of the capitalist production process and by the high level of development of society's productive forces. In this connection V.I. Lenin wrote, "Large-scale machine industry, unlike the preceding stages, imperatively calls for the planned regulation of production and public control over it."<sup>2</sup>

The predominance of capitalist private property, however, precludes the evolution of this need into an objective necessity, into reality, i.e. into an economic law of social production.

Isolated by private ownership of the means of production, capitalist enterprises function independently of one another. They are unable to coordinate their activities, neither one in relation to another nor in relation to the social demand for their output, to the full degree required by planned development. The anarchy of social production dominates the capitalist world.

Under imperialism, especially under state-monopoly capitalism, attempts at economic "regulation" and "programming" are made involving the intervention by bourgeois states in the economies of their countries. The ideologists of imperialism waste no time in trying to convince the public opinion that these activities by bourgeois states are nothing but planned economic development, signalling the emergence in the historical arena of a new "planned" capitalism capable of over-

<sup>1</sup> Marx and Engels, Archives, Moscow, 1935, Vol. IV, p. II9 (in Russian).

<sup>2</sup> V.I. Lenin, Collected Works, Vol. 3, p. 543.



coming its evils and guaranteeing crisis-free development. In reality, however, state-monopoly "regulation" and "programming" of economy is merely an attempt by bourgeois states to influence the production by economic incentive methods so as to channel its development in accordance with the interests of the financial oligarchy. The interference does not eliminate the predominance of private capitalist property or the anarchy of social production. It cannot lead to directive management of the economy (i.e. obligatory implementation of decisions of a central state management authority). Therefore, state-monopoly "regulation" and "programming" have nothing in common with planned development of social production. K. Marx wrote, "The essence of bourgeois society consists precisely in this, that a priori there is no conscious social regulation of production."<sup>1</sup> The proof is in recurring economic crises accompanied by deep recession, unemployment and inflation, all of which remain permanent fixtures of the capitalist economy.

## 2. Accomplishment of Economic Proportions

Balanced Economic Development      Planned development of socialist economy implies an objective necessity of coordinating and harmonising all elements of social production, i.e. balanced economic development. V.I. Lenin pointed out: "Constant, deliberately maintained proportion would, indeed, signify the existence of planning".<sup>2</sup>

Balanced distribution of material and labour resources by economic branches takes place in every society where social division of labour exists. K. Marx wrote that "this necessity of the distribution of social labour in definite proportions cannot possibly be done away with by a particular form of social production but can only change the mode of its appearance".<sup>3</sup>

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<sup>1</sup> K. Marx, F. Engels, Selected Correspondence, Progress Publishers, Moscow, 1975, p. 196.

<sup>2</sup> V.I. Lenin, Collected Works, Vol. 3, p. 617.

<sup>3</sup> K. Marx, F. Engels, Selected Correspondence, p. 196.

In capitalist society, proportionality of social economy is spontaneous, as a median of constant disbalances, i.e. is a form of disproportionality. This situation is a result of the anarchy of social production, with each enterprise pursuing its own private interests.

Under socialism, proportionality is accomplished in a different manner. It becomes a function of conscious social activity directed from a single centre. Not only is the balanced nature of the economy calculated in advance; it is also constantly maintained. All the links of the economic chain are organised and harmonised so as to achieve maximum effectiveness of production, a maximum output at the lowest input of the means of production and labour. In the management of this process, state planning authorities elaborate optimum economic proportions.

Sometimes, disbalances occur under socialism, too. They are the result of faults in planning, unforeseen changes in social requirements, natural disasters, etc. To prevent and eliminate disbalances, special reserves of raw materials, fuel, personal consumption articles, etc., are established. Their utilisation guarantees uninterrupted activities of all enterprises and consequently, stable increases in production. Disproportionality is also eliminated by adjusting, as necessary, subsequent economic and social development plans.

The Kinds and Nature of  
Economic Proportions

There are numerous proportions  
established and maintained in the  
national economy of a socialist

society. However, the following groups can be distinguished:

Overall economic proportions. They include the ratios of the growth of aggregate social product to the national income, of consumption and accumulation, productive and non productive spheres, of Department One (the production of the means of production) to Department Two (the production of articles of consumption) of social production, etc. They encompass the national economy in its entirety and characterise the dynamics of its basic structure. Let us examine several as an example.

The ratio of growth of the aggregate social product to the national income produced is correct when the national income increases at a faster rate than the aggregate social

product. The aggregate social product is the sum total of all material benefits produced in a country over a definite period of time (e.g., a year). Valuewise it consists of the value of the means of production expended in its production and of re-produced value. The latter comprises the contents of national income--the re-produced product. Faster growth of the national income signifies that the means of production used to create the aggregate social product are compensated for in further production in an economical manner--either with a decrease in their volume (e.g., when the production of new machinery requires less metal than earlier) or with less costly means of production. Thus, a part of funds is transferred from the category of funds used to compensate for the means of production expended, to the category of income, becoming part of society's national income.

The ratio of consumption to accumulation is another overall economic proportion. It involves the distribution of national income into two basic funds--the consumption fund, used for personal consumption by the population, including education, health care and satisfaction of other cultural and consumer needs, for the disabled, and for the development of science; and the accumulation fund, used for the expansion of production, for public amenities projects, facilities and organisations, and for replenishment of reserves. The consumption fund in the USSR accounted for 75 per cent of the national income.

Another overall economic proportion, no less important, is the balance between Departments One and Two of social production. The economic law of extended reproduction (and socialist reproduction is extended reproduction) is the law of higher growth rates of the production of the means of production (Department One) compared to the production of articles of consumption (Department Two).

Indeed, if the production of consumer goods is to expand steadily, technological and energy components of production have to be improved constantly. New and improved (productive) means of production must be introduced. In the USSR, for example, the production of the means of production in industry

increased by 83 per cent from 1970 to 1980; the production of consumer goods went up 65 per cent on this basis. This, however, does not rule out the possibility of a more rapid development of the production of consumer goods over certain periods when reserve industrial capacities have been accumulated in the economy. In the practice of industrial production in the USSR there have been instances of this kind. They have been also in the eleventh five-year plan (1981-1985).

4 Inter-branch proportions. The balance of industrial and agricultural development is most important here. As a rule, industry develops at a faster rate since it is not only for its own branches but also for agriculture that it provides, on an increasing scale, the necessary technology (machinery and equipment), mineral fertilizers, fuel, etc., i.e. the basic means of production for agriculture. The organic coupling of branches whose development is envisaged by the food programme of the USSR for the period till 1990, is of great importance. It concerns the agriculture output, its storage, transportation, transformation and selling to the population.

Proportions between branches within industrial and agricultural production are also part of inter-branch proportions. Inter-branch proportions characterise the structure of the production of aggregate social product and the changes therein.

5 Proportions within branches involve the output of specific products and reflect the balance of elements of this production process.

6 Territorial proportions determine the balances in the dynamics of production in a country's regions. Territorial proportions are established on the basis of integrated development of the country's economic regions and of a rational distribution of production over the country's territory. They are an important element of the process of utilisation of the country's natural wealth and labour resources on a scientific basis.

7 Inter-state proportions are a variety of territorial proportions which characterises the balances in the production of specific products established on the basis of international socialist division of labour, specialisation and cooperation in production among the socialist community countries.

As mentioned above, economic proportions can by no means be arbitrary. Their content is determined by the requirements of social development, by the operation of economic laws, by the level of production, the availability of material, financial and labour resources, the development of science and technology, etc. In other words, the balanced nature of the economy of socialist society is scientifically based, with due account being taken of the specific circumstances of the development of social production.

### 3. The Management of the National Economy

The operation of the law of planned development of social production takes place in the process of planned managerial activities of socialist society.

The Essence of Planned  
Economic Management

Socialist national economy is a single productive entity developing on a planned basis and thus of necessity requiring management. K. Marx wrote, "All combined labour on a large scale requires, more or less, a directing authority, in order to secure the harmonious working of the individual activities, and to perform the general functions that have their origin in the action of the combined organism"<sup>1</sup>

National economic management under socialism is different in principle from that in capitalist society. In the case of the latter it is limited by the framework of enterprises, companies, monopolistic associations. In spite of bourgeois states' attempts to manage their economies in their entirety by exercising greater influence on them, this "management" runs against that insurmountable obstacle, capitalist private property and anarchy of social production, since capitalist production is regulated by the spontaneous operation of the law of value and by market situation.

Under socialism, management involves the national economy as a whole. It is a system of organisational and economic measures to maintain continuous, purposeful, and harmonised functioning of the economy. Planned management encompasses the

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<sup>1</sup> K. Marx, Capital, Vol. I, Progress Publishers, Moscow, 1974, p. 313.

following elements: management organisation proper (establishment of the organisational structure of management); planning and application of relevant management methods and of production incentives. Under socialism, the state is the central managing authority.

With the development of socialist society, economic management becomes increasingly complicated and diverse. Management activities acquire special importance under developed socialism taking into account the growing scale of production and complexity of economic ties and the demands of the scientific and technological revolution, with a view to making maximum use of the possibilities and advantages of the economy of mature socialism.

Basic Principles of Organising  
Economic Management

Unity of political leadership and economic management

is one of the basic principles of organising economic management. This principle stems from the leading role of the Marxist-Leninist party in the development of social production. The party determines the long-term goals of the country's social development, elaborates economic policies, determines economic strategy and tactics, directs the activities of economic bodies, supervises their work, directs the selection of managerial personnel and educates them. In this manner, the Marxist-Leninist party, jointly with the state economic management bodies, never substituting for them but directing them, maintains the unity of political and economic leadership of society.

The unity is also provided for by the fact that both the political leadership and economic management pursue the same goal, improving the living standards of the population, building of socialism and communism, the education of the population to be highly conscious, politically aware, and harmoniously developed active builders of a new society. The more profound the change we bring about, V.I. Lenin stressed, "the more must we rouse an interest and an intelligent attitude towards it, and convince more millions and tens of millions of people that it is necessary".<sup>1</sup>

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 31, p. 498.

Scientific substantiation of the economic mechanism is of exceptional importance for a system of economic management to be viable. That is another principle of management organisation. The economic mechanism represents a system of organisational forms, economic methods and incentives that enable social production to take place in an effective and coordinated manner. The economic mechanism should correspond to the level of development of social production and maintain its constant growth and improvement. The Decision by the Central Committee of the CPSU and the Council of Ministers of the USSR "On Improving Planning and Enhancing the Role of the Economic Mechanism in Increasing the Efficiency of Production and Quality of Work", already mentioned in the previous chapters, is an example of a profound scientific approach to the establishment of an economic mechanism of this kind. The Decision is concerned with a system of measures to further improve planned economic management in the Soviet Union, to develop democratic foundations of production management and develop creative endeavour of the working people. It is aimed at raising the level of planning and management in accordance with the requirements of the present historical stage in the development of the Soviet Union, that of developed socialism. The Decision envisages a substantial increase in the efficiency of social production, more rapid development of science and technology, increased labour productivity and higher quality of output. On this basis, further national economic development and improved living standards are to be achieved.

The principle of democratic centralism is of major importance in the organisation of economic management. It involves a combination of centralised economic management with worker participation in production management at all levels. The workers take an active part in the work of supreme legislative bodies and in local administration. Worker participation in enterprise management is effected through public organisation (trade unions and the Young Communist League), people's control bodies, permanent production conferences, etc. Party organisations have the right to supervise the actions of the administration of enterprises and organisations.

Democratic centralism in management, like the entire system of national economic management, undergoes constant improvements. Both foundations of democratic centralism are becoming firmer. On the one hand, centralism in management is developing so as to prevent the emergence of sectional tendencies. On the other hand, work collectives of enterprises and organisations propose an ever increasing number of initiatives for measures to enhance the efficiency of production and its end products.

In management organisation at enterprises and organisations, the principle of democratic centralism takes the form of a combination of the manager's central authority with collective management and initiatives of workers advanced on a large scale.

Combining sectoral and territorial economic management is an important principle of management. Under socialism, and especially under developed socialism, when economic branches become powerful systems with a high level of technology, complicated organisationally and economically, it is important to maintain the development of production and the unity of economic and technological policies, first and foremost, in terms of sectoral approach. At the same time, territorial integrated development of production loses none of its importance. It is made imperative by specialisation and production cooperation between branches within the framework of the country's administrative and economic regions. A correct combination of both should be found.

In the Soviet Union, sectoral management is based on a two- or three-tier management system in industry. A similar management system is nearing completion in construction, while measures are being taken to improve management in agriculture, trade, and cultural and everyday services.

The two-tier management system in its simpler form includes two economic stages: a ministry in charge of an economic branch and a production (or research-and-production) amalgamation, or a large enterprise. The three-tier system has, in addition to the above, an intermediate link, an industrial amalgamation in charge of a sub-branch of the economy.



Territorial management is being improved concurrently. Major attention is given to the management of integrated development of the economy of Union republics, of territorial industrial and agro-industrial complexes.

To coordinate the activities of enterprises comprised by a single territorial complex and controlled by different ministries inter-branch integrated units have been established at the State Planning Committee of the USSR (Gosplan); a commission of the Council of Ministers of the USSR on the development of the West Siberian oil and natural gas complex as well as a Tyumen-based inter-departmental territorial commission under the Gosplan were formed. The activities of the commissions are now being studied and their experience will be utilised in the management of other territorial-industrial complexes.

The structure of national economic management is improved constantly. Forms of management have to be made to fit the changing economic tasks.

Some Features of Production Management in the CMEA Member Countries as Compared to the USSR

The principles of social production management applied in the CMEA member states are similar to those used in the USSR. Here, too, the state is the central manag-

ing authority. A number of managing functions of ministries has been eliminated in recent years. Day-to-day production management has been entrusted to economic organisations and local authorities. As a result, several ministries merged, becoming what might be described as headquarters for managing expanded economic branches.

Direct production management is effected by associations called combines in the GDR, concerns in Czechoslovakia, major industrial organisations in Poland, trusts in Hungary, etc.

Small-scale production (employing 5 to 50 workers) is the subject of much attention. It functions on a self-management basis while closely cooperating with large economic organisations, and is in actual fact managed by the latter.

#### 4. Socio-Economic Development Planning

Planning is the basic element and the central link of the chain of economic management. Therefore, like management in general, it is a system of organisational and economic measures taken by society to realise in practice the contents of the economic law of planned development of social production. The concept of planning involves the elaboration of plans for economic and social development of a country and supervising their implementation. In the theory and practice of planning, a number of principles and requirements has been established whose implementation guarantees its top efficiency. It must be pointed out that planning principles are largely similar to those of economic management organisation, since planning is an integral and the most important element of management.

##### Basic Principles of Planning

The most important principle of planning is its adherence to the party spirit. In socialist society, the nature of planning is in strict accordance with the party principles. It is a reflection of the economic policy pursued by the Marxist-Leninist party. Every national economic plan is the sum total of interrelated economic and social measures to implement the party's programme; it is aimed at building socialism and communism.

Scientific substantiation of plans is no less important. In the process of plan elaboration, the content of economic laws of socialism in their entirety is taken into account, as well as the level of production, social requirements, including those concerned with economic integration of socialist countries; the latest developments in science and technology; and all the benefits of progress in building socialism and communism in all the countries of the socialist community. Stressing the importance of scientific substantiation of plans, V.I. Lenin pointed out that we need extensive plans which "are not fantasies, but are borne out by and based on technology and science".<sup>1</sup> Guided by this statement by V.I. Lenin and tak-

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 30, p. 334.

ing into account the fact that under developed socialism society's economic life becomes much more complicated, the Central Committee of the CPSU and the Council of Ministers of the USSR in their Decision, "On Improving Planning and Enhancing the Role of the Economic Mechanism in Increasing the Efficiency of Production and Quality of Work" (July, 1979), proposed a set of provisions to improve planning in its entirety. These provisions were further elaborated at the 26th Congress of the CPSU and are contained, in concise form, in its decisions. They mention the need to increase the role of five-year plans and their social orientation; the goal of a wider utilisation of comprehensive target-oriented programmes and their further orientation towards ultimate results of production is set the importance is pointed out of a comprehensive approach to planning the development of interrelated branches of the national economy and economic regions of the country; the importance is stressed of maintaining balanced plan assignments and introduction of improved plan indicators which would reflect and stimulate the efficiency of economic development; the goal is set of improving the effectiveness of territorial planning; the importance is pointed out of improving the organisation of planning and the activities of planning agencies.

The principle of democratic centralism is also reflected in planning. It implies the necessity of combining centralised state planning with active participation of local authorities and workers of economic organisations and enterprises in the planning process aimed at the widest utilisation of local production resources and of the creative endeavour of the working masses in the elaboration and implementation of plan targets.

In the Soviet Union, industrial ministries, production amalgamations and independent (i.e. not forming part of amalgamations) enterprises receive centrally planned production targets for five-year periods (with the year-by-year breakdown) based on the following indicators.

1. In production: increase in net output (normative), and for some branches--in commodity output in comparable

prices<sup>1</sup>; production of basic items in physical terms, including those for export; the increase of production of highest quality goods.

2. In labour and social development: the increase in labour productivity calculated in net output (normative) or another indicator more closely reflecting the changes in expended labour in individual branches; the rate of wages per one rouble's worth of product, according to the indicator for labour productivity planning; the number of workers and employees; the target figure concerning the limitation of manual labour; indicators for the funds for material incentive, social and cultural services, and housing.<sup>2</sup>

3. In finance: total profits, and for some branches reduction of production costs; contributions to the state budget and state budget allocations.

4. In capital construction: utilisation of basic funds, commissioning of new capacities and projects, amounts of state capital investments and construction-and-assembly; indicators for formation of production development funds.<sup>3</sup>

5. In introduction of new technology: basic targets for scientific and technological programmes, for development, testing and introduction of new high-yield technological processes and products; basic indicators for the technical level of production and basic products; economic results of scientific and technical measures; indicators for the formation of a single fund for scientific and technical development (for ministries).

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<sup>1</sup> Net output is the part of output produced which corresponds to expended labour of workers of the given enterprise, i.e. less the cost of means of production consumed in the production process. The normative net output is the net output for which expenditures are calculated according to scientifically substantiated standards. Commodity output means commodities earmarked for sale.

<sup>2</sup> Economic incentive funds are dealt with in more detail in the chapter "Cost Accounting at Socialist Enterprises and Amalgamations".

<sup>3</sup> Production development funds are discussed in the same chapter.

6. In material and technical support: the volume of deliveries of essential material and technical resources required for the implementation of the five-year plan; targets for improved utilisation of essential material resources.

In annual plans, these indicators are made more specific and accurate as necessary. As far as the rest of the economic indicators for amalgamations and enterprises are concerned, they are elaborated and established by the amalgamations and enterprises themselves.

After the economic plan is approved by the state legislative authority (in the USSR by the Supreme Soviet) it becomes state law. Its implementation is obligatory for all enterprises, organisations and citizens. This is an expression of the plan's directive nature. This principle is becoming increasingly important. With the increasing complexity of economic relations between the links of the social production, discipline and responsibility for state plan fulfilment acquires greater importance. The CPSU has always regarded the plan as law. And not just because it is approved by the Supreme Soviet - the national supreme authority. The plan is law because only its observance assures the harmonious functioning of the national economy. This principle is a graphic manifestation of the advantages of socialist planning and its radical distinction from state-monopoly "economic programming" which has the effect of a mere recommendation.

In their attempts to distort the nature of socialist planning, bourgeois economists and right revisionists allege that the centralised nature of planning is in contradiction with its democratic aspect. They also equate the directive nature of plans with volitional administration, i.e. the issuance by state of orders allegedly lacking any justification. These allegations are a far cry from reality. Directive centralised plan targets are profoundly scientifically substantiated. They play a decisive role in achieving high efficiency in planning. Without them, production anarchy and confusion reign supreme.

A combination of vertical (sectoral) and horizontal (inter-branch) with territorial planning is yet another planning principle. This principle implies close harmonisation of

sectoral plans with one another as well as with territorial planning. The importance of such harmonisation with the framework of the national plan of economic and social development is dealt with the need for an integrated approach to planning the development of inter-related economic branches, e.g. the agro-industrial complex which comprises the production, transportation, storage and industrial processing of agricultural products, and with increasing the effectiveness of territorial planning.

The principle of continuity in planning and combining long-term and medium-term plans with short-term, or current, plans is an important element of planning. To achieve significant changes in the development of productive forces on the basis of utilisation of the benefits of science and technology and to solve the major socio-economic problems associated with the building of socialism and communism, long-term planning for the period of 10 and more years is used.

