



Political Economy

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Political Economy



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ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ

На английском языке

This is a translation of a textbook, *Political Economy*, for other than economic higher schools in the USSR written by a group of authors, including: Academician A. M. Rumyantsev (head), Corresponding Member of the USSR Academy of Sciences G. A. Kozlov (deputy head), Professor M. I. Volkov (deputy head), Corresponding Member of the USSR Academy of Sciences A. G. Mileikovsky, and Professors and Doctors of Economic Sciences M. M. Azarova, M. S. Atlas, R. A. Belousov, V. I. Mantsev, N. I. Mokhov, I. M. Mrachkovskaya, and P. A. Skipetrov.

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Chapter one

THE SUBJECT-MATTER AND METHOD OF POLITICAL ECONOMY

Every science has a specific subject-matter for its inquiry. Political economy is the study of social relations concerning production, or, which is the same thing, the social system of production.

A revolution was carried out by Karl Marx and Frederick Engels in the whole science of society, including political economy. The subject-matter and method of political economy are characterised in these basic works written by the classics of Marxism-Leninism: Marx's *A Contribution to the Critique of Political Economy* and *Introduction* (from the *Economic Manuscripts of 1857-1858*), Engels's *Foreword* to the first edition of Volume II of *Capital*, and *Anti-Dühring* (Part II), and Lenin's review of A. Bogdanov's *A Short Course in Economic Science*.

1. SOCIAL PRODUCTION AND ITS ROLE IN THE DEVELOPMENT OF HUMAN SOCIETY

*Material Production, the Basis of Life in Human Society.
The Process of Labour and Its Basic Elements*

Marxist political economy starts from the assumption that human vital activity is objectively based in social material production, which includes man's interaction with nature and the whole range of relations which arise in the process.

Man's interaction with nature is the *process* of labour, which always runs in a definite social form. To proceed it requires: 1) human labour, 2) the object of labour, and 3) the instruments of labour. It is *conscious and purposeful*

human activity in the process of which men modify natural objects and adapt them to the satisfaction of their needs. As they make the things they need, men come to know the laws of nature and, in accordance with these, advance in the use of its resources and potentialities.

As man acts on external nature and modifies it, he also modifies his own nature, developing his capacity for work, increasing his knowledge, and using these on an ever wider scale. Labour is of tremendous importance for human development. Labour, says Engels, is "the prime basic condition for all human existence, and this to such an extent that, in a sense, we have to say that labour created man himself".¹

The substance of nature on which man acts in the process of labour is known as the *object of labour*. When this has been acted upon by human labour but is to be further processed, it is known as *raw material*.

The things man uses to act on the object of labour are known as the *instruments of labour*. Crucial among these are the *implements of labour*, whose mechanical, physical and chemical properties are used by men in accordance with their purposes.

In the broader sense, the instruments of labour include all the material conditions of labour without which it cannot proceed. Land is the universal condition of labour. Industrial buildings, roads, canals and similar objects are included among the conditions of labour. The results of the social cognition of nature are embodied in the instruments of labour and in the processes in which they are used for production. The development of technology (and techniques) is the main indicator of the extent to which society has mastered the forces of nature.

Taken together, the instruments of labour and the objects of labour constitute the *means of production*. These and human labour are inextricably interconnected and inter-related. Instruments of labour are always the product of past labour, but when out of contact with living labour, they lose their importance. For its part, human labour itself does not exist as such, without the means of production. Consequently, the process of labour is not a mechanical combination of its three basic elements. Human labour is effected only as an

¹ Frederick Engels, *Dialectics of Nature*, Progress Publishers, Moscow, 1974, p. 170.

organic unity of these three interdependent factors, of which the crucial factor is man himself, his purposeful activity. Man adapts the objects of labour to satisfy his needs; in other words, he creates material values: food, clothes, dwellings, and other objects of personal consumption, and also instruments of labour, raw materials, ancillary materials, and other means of production, that is, the objects of production consumption. The process of labour always results in a product of labour. Considered in the light of its end results, labour appears as productive labour, and the process of labour, as the process of production.

Such are the substance and general features of labour, irrespective of the social form in which it is performed.

*Social Production and Its Two Aspects:
the Productive Forces and the Relations of Production*

The process of labour is always effected by individuals. However, it is society and not the isolated individual that is the necessary prerequisite for the process of labour. *Production is always social production.*

Marx discovered the two aspects of social production, which are inextricably connected with each other: the productive forces and the relations of production. The *productive forces* include the means of production and men with a definite store of production experience and labour skills, who set these means of production in motion. Men are the basic element of society's productive forces, which is why it is not right to identify the productive forces with only machinery and other material elements of production.

The productive forces always exist only as social productive forces. When entering in interaction with nature, men simultaneously enter into social relations with each other by means of which this interaction is at all possible. The connections and relations into which men enter in the process of material production regardless of their will or consciousness are known as *social production or economic relations.*

Social production relations differ from the relations in production which could be called technical production relations. These are relations determined by the arrangement of men in production, and this depends entirely on the organisation of the process of production. But this arrangement

itself is always effected under definite social relations, which make it possible to effect the process of labour.