Medium-term (five-year) plans are the main form of economic planning. They determine the basic policy of economic and social development of socialist countries over a five-year period.

Short-term, or current, plans play a significant role in planning. The basic period of short-term planning is one year. Annual plans are elaborated on the basis of five-year plan targets for a given year and are concerned with making the targets more specific as necessary, introducing the latest achievements of science and technology, as well as taking economic and organisational measures to implement the five-year plan.

Five-year and annual plans are elaborated both on the scale of the national economy as a whole and by all amalgamations and enterprises.

#### Planning Methods

The effectiveness of planning is largely dependent on its methods. The elaboration of plans for national economic and social development begins with scientific forecasting of expected developments in science and technology, social requirements, social production, demographic processes, etc. On this basis, long-term guidelines for economic and social development are

determined. The basic content of the plan is elaborated for a long-term period.

The following procedure of the preparatory work in planning on the basis of scientific forecasts of the country's economic and social development has been established in the USSR. The Academy of Sciences and the State Committees on Science and Technology and on Construction prepare a comprehensive programme of the development of science and technology for 20 years (with a breakdown by five-year periods). The State Planning Committee, on the basis of socio-economic targets established by the party on a long-term basis and of the comprehensive programme of the development of science and technology, jointly with ministries and Councils of Ministers of Union republics prepares draft guidelines of national economic and social development for 10 years. It is on the basis of this draft, after it is approved in accordance with the established procedure, that the State Planning Committee elaborates target figures for basic indicators and standards for the coming five years with a year-by-year breakdown and transmits them to ministries and to the Councils of Ministers of Union republics. These target figures serve as the basis for the elaboration of five-year plans by amalgamations, enterprises and all other organisations.

Integrated, or systems method is also applied in planning. The national economy is regarded as a single economic complex and as a single socio-economic system with a multitude of subdivisions and development directions. This approach is used primarily to maintain the balanced development of all economic branches, including complexes of closely interrelated branches (agro-industrial, fuel-and-energy and other complexes in the USSR), as well as in establishing an optimum combination of sectoral and territorial planning, and in the elaboration of economic and social development programmes for individual regions and territorial-industrial complexes.

The target-oriented programme method of planning is another method of importance. It is combined with the integrated method. The target-oriented programme method is applied in the elaboration of comprehensive target-oriented scienti-

fic, technical, economic and social programmes. In the USSR, for instance, it is used to elaborate the food programme, the programme to develop the production of consumer goods and services, and programmes of reducing the share of manual labour, development of science and technology, and machine building, the energy programme, the transportation programme, the programme for the chemical industry, and other large-scale programmes.

The balance method is an essential planning method. It is a system of interrelated indicators to link social requirements with the sources of their satisfaction (resources). The balance method is used to maintain the necessary economic proportions. It is on the basis of balances that shortcomings in the development of social production are pinpointed and measures planned to eliminate them. It is on this basis that targets for individual economic branches are set, and sources of additional material, financial and labour resources are found.

Three types of balances are prepared in the planning process: material, financial, and that of labour resources.

Material balances are used to establish a correspondence between the production and consumption of individual products or groups of products in physical terms. It is on this basis that relationships of economic branches are established.

Financial balances link sources of funds in terms of money with the requirements therein. Some examples of financial balances are the combined financial balance, the state budget, the balance of the population's income and expenditure, balances for individual economic branches, balances of amalgamations, enterprises, etc.

The balances of labour resources are calculated in order to meet labour requirements of the national economy in certain occupational groups and qualifications. They link labour requirements with the sources used to meet them. The elaboration of labour resources balances both in terms of economic branches and territorial aspect plays an important role. In their elaboration, increased labour productivity is taken into account.



In the USSR, balances of material and labour resources are elaborated for a period of ten years as well as within the framework of five-year and annual plans. Financial balances are prepared for a five-year term and include a year-by-year breakdown.

The general, national economic balance embraces all the economic indicators describing the basic proportions of national economic development.

In the course of balance elaboration as well as in planning at large, economic and mathematical methods are applied on the basis of modern computer technology.

Distinguishing Features of Planning Cooperative (Col- lective Farm) Production	Cooperative (collective farm) production is based on col- lective farm, or cooperative, ownership of the means of pro- duction. It is the socialist state that, relying on the domi- nant and determining role of state ownership in the national economy, also prepares plans for cooperative production. What cooperative enterprises (collective farms) receive from the state is a single order-plan calculated for five years (with a year-by-year breakdown) of selling to state purchasing or- ganisations the required amount of individual agricultural products. In the USSR the state five-year plan includes de- livery of tractors, vehicles, agricultural machines and im- plements and fertilizers to collective farms. The annual plan, besides the above, is also concerned with deliveries of build- ing materials, oil products and other materials and technol- ogy necessary for the collective farms to meet agricultural output targets. The order-plan serves as the basis for the elaboration of a plan covering the entire volume of produc- tion in cooperative enterprises. This plan is prepared by cooperative enterprises independently, in consultation with competent state authorities and scientific agencies, and tak- ing into account their resources and the assistance rendered by the state, which delivers agricultural equipment and other means of production, extends credits, assists in introducing scientific achievements, in training machine operators and other specialists.
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The government provides material and technical resources for the implementation of collective farms' plans for putting into operation basic production funds and projects in the non-productive sphere, introduction of new technology and reconstruction of existing facilities.

Participation of Workers' Collectives in Planning Activities

Workers' collectives at amalgamations and enterprises take an active part in production planning. Their involvement in planning in the USSR begins with the discussion and preparation of draft five-year plans (with a year-by-year breakdown) for their amalgamations and enterprises on the basis of state-prepared target figures for national economic and social development. Discussions of draft plan targets take place at production conferences, party, trade union and Young Communist League meetings.

Workers also participate in the discussion of five-year plans on the scale of the national economy as a whole. Their proposals concerning the improvement of plans are made at meetings and in the press. They are generalised and discussed at plenary meetings and congresses of the Party and the sessions of national supreme authorities (in the USSR--those of the Supreme Soviet).

The involvement of collectives of workers in plan elaboration does not stop here, however. They are directly involved in the elaboration of current (annual) plans also. The preparation of annual plans begins at the grass-roots level in production amalgamations, enterprises and organisations. The targets of a five-year plan for the given year are used as the basis for annual plan elaboration. The adoption of plans exceeding the targets has a special importance here. Workers find additional ways of increasing the efficiency and the volume of production and undertake to meet and exceed plan targets. These upwardly-revised plans are further elaborated so as to correspond to the available material resources and included in the annual plan.

Upwardly-revised plans are meant primarily for improving production efficiency. They include pledges to raise labour productivity, increase the share of highest quality products

in total production output, to improve the utilisation of equipment, save raw and other materials and energy, to reduce production costs and increase profits.

Special incentives are used to promote the adoption and successful implementation of upwardly-revised plans. These are achieved by moral and material incentives. Best workers' collectives are awarded the title of winner of socialist emulation, Red Banners, pennants, etc. Material incentive is a supplementary transfer of a part of the profits to the economic incentive fund.<sup>1</sup> In the event that upwardly-revised plans are not met in full, or are overfulfilled, material incentives decrease. This is done to promote the adoption of optimum plans by enterprises, i.e. not too low but sufficiently straining and, at the same time, realistic, plans that will by all means be fulfilled. The latter is of special importance for the maintenance of planned economic proportions, i.e. for the production of the set of material goods and services required by the society.

Active participation of workers' collectives in planning and in production management in general, besides its significance for production, has a certain educational value. It promotes a feeling of cohesiveness, an enterprising spirit, a sharing of responsibility for the common cause and for meeting one's commitments. The CPSU carries out the great activity promoting initiative and creative endeavour of the working people in production management and planning.

Some Peculiarities of Planning  
in the other CMEA Member Countries  
Compared to the USSR

Like management organisation, planning in the other CMEA member countries is established on the basis of the same principles as in the USSR. The five-year plan is the basic form of planning. It is made more specific and precise in current annual plans. As far as the system of centralised directive plan targets for enterprises and amalgamations is concerned, there are differences in the number and content of targets in the countries of the socia-

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<sup>1</sup> See the chapter "Cost Accounting at Socialist Enterprises and Amalgamations".

list community. Indicators of net and conventional net output<sup>1</sup> are now used on an increasingly wider scale as basic indicators. They are also used to measure labour productivity, to analyse the effectiveness of capital investments and as a criterion to calculate the wages fund.

Over the recent years the number of planning indicators in the CMEA member countries has increased due to the inclusion of indicators describing the quality of output, the efficiency of production, etc.

In Hungary, centralised planned management of economic organisations is effected primarily through a system of economic regulation of the volume of deductions from enterprises' income to the state and local authorities, through increases in wages, through the system of pricing, by means of conditions of credit extension, establishment of foreign exchange coefficient, etc. Targets dealing with carrying out the obligations under international trade agreements, or implementation of large-scale important economic programmes, etc. are in most cases directive by nature.

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<sup>1</sup> Conventional net output is net output plus charges for the depreciation of the basic means of production consumed in the production process.

## Chapter 7

### COMMODITY-MONEY RELATIONS UNDER SOCIALISM

#### 1. Specific Features of Commodity-Money Relations Under Socialism

The Reasons for the Continued Existence of Commodity-Money Relations Under Socialism

Under socialism, commodity-money relations continue to exist, which is caused, firstly, by the existence

of two forms of socialist social ownership of the means of production, and secondly, by incomplete maturity of directly social labour under socialism.

Cooperative enterprises own their products since they use cooperative means of production and the labour of their members. Likewise, the output of state enterprises belongs to the state. The exchange of activities between two output owners, the cooperatives and the state, takes place through an exchange of products which thus become commodities.

Commodity-money relations, however, also continue to exist within the state sector of the economy, where the state is the single owner of produced output. In this case, commodity-money relations are due to incomplete maturity of directly social labour. It is reflected, in particular, in the fact under socialism material incentives still exist at enterprises, including state-owned ones, as a stimulus to improve their output. These incentives imply remuneration for economic activity through the exchange of products on the basis of a single social standard--socially necessary labour expenditure, i.e., the value of products. In this case too, therefore, goods are produced as commodities and their exchange is effected by sale at value.

As far as the sine qua non of commodity-money relations, social division of labour (specialisation of enterprises to produce goods of certain use-value), is concerned, under socialism it is preserved, and only differs from that under capitalism in that it acquires a planned character.

In socialist society, commodity-money relations acquire a content totally different from those under capitalism. As opposed to capitalist commodity production, under socialism the manufacture of goods as commodities is based on social, and not private, ownership of the means of production. In socialist society, socialist enterprises are commodity producers.

Antagonisms characteristic of capitalism are not existent in commodity production in socialist society which is free from exploitation. Commodity-money relations under socialism develop in a planned manner so as to meet the growing requirements of the people to the fullest extent.

As opposed to capitalist ones, commodity-money relations under socialism are limited in scope. Labour force ceases to be a commodity under socialism. Workers are social owners of enterprises, their equipment and output. They do not have to sell anyone their ability to work. Under socialism, a new system of combining labour force with the means of production emerges. Workers themselves organise their social production.

Enterprises and land are not subject to sale under socialism either.

The limitation of the scope of commodity-money relations by no means signifies that they should if possible be phased out. On the contrary, if they contribute to the development of social production and make it more efficient, they should be used on a wider scale.

The production of commodities under socialism has a tendency of development which differs in principle from the capitalist one. It does not lead to ruin of some enterprises and enrichment of others, the way commodity production does under capitalism. Economic conditions do not lead to capitalist commodity tendencies in the economic activity of socialist enterprises and do not turn them into capitalist enterprises.

With the transition of communist society to its highest stage, communism, commodity-money relations will disappear. This will be the result of disappearance of their causes. Two forms of socialist ownership of the means of production will give way to the predominance of one, communist ownership. The

need for material incentives for labour and, consequently, for immediate material remuneration, will no longer exist. Remuneration for work by means of exchange (sales of commodities) will yield its place to direct distribution of products and services according to the population's needs.

## 2. Commodity and Its Properties

The product of a socialist enterprise still has the properties of a commodity. It is, however, a commodity different from that under capitalism.

V.I. Lenin observed that the product of a socialist enterprise, while still possessing a number of commodity features, also acquires new features. In "Instructions of the Council of Labour and Defence to Local Soviet Bodies" he wrote: "The manufactured goods made by socialist factories and exchanged for the foodstuffs produced by the peasants are not commodities in the politico-economic sense of the word; at any rate, they are not only commodities, they are no longer commodities, they are ceasing to be commodities".<sup>1</sup>

The commodity of a socialist enterprise is no longer a product of private labour meant for uncontrolled exchange. It becomes a product of directly social labour. Under socialism, a commodity is a product manufactured by a socialist enterprise on a planned basis to satisfy the needs of a society of working people free from exploitation. It enters consumption through planned exchange. Consequently, it is a commodity of a special kind.

Use-Value and Value  
of Commodities

Specific features of socialist production are manifest also in the distinguishing aspects of its product, the commodity, and the labour of commodity producers.

Every commodity has its use-value and value.

The use-value of a commodity is its ability to satisfy some need of an individual, either that concerned with production or a personal one. Capitalists are interested in the

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 32, p. 384.

production of certain use-values only inasmuch as they are a bearer of value, and consequently, of surplus-value also, since value cannot exist without use-value.

Under socialism, the purpose of social production is different. Social production pursues the goals of improving the well-being and of ensuring the all-round development of all members of society. Therefore, the creation of use-values on an increasing scale, of higher quality and in greater variety (range of goods) in accordance with the growing requirements of the people, acquires primary importance.

In socialist society, social appraisal of use-values and determination of their social usefulness is growing in importance. To this end, sets of use-values are formed which would meet social needs in the most complete and rational manner, from the scientific viewpoint. The sets are compared to one another by the amount of expended social labour (past, embodied in the means of production, and workers' living labour) for their production. Finally those are chosen which, on the one hand, meet social needs in the fullest measure, and, on the other, require a minimum of means to produce. Thus, under socialism use-values become directly social by their purpose.

Value also plays an important role in socialist society. As is known, value represents the abstract labour of commodity producers embodied in a commodity. The value of commodities produced by socialist enterprises represents labour expended by the society members who work for themselves and for their society and not for exploiters as it is under capitalism. This is an important distinguishing feature of commodity-money relations under socialism.

The amount of value is determined by the amount of labour expended in the production of a commodity. The amount of labour, in its turn, is measured by its duration, working time. A distinction should be made between individual and socially necessary labour expenditures. Individual labour expenditure is measured by the average working time and by the average expenditure of the means of production at an individual enterprise. The amount of socially necessary labour expenditure is the average of individual labour expended by individual en-



terprises and measured by the average working time required by society as a whole to produce the commodity. Just that determines the social value of a commodity.

The amount of social value is objective. Under capitalism it is created in a spontaneous manner. In socialist society its formation is influenced consciously and on a planned basis. By actively using all the methods of increasing labour productivity, such as the introduction of new technology and advanced know-how, progressive forms of work organisation, improving the skills of participants in the production process, etc., workers' collectives at enterprises save social labour. Thus, prerequisites are established for lowering the social value of output produced.

In managing the national economy, the state plans the production, distribution, exchange and consumption of products not only in kind, but also as expressed by value (monetary) indicators. The latter makes possible a reflection of different products in an aggregate form. For instance, it is in value form that the aggregate social product is planned and accounted for, as well as the national income, the volume of production by economic branches, amalgamations and individual enterprises. It is in value denomination that economic balances are planned and accounted for, output is distributed among economic branches, amalgamations, enterprises and working people, and commodity turnover is planned and accounted for.

A comparison of planned and actually obtained value indicators (the volume of production, the volume of net and commodity output, the cost of production of commodities, profit, etc.) describes the effectiveness of economic activities of society as a whole, of its branches and of individual enterprises; it makes possible to take effective measures to save the means of production and individual labour and to reduce costs.

#### Commodity Prices

Social value is expressed in commodity price--the monetary form of value, and its components: cost of production and net profit. No spontaneous price fixing takes place in socialist society. Prices are planned by the state. Planned (normative) cost of production averaged out by branches plus

a certain amount of net profit form the basis for price planning.

Cost of production is an expression in monetary form of an enterprise's expenditures, to manufacture a product composed of the value of consumed means of production and wages. Structurally, cost of production is composed of the following expenditures:

1. Expenditure for the basic means of production consumed to manufacture a given product (amortisation charges);
2. consumed raw materials and supplies, fuel, and energy;
3. wages (in the USSR including charges for social security);
4. other expenditures.

Net profit of society is the part of newly created value, which is the value of a product for society, added (according to a specified quota) to average cost of production for the given branch of industry. Newly created value (a value which is higher than the value of consumed means of production) which forms part of price, is composed of two elements: prime value of a product, in the form of wages, and social value, in the form of social net profit.

In turn, social net profit comprises two elements, enterprise profit and turnover tax.

Enterprises make profit. Its volume depends not only on the volume of output produced or the level of prices of the product, but also on the quality of the enterprise's economic activities. The greater the output, and that of high quality products in particular (price supplements are established for improved products) and the lower the expenditures of enterprises, i.e. production costs, the higher the profit. Thus, profit and cost of production play a very important role as indicators of the efficiency of economic activities of socialist enterprises. In the distribution process, part of profits is transferred by enterprises to ministries and the state.

Turnover tax is a very conventional term. It is not a form of taxation, least of all of purchasers of commodities. Like profit, it represents the monetary form of newly created value in production, i.e. the social value of a product, and forms part of social net profit. Turnover tax, like profit,

is included as a percentage in commodity price. As soon as the commodity is transferred (sold) by wholesale distributing organisations to the retail trade, they transfer turnover tax into the state budget. If a commodity enters retail trade directly from an enterprise, bypassing the wholesale distributing organisation, turnover tax is transferred to the state by the enterprise. Turnover tax represents a guaranteed part of the socialist state's centralised income. Unlike profit its volume does not depend on the quality of work by enterprises. No matter how high the cost of a commodity, turnover tax must be transferred to the state budget according to established rate. It is transferred on a regular basis. To this end, turnover tax is mostly included into the price of consumer goods, which unlike many means of production, including machinery, equipment and buildings, are the subject of retail trade and are sold on a permanent basis, day after day, guaranteeing a regular influx of finance into the state budget. Besides, turnover tax is used as a means of retail prices regulation, i.e. prices at which commodities are sold to the population, with the purpose of implementing a special social policy of price formation, which is described further in Section 4 of this chapter, "The Operation of the Law of Value and Its Application".

Under socialism, various types of prices are used, each with a function of its own. The following prices are used in the Soviet Union:

1. Wholesale price of the enterprise
2. Industry wholesale price
3. Purchasing price of agricultural produce of collective and state farms
4. Retail price of state and cooperative trade
5. Price of collective-farm market.

The wholesale price of the enterprise is the price of commodities sold by enterprises to other enterprises and to distributing organisations. The wholesale price of an enterprise is composed of the average planned (normative) cost of production for the given branch and of the profit rate established for the enterprise.

The industry wholesale price is the price of products sold by wholesale distributing organisations to retail trade establishments. It is based on the wholesale price of the enterprise, to which planned profits, charges for the operation of the distributing organisation, and turnover tax on the commodities the prices of which include it, are added.

The purchasing price is the price of agricultural products sold to the state by collective and state farms. Purchasing prices vary depending on natural and economic zones. The differentiation is due to significant variations in production expenditures in different zones related to differences in natural conditions. The highest purchasing prices are established for areas with relatively inferior nature conditions, while the lowest ones are used in regions with a better environment. State purchasing organisations, in turn, re-sell these products to processing enterprises and to the retail trade network at averaged out prices. For some agricultural products (e.g., meat, etc.) the prices established for sale by purchasing organisations are lower than the average purchasing prices. In these cases, purchasing organisations receive a subsidy from the state.

The purchasing price is formed similarly to the wholesale price of the enterprise in industry, i.e. it is based on average planned cost of production established for the given zone, to which the established amount of profit is then added.

The retail prices are the final prices paid by the population for commodities in state and cooperative stores. They comprise: planned (normative) average branch production cost, enterprise profits, turnover tax (if included in the product price), costs and profits of distributing organisations in industry or wholesale organisations in trade and costs of circulation and profits of retail trade establishments.