Economic relations are primarily property relations, which are dictated by the process of production itself. Marx says: "All production is the appropriation by the individual of natural objects within the framework of a definite social form and by means of it. In this sense, it would be a tautology to say that property (appropriation) is a condition of production."¹

The appropriation of the means of production engenders special social relations. The relations among men expressing their relations to the means of production and results of labour, whether their own or those of others, are known as *property relations*. These are a necessary condition for man's participation in the overall production of the means of subsistence and their use. Engels notes that political economy "is not concerned with things, but with relations between persons",² although these relations are necessarily connected with things and in definite conditions even appear in a materialised form.

Property relations are the substance of the relations of production and differ by type. Where society as a whole relates to the instruments, objects and results of labour as to its own, we have a type of *social property*. Wherever only a part of the society or even individuals alone relate to given conditions of social production as to their own, while the rest are alienated from the appropriation of the conditions of production, we have a type of *private property*.

Bourgeois theorists usually reduce property relations to men's legal, volitional relations to things, thereby depriving property of its socio-economic content and proclaiming private property as man's natural right, which, for that very reason, is sacrosanct and inviolable.

It is wrong to regard property only as an outward juridical expression of a definite type of production relations, and not as their substance. Marx and Engels repeatedly stressed

¹ Karl Marx, *Grundrisse der Kritik der politischen Ökonomie (Rohentwurf) 1857-1858*, Foreign Languages Publishing House, Moscow, 1939, p. 9.

² Frederick Engels, "Karl Marx, *A Contribution to the Critique of Political Economy*", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 16, Progress Publishers, Moscow, 1980, p. 226.

that juridical relations were only a reflection of objective economic relations proper to the given mode of production.¹

The whole system of relations of production is based on *relations of property in the means of production*. On the type of property in the means of production depend the content and concrete combination of the general and particular economic interests of the members of a society, its social structure, and the status of individuals in social production.

2. CORRELATION BETWEEN PRODUCTION, DISTRIBUTION, EXCHANGE AND CONSUMPTION

The relations of property in the means of production are the most important within the system of the relations of production, but they are only a part of economic relations. Property relations determine the mode in which men are conjoined with the material conditions of production (means of production) and that is the basis on which they determine all the other economic relations.

In a society dominated by private property in the means of production, economic relations are inevitably effected through exploitation of man by man. In a society dominated by social property in the means of production, exploitation of man by man has been eliminated and the objective prerequisites created for establishing relations between men on the basis of comradesly cooperation, friendly emulation and mutual assistance.

The relations of property in the means of production also determine the corresponding *relations of distribution*. Where the key means of production are concentrated in the hands of society as a whole (as they are under socialism), the material values created belong to entire society. In that case, they are distributed in the interests of society as a whole, and this makes it possible ever more fully to satisfy each working person's requirements and all-round development. Where the means of production are monopolised by individuals or groups, as they are under capitalism, the results of production are appropriated by these individuals or groups for the purposes of enrichment and domination of

¹ Karl Marx. "On Proudhon", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 2, Progress Publishers, Moscow, 1969, pp. 25-26.

other men. Such a society inevitably presents sharp contrasts of wealth and poverty, with the working people being constantly forced to carry on a bitter struggle to ensure the most necessary conditions for the maintenance of their vital activity and dignity.

The substance of exchange also depends on the prevailing relations of property in the means of production. Exchange can either be planned and balanced or haphazard. It is the type of property that determines whether exchange is deliberately regulated or promiscuous. It may also be either a direct distribution of products, or entail their production as commodities, which are, for that reason, distributed and redistributed through some form of commodity exchange. But commodity exchange is not an everlasting phenomenon. The classics of Marxism-Leninism insisted that the need for it was bound to disappear at a definite stage in the development of society.

The *relations of consumption* are an important form of economic relations. Political economy does not consider consumption either as a biological or technological process—that is done by other sciences—but as a link in the chain of reproduction, consumption has always been, and continues to be a matter for economic analysis. Consequently, production, distribution, exchange and consumption are closely interwoven with each other, constituting a stable structure of economic relations, which in its integrity is a *coherent process of reproduction*.

The various aspects of the relations of production constitute a single whole, each of whose parts interact with each other. Thus, the relations of distribution are the reverse side of the relations of production. While being a result of production, distribution is also an element of production itself, being inextricably connected with property in the means of production and the corresponding mode of exchange of activity among men. Marx says: "Before distribution is distribution of products, it is: 1) distribution of the implements of production and 2)—and this is a further definition of the same relations—distribution of the members of society among the various types of production.... Distribution of products is, evidently, only the result of this distribution."¹

¹ Karl Marx, *Grundrisse der Kritik der politischen Ökonomie (Rohentwurf) 1857-1858*, p. 17.

The first thing political economy examines is property in the means of production, for property relations have a crucial role to play within the system of production relations.

Bourgeois economists used to separate the production of material values from their distribution, exchange and consumption, insisting that they were independent and connected no more than outwardly, through the successive movement of the product. They saw consumption as being no more than destruction of the product, and so contrasted it with production as a process in which the product was created, a process which they said, was invariable and determined by the universal laws of nature. From this they drew the conclusion that neither production, nor consumption could be studied by political economy, with either the distribution or the circulation of products alone being its subject-matter. Marx showed these views to be unscientific and proved that while bourgeois economists see that production, distribution, exchange and consumption did have their distinctions, they fail to see also their unity in which they were truly interconnected, and, most importantly, in which they penetrated each other, with production playing the definitive role.