The following diagram illustrates the structure of the retail price:

Cost of production 60 kopecks	Profit 20 kopecks	Turnover tax 10 kopecks	Costs and profits of whole-sale distributing organization 5 kopecks	Costs and profits of retail trade 5 kopecks
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Enterprise wholesale price 80 kopecks

Industry wholesale price (including turnover tax) 95 kopecks

Retail price 100 kopecks = 1 rouble

Collective-farm market prices are established in a somewhat different manner. They are not state-planned and are established largely under the influence of commodity supply and demand. However, by utilising commodity stock, the state does exercise a regulating influence on collective-farm market pricing. With a sufficient supply of commodities in the network of state and cooperative trade and their delivery to collective-farm markets, market prices gravitate towards the planned fixed retail prices of state and cooperative trade.

As a form of expression of value, commodity prices are the basic indicator of the changes of value. Value goes down as a result of increases in the productivity of social labour, that is a base for the price reduction. The CPSU and the Soviet Government pursue the policy of maintaining stable prices of basic foods and non-food commodities continues. State and public controls over the maintenance of discipline in pricing are strengthening. As the stock of commodities is built up while their production cost goes down, their prices are cut. At the same time, in isolated cases described below, retail prices, mainly those of non-staple commodities, may be increased.

Wholesale prices of enterprises play an important role in the economic life of socialist society. They serve as a monetary form of social value of commodities, formed at the level of production activities of amalgamations and enterprises. In socialist society the redistribution of the value of

surplus product is realized through the mechanism of planned prices. The redistribution is accomplished in exchange ratios of commodities sold. The planned, in this case the enterprise wholesale price, does not necessarily express and reflect the amount of value created at an enterprise producing the commodity, but the value necessary to reproduce the commodity from the standpoint of satisfying society's needs. The process of planning enterprise wholesale prices includes a certain amount of profit, sufficient for the reproduction of commodities in the proportions required by society, achievement of their social goals by enterprises and for the transfer of a part of the funds to the state budget.<sup>1</sup>

### 3. Money in Socialist Society

**The Essence of Money**                      The existence of money and money circulation in socialist society is linked to commodity-money relations. The value of commodities can only be expressed in the form of price. And price is the money form of value.

Under socialism, like under capitalism, money is a universal equivalent expressing the value of commodities. Money is also a universal means of purchase. At the same time, however, money under socialism is different in principle from money under capitalism. The latter is used as capital, i.e. a means of exploiting hired labour. Money cannot become capital under socialism. In socialist society no one can hire workers with the purpose of exploitation, i.e. appropriate unpaid for labour.

Under socialism, money is a vehicle of planned functioning of the economy in the interests of the working people, a means of accounting for social labour, controlling production and stimulating labour.

It is known that only a commodity which has a value of its own can become money. In socialist society, gold is the money-commodity. It does not circulate in the form of money

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<sup>1</sup> A detailed description of the distribution of profits of socialist enterprises is contained in the chapter "Cost Accounting at Socialist Enterprises and Amalgamations".

within the socialist countries, however. Paper money issued by the state bank represents gold in the role of money.

A high stability of money is a significant advantage of socialism over capitalism. Money in capitalist countries, where no one would be able to say what amount of a given commodity one's money would be able to buy tomorrow or the next day, does not, and cannot have this property. The purchasing power of money in a capitalist society is unstable. Inflation has become its permanent fixture. It is reflected in systematic price increases.

The situation under socialism is different. Here the purchasing power of money acquires a greater stability. This is due, firstly, to strict government controls over the emission of money, and secondly, to the production of goods and services in strict accordance with state plans and to their sale at fixed prices. The harmonisation of both is achieved through the balance of the population's money income and expenditure compiled by central state planning authorities.

#### Functions of Money

The functions of money under socialism appear to be similar to its functions in capitalist society. However, a difference in the essence of money and in money circulation under socialism changes the content of the functions of money. Firstly, money is the measure of value. It measures the amount of socially necessary abstract labour embodied in commodities. As mentioned above, planned prices are a form of expression of this labour. In this role, money is utilised in the planning of, and accounting for, expenditures of social labour (past and living), in controls over these expenditures both at individual enterprises, economic branches and social production in its entirety, in accounting for aggregate social needs in individual products and services, etc. The purpose of the above is achieving economies in production, enabling society to estimate its needs correctly and to satisfy them to the fullest.

The measure of value function of necessity presupposes the existence of a price scale. It is used to measure the money material itself, gold. In the Soviet Union a rouble, consisting of 100 kopecks, is the price scale. In circulation,

it represents 0.987412 grams of gold.

The second function of money is that of the medium of circulation. Being commodities, goods under socialism are produced for sale, they are subject to sale and purchase. The movement of the commodity mass from the seller to the buyer, i.e. its circulation, as well as the delivery of produced services, is serviced by money. Commodity circulation has a great economic significance. It maintains a normal functioning of the process of social reproduction. By serving it, money solves an important problem of socialist production development.

In this role, money is used to check the correctness of planned balances and interrelationships between the production of commodities and services, their distribution and consumption, to control the correspondence of production to the effective demand for goods and services, the commodity circulation situation in general and for individual commodities.

The third function of money is the formation of cash reserves and savings. It is with money that socialist enterprises and the state accumulate the cash reserves they need. The enterprises need them for their current economic activities and for expanding production. The state also accumulates cash reserves. They form the income part of the state budget and are used for economic development, satisfying the social needs of society, maintaining the defence capability, etc. Cash reserves of enterprises and the state are deposited in the state bank.

Society members too save part of their money income. The savings are then used for major purchases. They are kept in the form of personal deposits in savings banks, as well as in the form of state loans.

The gold reserve also forms part of the state's cash reserve.

Fourth, money functions as a means of payment. It only performs this function when its movement is not accompanied by a simultaneous reciprocal movement of commodities which takes place when money performs the function of the medium of commodity circulation.



Money is used as a means of payment in credit and clearing payments between socialist enterprises and banks, in the transfer by enterprises of a part of their profits and of turnover tax to the state budget, in state financing of various economic and social requirements of society, in tax payment to the state by the population, etc.

Money is also used as a means of payment in the paying out of wages. Some authors consider this kind of payment to be an independent function of money.

Thus, the function of money as a means of payment is very widespread and accordingly is used to supervise the process of socialist reproduction.

Fifth, money under socialism is used for foreign trade and external payments, i.e. as world money.

Gold is used as world money in settling the accounts with capitalist countries. Imports are paid for in gold in cases when the currency of capitalist countries earned from exports is not sufficient for purchasing goods and for other payments. National currency of socialist countries does not enter the world market, since no need for this exists.

In the relations among the socialist countries--members of the CMEA, the transferable rouble performs the function of world money. This is a currency with no paper money which is used in clearing payments and has a gold content of 0.987412 grams.

#### 4. The Operation of the Law of Value and Its Application

The Content of the Law of Value and the Mechanism of Its Operation

Commodity-money relations are always linked with the operation of the law of value. In accordance with this law,

production and exchange of commodities take place in accordance with their social value.

The contents of the law of value is manifest in the following: first, in the need for reducing individual labour expenditures for commodity production to socially necessary expenditures. Commodity exchange is based on social value formed

by socially necessary labour expenditures. Secondly, in the need for equivalent exchange. In principle, commodities, the production of which has consumed equal amounts of socially necessary labour, are interexchangeable. This rule, however, is applied only in relation to the commodity mass in its entirety. Some categories of commodities are exchanged at prices differing from their social value. More on this below.

Planned pricing serves as the mechanism of operation of the law of value in socialist society. Prices are established not on the basis of individual labour expenditures that they are established, but on the basis of socially necessary labour expenditures, or social value. A single price is established for commodities having the same use-value. Prices for commodities with different use-values are established, as a rule, according to their social value. Higher prices are established for higher quality goods, since improving quality requires additional labour expenditures and these commodities have a higher value.

Under socialism, prices function as a means of: accounting, incentives, redistribution and influencing the inter-relationship of the supply of and demand for commodities. Using planned prices, socialist society takes into account the expenditure of social labour. This process of accounting takes place during production, distribution, exchange and consumption of material goods and services created in a society. If this function is to be performed, prices have to be planned on the level closest to socially necessary labour expenditure, i.e. social value of the commodities. This requirement applies to all types of prices.

To stimulate the production of individual commodities and to transfer value from one branch of the economy to another, enterprise wholesale prices are used. To this end planned wholesale prices are established either above or below social value. The proportions of social value in which it has been created differ from the proportions in which it is embodied in the form of these prices. In this manner, apart from the law of value, the operation of other economic laws of socialism is taken into account.

The establishment of relatively high enterprise wholesale prices is an incentive for the production of output needed by society, since it enables the enterprises which produce it to have increased profits. At the same time, consumers of scarce products at higher prices are stimulated to consume cheaper or less scarce substitutes.

Enterprise wholesale prices of new, increasingly productive machinery and other commodities with improved effectiveness (quality) are established in a manner which have a stimulating impact on their production and consumption. Surcharges are thus included in the prices of advanced commodities, resulting in additional profit for their producers. Nevertheless, the price of a unit of savings due to the consumption of advanced commodities should be lower than that of similar products substituted for. Pricing below value is also used to contain the manufacture of obsolete products.

The relationship of commodity supply and demand is also taken into consideration in the process of price planning. This concerns mostly retail prices. In socialist society, supply and demand are planned in a manner which would establish a correspondence between them. However, for some commodities supply and demand may differ. Constant growth and improvement of production, a steady rise in the population's well-being are accompanied by the development of and structural changes in social requirements. This entails changes in the demand for currently produced commodities and often leads to very high demand for newly introduced high-quality commodities. The volume of production is always planned for the future taking into account changes in social requirements. It is not always, however, that it is possible to attain a correspondence between the volume of production and the demand for individual commodities. This situation occurs, for instance, when it is impossible to rapidly launch full-scale production of insufficient goods due to a scarcity of industrial capacities or raw materials.

The opposite also happens, with supply overtaking demand. The demand for obsolete commodities often plummets and is transferred to other commodities, and no longer corresponds to the volume of production.

With demand overcoming supply, and with the impossibility of rapidly establishing a balance between them by expanding the production of scarce commodities, retail prices can be raised to limit demand. Oppositely, with an excessive supply of commodities compared to demand, the volume of their production is reduced and prices go down. Otherwise, if prices were unchanged, overstocking would take place.

In the establishment of enterprise wholesale prices, supply and demand are taken into consideration and reflected through incentives and redistribution.

In the process of planned pricing, a deviation of retail prices from value is also used in cases not immediately related to the divergence of supply and demand. It is used in pursuance of a social policy. Staple consumer goods are mostly priced at a relatively low level, i.e. below value (foods, housing, utilities, etc.). The prices of health care products are also low (medication, health and personal care products), as well as those of products for children: clothing, shoes, toys, school appliances. The sum total of prices, however, should be equal to the sum total of produced values. It is in this connection that the need to compensate for losses incurred due to reduced prices of the above items arises. Another group of products is chosen for this purpose, which is priced relatively high, i.e. above value. As a rule, these are goods in relatively high demand, yet not staple items (jewelry, precious furs, cars, etc.) or items whose consumption it would be useful to reduce (liquors, tobacco).

The establishment of retail prices at a relatively high and at a relatively low levels is accomplished mainly by means of inclusion in industrial prices of various amounts of turnover tax. With pricing at a relatively low level, turnover tax is included in prices at a minimum rate or not included at all. For some children's products retail prices are established below production cost, i.e. with profit not included therein either.

Retail prices of a number of foods, e.g. meat, milk, potatoes and a number of other agricultural products, are established at a level which is lower even than state expenditure for their purchases from collective and state farms,

i.e. below purchasing prices. The prices of rent and utilities are established at a similarly low level. They account for less than one third of expenditures for these purposes. In these cases, subsidies are paid by the state to purchasing organisations buying agricultural products from collective and state farms, and to housing maintenance organisations.

With goods sold at low prices, to compensate for the profits and turnover tax thus lost, which are forms of embodiment of produced value and therefore must be compensated for, as well as to cover subsidies to some extent, a higher rate of turnover tax is included in non-staple goods.

It is in this manner, by a regulation of the level of retail prices that a part of income is transferred to lower- and medium-paid categories of the population, and to families with children.

Prices play an exceptionally important role in the social life of socialist countries. They are an important vehicle of planned economic management and should correspond to the requirements of the development of social production to the maximum. It is for this reason that the pricing process is constantly undergoing improvement. The stimulating impact of wholesale prices on improvement of quality of output, acceleration of the mastering of new highly effective equipment and replacement of obsolete facilities, better use of production resources and the lowering of production costs is heightening.

Some Distinguishing Features  
of Pricing in the CMRA Member  
Countries

As a rule, prices (wholesale and retail) in other socialist countries are established, like those in

the USSR, by central state authorities as fixed prices. However, certain distinguishing features of pricing do exist. Besides fixed prices, more flexible wholesale prices are also established. These are ceiling (maximum) prices, within which the establishment of specific prices by enterprises and amalgamations themselves is permitted; and prices established by economic organisations and output consumers on the basis of agreements. Producers themselves establish the prices of

goods with low value or produced in small quantities. This allows a better account of supply and demand.

Specific aspects related to the establishment of wholesale prices are reflected in the level of retail prices which are dependent on wholesale prices and are based on them. Some wholesale prices, e.g. those of new and fashionable items, are established in agreement between producing and trade organisations. Subsidies are paid by state for some products so that their prices remain stable, like those in the USSR (in the GDR). This is not done in all countries, however.

In some other CMEA member countries, world market prices are taken into account quite widely, due to relatively small size of these states and to major importance of foreign economic relations for their economies.

Use of the Law of Value            In commodity production, individual labour expenditure is reduced to socially necessary labour expenditure (social value). This takes place through money forms of value: the price and its components, cost of production and net profit (profit of the enterprise). Individual labour expenditure for commodity production is partly reflected in cost of production of the output of individual enterprises. Wholesale prices reflect socially necessary expenditure of labour (social value) at the stage of commodity production. A comparison of the cost of production of a product with its wholesale price describes net profit to be incurred in the sale of the product. Thus individual expenditure is compared to social expenditure and measured against it.

Money forms of value--price, cost of production, profit--have a great influence on production. They describe its effectiveness.

The law of value also operates in the sphere of commodity circulation. It includes material and technical supply of enterprises, wholesale and retail (state and cooperative) trade, and trade at collective-farm markets. Here the law of value is used in the sale of commodities when prices are paid for them.

Sales of goods at prices which are established correctly from an economic standpoint, actively influence production.

The sale of commodities earns money for enterprises which can be used to cover production costs, for accumulation and for solving certain social problems. Profitability of production depends on the price level and cost of production of output. This invariably affects the economic activities of enterprises, making the manufacture of individual products attractive for them, and consequently, affects economic proportions in production, established by the national plan for economic and social development.

Correctly established prices lead to timely sales of goods, entailing general acceleration of turnover of funds in the national economy in its entirety. As a result, the rate of social production growth increases.

All of this signifies that the law of value under socialism does exert a major influence on production but, unlike the situation under capitalism, does not regulate it. In socialist society, production is regulated on the basis of the use of the law of planned development of social production, applied as such in close relationship with the other economic laws of socialism, primarily the basic economic law.

Bourgeois economists approach this matter in another manner. They regard the law of value, or the spontaneous pricing mechanism based on the market situation as the only possible regulator of production. Right-wing revisionists echo these views. They claim that "market socialism", where law of value operates as a spontaneous regulator of social production, is the "genuine" socialism. The action of the law, in accordance with their views, should be reflected through the market mechanism. They reject the need for central planned economic management. In their opinion, prices only become genuinely effective if formed spontaneously under the influence of commodity supply and demand.

In reality, "market socialism" is nothing but a transfer of the laws of capitalism to socialist society, i.e. a denial of scientific socialism.

## Chapter 8

### GOST ACCOUNTING AT SOCIALIST ENTERPRISES AND AMALGAMATIONS

#### 1. The Essence of Cost Accounting

Enterprises and amalgamations<sup>1</sup> are the main links in the chain of socialist production. Their output should meet social requirements. The latter are reflected in plans for economic and social development of socialist countries. If plan targets are to be met effectively, if the final results of production are to be significant, material incentives have to exist so that enterprises aim at these results. This is accomplished through the relevant method of production at socialist enterprises, called cost accounting.

Cost accounting is a reflection of production relations between society in its entirety as represented by the state and individual enterprises, and those between individual enterprises. For this reason, cost accounting is also an economic category, i.e. a concept describing the content of production relations under socialism.

V.I. Lenin repeatedly pointed out the importance of cost accounting for building socialism, as well as its connection with material incentives. He wrote that in building socialism it is necessary to rely not only on enthusiasm engendered by the great revolution, but also on personal interest, personal incentive and business principles.<sup>2</sup>

At the stage of developed socialism in the USSR cost accounting should be constantly strengthened, improved and becomes more effective. It is aimed at strengthening the regime of economy by all means, at a fuller utilisation of all kinds of resources, at a reduction of different kinds of losses, at attaining better final production results.

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<sup>1</sup> Elsewhere in the text, all references to cost accounting at enterprises also include amalgamations.

<sup>2</sup> V.I. Lenin, Collected Works, Vol. 33, p. 58.



Material incentives for work collective and enterprises are created by following certain requirements or principles of cost accounting.

Economic and Operational  
Autonomy of Enterprises

The first principle of cost accounting is the economic and operational autonomy of enterprises. This autonomy is not unlimited, however. It is permissible only within the framework of a plan. If their economic activities are to take place strictly in accordance with the requirements of socialist society, enterprises must meet state plan. This is a sine qua non of their activities. However, no plan, no matter how perfect, can reflect all the specifics of production, all the hitherto untapped reserves of its growth and improvement. To mobilise enterprises to meeting plan targets with the best results, taking into account rapidly rising and changing needs of society, and to create incentives to this end, it is necessary to offer work collectives a measure of freedom of action, room to manoeuvre within the production process, i.e. economic and operational autonomy. To this end, the necessary assets are provided to state enterprises. These assets still remain state property. Enterprise workers become users of the assets provided and enjoy the right to conduct economic activities in an autonomous manner. Enterprises also enjoy the right of a juridical person, i.e. establish economic relations and conclude agreements with other enterprises, and are responsible for the observance of the agreements. For the purposes of economic activities they hire workers, organise the production process, purchase the necessary means of production and sell the produced output. Enterprises working on the basis of cost accounting have accounts with the state bank, enjoy bank credits, have an independent financial balance reflecting the state of their economic activities, etc.

Unlike state enterprises, their very essence makes cooperative enterprises economically and operationally autonomous. They operate on the basis of their own cooperative assets.

Self-Sufficiency and Profitability of Production

The next principle, reflecting the essence of cost accounting, is repay-

ment of expenditure and profitability of enterprises in the production process. By selling their products at established prices, enterprises must repay expenditure and gain profit. A part of it is left with enterprises and is used to develop production, pay bonuses to workers for conscientious work, improve their living conditions and to solve other social problems. The other part is transferred to the state and is used to meet the requirements of society.

The greater the output of an enterprise and the higher its quality and the less the expenditure for production, the higher the profit of the enterprise. This does not mean, however, that cost accounting encourages enterprises to gain profit by any means. Socialist society resolutely suppresses attempts by enterprises to gain profit by disregarding the prices, assortment or quality of products established by the state. Enterprises have to pursue higher profitability by increasing production efficiency, i.e. by raising labour productivity, reducing production costs, and improving the quality of output.

Material Responsibility of Self-Supporting Enterprises for the Results of Their Activities

Material incentives for enterprises is stimulated by the cost accounting system are supported

ed by their material responsibility for the result of their work. That is the next principle of cost accounting.

Relations between enterprises concerning mutual deliveries of products take place on the basis of economic contracts concluded between them. The contracts specify the nomenclature and volume of output, its quality, delivery schedules, prices, the schedules and procedure of payment. If enterprises violate contracts by delivering incomplete sets of products, or products of substandard quality, failing to meet the schedule for delivery or payment, they have to pay various fines to their counterparts.

Fines for violations of economic contracts reduce the amount of profit at enterprises thus having a negative influence on their financial position.

Implementation of economic contracts plays a decisive role in maintaining a stable rate of economic activity by enterprises, in timely meeting production plans. This entails an urgent need for permanent attention towards the improvement and increasing the efficiency of the mechanism of responsibility of enterprises for the ultimate results of their activities, i.e. for timely deliveries of high quality products to consumers. A number of innovations has been introduced in the system of cost accounting in the USSR with this purpose. Firstly, a provision has been adopted establishing a material responsibility of enterprise managers for carrying out economic contracts. If commitments to deliver products are not met in full or on schedule, managerial personnel of enterprises forfeits its bonuses for basic production results, depending on the extent of failure to meet contract obligations.

The July 1979 decision of the CPSU Central Committee and the Council of Ministers of the USSR, aimed at further improvement of the national economic mechanism, establishes a direct link between the implementation by enterprises of plans for product deliveries to consumers in accordance with contracts concluded, and the volume of the material incentive fund for workers and employees, established at enterprises out of profits, and employee bonuses.

To guarantee timely payments for products delivered in accordance with the contracts signed, and to increase the responsibility of purchasing enterprises for maintaining payment discipline, a procedure has been established whereby if a payment is overdue, the supplier enterprise collects it from the bank. The bank regards the amount paid as a loan to the purchasing enterprise for a period of up to 60 days at a 5 per cent annual rate. After the specified period expires, the rate is increased.

The forms of mutual incentives and responsibility for meeting plan targets and contract obligations is undergo improvement constantly.

Control Over Production  
Activities of Enterprises

Economic activities of enterprises are supervised on a regular basis. The activities

of enterprises are controlled by the state authorities to which the enterprises are subordinated, e.g. amalgamations and ministries, and by people's control bodies. Systematic control is also a principle of cost accounting.

In the process, the value (money) form of production expenditure and results is widely used. By comparing planned and actual volume of production (of net, commodity or other accounting categories of output), planned and actual cost of production, profits, etc., supervisory authorities get a clear picture of the degree of efficiency of economic activity of enterprises.

The state bank exercises a specific kind of control over the activities of enterprises. All the socialist enterprises deposit their unused monetary funds in special accounts in the state bank. All financial dealings with other enterprises and transfers of funds to the state budget are effected by them through the state bank. The bank extends credits to enterprises in case they need additional funds. All of this gives the bank a clear picture of the state of affairs at enterprises and, if the need arises, to inform their supervisory authorities of it so as measures may be taken to eliminate the shortcomings.

The state bank is also able to influence economic activities of enterprises independently, with a view to raising their efficiency, through relevant systems of accounts and credit.

Cost Accounting  
Within Enterprises

Enterprises forming part of production amalgamations, shops, work teams and other units within enterprises

also work on the basis of cost accounting. With the exception of a number of enterprises included in amalgamations, they do not enjoy the right of juridical person and do not enter economic agreement relations with other enterprises and units. They are assigned, however, the necessary means of production, and the volume of production, the nomenclature of articles, their unit cost, labour productivity and other in-

dicators are planned. It is on their basis, that production activities of a unit are evaluated and workers are paid bonuses for the best work achievements. This system is usually described as cost accounting within enterprises. It is aimed at stimulating the growth of efficiency and higher quality of work of the staff of these units and involves control over their work and material responsibility for its results.

The work team form of work organisation and stimulation is becoming the basic element of cost accounting within the enterprises of the Soviet Union and other socialist countries. Members of a work team enjoy broad rights in organising work, determining the amount of earnings and bonuses for it taking into account the actual contribution of each team member to the final result of work. Work teams have the right to nominate their members for the payment of increments and supplements to wages for professionalism and combining several jobs, to recommend changes in the qualification grades of team members, name winners in socialist emulation within work teams, and other rights. The importance of this form of cost accounting within enterprises entails further increases in its effectiveness.

## 2. Organisation of Assets of Enterprises Operating on the Basis of Cost Accounting

The organisation of their assets plays an important role in economic activities of socialist enterprises. The assets of enterprises perform various roles in the process of their functioning. Depending on them, they form part of various funds. When used in production, the assets of an enterprise become production assets. They include buildings, constructions, machinery and mechanisms, raw materials, supplies, fuel, incomplete production, etc. The assets of enterprises that serve the sales of finished products and the purchases of required raw materials, supplies, etc. represent circulating assets. They include finished, but not yet sold, products, packaging and containers, etc., as well as the income received from the sales of output and required for production development.

## Production Assets

Depending on the nature of their turnover, i.e. the way their value is transferred to new products, production assets are divided into fixed and circulating production assets. The first include the basic means of production, such as buildings, constructions, machinery, etc. While fully involved in production, they transfer their value to the products, newly created by using them, by portions, as they undergo wear and tear. The second include raw materials, supplies, fuel, etc. They are used up in one instance of production and transfer all of their value to newly created products.

Fixed production assets have a decisive role to play in social production.

The means of production comprising the fixed assets undergo wear and tear in the process of their utilisation. In socialist society, like under capitalism, both physical wear and tear and obsolescence of equipment exist. The latter is mostly a result of the development of new, more efficient, basic means of production, e.g. machinery.

Under capitalism, obsolescence is spontaneous. Under socialism the introduction of new technology and the replacement of obsolete equipment takes place on the basis of a plan elaborated in advance.

The replacement of worn-out basic means of production is effected through the assets of a gradually accumulated money reserve, depreciation allowances. It is also used for major repairs and modernisation.

The deductions to be made into depreciation allowances are established at a specific rate. It represents the share of the value of basic means of production which is transferred to newly created products over a certain period of time, as a rule one year. The depreciation rate should reflect, besides physical wear and tear, also obsolescence of fixed assets.

## Circulating Assets

Circulating assets are of no less importance for economic activities of enterprises. Together with the current production assets they represent circulating assets. The latter comprise assets assigned by the state to enterprises (in cooperative enterprises--their own cooperative assets) in accordance with es-

tablished standards (rated circulating assets), as well as credits and assets temporarily assigned by the bank to enterprises pending the completion of transactions with the state concerning the transfer of a part of profits to the state budget.

#### Wage Fund

The wage fund has a special place among the assets of socialist enterprises. It is formed out of a part of newly created value. The value is created in the process of production and initially expressed in finished products. In accordance with the provision adopted in the USSR, the wage fund at enterprises is established in a centralised manner by ministries at a certain rate per rouble of net normative output or per another indicator of production, if it reflects more precisely the changes in the expenditure of labour in a given branch. The increase of the wage fund is depend on the growth in labour productivity and improvement of the final product of enterprises. At the same time, labour productivity growth must outgo that of wages.

In a number of socialist community countries, the composition of the wage fund has some distinguishing features. In Hungary, for instance, the wage fund is not planned in a centralised manner. Economic organisations themselves determine its volume.

### 3. Stimulating Role of Cost Accounting

Socialist society is interested in enterprises' using the assets with a maximum efficiency, in utilising equipment at full capacity with less idle time, in achieving economies of raw materials, supplies, fuel, energy, in effecting the sale of products and purchases of the required means of production using a minimum of circulating assets, etc. A system of stimulating measures is used to this end.

Incentives for a Rational  
Utilisation of Fixed and  
Circulating Assets

The system of payable funds, adopted in many countries of the socialist community, is a significant incentive for better utilisation of fixed production assets and circulating as-

sets of enterprises. In the USSR, for instance, each state-owned enterprise must transfer to the state budget a share of profits at an established rate, depending on the volume of fixed production assets and rated circulating assets in its possession, as a rule at 6 per cent of their value.

Charges for assets are aimed at establishing material incentives for enterprises so that they use production assets rationally. Charges for assets are established in direct proportion to their volume. Thus, the more profit is made per unit of fixed production assets and rated circulating assets, the larger part of it remains at enterprises. If production and profit plans are implemented with assets of lesser value than envisaged in the plan, savings in charges for assets remain at enterprises.

The rise of effectiveness of utilisation of circulating assets at enterprises is provided for by accelerating their turnover. This is accomplished by a reduction of the time needed for production and the period of turnover: the sales of products and the purchases of the means of production required to continue production.

Production time is reduced mainly by increasing labour productivity due to the introduction of advanced technology and know-how, improvement of work organisation and upgrading the skills of workers, etc.

For the acceleration of turnover, faithful implementation of economic contracts is of major importance. It involves on-schedule deliveries of high quality complete sets of products. In this case, surplus finished products do not accumulate at warehouses, no cancellation of orders by purchasers takes place and orders are paid for on time. Turnover time is also reduced by the elimination of unnecessary long-distance freight of products.

The Stimulating Role of  
Assets Formed Out of Profits

The practice of establishing  
economic incentive funds out  
of profits is used at enter-

prises in the socialist community countries. In the Soviet Union they include the production development fund, the material incentive fund and the social, cultural and housing construction fund.



The production development fund is formed, besides from deductions from profits, of part of the depreciation charges at a rate of ten to fifteen per cent of the amount used for the complete renewal of fixed assets, and from money received from selling off surplus equipment. Deductions from profits to the production development fund are effected at rates expressed as a percentage of profit.

Enterprises make use of the production development fund to finance the introduction of new technology, modernising equipment, improving the organisation of work, etc. Expenditure for these purposes is included in capital construction plans of ministries and are underwritten as a priority by all the necessary material resources.

The material incentive fund is used to pay bonuses to enterprise workers for the best results in work, and primarily for improving the qualitative standards of work and honouring the commitments concerning product delivery in accordance with economic contracts signed. The assets of this fund are also used to pay bonuses in accordance with the results of socialist emulation. Bonuses are paid out both in the course of a year and as lump-sum remuneration by the year's end (thirteenth month wage). In the latter, besides work achievements, discipline and length of service at the enterprise are taken into account.

The social, cultural and housing construction fund is used to build housing, purchase vouchers to holiday homes and sanatoria, to build and maintain enterprise-owned health care facilities, as well as clubs, sports and children's facilities, such as pioneer camps, kindergartens, etc. A part of the material incentive fund can also be used for these purposes.

In the USSR, the establishment of economic incentive funds began in 1965 when economic reform was initiated in accordance with the decision of the September Plenary Meeting of the Central Committee of the CPSU.

The procedure of the establishment of economic incentive funds has not remained unchanged. It is constantly improved like the system of cost accounting as a whole. The economic incentive funds are formed on the basis of stable rates cal-

culated for a five-year period. After they are approved, they are differentiated for each year of the five-year plan. Thus guidelines are established for enterprises' use of funds. For enterprises which increase the production of new high-yield production and technical output and new consumer goods on a significant scale, increased rates of formation of economic incentive funds are established. Similarly, it is at increased rates that the above-mentioned funds are formed if enterprises adopt upwardly revised plans above the five-year plan targets for the following year.

The funds are used for their purpose only. The remaining balance is carried over to next year.

The fund of material incentives for workers is calculated at a certain percentage of estimated (net) profit, i.e. the part of total profit gained which remains at the enterprise after payments to the state for fixed production assets, rated circulating assets as well as after servicing credit extended by the bank. In turn, the amount (rate) of this percentage depends on the fund-generating qualitative indicators of the production activity of enterprises, such as the rate of labour productivity growth, the ratio of top quality output to total output produced, and the implementation of plans for product delivery to consumers in accordance with the concluded contracts. For individual branches of the economy, the use of other fund-generating indicators is permissible, taking into account the specific features of their economic performance, those reflecting the quality of work at enterprises, such as savings of material resources, increases in returns on assets and the shift index, the level of profitableness (a percentage of profit to the average annual value of fixed production assets and rated circulating assets), the lowering of production cost, and for extracting industries--the growth of production in physical terms.

For some economic branches, the material incentive fund is not calculated as a percentage of profits, but as that of the wage fund for the base year, i.e. the first year of the five-year plan. In this case the first year is taken to prevent the decrease of asset transfers to the material incentive fund by enterprises which would be able to achieve a

saving in the wage fund over the following years.

The social, cultural and housing construction fund is established at 30 to 50 per cent of the volume of the material incentive fund. Within this margin it may vary in accordance with the ministry instructions, depending on the housing situation of enterprises and the available social and cultural facilities.

Specific ways of using the assets of economic incentive fund are determined by the management of enterprises jointly with their trade union committees taking into account the wishes of the body of workers of enterprises expressed during their discussion of these questions.

Beginning with the 11th Five-Year Plan, enterprises in the USSR have been transferring a part of their profit at the established rate to ministries which use the assets thus received to finance capital investment and the growth of circulating assets in their economic branches, to service bank credits, to establish single sectoral funds for the development of science and technology and reserve economic incentive funds, as well as for other planned expenditures to develop the specific branch of the economy. This is done to stimulate greater material interest of ministries in the result of economic activities of subordinated enterprises and in the solution of important problems on the ministry level.

A part of profits, in the established amount, is transferred by enterprises to the state budget; if need arises, they are assigned funds not only from their ministry, but from the state budget as well.

Some Specific Features of the Stimulating Role of Cost Accounting in the CMEA Member Countries

In the other socialist community countries, like in the USSR, cost accounting is widely

used and is based on the same principles. Most distinguishing features of cost accounting organisation in these countries have to do with the distribution of profits. Rich experience has been gained in the utilisation of payment for resources in the CMEA member countries. Besides payments for funds (not used in all countries), payments for using land, water and labour resources are used. The latter, in the form of increas-

ed rates of deductions for social security takes place, as a rule, on the basis of cost of production. Besides, in some countries (Hungary, Poland) wages are taxed.

Distinguishing features also exist as far as the composition of economic incentive funds is concerned. The fund used to award bonuses to workers in some countries (Hungary, Romania), for instance, is called "worker participation in profits" fund. Besides bonuses, it is used for social and cultural activities. In Bulgaria bonuses are awarded mainly out of the wage fund, while social and cultural activities are financed out of the fund for social, domestic and cultural activities. In Poland, only the management is awarded bonuses out of the bonus fund. Workers' bonuses are awarded out of the wage fund.

There are also some distinguishing features in the criteria for the establishment of economic incentive funds: the fund-generating indicators are not always identical.

Much is being done in the socialist community countries to target production to external, along with internal, market. Thus enterprises and associations are directly involved in profits and losses resulting from foreign trade activities. The latter also influence the composition of economic incentive funds.

Some specific features are also concerned with the transfer of a part of profits to society. Besides payments for resources, assets are also transferred to the state as a profit tax (Czechoslovakia), production tax (Hungary), payments on a progressive scale (Bulgaria), etc. In some countries, enterprises transfer a part of their profits to local councils (Hungary, Bulgaria).

Thus cost accounting is an effective means of developing socialist social production. It is for this reason that bourgeois theoreticians make all kinds of attempts to discredit it. There is no unity in their views concerning cost accounting. Two basic approaches can be singled out of a multitude of views, however. The proponents of one claim that in a planned economy cost accounting merely plays a symbolic role, being nothing but a set of rules for enterprise managers, solely determining their behaviour in enterprise management,

and finally, that the provisions for cost accounting are merely conditional, i.e. not related in any way to socialist production relations.

The other group of bourgeois economists sees no difference between cost accounting under socialism and commercial accounting under capitalism, and obscures the difference of principle between the socialist and the capitalist methods of economic performance.

Both groups of bourgeois theoreticians are seriously "mistaken", as demonstrated by the above description of the nature of cost accounting, its basic principles and its role as an incentive.

#### 4. Combining Economic Interest and Moral Stimulation of Labour

The character of production relations is expressed by economic and material interests of society members. These interests are the stimuli for the productive activity.

Types of Economic Interests  
Under Socialism

Economic interests in capitalist society, torn by antagonisms, appear as class

interests, there is no common interest in capitalist economy. The situation is quite different in socialist society. There are no antagonistic classes. The society as a whole is a united production association linked by the dominance of the public property in the means of production. This gives birth to the common interest of the whole people in the growth and improvement of production aimed at better satisfaction of the people's needs.

The common economic interest of the people is the supreme interest of society. Apart from it there are other types of economic interests: the interests of work collectives of enterprises and individual interests of the society members. They are parts of the supreme, joint economic interest.

Economic interests of work collectives of enterprises and individual interests of workers are independent, for, in socialist society, labour has not yet become the habit to work without expecting remuneration. Labour will become such

under communism. The expectancy of remuneration is the essence of the economic interests mentioned above. Along with the interest in the development of social production the work collective of every enterprise is interested in normal production process of its enterprise and in better standard of living of its members. Each worker, in addition, is interested in his own well-being and the well-being of his family.

Cost Accounting and Combination of Economic Interests

Individual interests and the interest of the collectives of enterprises are

parts of the joint, supreme interest of society, because all of them eventually are aimed at the improvement of the well-being of all members of society. Here lies their unity. On the other hand, the economic interests should be distinguished as the whole and as its integral parts. Due to this they form contradiction which is not antagonistic. In order to make this contradiction a booster of economic progress of society it should be resolved in a proper way. This is achieved through optimal combination of interests. Individual interests are to serve the collective ones, and the collective interests should provide the realisation of the supreme economic interest of society. At the same time, that which is profitable for society should be profitable for an enterprise; that which profitable for an enterprise should be profitable for its every worker.

Cost accounting is actually aimed at ensuring such combining of economic interests.

Each socialist enterprise is obliged to fulfil the state plan of economic and social development, and the better the fulfilment goes, the more effective the production is, and the better its final economic results are, the more stable is the enterprise from the economic point of view, the more profits it gets and more means are allocated to the funds of economic stimulation. Hence the results--growing standard of living of the nation and, at the same time, successful process of reproduction at an enterprise, better economic and social conditions of labour and everyday life of its workers.

It is quite well known, that the successful production activities of an enterprise to a great extent depend on individual labour of its every worker. On the other hand, the well-being of each worker depends not only on the results of his individual labour, but, also, on the results of the production activity of the work collective as a whole. The higher are the results of the economic activity of an enterprise, the more funds it has for giving bonuses to workers and for meeting their combined social and cultural needs, for implementing housing programmes.

Bourgeois economists and sociologists deny the existence of economic interests under socialism considering them characteristic of the system of private enterprise only. Right-wing revisionists, in their turn, declare that the supreme economic interest in socialist society is the interest of a collective of a single enterprise, while "left" revisionists allege that the production activity under socialism should be based solely on enthusiasm of the masses.

In reality, the economic interests do exist in socialist society, have their objective foundation and play an important stimulating role. To a great extent they are realised and most effectively combined within the system of cost accounting of socialist enterprises.

Combining Cost Accounting  
with Moral Incentives of  
Labour

Economic interests of the socialist production workers are stimulated by means of material incentives: distribution ac-

ording to work system,<sup>1</sup> bonuses and priorities in improving housing and other everyday life conditions for best workers, etc. All this is taken into consideration by cost accounting system. At the same time material incentives are closely coupled with the moral ones: awarding honorary titles of shock-workers and collectives of socialist or communist labour, messages of appreciation, entering names in the roll of honour,

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See Chapter "Distribution under Socialism".

awarding advanced bodies of workers honorary red banners, awarding best workers medals and orders. The best results in stimulation of labour are achieved when there is a combination of material and moral incentives.

Cost accounting is coupled with the powerful drive of socialist emulation within enterprises and among them as well which is an effective tool of mobilising the activity of the collectives of enterprises and individual workers with the aim of better production results, higher cultural and technological level of the workers, educating them in the spirit of communist attitude towards labour.

The organic link between material and moral incentives of labour, and the development of socialist emulation reflect the essence of socialist production relations.



## Chapter 9

### DISTRIBUTION UNDER SOCIALISM

#### 1. Distribution According to Work

Marxism-Leninism maintains that a character and forms of distribution are determined by the character of production, its social nature. Under socialism working people work for themselves, for their society. So the distribution of material values and services in socialist society is conducted in their interests.

However, the distribution cannot be inert in relation to production. It has an active feedback effect on production. The distribution of material values and services in socialist society facilitates the growth of volume and effectiveness of production, it induces better results with less expenditures of means of production and labour.

Distribution under socialism plays an important part in satisfying ever growing needs of the people, in the improvement of standard of living of all groups of working people. Due to these reasons Marxist-Leninist parties always pay great attention to the problems of distribution.

There are two forms of distribution of material values and services of personal consumption under socialism: according to work and through social consumption funds.

Economic Law of Distribution According to Work

Under socialism, the first stage of communist society, the level of production development cannot yet provide the abundance of material values and services. At the same time labour is the primary means of securing life for the majority of the society members. It has not yet become their prime need, a habit to work without expecting remuneration.

In connection with this there arises the necessity of control on the part of society over the measure of labour and the measure of consumption, and over material stimulation of the results of the labour of the participants in social production as well. This is achieved through the distribution of

material values and services according to work. This system of distribution is objectively necessary in socialist society and is therefore its economic law.

Distribution according to work means equivalent compensation of expenditures of labour less the part that is used for satisfaction of social needs. Everybody receives from society the same amount of labour in some other material form, as he himself gives to the society.

Distribution according to work expresses the relationships between the members of society, collectives of workers of enterprises and institutions and society as a whole in connection with the part of the national income that goes for personal consumption of the people.