Analysing the unity of the elements of the relations of production, bourgeois economists and revisionists in our day seek to obscure the antagonisms arising in the capitalist mode of production, so completely distorting the objective picture of the development of the capitalist society.

Marx's *Introduction*, which he conceived as a *General Introduction* to a major economic work, is of fundamental importance for an understanding of the substance of the relations of production and the interrelation of their various aspects.

Consequently, in the most general terms, the relations of production are determined by the actual appropriation of the means of production by the members of society, i.e., whether all of them consider the means of production as their own, or only some of them do so, while the rest consider them as not their own (as belonging to others). The relations concerning the means of production determine the whole system of relations in the sphere of production, distribution, exchange and consumption, and provide the form for the development of the productive forces. But the relations of production are also determined by the level

and nature of the social productive forces. The unity of these two interdependent elements—the productive forces and the relations of production—constitutes the *mode of production*.

3. THE DIALECTICAL UNITY OF THE PRODUCTIVE FORCES AND THE RELATIONS OF PRODUCTION. SOCIO-ECONOMIC FORMATION

Unity of the Productive Forces and the Relations of Production

Marx remarked that political economy was not technology. In his work, *The Development of Capitalism in Russia*, Lenin wrote: "It is not with 'production' that political economy deals, but with social relations of men in production, with the social system of production."¹ At the same time, the classics of Marxism-Leninism devoted much attention to the productive forces, of which the working people are the key component. The productive forces of a society are the objective conditions without whose concrete consideration it is impossible to study the relations of production.

Men's use of the means of production, determined by the relations of property in them, becomes an economic relation and, as such, is part of the subject-matter of political economy, and this was emphasised by Marx: "The machine is no more an economic category than the ox which draws the plough. The contemporary use of machines is one of the relations of our present economic system, but the way in which machinery is utilised is totally distinct from the machinery itself."²

Political economy makes a study of how the productive forces are used under the given relations of production. Taking account of the lines and trends in technical progress, political economy studies the influence of production relations on such progress and its socio-economic consequences. So, the relations of production are analysed as a unity with the productive forces.

¹ V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, Progress Publishers, Moscow, 1977, pp. 62-63.

² Marx to Pavel Vasilyevich Annenkov in Paris, December 28, 1846, in: Karl Marx and Frederick Engels, *Selected Correspondence*, Progress Publishers, Moscow, 1975, p. 33.

*Production Relations, Social Structure of Society.
Broad Meaning of Political Economy*

The social structure of a society is determined by the relations of production. Private property in the means of production brings about the division of a society into opposite classes. It was Lenin who gave a profoundly scientific definition of classes: "Classes are large groups of people differing from each other by the place they occupy in a historically determined system of social production, by their relation (in most cases fixed and formulated in law) to the means of production, by their role in the social organisation of labour, and, consequently, by the dimensions of the share of social wealth of which they dispose and the mode of acquiring it. Classes are groups of people one of which can appropriate the labour of another owing to the different places they occupy in a definite system of social economy."¹

But classes are not an everlasting phenomenon. Human society started out with a classless social structure. Under socialism, there are no antagonistic classes, but only two friendly classes: the working class and the cooperative (collective farm) peasantry, which do not exploit the labour of others, work for the common interest and seek to reach a common goal, communism. Under full communism, class distinctions will disappear.

Political economy does not consider the political structure of society because it is a part of the superstructure, but it does study the political structure to the extent to which it exerts an influence on the economy. The state, the main form of superstructure, is considered by the juridical sciences. However, political economy does include the state among its problems because it regards the state as an effective economic force.

A historically rooted mode of production with a corresponding superstructure is known as *socio-economic formation*. Mankind knows five formations: the primitive-communal; the slave-holding; the feudal; the capitalist; and the communist.

Political economy studies the relations of production which are proper to each formation in their origination, development and transition from the lower stage to the higher.

¹ V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, Progress Publishers, Moscow, 1965, p. 421.

The consideration of production relations in all formations is *political economy in the broad sense of the term*. This political economy became meaningful with the origination of the political economy of communism (socialism).

Specific Features of the Political Economy of Socialism

The production relations of each formation have their own specific features. The main features of the communist formation, established by the working class consciously and in an organised way under the guidance of the Marxist-Leninist party, are: prevalence of the relations of the whole people's property in the means of production, relations of comradely cooperation and mutual assistance among all members of the society, who are free from exploitation, and planned and balanced development of the economy for the benefit of the society and all its members.

The production relations of socialism and communism are basically the same because they are phases of one and the same communist mode of production, but the economy of socialism, the first phase of communism, has its specific features. It has two characteristic basic forms of social property in the means of production: state property (property of the whole people), collective farm and cooperative property; distribution of consumer goods according to the work done; commodity-money relations, and certain other specific features.

The role of the state in society's economic activity is another feature of the political economy of socialism. The bourgeoisie makes extensive use of the state to protect capitalist relations of production and consolidate its economic positions; monopoly capitalism is increasingly developing into state-monopoly capitalism, a combination of the power of the monopolies and that of the capitalist state. But interference in the economic life of society and the growth of state-owned property in the capitalist countries does not eliminate capitalist domination, as right-wing socialists and revisionists claim. Engels says that the capitalist state, as an owner of the means of production, operates as a collective capitalist, that is, represents the capitalist class as a whole.