Distribution according to work presupposes that a number of principles should be adhered to. The first of them is the obligatory nature of labour, for there are no other sources of appropriation of articles of consumption under socialism apart from labour. The second principle is equal pay for equal work. Socialism does not allow any discrimination in paying for work: neither with respect to sex or age, nor nationality or race. These forms of discrimination are widely spread in capitalist society. Distribution according to work presupposes the differentiation of incomes in accordance with the degree of complexity and hardness of labour. More skilled or complex labour being simple labour multiplied produces more value in a unit of time. Therefore in comparison with less skilled simple labour it is paid at higher rates. Work underground, at hot workshops, in hard climatic conditions, etc. demands higher expenditure of energy. So due to this it is also remunerated at higher rates. Differential pay is the third principle. And finally, the fourth principle of distribution according to work is that of ensuring such a ratio of growth rate of payments according to work, and growth rate of labour productivity, when the growth rate of labour productivity exceeds the growth rate of payments. This is necessary for the appropriate growth of social consumption funds and for the expansion of production.

Distribution according to work is incompatible with levelling in distribution, the latter being a vulgarised con-

ception of socialism as equality. In reality there is nothing in common between levelling and socialist system of distribution. Socialism presupposes stimulation of labour, levelling denies it. With the help of distribution according to the work socialism insites workers to improve their cultural and technological standard and skills, whereas levelling distribution does not ensure this.

The levelling in distribution damages greatly and adversely affects production and the psychology of people.

It is worth mentioning here that levelling distribution does not conform with communism, the supreme phase of communist society, either. Distribution according to needs does not mean equal distribution. Tastes and needs of the people in communist society will vary. Consequently, material values and services will not be distributed in equal shares, but according to various needs.

Distribution According to Work  
and Socio-Economic Equality of  
Society Members

Socialism provides equality  
of members of society  
in relation to the means  
of production, and equal

rights to work. Socialism ensures equality in application to all society members of the principle of distribution of material values and services according to work. But socialism is not able to provide equality in satisfying the needs of the members of society. Distribution according to work among the people with different abilities, qualifications, different family status (single or having a large family) takes into account not the needs of the people but their labour participation in social production. This creates inequality in consumption of material values and services, obtained at the expense of personal income that was received according to work. Under socialism the said inequality can only be reduced, first, by way of raising cultural and technological standard of the working people and improving their skills which entails shortening of labour quality gaps and consequently cutting down differences in the level of income.

Second, by way of distributing material values and services through social consumption funds which play under socialism ever growing role.

Final elimination of inequality in satisfying needs could be reached only under communism when distribution of material values and services will be carried out according to needs.

## 2. Wages and Salaries and Distribution According to Work in Cooperatives (Collective Farms)

The essence of the economic law of distribution according to work is put into practice by way of building up a system of wages and salaries of workers of state enterprises and institutions and through distribution according to work among members of cooperative enterprises (collective farms).

### The Essence of Wages and Salaries

Under capitalism wages received by workers are the monetary form of the value of labour power. La-

bour power in socialist society is not a commodity and therefore has no value. The meaning of wages in socialist society is fundamentally different in its essence. It is a part of national income of society expressed in monetary form, which is allotted for distribution according to work among workers of state enterprises and institutions and is distributed among them according to the quantity and quality of labour done by each of them.

Wages under socialism express the relationship of individual workers with work collectives of an enterprise and with society as a whole. They are not connected with the value of labour power as is the case under capitalism, and therefore their dynamics is not conditioned by changes in the value of labour power or by fluctuations of demand and supply of the commodity-labour power. In socialist society wages grow with the growth of national income, of quantity and quality of labour expended by workers. Due to this reason the workers under socialism are interested in the growth of the national income, and, moreover, not only of its part that is distributed according to work, but in the growth of the national income as a whole. There is no antagonistic contradiction between the part of the national income distributed according to work (a

product for oneself) and the part allotted to social needs (a product for society) under socialism. Both parts are used for the benefit of the people. The part allotted to meet social needs comes back to the working people in the form of social consumption funds and as materialised in new enterprises, cultural establishments and everyday amenities including, which also belong to the people. This does not occur under capitalism. There the increment of national income goes into the pockets of capitalists. There is antagonistic contradiction between the part of the national income that goes to the workers and the part appropriated by capitalists.

Wages and Salaries  
Under Socialism

Labour expenditures are measured by the working time and the volume of output. Wage forms are determined by the methods of measuring labour. Time-wage and piece-wage are used under socialism. The first (time) form is used in automated production, apparatus processes (chemical production), at repair shops, etc. In this case the wage is determined by the working time and the worker's skill.

Piece-wage is used when it is possible to measure individual expenditure of labour and when labour expenditure is not determined by the system of machinery or technology of production, but by the efforts of a worker himself. Piece-wage can be individual and team-based (collective). The latter is used in the team form of the organisation of work. Within a team wage of each worker is determined by his actual working time and his skill.

The team form of pay has a great educational importance. It inculcates in workers the sense of collectivism, mutual aid and support, and exactingness.

Both time- and piece-wages as a rule are supplemented by bonuses for better quantity or quality work indicators. In such cases wage is called time-incentive wage or piece-incentive wage.

The size of wage varies depending not only on the amount and quality (skill) of work but also, as it was stated above, on the conditions of work. Higher wage rates are also used in the branches of national economy that are determinative for

the development of social production, in the branches directly connected with technological progress, for instance. Through this the priority attraction of skilled labour power to these branches of economy is achieved.

Organisation of wages, both piece- and time-wages, is provided by the wage-rate system, consisting of three elements: wage rate, wage scale, and a handbook on skill grading.

I. Wage rate. It is determined for the lowest skill-level workers (first skill grade) in each specific kind of work (fitter, turner, clothing industry worker, shoe-maker, construction worker, etc.). The first grade wage rates are determined by government agencies. They are fixed at higher level for heavy or hazardous work. For instance, in the USSR this excess in most branches of national economy goes up to 10-12 per cent, and 16-24 per cent for especially hard and hazardous work.

To attract labour force to the branches that are playing major role in the national economy, the rates of wages in these branches are increased by 5-10 per cent.

Higher rates are fixed in cases of higher intensity of work. Thus, for instance, the fixed rate of wages in machine-building industry in the USSR is 5-7 per cent higher for piece-workers than for time-workers. On the other hand, where there is an output quota for time-workers their pay is equal to that of piece-workers.

In the USSR special regional differentials are used to determine rates of wages for those working at enterprises located in little-developed and remote areas with hard natural and climatic conditions. These differentials for the areas of the Far North is 1.5-1.7, and for islands of the Arctic Ocean it goes up to 2.0. That means that the rates of wages in those areas are by 50 to 100 per cent higher than those used at enterprises in central and southern areas of the European part of the country.

II. Wage scale. It is used to determine wages of higher skill workers, in other words, of workers who put in a more complicated labour. First, the wage scale has skill grades. There are 6-grade wage scales in the national economy of the

USSR. Each grade corresponds to a certain level of skill of a worker. The level of a worker's skill is determined by qualification commissions and is certified by the corresponding documents. The first grade is conferred on the workers of lowest skill, while the sixth is conferred on those of the highest skill.

Secondly, the wage scale has wage-rate coefficients. Each coefficient corresponds to a particular grade. The higher the grade the higher the coefficient. The coefficient of the first grade is 1, the 6th grade has the highest coefficient. The coefficient of the 6th grade in different branches of the national economy of the USSR varies from 1.56 to 1.86. Taking wage rate of the 1st grade by the wage-rate coefficient of the corresponding grade one can define the wage rate paid to the workers of this particular grade (level of skill) for the fulfilled quota of work.

To illustrate this, here is a wage scale and hour wage rates of the machine-building workers calculated on the basis of the wage scale (in kopecks).

Grades	1	2	3	4	5	6
Wage-rate coefficient	1	1.09	1.20	1.33	1.50	1.71
Wage rate (kopecks)						
a) for piece-workers	44.7	48.7	53.9	59.6	67.0	76.7
b) for time-workers	41.8	45.5	50.3	55.7	62.7	71.7

By following the increase of the rate coefficient one can see that it grows gradually. The wage-rate coefficient of the 2nd grade is higher than that of the 1st by 9 per cent. The coefficient of the 3rd grade is higher than that of the 2nd by 10%, the 4th is higher than the 3rd by 11% and so on. The wage-rate coefficient of the last 6th grade is higher than that of the 5th by 14%. This is done to stimulate the material interest of workers in developing their skills. Their transition from one grade to another effects in bigger growth of their wage rate.

It should be taken into consideration that the wages are not limited by the wage rate. In addition to it workers get

bonuses of various kinds, both from wage funds in case of piece-incentive-wage and time-incentive-wage system, and from material incentives fund (taken from profits of an enterprise) as well.

III. Handbook on skill grading. It is used to determine the level of skill of workers and for conferring a certain grade on to them. It contains the list of jobs to be fulfilled by a worker, who intends to receive a certificate of a certain level of skill. If a worker can perform the simplest jobs listed in the handbook, he is on the lowest skill level and therefore gets the first skill grade. The workers performing the most complicated jobs get the highest, 6th grade.

Work of employees, engineers and technicians is paid on the basis of staff-salary system. Their salary depends on the size of enterprises and institutions, their posts and the salary stipulated by a specific post.

Salaries of engineers and technicians are differentiated in the following way. If we take the salary of a technician with special training for 1, than the salary of a beginner-engineer is 1.2, of a master-engineer (skilled engineer) is 1.5, shop manager is 1.8, the director of an enterprise is 2.4.

Bonuses for technicians and engineers are paid from material incentives fund.

Minimum salaries of research workers, doctors and teachers are determined according to the minimum salary of an engineer. Their salaries vary depending on the qualifications, length of service, post, working conditions, etc.

Wages and salaries under socialism are carefully planned. Their fund for a planned period is established for the national economy as a whole, for its branches, amalgamations and enterprises. This is necessary for the proportionality of national economy. Wages fund is taken into account when the balance of monetary income and expenditures of population is worked out, when the ratio of wages and salaries growth and the growth of labour productivity is determined. The ratio is correct when the productivity of labour growth goes ahead of the growth of wages and salaries. Through this a correct ratio is achieved between the part of national income that goes



to the consumption by the people and the part that is allocated to accumulation (expansion of production, capital construction of cultural establishments and amenities, and raising insurance funds) and to ensure that the mass of commodities and consumer services produced cover the monetary income of population.

The wage and salary system in socialist society is under constant perfection. The aim of this is to raise the stimulating role of wages. For instance, in the USSR, the decision of the Central Committee of the CPSU and the Council of Ministers of the USSR of July 1979 "On Improvement of Planning and Intensification of Influence of Economic Mechanism on Effectiveness of Production and Quality of Work" has initiated a number of new conditions of building up and spending wage fund of enterprises and amalgamations.<sup>1</sup> They are given the right to pay additional sums, besides the wage rates, to workers for combining several jobs or for fulfilling planned amount of work with less hands at the account of saving wage funds. Skilled workers get the additional pay for higher professional skills. Technicians, engineers and office workers receive additional payments for higher skills. On the other hand, if the indicators become worse there is a rule which cancels these additional payments. This is done to stimulate higher quality of work and more economical usage of labour resources.

At the end of the year the wage-fund savings are transferred to the material incentives funds. The overdraft of the wage fund is covered by the means of material incentives fund (within the limits of wage-fund savings transferred to this fund in the previous year).

Wages and salaries in socialist society are ever growing. This is a manifestation of the growth of standard of living of the people.

In their attempts to discredit socialism bourgeois economists and revisionists have chosen the system of distribution according to work used in socialist countries the target of their criticism. Bourgeois economists allege that distribu-

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<sup>1</sup> Some of them are mentioned in the Chapter "Cost Accounting at Socialist Enterprises and Amalgamations".

tion according to work under socialism is either arbitrary, or is no different from distribution according to the value of labour under capitalism. In reality it is far from being true. We have seen that distribution according to work is an objective economic law of socialism, and is different in principle from distribution according to the value of labour.

Right-wing revisionists advocate the substitution of distribution according to incomes of individual enterprises for integrated system of distribution according to work. They deny the necessity of control over the measure of labour and measure of consumption by the state on behalf of society under socialism. As to the "left"-wing revisionists, they expound nothing but levelling distribution.

Distribution According to Work in Agricultural Cooperatives (Collective Farms)

Distribution according to work in agricultural cooperatives (collective farms) is also conducted according to the amount and quality of work. But it has

its peculiarities. They are due to the fact that these enterprises are, firstly, agricultural, and, secondly, they are cooperative. The results of work on a collective farm, in husbandry for instance, can be final only at the end of agricultural year, and the source of the distribution according to work fund is the income of the given cooperative enterprise but not the centralised income of the state.

In the initial phase of the collective-farm movement in the USSR distribution according to work was conducted with the help of a work-day, this being the unit of accounting of amount and quality of labour spent by collective farmers in the collective economy of a farm. A certain number of work-days was credited to a collective farmer for the fulfilled daily quota, and the complexity of work was taken into account. At the end of the year the distribution of money and products in kind allocated to the distribution fund was conducted according to the number of work-days, credited to every farmer. Such system of distribution was progressive at the initial stage, but at the same time it did not stimulate the labour of farmers enough, because their personal income was defined only at the end of the agricultural year. Besides, different amount

of money and products in kind was given for one work-day in different collective farms. Therefore, after some time, the system of guaranteed work-days, and later quarterly and monthly advance payment of credited work-days was used.

Since 1966 the collective farms of the USSR have gone over to guaranteed monthly payments no longer using work-days. A guaranteed minimum of payment was established at every collective farm at 90 per cent of the complete wage fund. This minimum is paid to the farmers every month. The remaining 10 per cent of the fund are distributed at the end of the year, the fulfilment of the plan as to the amount and quality of the product being taken into account. This additional payment includes also the bonuses for overfulfilment of the plan and for economy.

### 3. Social Consumption Funds

Another form of distribution of material benefits and services under socialism is their distribution through social consumption funds.

The Substance of Social  
Consumption Funds

Distribution through social consumption funds as well as distribution according to work, expresses relations between members of society, collectives of enterprises and society as a whole in connection with the part of the national income that goes to personal consumption of the people. Free education, higher skill training, free medical care, grants, old-age pensions, allowances, regular paid leaves, free and discount passes to holiday homes and sanatoria, maintenance of children at preschool institutions, etc. are granted through social consumption funds. The major stock of social consumption funds (70 per cent) is built up from the means of state budget and its distribution is centralised. Apart from this, social consumption funds are set up at enterprises and institutions.

Social consumption funds are growing from year to year. The following data prove this:

Payments and benefits received by the population  
of the USSR from social consumption funds

	1950	1960	1970	1975	1980	1985(plan)
Total (billion roubles)	13.0	27.3	63.9	90.1	117.0	146.5
Per person (roubles)	72	127	263	354	438	500

Some concrete expenditures can illustrate the scope of state allocations to the needs of the people made through social consumption funds. Expenses for one pupil per year in schools, for instance, come up over 200 roubles, in secondary specialised educational institutions they are over 750 roubles per student a year, in higher educational establishments--more than 1,100 roubles. Upkeep cost for one child per year in nursery-schools goes about 600 roubles, in kindergartens it is over 500 roubles, and 80 per cent of the cost is paid by the state. In the years of the 11th Five-Year Plan quotas of expenses for meals in preschool institutions were raised in general. The state allocates more than 10 roubles a day for the upkeep of one sick person.

The state finances more than two-thirds of housing maintenance.

Socio-Economic Importance of  
Social Consumption Funds

Distribution through social  
consumption funds is of great  
socio-economic importance.

Under socialism there arises the necessity of satisfaction of a number of needs of population such as education, medical care, upbringing of children in preschool institutions, etc. This kind of distribution is more effective from the point of view of spending material, financial and labour resources, and more expedient from the point of view of satisfying the said needs. That means that a considerable part of social consumption funds does not take the shape of individual incomes of population. This form of distribution is an embryo of communist distribution of material benefits and services. It is exer-

cised to a great extent independently from the quantitative measure of participation in social production. Material benefits and services are granted to the members of society, their needs and the means of the society being taken into account. Distribution through social consumption funds makes it possible to influence the formation of expenditure and consumption structure of the population and to bring closer to each other real incomes of different categories of workers and thereby to cut down the inequality in satisfying the needs of the people, which cannot be eliminated through distribution according to work. Finally, it inculcates in the people a sense of collectivism in satisfying their needs. In this respect the distribution through social consumption funds, though it is not the major form of distribution, is developing faster than distribution according to work. Payments and benefits received by the people from social consumption funds comprise about 40 per cent of average wages and salaries.

All kind of "critics" of existing socialism have not left unnoticed the development of distribution through social consumption funds in the countries of socialist community. They allege that in this field the socialist countries are no better than the capitalist ones, that under capitalism there are social consumption funds too. But, first of all, satisfying of some social needs from social funds in capitalist countries is not a gift of capitalism but the gain of masses of workers. And secondly, the source of these funds are the money taken from workers themselves in the form of taxes.

Under socialism distribution through social consumption funds expresses the socio-economic essence of socialist society and is natural for it. Socialist society constantly takes care for these funds to grow. The working people receive through social funds several times more material benefits, services and payments in terms of money than they put in the state budget in the form of income tax.

To characterise the standard of living of working people under socialism a concept of real income is used. It is the sum total of real wage<sup>1</sup> and the totality of material bene-

<sup>1</sup> One has to distinguish the concepts of real and nominal wage. Nominal wage is the money received in the form of wage. Real wage is the sum of material benefits and services that can be bought with the money which comprise the nominal wage.

fits received by the workers from social consumption funds.  
The systematic increase of real incomes of the population is  
a natural regularity of socialism.

## Chapter IO

### FINANCE, CREDIT AND MONEY CIRCULATION UNDER SOCIALISM

Finance, credit and money circulation are of great importance under socialism. They secure accumulation, distribution, redistribution and utilisation of money resources of socialist society to provide steady development of social production, secure its effectiveness, and a rise in living standards of the population. Their existence in socialist society is due to commodity relations and the necessity to solve socio-economic tasks which they serve.

#### 1. Finance and Socialist Financial System

The Essence of  
Finance

We have to stress here that finance does not mean money functioning in the national economy of a country, but the economic relations that emerge in the process of setting up, distribution and utilisation of various monetary funds at enterprises, branches of industry and society as a whole. These relations are called financial relations. Finances under socialism, like the social production in general, function in a planned manner, serving the needs of the developing national economy and meeting all other social requirements.

Stating the importance of finance for socialist construction V.I. Lenin wrote, "any radical reforms will be doomed to failure unless our financial policy is successful".<sup>1</sup>

The essence of finance is expressed in its functions, that is in specific activities in which monetary funds are used. There are three functions: distributive, supervisory and stimulating.

The distributive function of finance is realised in distribution and redistribution of gross social product produced in society and national income by means of monetary funds.

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 27, p. 383.

Primary distribution of gross social product is exercised at the enterprises of material production sphere where the aggregate product is created. This is done by means of monetary funds of enterprises. We have already studied the chapter on cost accounting. It spoke of organisation and purposes of various funds of enterprises, including those which exist in money form.

By means of the depreciation fund the value of basic means of production consumed in the production process is reimbursed at enterprises. Part of money resources of enterprises is allocated to purchasing necessary circulating means of production spent in the process of production. Wage fund is used to pay for the labour of workers. And, finally, a certain sum of money expresses the profit received by the enterprise.

After primary distribution comes the secondary distribution of gross social product and of its part--the national income, and this process is also called redistribution. Partially it is exercised by means of monetary funds of enterprises, for instance, production development funds, material incentives funds, social, cultural and housing construction funds. A certain share of profit is allocated in a planned manner to expanding the production.

Part of the newly created value is redistributed and goes to the state. This is done by means of deductions to production funds, other payments going to the state from the profit of enterprises and also by paying turnover tax into the state budget.

Beginning with the IIth Five-Year Plan (1981) in the USSR part of the profit of enterprises is allocated to ministries for financing capital investments in the branches of national economy, formation of sectoral science and technology development funds, reserve funds of material stimulation and other planned expenditures.

The key role in redistribution of the national income is played by the state budget--the main monetary fund of the state. It serves the accumulation of money for the state and its utilisation in the development of the national economy,



in satisfaction of social and cultural requirements, the country's defence needs and the needs of national economy management.

Finance is used for distribution and redistribution of gross social product and national income between the state and cooperatives (collective farms). Part of the product created in the cooperatives and its value stays at the disposal of the farms by means of monetary funds and is spent to continue and develop the production, to meet the needs of the members of the cooperatives, and part of it is redistributed to the state by means of income taxes and other payments.

Simultaneously, distribution and redistribution of the gross social product and national income is exercised on territorial basis: between republics, areas and regions of the country.