A fundamentally new type of state is established by the socialist revolution and the dictatorship of the proletariat, and it becomes the instrument of the overwhelming majority

of the people, led by the working class, and subsequently, once the exploiter classes are eliminated, gradually develops into a state of the whole people. Genuine democracy unfolds with the ever greater involvement of the working people in the administration of the state.

The socialist state, with the property of the whole people in the means of production as its foundation, obtains the capacity for framing economic plans for the benefit of the society as a whole and coordinating the common activity of all the members of the society in the fulfilment of these plans, organising concerted economic management on the scale of the society as a whole.

The socialist relations of production are continuously developing. In the USSR, they now correspond to the stage of developed socialism, in some countries, to the stage when the socialist society has been built in the main, and in others, to the period of transition from capitalism to socialism.

4. THE METHOD OF POLITICAL ECONOMY

Application of the Method of Materialist Dialectics to Political Economy

The method of the Marxist-Leninist political economy is that of dialectical materialism. It takes the materialist approach to economic processes, and analyses the interconnection and interrelation in development from the lower forms to the higher. It is used to analyse economic phenomena at every stage in the development of social production.

Analysis of social life is a complex process; it runs "from living perception to abstract thought, and from this to practice".¹ There is a need for painstaking study of the whole array of facts to bring out the substance behind them, to order the historical facts and to bring them into a system, to find the main link which will help to bring out the whole range of problems in the economic life of a society. This can be done only by rising to the stage of scientific thinking, which is a process involving "a series of abstractions, the formation and development of concepts, laws".²

¹ V. I. Lenin, "Conspectus of Hegel's Book *The Science of Logic*", *Collected Works*, Vol. 38, Progress Publishers, Moscow, 1963, p. 171.

² *Ibid.*, p. 182.

Scientific Abstractions

Scientific abstractions are generalised concepts worked out by men by means of thought, and which are abstracts of the immediate concrete nature of the phenomenon being studied. The objective reality is the starting point for scientific cognition.

The economic life of a society is the objective reality which is independent of human will and consciousness, although it does appear as a result of conscious acts by individuals. The economic life of a society is a coherent whole and includes many factors with all the diversity of their connections. Economic relations have a form that is immediately visible, and a content which determines that form, and which is concealed by semblance.

It is the task of political economy to bring out the substance of economic phenomena and their connections in the whole diversity of the concrete, to show the interaction of the sides and the "struggle" between them, and in this way to gain a knowledge of the economy as a whole, and master the laws of its development.

Scientific method, as an organic set of dialectico-materialist principles, methods and means of analysis, is not the same for all the sciences. Thus, it is not right to apply the methods of analysis used only in the natural sciences to the study of social processes and phenomena. The relations of production cannot be analysed under a microscope or in a test tube, or subjected to machining by means of mechanical forces. Even a method so widespread in natural science as the staging of experiments can be used within relatively narrow limits in economics. Abstract thought is the most important instrument of the politico-economic cognition of production relations. But it is important to emphasise that scientific abstractions should not be out of touch with reality. This means that there should be no consideration of phenomena outside the context of economic life or their conversion into absolutes; the qualitative and quantitative aspects of economic processes must not be separated and neither of these should be exaggerated out of all proportion, etc.

Analysis and Synthesis

In the process of analysis, thought runs from the visible, from the concrete to the abstract, separating the phenomenon being analysed into its component parts and aspects. In the process of synthesis, the phenomenon is analysed in the light of the interconnection of its constituents, as a unity and in the movement of contradictions, which reveals the ways and forms of their resolution.

The analysis of the capitalist economy, for instance, makes it possible to bring out its essential elements: capitalist property in the means of production, and wage labour. Each of these is first considered separately (the substance of capitalist property, the chief interest of capital, etc., on the one hand, and the nature of wage labour, the chief economic interest of the working class, etc., on the other). They are then studied in interaction with each other (the antagonistic relation of exploitation of wage labour by capital, the definitive importance of the social nature of production, and the epochal role of the working class in the overthrow of capitalism). This is followed by an analysis of the resolution of the contradictions of capitalism by the proletarian revolution, which changes the nature of social production and establishes socialist social production.

The analysis of production relations under socialism starts with an analysis of the economic activity of the society as an integral whole, and not of relations between private property commodity producers, as is done in the political economy of capitalism. Within the framework of this whole, an analysis is made of the two basic forms of property which are inherent in socialism, their interrelations, the unity of interests and purposes. This is followed by an analysis of relations at the individual enterprise (association) as the primary cell of social property and the individual's participation in social production as the co-owner of all the means of production and the results of the common labour. In the socialist society, there is a community of vital economic interests and relations of friendship and cooperation among its classes and social groups. That is why the contradictions which are inherent in the socialist economy—and these are non-antagonistic—are resolved in a balanced manner. Whereas the antagonistic contradictions of capitalism

inexorably propel it to the destruction, the resolution of the non-antagonistic contradictions of the socialist economy in a balanced manner promotes its development into the economy of the higher phase of communism.

Qualitative and Quantitative Analysis

Every economic process and phenomenon has a qualitative and a quantitative aspect. That is why political economy makes extensive use of *mathematical and statistical methods and means of analysis*. Mathematical and statistical analysis helps to bring out the quantitative aspect of phenomena and the objective quantitative connection between economic variables.

The present extent to which the economy has been socialised necessitates a thorough and all-round consideration of quantitative economic magnitudes and wide use of computers for these purposes. But the more sophisticated the computer techniques, the greater the potentialities for rapid processing of economic facts (information) on the scale of the economy as a whole, and this can be most fully done only with the predominance of social property in the means of production.

While bringing out the quantitative changes in economic processes, political economy also examines the *transition of quantity into a new economic quality*. It is not right to study economic phenomena solely in terms of quantity or of quality, as this would be out of tune with the dialectics of life. That is why mathematical and statistical analysis helps to bring out the actual relations only when it is closely connected with the qualitative content of the phenomenon being analysed.

Unity of the Logical and Historical Methods

Political economy is a reflection of the actual reality in its historical sequence, which is why the method of political economy is a *historical method*. But while on the whole following the historical process, it concentrates on its main factors purged of the accidental elements of the complex development of social life. The historical method of political economy constitutes a unity with the *logical method*

The logical method, Engels says, "is indeed nothing but the historical method, only stripped of the historical form and of interfering contingencies. The point where this history begins must also be the starting point of the train of thought, and its further progress will be simply the reflection, in abstract and theoretically consistent form, of the course of history, a corrected reflection but corrected in accordance with laws provided by the actual course of history."¹

The logical and the historical approach in analysing the socialist economy means that the analysis and the synthesis start with the substitution of social property for private property in the means of production, and the origination of socialist social production.

Social Practice and Its Role

Social practice is the final element of the method of the Marxist-Leninist political economy, and the criterion of truth. The constant interplay of cognition and action, theory and practice helps to make concepts objective and, consequently, true, so making it possible for social practice itself confidently to advance. Under socialism, the connection between theory and practice in action by the masses is effected under the leadership of the party of scientific communism and of the socialist state. These set before economic science the tasks which spring from life and apply in practice the conclusions drawn by science, so demonstrating their truth.

Consequently, the method of the Marxist-Leninist political economy rests on the dialectico-materialist world view and constitutes a dialectical logic which is used to analyse economic processes in terms of their unity and distinction, in the process of their historical development. This method reflects the dialectics of the relations of production themselves. The economic practice of society verifies the correctness of the conclusions drawn by political economy.

Political economy also provides the methodological basis for special and sectoral economic sciences.

¹ Frederick Engels, "Karl Marx, *A Contribution of the Critique of Political Economy*", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 16, p. 475.

5. ECONOMIC CATEGORIES AND ECONOMIC LAWS

Economic Categories

In its analysis of economic relations, political economy formulates logical concepts which are known as the categories of political economy. These are not arbitrary. They are true, to the extent to which the relations of which they are abstractions do exist in reality.

Economic categories are historical. That is why it is highly essential to draw a distinction between historical economic categories. For instance, surplus value and capital are categories of the political economy of capitalism, reflecting that which makes it different from other socio-economic formations. Categories like the property of the whole people in the means of production, planned and balanced development, the surplus product of the socialist society, the national economic plan, socialist emulation, and economic calculus* reflect processes which are characteristic only of socialism.

It is true that there are some categories in political economy which express features common to all economic formations, like the category of production generally, although there is no such thing in reality at all, because production always runs in this or that social form. But whatever the social form of production, it takes the interaction of three elements—labour, the objects of labour, and the instruments of labour—to effect the process of production.

Some economic categories in the political economy of capitalism and in the political economy of socialism have a similar designation, like the category of wages. But in the socialist society, this category does not express the relations between the capitalists and the wage workers, but the relations between the co-owners of the key means of production working in comradesly cooperation and mutual assistance. The category of commodity also remains in the new socio-economic conditions. However, under socialism it is fundamentally different from the category similarly designated under capitalism, because the production of commodities under socialism is not universal and because it is the associated producers jointly owning the means of production, and not private proprietors, that are the producers of com-

* For a detailed examination of economic calculus see Chapter twenty-seven.—*Ed.*

modities. Profit, rent, and similar other economic categories likewise differ fundamentally under socialism and capitalism.

Economic Laws and Their Objective Nature

The substantial objective interrelations and causal connections which are firmly rooted in the economic processes and phenomena and without which it is impossible to consider the relations of production as an integral whole in the process of development are known as *economic laws*.

The study of the laws of society's economic development is the most important scientific task of political economy. Engels says that political economy "is the science of the laws governing the production and exchange of the material means of subsistence in human society".¹

Economic laws are the laws governing the development of the relations of production, distribution, exchange and consumption. They cannot operate outside the context of human relations, and that is their main distinction from the laws of nature, which operate without the agency of man. This suggests the following question: do or do not economic laws depend on the consciousness and will of men? In other words, what is their nature? That is the basic methodological question of political economy.