The supervisory function is manifested in the control over the process of production, national economy development and satisfaction of needs of the people. It is exercised by means of checking the process of formation and utilisation of monetary funds of enterprises, branches of the national economy and state funds. The process of formation of monetary funds according to plan and their purposeful and timely utilisation shows that social production functions normally, and, conversely, some violations or delays in this respect serve as a warning of some malfunctions and a signal that certain measures should be taken for their elimination.

The stimulating function. Its substance is to stimulate by means of monetary funds, the conditions of their formation and spending higher effectiveness of economic and other activities beneficial for society. The example of the stimulating function of finance can be the formation and utilisation of wage and material incentives funds of enterprises and institutions.

Financial System                      Financial relations exercised in a planned way and the institutions which organise and service them form the financial system of socialist society. The financial system of a socialist state consists of interrelated links: finance of enterprises and institutions, finance of branches of material production and the

services sphere, finance of state. The latter include in its turn the state budget, state social insurance fund and state fund of property and personal insurance.

State Finance                      The main element of state finance is the state budget. It is the major centralized fund of monetary income and expenditure of a socialist state.

The state budget expresses the relations between the state and enterprises, between the state and individual citizens. It is built on the principle of balance and consists of income and expenditure parts.

The budgets of the socialist states are totally different from those of the capitalist states. Capitalist state budgets are directed against the people. With their help the capitalist tycoons perform additional robbery of the working people because the revenue of these budgets comes mainly from taxes, the working people being their main payers, while it is spent to finance war industry, to pay the monopolies for the state orders, to render the so-called assistance to foreign countries, developing countries including, with the aim of keeping these countries under imperialist domination, to maintain huge armies and police machinery. And all this is for preserving domination of financial oligarchy and its enriching.

The state budgets of capitalist countries reflect anarchic and antagonistic character of capitalist economy. Due to this they are liable to chronic deficit. The capitalist states, inspite of raising taxes, are not able to cover expenditure of their budgets and have to resort to loans and issuing money. This leads to the growth of state debt, devaluation of currency and inflation.

The budgets of socialist countries are of quite different socio-economic nature. They ensure the development of the national economy and raising of living standards. The state budgets of socialist countries rely on planned, dynamic, and continuous development of social production. This ensures their constant growth and stable deficitless character. They are fulfilled with income exceeding expenditure.

These characteristics of the state budgets of socialist countries can be clearly seen on the example of dynamics and

income-expenditure balance of the state budget of the USSR.

State Budget of the USSR  
(billions roubles)

	1960	1970	1975	Plan 1985
Income	77.1	156.7	218.8	391.5
Expenditure	73.1	154.6	214.5	391.3
Balance	+4.0	+2.1	+4.4	+0.2

Let us examine the structure of income and expenditure parts of the state budget of the USSR. They vividly illustrate the great advantages of the socialist state budgets over the budgets of capitalist states.

The income structure of the state budget of the USSR  
( per cent to the total)

	1960	1970	1980	Plan 1985
1. Receipts from state and cooperative enterprises	91.0	91.2	91.4	92.0
2. State loans sold to the population	1.2	0.3	0.2	-
3. Taxes paid by the population	7.3	8.1	8.1	7.6
4. Other revenues	0.5	0.4	0.3	0.4

This table shows that unlike the budgets of capitalist states, the main source of budgetary revenues in the Soviet Union as well as in other countries of socialist community are the payments by socialist enterprises. The receipts from socialist economy comprise over 90 per cent of all revenues of the state. In other socialist countries they comprise nearly 90 per cent. In state budgets of capitalist countries the main source of budgetary revenues are direct and indirect taxes the major burden of which falls on the working people.

Socialist enterprises contribute to the state budget in the form of payments out of profits and turnover tax.

The major part of budgetary revenues is contributed by state enterprises.

Cooperative enterprises (collective farms) contribute to the budget through income tax. In 1985 its planned share in the total receipt from socialist enterprises and institutions was only 0.33 per cent.

Funds collected from the population (taxes and fees) in the budget of the USSR comprise some fractions about 8 per cent. One has to remember that the means contributed by the population to state budget go back to them but in other form, that is in the form of allocations to meet social and cultural requirements and in considerably greater amount at that. The expenditures of the Soviet State on social and cultural activities are 4 times greater than the sum total of the taxes paid.

Let us examine now the expenditure part of the state budget of the USSR. Its structure illustrates the great concern of the socialist state for the development of national economy and the well-being of the people.

The expenditures of the socialist state are subdivided into allocations to the national economic development, social and cultural measures, the country's defence, and state administration.

New plants, enterprises of extractive industry, power stations, agricultural enterprises, enterprises in the services sphere, transportation, roads, etc. are built at the account of allocations to the development of national economy.

Part of these means is spent to expand already functioning enterprises, to improve their equipment, to strengthen the material base of agriculture. One has to keep in mind that these allocations are additional to the means of the enterprises received from their own profit and to the means obtained in the form of bank credit.

The second most important element of budgetary expenditure are the allocations financing social and cultural activities and science. Here come the expenditures on education, science, health care and physical culture, social security and social insurance.

Let us consider the comparative weight of all these expenditures.

Structure of state budgetary expenditures of the  
USSR  
(per cent to the total)

	1970	1980	Plan 1985
1. National economic development	48.2	54.7	56.8
2. Social and cultural activities and science	36.2	33.5	31.7
3. Defence	11.5	5.8	4.9
4. State administration	1.1	0.9	0.7
5. Other expenditures	3.0	5.1	5.9

In the period of 1970-1980 the expenditures on the development of national economy have grown more than 2.1 times. In 1985 as compared to 1980 these expenditures have grown 1.4 times.

The expenditures on social and cultural measures have also grown considerably. From 1970 to 1980 their amount has grown considerably. From 1970 to 1980 their amount has grown 1.8 times. In 1985 the planned expenditure on social and cultural needs compared with 1980 has grown 1.25 times.

In 1985 the expenditures on the needs of defence will amount to 19.06 billion roubles and these on the financing of state administration are planned to be 2.9 billion roubles.

The budgetary system of the socialist country is democratic. All bodies of state power in the USSR from the Supreme Soviet to a city, district or village Soviet have their own budgets. In the USSR the share of the Union budget in the expenditure of the state budget as a whole goes up to 56 per cent. The remaining 44 per cent is the share of the budgets of the Union republics. They, in their turn, are subdivided into republican budgets and local budgets.

Apart from the state budget the state social insurance fund also comes into the state financial system. It is formed by means of the state budget and spent to pay old-age pensions, sick leaves, maternity benefits, allowances for child-

ren in families within low-income brackets, holiday homes and sanatoria services for the population, services for children in children's establishments (creches, kindergartens, Young Pioneer camps, etc.). The state social insurance fund is the part of the whole system of social insurance and security, which receives means from state enterprises and institutions apart from the means contributed by the state. Along with this there are also centralised social insurance and security funds for collective farmers. They are formed from the state budget means and contributions of collective farms.

The state fund of property and life insurance is an important link of the state financial system.

The property and life insurance under socialism is a state monopoly.

The importance of the financial system in the life of socialist society attracts to it a special attention of anticommunists of all sorts, and the main target of the "critics" are state finances. Bourgeois economists and right-wing revisionists deny the leading role of state budget in securing extended reproduction, technical progress and in realisation of optimal proportions of national economy. According to them, the expansion of production, its perfection by means of applying scientific and technological achievements should be implemented by enterprises exclusively through utilisation of their own means and bank credit. The right-wing revisionists deny the expediency of centralized formation of the state accumulation fund and its planned distribution through the state budget.

Credit for capital construction is widely used in socialist countries. Furthermore, the party and government decisions constantly stress the importance of this source of accumulation. The means from the production development funds of enterprises are also used for capital construction. But this does not exclude, but presupposes simultaneous financing of capital investments from the state budget and ministry funds especially in construction of new and considerable expansion of the functioning enterprises.

The point of view of the right-wing revisionists is directly linked with their denial of the leading role of the

state ownership of the means of production in the development of the national economy of socialist society, and also of the centralised planning system. However, in this situation the state would be unable to ensure properly the necessary proportions of national economy, to develop the most important and promising branches of economy, to stimulate scientific and technological progress.

## 2. Credit Under Socialism

The Necessity of Credit  
under Socialism

Credit is widely used in socialist society. Temporarily idle reserves arise in the process of economic activity of enterprises. This happens for instance when the time of cash receipts from realisation of the products does not coincide with the time of wage payments, acquiring raw materials and other payments.

At the same time enterprises often need additional money reserves. This is especially true in case of enterprises with seasonal production: sugar-refineries, canneries and the like. In the periods of seasonal inflow of raw materials they have to lay in huge reserves which demands additional means.

Temporary needs in additional money resources arise at enterprises of other branches of the national economy as well. For instance, a need may arise to acquire means of production necessary to continue production before the enterprise has received money for the sold product, if the time to pay for it has not yet come or it is on the way to the consumer.

Enterprises may temporarily need money for modernisation of its equipment, new capital construction or replenishing its circulating assets.

Temporarily idle reserves of socialist enterprises are kept in the State Bank. State cash reserves which arise due to the difference of time of the inflow of money to the state budget and their expenditure or similar reserves of social insurance and security, property and life insurance and also savings of the population kept in savings banks are also concentrated in the State Bank.

The resources, accumulated in this way, are loaned by the State Bank and its local branches to enterprises in the form of short-term or long-term loans which are necessary for the enterprises to ensure normal course of reproduction. This is how the possibility and necessity of credit arise under socialism.

#### System of Credit

Planned credit relations by means of which socialist society utilises temporarily idle monetary reserves to ensure extended reproduction by advancing them temporarily to enterprises, and agencies which service these relations comprise the credit system of socialism.

Credit under socialism is subject to repayment and is extended for a certain period of time at a rate of interest. Unlike in capitalist countries credit in socialist society is not an instrument of enrichment. It is an exceptionally effective instrument of rational utilisation of means aimed at the growth and improvement of socialist production.

#### Types of Credit

Credit relations under socialism are not limited only by extending loans to enterprises by state banks. This type of credit is called bank credit. There are also credit relations between the state and the population. They take place when the population keeps its savings in savings banks and when the population buys bonds of state loans. This type of credit is called state credit. The third type of credit has the name of consumer credit. It is effected when commercial institutions sell goods to the population on the instalment system, or when people receive loans for house building from the state or loans from mutual assistance fund formed at trade union primary organisations.

There is no mutual commercial crediting among enterprises under socialism.

There also exist international credit relations. International credit consists in extending loans by a socialist country to other socialist countries or developing countries or in receiving loans and credits from other countries. Unlike capitalist international credit relations socialist interna-



tional credit does not presuppose any political conditions that put loan-acquiring countries into dependence on a creditor-country.

The CMEA member countries have set up two international banks--International Investment Bank and International Bank for Economic Cooperation with the aim of crediting capital construction according to the plans of economic integration of socialist countries, trade and other mutual financial operations. Their activity is also within the sphere of international credit.<sup>1</sup>

Role of the Capital in  
Economic Activity of an  
Enterprise

Bank credit is of great importance in ensuring economic activity of socialist enterprises.

They receive from banks long-term and short-term loans. Long-term credit (for a term of more than one year) is used for the expansion of the functioning production units of enterprises, construction of additional installations, purchasing of new machinery and other equipment, its modernisation, etc. Such extension of production means extended reproduction of fixed production assets of enterprises. Long-term credit is also used in construction of new enterprises. This form of providing means for new projects in the USSR is being used more and more frequently.

Credit is of great importance in providing enterprises with circulating assets: raw and other materials, etc. To save resources the state enterprises are provided with circulating assets not for the maximum of their needs, which arise only from time to time. They are provided with the minimum of assets and this minimum is called enterprise owned assets. The rest of the needs in circulating assets is met by means of short-term credit (for a period of less than one year) by the State Bank, whenever such needs arise. In the USSR about 50 per cent of circulating assets of enterprises and institutions are formed from this source. Money obtained by way of loans is called borrowed assets.<sup>2</sup> Short-term credit is extend-

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<sup>1</sup> For the details on the activity of these banks see Chapter "The World Socialist Economy. Economic Integration of Socialist Countries".

<sup>2</sup> The division of circulating assets of state enterprises into owned and borrowed ones is conventional for both belong to the state.

ed for the restoring and expanding of fixed assets (capital repair works, introduction of new machinery, etc.) if there is a possibility of prompt recovery of expenditures. Credit must be repaid within a certain period of time and a certain interest is paid on the loan borrowed. When this does not occur an enterprise has to pay to the bank a higher interest. Fixed-term repayment of credit and its repayability are of great stimulating effect. In order to be able to recover in time the borrowed money invested in production an enterprise seeks to shorten the period of recovery of investments and to accelerate the turnover of circulating means.

Promptness in putting new production capacities into operation enables an enterprise to increase output and receive additional profits. The investments are recovered. Enterprises are able to repay the credit.

The importance of credit relations in economic life of socialist society is illustrated by constant improvement of the credit system. The role of financial and credit levers in intensifying production, strengthening the cost-accounting system and tightening the regime of economy is enhancing. The financial and credit system is used more actively in resolving problems of the development and introduction of highly effective new technology and withdrawing obsolete facilities, increasing the output of consumer goods and the volume of services to the population, mobilising latent production reserves and eliminating unproductive expenses and losses.

Interest                      Repayability of credit presupposes the loan interest. It exists under socialism but its nature is basically different.

Under capitalism the interest is a part of profit appropriated by capitalists as a result of exploitation of hired labour and serves as an instrument of enrichment of capitalists-creditors, bankers including.

In socialist society the existence of interest is due to the necessity of banking system to function properly and the needs of cost-accounting, above all the need of stimulating economic activity of enterprises.

Banks and their local branches have to cover their expenses. The resources for this are drawn from exempting inte-

rest on loans extended by banks to enterprises.

Part of the means obtained in the form of interest are used by banks to expand their assets thus extending the possibility of crediting enterprises and to enlarge the income part of the state budget.

The credit interest is paid to the banks by socialist enterprises out of their profits.

The rate of interest in the USSR is set at annual 0.5-8 per cent. The rate of interest depends on the term and object of credit. Lowest rates are exempted for capital investment loans (capital construction) meant for the construction of new enterprises and expanding fixed funds of the functioning ones. Their rate of interest fluctuates from 0.5 to 2 per cent. Collective farms pay the interest of 0.75 per cent on the loans for the said purposes.

Rates of credit used for replenishing circulating assets fluctuate within the following limits: in crediting the product in transit (the product is sent but it has not yet reached the destination, therefore the money for it has not been received by the enterprise, but the money is needed to continue the production) the interest is 1 per cent; seasonal accumulation of raw and other materials is credited at 2 per cent, and non-seasonal overstock credit-rate goes up to 6 per cent which is equal to fund payment and is true for the majority of branches of national economy.

The banks exempt the highest interest-rate of 8 per cent for overdue loans.

In its turn the State Bank pays the 0.5 per cent interest to cooperative enterprises for the money put in the bank and from 2 to 3 per cent to the population for the money deposited in savings banks.

The interest rates encourage enterprises to use credit rationally.

The interest rates induce enterprises to rely on credit only in case of pressing need, and when a loan has been received, to utilise it with maximum efficiency in order to repay the loan within the loan-term.

Thus the rate of interest in the socialist countries is determined not by the demand and supply of money capital as it

is the case in capitalist society. Under socialism it is set up in a planned manner at a fixed rate and is determined by the interests of national economy.

Credit as an Instrument of Control Over Economic Activity of Enterprises

Credit under socialism is not only repayable, that is extended for certain term, and not only presupposes the payment

of fixed rate of interest. It has its clear purpose: the loans are given as additional means to meet specific needs of enterprises envisaged by the plan of national economic development and can be used only for these purposes.

The State Bank exercises strict control over the fulfilment of the said demands and by this supervises the economic activity of enterprises.

An effective instrument that makes the control over the economic activity of enterprises on the part of the bank (consequently of the state) more effective is the differential approach towards crediting enterprises depending on the quality of their work. The loans are freely extended to the enterprises operating effectively. This implies timely fulfilment of liabilities for deliveries of product to the buyer, work without losses, etc. There exists favourable crediting with respect to the well-functioning enterprises regularly fulfilling their plans of production, crediting for temporary needs not envisaged by plans including.

Special regime of crediting is applied to the enterprises which do not fulfil the plan targets. If during a certain period of time the situation is not improved a guarantee of a respective ministry is needed for the continuation of crediting.

The bodies supervising these enterprises have to take the most urgent and radical measures to improve the situation.

Thus by way of credit system socialist society exercises control over the fulfilment of state plans by enterprises and their rational utilisation of resources.

### 3. Circulation of Money Under Socialism

The Essence of Circulation of Money

The existence of money circulation under socialism is connect-

ed with the existence of commodity-money relations. In socialist society products are produced in the form of commodities. They go into the circulation of commodities, which is serviced by the circulation of money. The circulation of money is a comparatively independent movement of money in the process of which they service production, distribution, exchange and consumption of the aggregate social product.

The circulation of money under socialism is exercised according to a plan.

It consists of two parts: of the totality of cashless transactions--payment by written order--and of the circulation of cash money. Accounts by written order prevail in the circulation of money in socialist society. In the USSR they come to 90 per cent of the whole money circulation.

The following economic operations are performed through accounts by written order:

1. Exchange of commodities between state enterprises and commodity circulation between the state and collective farms (cooperatives).

2. Receipt of revenues to the state budgets from enterprises and institutions and expenditure of the state budget.

3. Receipt of bank loans and repayment of credit. Accounts by written order are performed by transfer of money from the account of an enterprise or institution to the account of another one or by way of acknowledgement of mutual monetary liabilities.

Accounts by written order are ensured by the fact that all socialist enterprises and institutions keep their liquid assets in the State Bank.

Accounts by written order cut down the amount of cash, accelerate accounts between enterprises and institutions, intensify the control of the state over the money circulation and economic activity of enterprises, consolidate the planned character of the circulation of money. In other words accounts by written order help to consolidate the monetary system of socialist society.

Another part of the circulation of money is the circulation of cash. The following operations are performed by means of cash circulation:

1. Payments for goods and services in state and cooperative trade and at collective-farm markets by the population.

2. Payments of wages and salaries and distribution according to work in cooperatives.

3. Payments of bonuses, old-age pensions, allowances, grants, etc.

4. Payments of taxes and duties to the state by the population.

5. Accumulation of earned savings (these savings are deposited into the State Bank and savings banks).

Planning and Regulation of  
the Circulation of Money

The circulation of money in  
socialist society both in  
the sphere of accounts by

written order and in the sphere of cash circulation is planned and is being constantly regulated by the state on behalf of society.

The total volume of the money circulation (by written order and in cash) is determined by the plan of economic and social development of the country in which the process of reproduction of the aggregate social product and the totality of services is reflected. The plan estimates economic and socio-economic ties and relations that arise among the branches of the national economy and enterprises, between the state and enterprises, population etc. This means that the plan determines the diversity of movements (production, distribution, exchange and consumption) of the mass of commodities and services (production and personal) created within the national economy of the country, served by the circulation of money.

Of greatest importance is the planning and regulation of the circulation of cash. This is done first of all by making and sustaining of the income-expenditure balance of the population. In it all monetary incomes of the population (wages and salaries, payments according to work at collective farms, old-age pensions, allowances, grants, etc.) are summed up on the one hand, and on the other--all its expenditures (purchasing of goods, payments for services, etc.). The income-expenditure balance is necessary for each monetary unit issued into circulation and being in the hands of the population

to be secured with existing goods and services, and for these goods and services going into trade network to be met by paying demand on the part of the population, in other words to be sold.

The current regulation of the circulation of money in the country is exercised by the State Bank by means of cash plan. It consists of two parts. The first, income one accounts for the whole of the mass of cash money coming into the Bank: the money received by commercial and service enterprises from selling goods and services, revenues of transportation system, entertainments, receipts from savings banks and the like. The second, expenditure, part reflects the payment to the workers and employees of wages and salaries, payments of cash to cooperative enterprises for paying according to work and other expenditures, payment of old-age pensions, allowances, grants, payments of cash to the population by savings banks and the like.

The balance of the income and expenditure parts of the cash plan determines the changes in the amount of money in circulation. If the State Bank receives more money than it pays, the surplus is directed to the reserve fund, in other words part of the cash money is withdrawn from circulation. Conversely, if the expenditure of money is greater than the inflow, additional money is put into circulation from the reserve fund.