Bourgeois economists assert that economic laws are determined by man's immutable nature, so that these laws are everlasting and, in that sense, objective. The advocates of capitalism take this view because they want to prove that the laws of the capitalist society are everlasting, and because they wish to obscure the fact that the capitalist mode of production has effect only within a definite historical period. Actually, economic laws do not spring from nature, but are determined by the relations of men relative to production.

Bourgeois economists, followed by the revisionists, claim that economic laws are objective because they operate haphazardly. Conversely, they assert that because the economic laws of socialism do not operate haphazardly, they are not laws at all, but are no more than "useless generalisations", without any economic significance. Here, the question of the

¹ Frederick Engels, *Anti-Dühring*, Progress Publishers, Moscow, 1978, p. 181.

nature of economic laws is forgotten, and the question of the forms of their expression is brought out in its stead.

In reality, economic laws are just as objective as the relations of production, that is, they do not depend on the consciousness and will of men, undergoing change together with the changes in the relations of production themselves. But in one set of conditions, economic laws are expressed spontaneously, and in another not spontaneously, but through the deliberate economic activity of men who have become aware of the objective necessity for their acts, activity consciously organised on the scale of the society as a whole.

Specific and General Economic Laws

Each social system of production has its own system of *specific* economic laws. The substance of a given set of production relations in their entirety is expressed in the basic economic law of the given social system. The essential content of the various aspects of production relations is expressed in specific laws.

The system of the laws of political economy at every stage in the development of society corresponds to the system of economic relations. Thus, the capitalist society, whose basic economic law is the law of production and appropriation of surplus value, of necessity produces the laws of capitalist competition and the anarchy of social production, the general law of capitalist accumulation, the law of the average rate of profit, the law of the price of production, and other laws of the capitalist economy. In the socialist society, the basic economic law is assurance of full well-being for all the members of society and the free and all-round development of the individual through a steady boosting and improvement of social production. There are also the laws of the planned and balanced development of the economy, the law of growing requirements, the law of labour productivity growth, and so on.

The economic laws of socialism begin to operate in the period of transition from capitalism to socialism, and are given full scope with the victory of socialism. The development of economic laws reflects the growing maturity of the relations of production and their gradual transformation into communist relations of production. Some economic laws are common to both phases of communism (the basic econ-

omic law, the law of proportional and balanced development, and others), and make for the unity of the system of economic laws of the communist formation as a whole. Other laws are proper only to the first phase of communism, like the law of distribution according to work (according to quantity and quality).

Apart from the specific laws governing the development of production relations, there are *general* economic laws which are *common* to all the stages in the development of society. This is, above all, the law of the correspondence of the relations of production to the character and level of development of the productive forces. This law reveals the objective basis on which production relations move to a higher stage. Another general economic law is the law of economy of labour, although it does assume different historical forms in the succession of socio-economic formations.

Apart from the specific and general economic laws, there are laws which operate only at definite stages in the development of social production, like the law of value, which operates wherever there is production of commodities. Under socialism, the production of commodities and, accordingly, the law of value have a specific character, because the functioning of the law springs from other factors than it does under capitalism, because it does not operate haphazardly but is used in a planned and balanced manner, and because the effects of its operation differ radically from those it produces under capitalism.

The substance of production relations is brought out by the whole aggregation of economic laws as a coherent system. Economic laws do not work outside of this system, in isolation from each other, for they are closely interconnected and interwoven with each other. The individual laws can be brought out only in a theoretical analysis, which helps to study each individual law and its structure within the system.

Although economic laws do not depend on the consciousness and will of men, men are not powerless in their presence. Under definite conditions, men can use these laws for their benefit. In contrast to the economic laws of capitalism, which operate spontaneously, the economic laws of socialism are cognised and used by the society.

Society's cognition and use of economic laws does not make these any less objective. The classics of Marxism-Lenin-

ism emphasised that the freedom of men's economic activity does not consist in their being independent of the objective laws of economic development, but in their use for the attainment of definite objectively conditioned goals and in their capacity to take decisions with a knowledge of what they are about.

On the strength of what has been said, it is possible to give a fuller definition of the subject-matter of political economy. *Political economy studies the relations of production as the form in which the productive forces develop and, consequently, in close interconnection with them; it makes a study of economic laws, that is, the laws governing the functioning of production, distribution, exchange and consumption at various stages of the development of human society.*

6. THE CLASS AND PARTISAN CHARACTER OF POLITICAL ECONOMY

As a science, political economy emerged together with the development of the capitalist mode of production. In the period when the bourgeoisie was rising to power as the third estate ranged against feudalism and in the early period of its domination, bourgeois political economy was essentially scientific. The classics of bourgeois political economy (William Petty, Adam Smith and David Ricardo) analysed capitalist relations and "sought and discovered a number of capitalism's 'natural laws', but they failed to understand its transitory character, failed to perceive the class struggle within it".¹

The emergence of the working class as an independent force in the class struggle cast a new light on the basic aspects of economic relations. The class struggle laid bare the substance of capitalist relations and showed that the downfall of capitalism and the triumph of socialism were inevitable. That is why the bourgeoisie wanted an economic science that would help to preserve and consolidate its power. Accordingly, classical bourgeois political economy gave way to vulgar bourgeois political economy, which is a vehicle

¹ V. I. Lenin, "Socialism Demolished Again", *Collected Works*, Vol. 20, Progress Publishers, Moscow, 1972, p. 197.

for the notions and interests of the capitalist class. Marx says: "It is thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not."¹ This is an expression of the class and partisan character of bourgeois political economy, whether past or present. But in their efforts to safeguard the obsolescent system, bourgeois economists try to veil their class stand by means of an above-class approach to economic processes and phenomena.