It is very important for the process of planning and regulation of the circulation of money to determine the amount of money necessary for the circulation. The following equation is used for this purpose:

$$m = \frac{p - wo - c + cp}{a}, \quad \text{where}$$

$m$  - the amount of money necessary for circulation in the given year of the plan;

$p$  - sum total of prices of all commodities and services;

$wo$  - sum total of prices of commodities and services sold through accounts by written order;

$c$  - sum total of prices of commodities and services sold on credit;

- cp - credit payments per commodities and services of the past years to be paid in the planned year;
- a - average number of the turnovers of cash money in the given year.

Let us assume that the sum in numerator of the equation is 100 million monetary units, and the cash put in the circulation by the bank passes through the State Bank at the average 10 times a year, then

$$m = \frac{100 \text{ million}}{10} = 10 \text{ million monetary units.}$$

The amount of cash money necessary for circulation (for purchasing commodities and payments for services) in the year planned will comprise 10 million monetary units.

Here comes the question of how to define the average number of money turnovers—*a*? This is done by dividing the sum total of the cash put into circulation by the State Bank in the run of the year by the average amount of money that stay in circulation during the same period. Supposing the State Bank puts into circulation 7 million monetary units every month. In the run of the year this makes 84 million. Then let us assume that the average of 0.9 of the sum returns to the bank every month, and 0.1 stays in circulation. Consequently 0.7 million money units stay in circulation. This makes the total of 8.4 million units per year.

Thus: 
$$a = \frac{84 \text{ million}}{8.4 \text{ million}} = 10$$

Planning and regulation of the circulation of money in socialist society allows the state to ensure monetary circulation stability and the stability of the purchasing power of money. This is of the greatest importance for the growth of interest of the working people in the results of their labour, in the growth of social production and its effectiveness. Money circulation under capitalism does not and cannot have such quality.



One of the great advantages of the socialist monetary system is the state monopoly of currency. The socialist state concentrates in its hands all currency reserves and has the exclusive right to perform foreign currency transactions. State currency monopoly safeguards the circulation of money of socialist countries from the influence of the chaos of capitalist currency market.

#### 4. Banking System Under Socialism

Financial and credit relations and money circulation are exercised by means of banking system. Under socialism banks are state-owned institutions which service the circulation of money and credit relations according to the plan of social and economic development of the country and exercise accounting of and control over the economic activity of national economy branches, enterprises and institutions by means of credit, accounting and cash operations. Banking system of socialist society can be examined on the example of the USSR.

Types and Basic Functions of Banks	The major body of banking system <u>is the USSR State Bank</u> . It has 4,428 offices and local branches and 80,000 savings banks at its disposal. The USSR State Bank is the cash issuing, crediting and accounting centre of the country.
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First, it exercises controls over the circulation of money, issues cash into circulation, and, if necessary withdraws cash from it. Secondly, it finances and credits national economy. Thirdly, it exercises accounting settlements between enterprises and institutions, all accounts by written order included; performs transactions connected with the execution of the state budget. Fourth, it is the keeper of currency reserves and secures the monopoly of currency.

The system of savings banks is subordinate to the State Bank. They receive savings from the population for keeping, payments for public utilities, perform operations connected with state loans, lotteries, etc.

The All-Union Bank for financing capital allocations of the USSR (Construction Bank of the USSR) is the second type

of bank. It, first, concentrates and keeps money resources for capital allocations: state budget, means of enterprises allocated to the production development fund, and part of depreciation assets of enterprises. Secondly, it exercises budget financing of capital construction; long-term crediting of national economy and short-term crediting of construction organisations; controls the utilisation of means allocated for capital construction. Thirdly, it gives loans to housing-construction cooperatives.

The third type of bank is the USSR Bank for Foreign Trade (Vneshtorgbank of the USSR). First, it exercises transactions of the foreign trade of the country, and credits it. Second, if authorised by the State Bank it executes operations in purchasing and selling gold, precious stones and foreign currency.

All the said banks, the system of savings banks and the relations serviced by them in the society comprise the banking system of socialism.

Banks in socialist society are of great significance. The important role they play in the national economy was pointed at by V.I. Lenin more than once. For instance, he wrote: "Without big banks socialism would be impossible".<sup>1</sup> Therefore the attacks of the opponents of socialism on the role of banks under socialism are not surprising. The right-wing revisionists, for instance, allege that banks in socialist society should not perform the function of putting into practice the plans of economic and social development of the country as a whole, that their functions should be of purely commercial character, that banks should give priority in crediting to the most profitable branches of economy and enterprises. But this is nothing but profit orientation where profit is the primary goal of production, and recognition of the regulating role of the law of value in socialist production.

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<sup>1</sup> V.I. Lenin, Collected Works, Vol. 26, p. 106.

In reality the planned character and the activity of socialist banking system as a whole, the usage of banks for the development of social production and the growth of well-being of the population, state currency monopoly, all this ensures the stability and dynamism of socialist economy and safeguards the economy from crises and fluctuations typical of the economy of the capitalist world.

## Chapter II

### THE WORLD SOCIALIST ECONOMY. ECONOMIC INTEGRATION OF SOCIALIST COUNTRIES

#### 1. Formation of the World Socialist Economic System

At present socialism exists as a world system. It emerged as the result of triumphant socialist revolutions in a number of countries. The economic basis of the world socialism is the world socialist economic system representing a new type of international economic relations.

The Emergence of the  
World Socialist System

The Great October Socialist Revolution in Russia put an end to the undivided domination of capitalism. Conditions for the formation and development of socialist economy were created within the borders of Soviet Russia. The socialist type of economy was limited for a long time by the framework of only one country, and was not a world system.

As a result of the operation of the objective laws of historical development, socialist revolution won its victory in a number of countries in Europe and Asia after World War II. V.I. Lenin's prevision to the effect that the victory of socialist revolution in one country would inevitably bring the undivided domination of capitalism to its end, and it would collapse in other countries, became true.

The transition of other countries to socialist construction was brought about by internal conditions, by the enhanced struggle of the popular masses against oppression by national and foreign capital, for national and social liberation.

The advance of socialism beyond the boundaries of one country resulted in the formation of the world socialist system. Transformation of socialism into a world system is the major feature of the modern epoch. The world socialist system is a social, economic and political community of free, sovereign nations advancing along the road of socialism and communism, united by a community of interests and goals and by

unbreakable ties of international socialist solidarity.

Greater consolidation of the socialist countries, closer friendship among their Marxist-Leninist parties have considerably enhanced socialism's power and its impact upon the course of events in the world. Today the community of socialist countries has become the most dynamic economic force in the world, the determining factor of world politics.

At present, the community of socialist countries has entered a new stage of economic cooperation, characterised by the formation of international economic structure being shaped in the course of socialist integration.

Main Features of the World  
Socialist Economic System

Economic foundation of the world socialist system is the world socialist economic system. It represents an aggregate of economic relations of sovereign socialist states linked by the international socialist division of labour, brotherly cooperation and mutual assistance.

The world socialist system and its economic foundation represent the system of states with their national economies and wide interstate relations in all fields of public life, economy, politics and ideology.

An important feature of the world socialist system is the uniformity of the economic foundation: social ownership of the means of production; a uniform state system, government by the people headed by the working class. A uniform ideology, Marxism-Leninism, dominates in socialist countries.

The world socialist economic system represents a new type of international economic relations, rejecting exploitation in all its forms and manifestations both nationally and internationally.

The international economic relations of socialist countries imply an aggregate of ties set up between socialist countries in connection with production, distribution, exchange and consumption of output. These relations are signified by complete equality, mutually beneficial cooperation and mutual assistance between fraternal socialist countries.

The major principle of the relations between socialist states is the principle of socialist internationalism. Inter-

nationalism in economic life is manifested in specific forms of cooperation and mutual economic assistance of socialist countries. This is a very important feature of the new type of international economic relations which are being constantly improved within the framework of the world socialist economic system.

Internationalism does not contradict, but naturally conforms with complete equality, respect of sovereignty and national interests, with mutual benefit and comradely assistance. The achievements of the CMEA member countries most fully reflect the essence of socialist internationalism in practice. Internationalism in action expresses the essence and role of CMEA in the development of existing socialism and in strengthening its influence upon the world revolutionary process.

Internationalism in economic activity is manifested in the process of ever deepening of international socialist division of labour. The international division of labour is a certain type of social division of labour, where the owners of the product produced for exchange are the representatives of various national economies. The international socialist division of labour is based upon socialist production relations dominating in socialist countries. The character and scale of participation of this or that country in the international division of labour with other countries of the community are determined by many factors: availability of natural resources, economic structure, size of population, the level of skill of labour power, the volume of national income produced, the structure of its consumption and accumulation, etc. Unlike international capitalist division of labour, the CMEA member countries firmly stick to the principle of equality and mutual benefit of the parties which reflects basic socio-economic advantages of this type of international division of labour. Apart from this a characteristic feature of the international socialist division of labour is its planned character as opposed to the capitalist division of labour which is shaped spontaneously. The goal of socialist production both in a single country--participant of international division of labour--and within the framework of the socialist community

as a whole is a criterion which determines forms and directions of the ever deepening international socialist division of labour. The division of labour is exercised in the form of international cooperation and specialisation, the final results of which are realised through the channels of foreign trade on the basis of equivalent exchange. The international socialist division of labour serves the basis of the growth of production and mutual trade, intensification of scientific and technological relations of the member countries of the community.

The growth and development of productive forces in the world socialist economy objectively lead to stronger interdependence of economic development of the countries. Their economies begin to complement each other to a greater extent. This means that economic proportions should be established and kept up on an international scale. There appears community of economic life of the socialist countries characterised by the existence of their own international market, common economic proportions, production organisations and institutions.

The advances made by the CMEA member countries in economic development have become a decisive factor of altering the correlation of forces in the world in favour of socialism. Whereas in 1950 the share of the CMEA member countries in the world industrial production was about 18 per cent, it grew up to 30 per cent of the world production by the mid-1980's. The rate of growth of national income per capita in the CMEA member countries during this period was approximately 2.6 times higher, and the rate of growth of industrial production 3.7 times higher than in the EEC member countries. Having become the most dynamic economic force the socialist community is constantly enhancing its role in the world economy. The CMEA member countries surpass the Common Market countries and the USA taken together in output of a great many types of industrial production. The attractiveness of the CMEA member countries for the nations fighting for their liberation, independence and social progress is growing. These countries are the stronghold and the vanguard of the world social progress. Their example, the ideological and economic strength

facilitate the growth of the world communist and working-class movement in scale and scope.

Communist and workers' parties of the socialist community countries are the inspiring and guiding force of the entire activity of CMEA. It is they who have been and are working out the strategy and tactics of economic development of fraternal nations at all stages of socialist construction.

Successful development of the socialist community countries brings about stronger attacks on the part of ideological opponents. Modern revisionists try to split the socialist countries by opposing their close economic cooperation and mutual assistance, the utilisation of the experience accumulated by the Soviet Union and other countries of the socialist community. In their attempts to undermine the unity of socialist countries they distort the mutually beneficial character of international economic cooperation, repudiate the leading role of Soviet economy in the world socialist economy.

This attitude of the revisionists goes against the basic principles underlying relations between the countries of the socialist community and aimed at the steady economic upsurge of every socialist country, at the upswing of the standard of living of the people of these countries, at the construction of socialism and communism, and consolidation of economic and political power of the world system of socialism.

Bourgeois scholars "criticise" the character of economic integration of socialist countries. By distorting the essence, forms and principles of cooperation of the countries of the community, they try to refute the effectiveness of the planned mechanism of socialist integration. From the point of view of such theorists a true economic integration is possible only in the conditions of a "free market".

These theories contain recommendations to boost economic relations with the West. Moreover, they regard the cooperation and scientific and technological exchange with industrialised capitalist countries as an instrument of setting control over some branches of economy of socialist countries.

All kinds of "theories" of bridging, of selective international economic policy towards some of the socialist countries serve the sole purpose of undermining the unity of the



socialist community, to weaken its economic potential, to hinder its progress towards communism.

## 2. Utilisation of Economic Laws in the Development of the World Socialist Economy

The development of the world socialist economy is not a spontaneous process, it is realised in the conformity with economic laws of socialism which operate not only in national economies but in international relations as well. These laws regulate the system of international organisation of socialist production and circulation under the conditions of each country preserving its economic and political independence. This is manifested in the fact that the participants in the economic relations are state limited socialist proprietors. At the same time, the uniformity of production relations dominating in all countries of the socialist community, and the new character of international social division of labour make it possible to reveal basic laws of the world socialist economic development.

The Motive for Economic Cooperation of Socialist Countries

The uniformity of socio-economic foundations of social production of the fraternal countries creates objective conditions for

the operation of economic laws of socialism, and first of all the basic economic law, on an international scale. Hence, the basic economic law of socialism within the framework of the world socialist system expresses an objective necessity for all socialist countries to participate in constant expanding and developing of production for improving wellbeing of the population and all-round development of each state, every member of the great international family of the socialist community. The goal and the major motive of the economic development of socialist countries is ever better satisfaction of public and individual requirements of the people of each socialist country and the growing economic requirements of the socialist community as a whole.

The economies of the CMEA member countries have undergone great progressive changes during the last 30 years. Socialist sector has gained completely dominating position in their national economies. At present its share in the making of national income has gone up to 100 per cent in Bulgaria, Mongolia, the USSR and Czechoslovakia, 98.1 per cent in Hungary, 96.1 per cent in the GDR, 95.5 per cent in Romania, 84 per cent in Poland.

The productivity of labour in social production of the CMEA member countries secures 80 per cent of the growth of national income. The advances in the development of social production are creating the basis for better satisfaction of the requirements of the population. Unemployment, crises and other ailments of capitalism have been done away with. The improvement of the people's wellbeing is expressed in constant increase of real incomes of working population, social expenditures on the development of health service, education, science, culture and social security, housing construction, etc.

The Planned Character of  
Economic Cooperation

The deepening of the economic cooperation of the CMEA member countries is based on the planned character of the measures taken, their purposeful balancing by the communist and workers' parties and governments of the CMEA member countries, the operation of the law of planned development being taken into account. Competition and anarchy are alien to the nature of socialist production relations, hence to the international socialist economic relations. The objective possibility and necessity of the planned development of economic cooperation follow from public ownership of the means of production, the state monopoly of foreign trade, planned character of economy.

The central element of the coordination of the economic development of the CMEA member countries is their joint planning activity. It is through the coordination of the economic plans that the demands of the basic economic law of socialism are being realised on the scale of the community of the fraternal countries. This activity is constantly enriched by new forms. The coordination of economic plans is supplemented by

the coordinated plan of multilateral integration measures, long-term target-oriented programmes of specialisation and cooperation.

Due to all this the world socialist economic system is being shaped in the process of conscious systematic activity. This finds its expression in the scientifically substantiated determination and maintaining of objectively stipulated proportions not only in the national economy of each country but in the world socialist economy as well. Planning on the international scale is inseparable from planning in the economy of each country. The planned management of the economic development makes it possible for the socialist system to activate vast reserves of the economic growth.

The planned realisation of extended reproduction in each member country of CMEA becomes the inseparable part of reproduction in the world socialist economy developing within the framework of coordinated joint actions which take into consideration national means of each country and international needs of the community as a whole.

The CMEA member countries pay great attention to developing primarily those branches of industry which consolidate their material and technical basis, help to deepen the international socialist division of labour for the benefit of the community as a whole. Due to the planned organisation of production and the mutual exchange of output the CMEA member countries have reached a high level of meeting their requirements by means of production within the framework of the community. At present mutual deliveries cover the demand for imports of the CMEA member countries in machinery and equipment by 67.6 per cent, in coal-- by 93 per cent, in coking coal-- by 94.4 per cent, in oil-- by 68.0 per cent, iron ore - by 76.0 per cent, in copper--by 81.1 per cent, aluminum--by 87.4 per cent, cotton--by 76.4 per cent.

Specific Features of Commodity-Money Relations and of the Operation of the Law of Value

One of the major features of the world socialist economy is the use of commodity-money relations.

These relations are built on the basis of the law of value, sub-

ject to the planned relations between socialist states. The law of value is used to determine in a planned way the proportions of exchange of commodities on the basis fo equivalent mutual deliveries. This means that the export deliveries of a CMEA member country to all other member countries are eventually equal to the volume of imports by the said country from the rest of the CMEA member countries. The volume of foreign trade turnover is calculated in terms of common currency (transferable rouble), and with value equality of exports and imports (export-import balance) reflects equivalent exchange. The exchange proportions of certain commodities are determined in a planned way when trade agreements between countries for a current period are drawn.

Let us assume that the proportion of the exchange of tomatoes (Bulgaria) for automobiles (the USSR) is determined by the mutually agreed upon prices in transferable roubles for one kilogram of tomatoes and for one automobile. A price is the expression of value, and therefore in order to determine the export profitability of the commodity, the price of the commodity (tomatoes), expressed in transferable roubles, is compared with the national economic expenditures within Bulgarian production. The same is done by the Soviet Union concerning its commodity (automobiles). The change of mutually agreed upon prices up and down in the trade turnover between the CMEA member countries follows the changes of expenditures of production. The prices' and proportions' changes in the trade of the CMEA member countries take place under the impact of the operation of the law of value in the world socialist economy, as well as under the influence of the movement of world prices.

Thus the foreign trade prices of the world socialist market do not lose touch from the economic expenditures (value) and are influenced by the law of value, which is taken into account in the planned activity of trading partners. Constant comparison of internal expenditures on the production of a commodity of a certain country with the acting price in transferable roubles (international value) is the basis on which the efficiency of a specific kind of production is calculated. Without proper use of this law the principle of maximum econo-

mic effectiveness of socialist division of labour is unfeasible. By the usage of the law of value by the CMEA member countries the interstate production proportions are determined by mutual agreement, which on the one hand are profitable for each country, and, on the other hand, meet the interests and requirements of the community as a whole.

The constant deepening and improvement of the cooperation within the framework of socialist economic integration serves the intensification of foreign trade of the CMEA member countries. The extension of production and scientific and technological ties brings about rapid growth of the volume of mutual deliveries of commodities. Progressive changes take place in the structure of mutual exports and imports. Before World War II the share of raw materials, fuel and agricultural products in the total exports of Poland went up to 94 per cent, of Romania--98.4 per cent; the share of agricultural products alone in the exports of Bulgaria was 90 per cent, and of Hungary--70 per cent. At the end of the 1970s the share of the products of the machine-building industry in the export of Bulgaria came to 40.7 per cent, of Hungary--36.9 per cent, of Poland--39 per cent, of Romania --29.3 per cent. The share of machinery, equipment, chemical products, fuel, mineral raw materials, metals and other products is constantly growing. The bulk of their requirements in the products of machine-building industry, fuel and raw materials branches the CMEA member countries cover by mutual deliveries.

Commodity deliveries of socialist countries to each other are paid for with common currency (transferable rouble) which has real gold content equal to 0.987 grams of pure gold. This quota of gold is accepted by the CMEA member countries as the standard for measuring the value of commodities circulating in the exchange of commodities between the countries. The transferable rouble as the common currency of the CMEA member countries fulfils all the functions of money. According to an agreement between the socialist countries the accounts in transferable roubles are performed without cash transfer or by clearing, and after the formation of the International Bank for Economic Cooperation on a multilateral basis. The value of foreign trade deliveries is reflected in certain bills

without causing the necessity of using banknotes. But as the accounts of the International Bank for Economic Cooperation register sums of transferable roubles reflecting the movement of real values between the countries, this means that the law of value is taken into account within the international exchange of commodities. On the other hand, the movement of the values reflects the planned character of the socialist production development both in separate countries and in the world socialist economy.

Scientifically motivated prices of the world socialist market are determined with the law of value and the planned character of socialist production being taken into account, and the prices answer the interests of the purchaser and the seller, stimulate the development of production and the raising of its economic effectiveness.

A characteristic feature of the commodity-money relations in interstate relations is the strict correspondence of the sum of transferable roubles used for circulation to the sum of prices of commodities planned for export in the coming period. The purchasing power of the common currency is determined already at the stage of coordination of plans, thereby excluding in advance the possibility of uncontrollable money circulation.

### 3. Economic Integration of Socialist Countries

Internationalisation of social production, which appears already under capitalism, gets comprehensive, really unlimited possibilities for its all-round development under socialism. The essence of the supreme form of the ever deepening process of internationalisation of economic activity within the framework of CMEA is the socialist economic integration.

The Essence of Socialist  
Economic Integration

Socialist economic integration  
of the CMEA member countries  
is the process of international

socialist division of labour conscientiously controlled and regulated in a planned way by communist and workers' parties and governments of the CMEA member countries. It is the pro-

cess of bringing closer their economies, of formation of modern highly effective structure of national economies, gradual levelling of their economic development, of establishing profound and stable relations in major branches of economy, science and technology, of extending and consolidating the international market of these countries, of developing commodity-money relations.

Socialist integration reflects concrete conditions and tasks of the present stage of socialist construction, the demands of scientific and technological revolution, and is an objective process of the development of the countries of the socialist community, of the consolidation of their unity, of their progress towards communism.

The Soviet economy plays an important role in expanding and deepening the socialist economic integration. Owing to the rich experience in socialist construction, powerful economic and scientific potential, vast resources of raw materials the Soviet Union performs the leading function in the process of integration.

#### The Goals and Tasks of Socialist Economic Integration

The economic integration is called upon to combine on an international scale the advantages of socialist production with the results of modern scientific and technological progress. Socialist countries take necessary joint steps to accelerate scientific and technological progress. They join efforts for the effective solution of energy, fuel and raw materials problems. Joint measures are being taken to solve such tasks as the development of agriculture, food production, consumer goods production. Collective efforts are directed at raising the effectiveness of production both in individual countries and within the framework of the community as a whole.

For this purpose the CMEA member countries adopted in 1971 a Comprehensive Programme of further deepening and improving cooperation and developing socialist economic integration of the CMEA member countries worked out for a long-term perspective, up to 1990. The Comprehensive Programme has become an historic document reflecting the process of deve-

lopment of the economic base of the world socialist system.

The essence of socialist economic integration is manifested in the organic blending of possibilities of expanding production on the basis of scientific-technological revolution with the social advantages of the world socialist economic system and the new principles of international economic relations.

One of the important factors which has motivated the progress of integration of the CMEA member countries in the scientific and technological revolution as its demands can be met only by way of joint efforts (solution of expensive and fundamental scientific problems, protection of environment, formation of a uniformed computer system, utilisation of atomic power for peaceful purposes, space exploration, etc.). The joint efforts of socialist countries in these fields stimulate the effectiveness of research, accelerate the rate of technological progress, save human labour both in the sphere of research and in the field of utilisation of the results of joint research.

The scientific and technological progress is important not only as it is. Socialist countries see it as tightly linked with the solution of major social problems such as: advancing the production on the basis of automation, elimination of hard manual labour, bridging the gap between agricultural and industrial labour, modernisation of housework appliances. The scientific and technological progress is inseparable today from the development of medicine, health service, organisation of recreational activities, expanding housing construction, modernisation of public transportation, etc. In other words wider use of social advantages of socialism both in a separate country and in the socialist community as a whole is exercised today within the framework of integration measures, aimed at greater effectiveness of social production, accelerating the rate of economic progress and, in the final count, at improving the wellbeing of the working masses. This is the major social advantage of the world socialist economic system and the process of integration taking place within its framework.

The process of integration of the CMEA member countries



is based on the new principles of international economic relations. It is being realised on the basis of free will of the countries, of respect of their sovereignty and is not accompanied by the formation of any supranational bodies which would limit the rights of the cooperating countries.

Integration as a form of interaction of national economies, reflects at the same time the international essence of socialist production. The process of integration becomes a form in which common laws of development of the world socialist economy are realised. New forms of socialist internationalism in relations between socialist countries emerge due to the integration. These forms of internationalism are most vividly seen in the process of levelling of economic development of individual countries. Mutual economic interest of the socialist countries in solving the problems of eliminating the gap between the levels of economic development inherited from the past is most obvious in the process of integration. The better developed countries seek to extend their participation in the international division of labour in order to ensure higher effectiveness of the integrated economy as a whole. There appears the necessity of establishing an effective mechanism which could ensure coordinated and mutually complementing development of national economies by way of (apart from other methods) giving economically justified preferences to promote expedient (considering common interests) formation of economic structures in the countries which inherited economic backwardness from the past. Mongolia, Cuba and Vietnam can serve as an example of such approach towards economic development on the part of CMEA.

Socialist integration is a practical realisation of Marxist-Leninist conceptions of a community of free nations and of a harmonious combination of national and international interests.

The CMEA member countries gained good results in realisation of the Comprehensive Programme of socialist integration in the seventies. About 75 per cent of all investments were allocated for the expansion, reconstruction and modernisation of the material production branches of their economies. Thereby the economic potential was increased, the foundation

for further expansion of socialist production built, and higher level was achieved of satisfaction of needs of the population of the CMEA member countries.

As a result of these investments the sectoral structure of industry of the CMEA member countries was further improved. The large-scale projects are putting into operation by joint efforts of the CMEA member countries thus reenforcing their material and technical base and their long-term economic and technological cooperation. It is envisaged to allocate for joint capital investments in the period of 1981-1990 from 70 to 90 billion roubles for the development of material production of the CMEA member countries.

The Comprehensive Programme of socialist integration, coordinated efforts and measures taken in various spheres are the ways of finding and ensuring the most effective methods of solving the tasks of socio-economic development of socialist countries.

Socialist integration is basically different from integration processes in capitalist economy. The difference stems from the opposition of capitalism and socialism. The integration processes are basically different due to the different character of economic system, production relations, socio-economic systems. Consequently the integration processes develop according to contrasting laws: arbitrary functioning of the law of value as the regulator of production under capitalism, and the law of planned development under socialism; the principle of maximum profits of private capital as the main goal of capitalist integration and the growth of social production effectiveness as the main goal of integration under socialism; higher level of exploitation of hired labour under capitalism and higher level of satisfaction of material and spiritual requirements of members of society under socialism, etc. Both production and integration under capitalism and socialism have different goals, are exercised in different ways and have different social consequences.

#### 4. Forms of Economic Cooperation of Socialist Countries

##### Joint Planning Activity

The formation of a joint economic mechanism of the CMEA member countries is of great importance in the process of integration. By now the socialist countries have stored vast experience in the field of joint planning activity and developing integration planning. The CMEA member countries have worked out a well-balanced system of forms and methods of international planning: they hold periodical consultations to work out the economic policy, sectoral and general economic estimates, coordinate five-year plans of economic development and the functioning of separate branches and types of production, exchange the experience in planning and management of national economy. In recent years the joint planning activity was enriched by such forms of cooperation as compiling coordinated five-year plans of multilateral integration measures, working out and realisation of long-term target-oriented programmes of cooperation aimed at the solution of major production and economic problems of socialist economy.

An important step forward in the field of joint planning activity is the compiling of the Coordinated Plan of Multilateral Integration Measures of the CMEA member countries. The plan is being worked out for the term of five years and includes major projects to be carried out by joint efforts. Multilateral integration projects envisaged by the CMEA member countries in their five-year plans are included in the Coordinated Plan.

The planned character of the economy of socialist countries opens wide possibilities and at the same time sets strict demands for the long-term estimates to be scientifically based, so that they could be effectively and purposefully put into practice of economic cooperation. The CMEA planning bodies work out economic and scientific and technological estimates of developing certain branches of industry in accordance with the Comprehensive Programme. An important role in reinforcing the planned basis of cooperation is attached

to the fulfilment of the Coordinated Plan for the term of 1976-1990. The Coordinated Plan of Multilateral Integration Measures for 1981-1985 is an organic part of this long-term plan.

The cooperation in the field of planning activity is exercised in the form of compiling long-term target-oriented programmes in the leading branches of material production up to 1990. The long-term target-oriented programmes specify and further develop the Comprehensive Programme and serve therefore as the basis for the purposeful activity of the CMEA member countries in the field of production of power, fuel, raw materials, foodstuffs and transport development. The long-term target-oriented cooperation programmes and the agreements based on them are the components of the coordination of economic plans for the period of 1981-1985. This is very important for the realisation of long-term multilateral obligations of the CMEA member countries.

New forms of cooperation in planning are put into practice according to the Comprehensive Programme which envisages the major guidelines for the development of joint planning:

- prognosticating the development of major branches of economy, science and technology;
- coordination of long-term plans in major branches of national economy and types of production;
- further perfection of coordination of five-year plans for socio-economic development;
- joint planning by the interested parties of certain branches of industry and types of production;
- exchange of experience between the CMEA member countries in the field of improvement of economic planning and managing systems.

The cooperation of the CMEA member countries in the field of planning is coming up to a new quality level. This is manifested in the fact that national economic plans are beginning to include more integration factors and demand corresponding financial and material guarantees. Such forms of cooperation rely on the collective experience of the CMEA countries and allow to work out, plan and produce better product, to bring whole branches of industry of certain countries to a

higher quality level.

An important role is played by such CMEA bodies as the Committee on Cooperation in Planning, Committee for Scientific and Technological Cooperation, International Institute of Economic Problems of World Socialist System, Committee for Material and Technical Supply.

Scientific and Technological Cooperation

The scientific and technological revolution opens up previously unheard-of possibilities of creating new, highly effective instruments and objects for labour, modernisation of production technology, improvement of quality of product, cutting down the costs of its production. Communist and workers' parties of the CMEA member countries pay unremitting attention to the questions pertaining to the scientific and technological progress. The CMEA countries constantly increase allocations for the development of science and technology. More than 5 per cent of the USSR national income are allocated for these purposes, from 2.5 to 5 per cent--in other CMEA member countries.

In modern conditions the cooperation in science and technology is expressed in the form of joint work on new problems by experts and institutions of socialist countries. As a result, the scientific and technological progress of all countries is accelerated due to the division of research and designing labour.

Scientific and technological cooperation of socialist countries is the process of exchange of knowledge, based on the international division of labour in scientific and technological research, and of the results of its utilisation in production.

Cooperation in science and technology is extensively practised since the mid-1960s. Since the adoption of the Comprehensive Programme the CMEA member countries have signed multilateral agreements on scientific and technological cooperation. They envisage the formation of nearly 60 coordinating centres of scientific and technological cooperation for working out specific projects. These centres are situated in different CMEA countries.

Coordination centres supervise the activity of more than 500 scientific institutions. They organise the cooperation in research envisaged by the Comprehensive Programme, exercise controls over the course of work, analysis and prognostication on various scientific and technological problems; they work out proposals on measures to further extend and deepen the cooperation. Coordinating centres hold scientific conferences, symposia, meetings and consultations connected with the work on different programmes. They work out proposals directed at better utilisation of the results of completed scientific and technological research, and solve important tasks of raising qualification of scientific workers.

Long-term target-oriented programmes of cooperation adopted in 1978 envisage joint work on 76 important scientific and technological projects. More than 3,000 research and design institutions and higher educational establishments of the CMEA member countries take part in realisation of measures in the field of science and technology.

The 20th Session of CMEA Committee for Scientific and Technological Cooperation laid down "The Guidelines of Cooperation in the Field of Science and Technology of the CMEA Member Countries for the Period up to 1990". A draft programme of long-term cooperation in the field of scientific instrument making and automation for the period of 1981-1985 was adopted at the same time.

The system of mutual exchange of information on the scientific projects completed and theses approved in the CMEA countries has been put into function with the aim of more effective utilisation of scientific and technological potentials of the CMEA member countries.

Scientific and technological forecasts in major fields of science and technology are of great importance for further development of the cooperation. Scientific and technological prognostication is an important factor in the process of planning the development of science and technology. Cooperation in this field includes the exchange of experience on methods and organisation of prognostication, joint prognostications made by the interested countries in the fields mutually agreed upon.

Joint training of scientific and technological workers takes an important part of the cooperation in science and technology. The scale and scope of such cooperation is illustrated by the fact that during the period from the early 1950s through the early 1970s more than 50,000 specialists of higher qualification were trained for other socialist countries in the USSR alone. The CMEA member countries are planning measures for raising qualification of research workers primarily for the branches of economy which determine the progress of science and technology.

The CMEA Committee for Scientific and Technological Cooperation is called upon to play an important role in the organisation of the cooperation in science and technology. It is to ensure the realisation of the Comprehensive Programme, promotion of the scientific and technological progress, organisation of cooperation by way of the fuller and effective utilisation of scientific and technological potentials of the CMEA member countries.

International Specialisation  
and Cooperation of Production

The deepening international socialist division of labour directly in the sphere of material pro-

duction is of great importance for the economic cooperation of socialist countries. The international division of labour is the basis for the solution of a major task of socialist economic integration—gradual and consecutive process of uniting the national economies of separate countries within a single economic complex. Specialisation and cooperation of production both in the CMEA member countries and in the relations between them is the system of interrelation of separate areas of material production. In these forms the advances of economic cooperation are manifest, as well as of higher economic effectiveness of social division of labour, the provision of the necessary product for the national economy and goods for the population. Specialisation and cooperation create better conditions for scientific and technological progress on the basis of concentration of scientific and technological potential, production facilities, material and labour resources. The

objective necessity of specialisation and cooperation of production is generated by the interest of large modern enterprises in raising the effectiveness of production, and presupposes the concentration of this or that type of production in one or several countries to satisfy the needs of the community as a whole.

The concentration of specialised production is accompanied by raising its technological level, introduction of modern technological processes, raising the productivity of labour and improvement of quality of output. At the same time the process of concentration and specialisation of production facilitates the formation of closer and more stable ties between the countries which in its turn enhances the economic effect of the cooperation for each member and for the world socialist economy as a whole. The purposeful distribution of production forces in the world socialist economy as a whole is the result of the deepening division of labour between socialist countries.

Specialisation and cooperation of socialist countries is being constantly improved in the process of development of production. Until recently the main direction of these forms of cooperation was the coordination of plans of production of separate types of products with the help of international organisations: "Intermetal" in iron and steel industry; "Interchim" in chemical industry; "Agromash" in agricultural machine-building, and others.

At present economic associations functioning on the principle of cost accounting such as "Interatominstrument", "Interatomenergo", "Intertextilmash" and others have been formed in the CMEA member countries. These international bodies coordinate whole branches of production on the basis of specialisation and cooperation of the activity of plants, factories, research and design institutions incorporated within these branches of economy.

Specialisation and cooperation is exercised in all leading branches of socialist economy of the fraternal countries. The greatest advances have been made in machine-building.

Now almost all types of machines and equipment of the world nomenclature of machine-building are produced in the



CMEA member countries. This was facilitated by the international specialisation and cooperation of production within the framework of CMEA.

Specialisation and cooperation in machine-building are directed at satisfaction of ever growing needs of the industry of socialist countries. Within the framework of such cooperation, for instance, joint designing, production and sale of tractors of Polish-Czechoslovak production is conducted. The USSR, Poland and Hungary cooperate in the production of cars, Poland and Bulgaria cooperate in ship-building. Bulgaria specialises in production of electrocars for the needs of all socialist countries. Hungary extends the production of equipment for food industry of the fraternal countries. The GDR is the chief producer of printing equipment. The production of oil-extracting equipment is concentrated in the USSR and Romania. The production of heavy trucks is concentrated in the USSR and Czechoslovakia.

At present 120 multilateral and more than 1,000 bilateral agreements on specialisation and cooperation of production are being realised, Coordination of efforts and balanced development of division of labour exert the determining influence upon the specialisation of production in each CMEA country. Rapid growth of industrial production is the result of such policy. The production of industrial products per capita of population in the CMEA member countries in 1950-1982 has grown more than 9 times, whereas the world average index has grown only 3.4 times. In 1960 the CMEA member countries were behind the EEC countries in the volume of industrial production, now it is twice as big as in the EEC countries.

The choice of the direction of specialisation of each country is determined by the possibility of ensuring the provision of the branch with raw materials, skilled labour power and modern equipment. Specialisation is realised by construction of powerful enterprises, the costs of transportation of raw materials and ready product being taken into account. All this is subordinated to the task of cutting down social expenditures on the specialised production. The successful fulfilment of the plans of specialisation and cooperation in all branches of the economy means of higher level of modernisation

of the economic structure of the CMEA member countries, and the solution of general tasks of socialist integration.

#### Joint Economic Projects

According to the Comprehensive Programme of economic integra-

tion the socialist community countries bring into practice the agreements on joint construction of economic facilities. They are constructed in the countries with favourable natural and other conditions. The means for this are extended by the cooperating countries and by the International Investment Bank formed in 1970. Its founders are the CMEA member countries.

The enterprises of mainly asset-intensive branches of extracting and manufacturing industries which demand great capital investments are constructed by joint efforts.

Speaking of the achievements of joint labour one can name such huge projects as the Soyuz gas pipeline which stretches for almost two thousand kilometres, the Mir (Peace) power grid which received new transmission lines, pulp and paper plant in Ust-Ilimsk, the Erdenet ore-dressing works in Mongolia, nickel works in Cuba and many other new projects.

The Medet copper deposits are being developed in Bulgaria. Poland is developing extraction of coal, copper and sulphur. Romania produces isoprene rubber, etc. The products of these enterprises are meant for shipping to the countries which participate in their construction.

"Nowadays, the steady development of any socialist country, and successful solution by it of such problems as, say, the provision of energy and raw materials and utilisation of the latest scientific and technical achievements, are inconceivable without ties with other fraternal countries." <sup>1</sup>

#### Foreign Trade and Credit Relations

The deepening of international division of labour between socialist countries results in the extension

of the commodity exchange between them. The extended interna-

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<sup>1</sup> The 26th Congress of the CPSU. Documents and Resolutions, p. 12.

tional exchange of commodities makes up the foundation of the world socialist market. The market is the integral part of the world socialist economic system. Unlike the world capitalist market it is characterised by the planned and steady growth of the commodity circulation, stable prices, mutually beneficial character of trade, absence of speculative interests in the relations between partners.

The mutual turnover of commodities of the CMEA member countries grows at a greater rate than the world trade as a whole. In 1983 the volume of the foreign trade exchange of the CMEA countries has exceeded 167 billion roubles. For the sake of comparison we could note that in 1960 it was only 14.3 billion roubles and in 1970--33.5 billion roubles.

The CMEA member countries exercise clearings in trade operations through the International Bank for Economic Cooperation founded by socialist countries. When necessary the CMEA countries receive credits for clearings in trade operations from the Bank. They also get credits for a term of up to three years for improving the specialisation and cooperation of production. The share of credits in the sum total of mutual payments of the CMEA member countries is on average 13.6 per cent but in the countries where seasonal commodities take a large part of the exports, the share of credits goes up to 40 per cent.

International trade relations of the CMEA member countries are regulated and improved with the direct participation of the CMEA Standing Commission on Foreign Trade. It coordinates the long-term programmes of commodity deliveries based on the concluded agreements. The Commission through its recommendations directs the activity of foreign trade bodies of the socialist community countries at the fulfilment of the signed agreements on the exchange of commodities. Great attention is paid to the improvement of the system of foreign trade prices.

One of the major basic demands of the socialist economic system in respect of foreign trade prices of CMEA consists in the fact that these prices should be set up after the elements connected with the situational changes are excluded from the world prices. In the practice of trade relations of

the CMEA countries the average prices of the world market for a certain period (5 years) are taken for the starting basis of prices. Proceeding from the starting basis of prices the trading partners set up specific prices according to which the commodity deliveries are performed. The contract price may fluctuate from the established basis of prices in accordance with the peculiarities of production and realisation of commodities in socialist countries. The fluctuations of contract prices from the starting basis of prices lie within the limits of the level of world prices and the expenditures for the production of the commodity by the exporting country. There are many unsolved problems in the system of price formation in the world socialist market. The Comprehensive Programme of socialist economic integration sets the task of improving the formation of prices. This is done along with the prognostication of the world socialist market development for the period up to 1990.

Solid and mutually beneficial credit relations exist between the countries of the socialist community. The credits are advanced with small interest. Credit relations allow the socialist countries to concentrate necessary means for making large capital investments. Loans are usually repaid by the borrowing countries with the commodities of their traditional exports.

Socialist countries also receive loans from the International Investment Bank.

During the period of its existence (1971-1980) 71 projects in 10 CMEA member countries and Yugoslavia were accepted for crediting. Estimate cost of these projects exceeds 8 billion roubles and the sum of credits is 3.2 billion roubles. From 1971 to 1980 43 projects out of all projects credited by the Bank were put into operations. The total volume of export of products from the newly constructed or reconstructed enterprises came up 5.5 billion roubles in the period of 1971-1980.

Successful realisation of the Comprehensive Programme of socialist integration opened new possibilities for the development of productive forces of the CMEA member countries.

Implementation of this Comprehensive Programme deepened economic interaction of the CMEA member countries, and made their economies mutually complementary to a greater extent to the considerable advantage of all concerned. These achievements reflect the triumph of the consistent internationalist policy of the communist and workers' parties of the CMEA member countries, their readiness for constant extension and deepening of brotherly cooperation and economic integration, which accelerate their economic growth and facilitate higher standard of living of the people.

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