Marxist-Leninist political economy has discovered the objective economic laws governing the development of the society and has substantiated the revolutionary struggle of the working class against capitalism, and for the construction of communism. The interests of the working class are identical with the progressive development of the society. The partisan character of the Marxist-Leninist political economy is in complete accord with the scientific objectivity of its analysis of economic processes. Any departure from the class approach in science signifies a departure from the scientific analysis of social phenomenon. The principle of partisanship is an expression of the unity of the Marxist-Leninist economic theory and the fulfilment of practical tasks in the revolutionary struggle to do away with exploitation of man by man and for the building of socialism and communism.

Consistent adherence to the principle of partisanship in science is inseparable from relentless struggle against anti-communism, reformism and right and "left" revisionism. Only a theory that does not allow of any falsification of the analysis of social development is truly scientific. The partisanship character of political economy implies a principled stand in evaluating the diverse departures from the Marxist-Leninist methodology in the study of social life, and from the fundamental conclusions drawn by Marxism-Leninism. In contrast to bourgeois political economy, Marxist-Leninist political economy makes no secret of its class and partisan character. It takes an open stand for the working class, which heads the progressive strata of the society in their struggle to effect the historically objective

¹ Karl Marx, *Capital*, Progress Publishers, Moscow, 1972, Vol. I, p. 25.

necessity for the elimination of capitalism and the construction of socialism.

The political economy of the working class was worked out by Marx and Engels, and raised to a new stage of development by Lenin, who formulated the theory of imperialism as the highest stage of capitalism, and who laid the foundations of the political economy of socialism. Today, the scientific political economy is being creatively developed by the Marxist-Leninist Communist and Workers' parties.

The writings of the classics of Marxism-Leninism and the documents of the Marxist-Leninist parties and their international conferences and meetings contain a scientific analysis of the struggle of the working masses, led by the working class, for the triumph and establishment of a society of free working people, and for its advance towards communism.

Chapter two

PRECAPITALIST MODES OF PRODUCTION

A book written by Engels, *The Origin of the Family, Private Property and the State*, is the chief work among those written by the classics of Marxism dealing with precapitalist formations. Its historical importance lies in the fact that it presents a Marxist analysis of the primitive society, the life and activity of men in the most ancient, pretribal period, analyses the economic and social features of the tribal system, and the causes for its disintegration and the emergence of private property, classes and the state, and shows their transient nature.

Engels's book is aimed against the bourgeois idea that capitalism is universal and everlasting, and against efforts to modernise the primitive-communal, the slave-holding, and the feudal societies, to make them look like early capitalism.

It opposes the bourgeois apology for private property, assertions concerning its "natural" and eternal character, allegedly corresponding to "the nature of man". Engels's book exposes the idealisation of primitive society (the Golden Age of mankind), directed against social progress, and helps in the struggle against the vestiges of patriarchal relations in the world today. Engels shows that all nations develop, in the main, through the same major stages of social production and that, consequently, there are no "non-historical" peoples and no "inferior" races. This is of major importance in the struggle against the ideology of racism and neocolonialism. Engels rejects the bourgeois notion that the state is a force that stands over and above classes, and demonstrates the inevitable withering away of the state with the transition to a classless, communist society.

1. THE PRIMITIVE-COMMUNAL MODE OF PRODUCTION

According to the latest scientific data, human society emerged over two million years ago. Of these, only the last 7,000-9,000 years transcend the framework of the primitive society. The primitive-communal system is the first and longest period in human history. Its relations of production are studied by political economy.

The development of the economy in the primitive society falls, according to Engels, into two periods: "the period in which the appropriation of natural products, ready for use, predominated", or the period of the appropriating economy and "the period in which knowledge of cattle-breeding and land cultivation was acquired, in which methods of increasing the productivity of nature through human activity were learnt",¹ or the period of the reproductive economy. In the course of these two periods, the social organisation of the primitive society advanced from the "primitive human herd" to the development of the tribal and then of the neighbourhood (territorial) commune, a way of development that naturally led to the emergence of classes and antagonisms in society.

Predominant Appropriation of Natural Products

The initial state of the productive forces in the primitive society is characterised by primitively made instruments of labour, with the chipped stone being the implement of general purpose. The use of stone implements marks the origination of human labour. Because they were ill-equipped for the struggle against surrounding nature, primitive men were unable to exist or work outside the collective. The work of jointly gathering the natural products which were ready for use and hunting went on over a relatively small "feeding" area and involved numerically small and relatively isolated groups of blood relatives. That was *simple cooperation* without any division of labour by sex or age.

With the development of the appropriating economy and under the impact of growing requirements, the stone imple-

¹ Frederick Engels, "The Origin of the Family, Private Property and the State", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, Progress Publishers, Moscow, 1976, p. 200.

ments of labour were constantly, even if slowly, improved. This was paralleled by the development of man, the chief productive force. Labour activity helped to develop his hands and other organs, and to increase the weight and size of his brain.

Production experience was gradually accumulated and production activity became more complex, and this led to the emergence of the *natural division of labour by sex and, to some extent, by age*. Women concentrated on gathering, and men on hunting. The old people were the keepers of accumulated collective production experience. They also engaged in the making of the implements of labour. The natural division of labour by sex and age intensified cooperation and increased the productivity of the primitive collective. There was a gradual differentiation and specialisation of the implements of labour, and their adaptation to individual labour operations. In that period, men learnt to make composite implements of labour (stone and wood, wood and bone) and invented the bow and arrow, which extended the range of hunting.

The use of fire by primitive man was of tremendous importance in the development of the productive forces in the period of the appropriating economy. The precise date of this event is not known, but there is evidence that fire was already being used 400,000-500,000 years ago. It was women who had the duty of keeping the fire burning on the hearth. The art of obtaining fire by friction was discovered only in the period of the reproductive economy. The discovery of fire is one of mankind's greatest inventions.

In the primitive society, the relations of collective (herd, communal) property in land and the natural products ready for use, that is, the feeding area and the natural objects used by men and serving for the making of the instruments of labour were the definitive form of production relations. The stone and wooden implements were adapted to the physical capacity of the various individuals, so, in effect, becoming their personal property, but one which was used in joint labour and only for the common interests of the collective. There were no antagonistic contradictions in that society. At that time, collective property and collective labour were the only possible forms for the development of the productive forces.

Bourgeois economists and revisionists deny the initial

existence of collective property, and identify personal property in the primitive society with private property or assert that personal property produced private property. But scientific history and ethnography have proved that it was not private but collective property that was the economic basis of all the primitive peoples, and that personal property was transformed into private property in the period of disintegration of the primitive-communal system, when private property in the basic means of production first appeared.

The collected natural products which were ready for use constituted common property and were subject to general distribution, which was essentially egalitarian. There was no exchange of products either within the groups or between them. The historical facts do not bear out the bourgeois economists' assertions that the exchange of products is primordial.

In these conditions, primitive men knew in advance what they could expect with their mode of obtaining their means of subsistence. This mode provided the means of subsistence that were alternately scant or more abundant. Production was carried on within the narrowest framework, but the product was entirely at the disposal of the producers. Consequently, both production and distribution were effected on the basis of a primitive regulation, and this ruled out any antagonisms in the society.

The objective purpose of primitive production was satisfaction of the vital requirements of all the members of the group. That was the basis on which the natural expansion of the production and reproduction of life in the primitive human society were effected, however slowly, and this was expressed in a growth of the productivity of labour, an increase in the population, and the hiving off of new groups which went on to use new feeding areas.

In that period, economic life had the following main characteristics: 1) the common property of the primitive collective in the means of production and the territory of the habitat; 2) collective and not productive labour for the appropriation of natural products ready for use; and 3) egalitarian distribution of the means of subsistence. These are the features which determine the content of the *basic economic law of the primitive society*: with the productive forces at an extremely low level and under the domination of communal property, production is objectively geared to

ensure the requirements of all the members of the commune through egalitarian distribution of the collectively obtained products which are necessary for maintaining the vital activity of every member of the collective.

This law also contains the main non-antagonistic contradiction of the primitive society which is the motive force behind the development of the primitive economy. It is the contradiction between the vitally necessary requirements of primitive men, and the low level of the development of the productive forces. It is this contradiction that made for the development of society's productive forces and led to a new type of economy, a reproductive economy, and also to the transition from the primitive human herd to the tribal community.

The Reproductive Economy

The gathering of food and hunting led to two great discoveries: agriculture and the breeding of cattle. With the conversion of agriculture and cattle-breeding into the leading branches of economic activity, the primitive society entered upon the period of the reproductive economy, which made men relatively independent of the availability of the ready-made products of nature.

Because of the different natural, climatic and social conditions, some communities moved on to the reproductive economy before others did. Because of local natural conditions, some communities specialised in agriculture and others in the breeding of cattle. The concentration of their efforts in this or that branch helped to raise the productivity of labour, to create stocks of food and markedly to increase the size of the communities.

The development of agriculture and cattle-breeding brought about a further growth of the social productive forces. New methods of making instruments of labour, like sawing and drilling, grinding and the polishing of stone, appeared. Ever more diverse wooden implements of labour were made. Spinning and weaving emerged. There was a development of water and land transport. In that period, men discovered the useful properties of some metals (copper, bronze and iron). Diverse metal tools, weapons and ornaments appeared. The plough and the chariot were invented in the Bronze Age.

In the period of the reproductive economy, the relations of production remained basically the same as those in the preceding period. They were expressed in collective property in the means of production, and in the results of communal labour. But the development of the reproductive economy introduced some new features into the relations of production. The communities began to develop different means of subsistence in quantities which exceeded their immediate daily needs. The result was a product that was over and above the immediate requirements of the producers and which could be accumulated and redistributed. This led to the origination of exchange of products between the communities.¹

The specialisation of the communities, which made for the transition to nomad cattle-breeding, ultimately led to the separation of pastoral tribes from among the whole mass of primitive tribes. That was "*the first great social division of labour*. These pastoral tribes not only produced more articles of food, but also a greater variety than the rest of the barbarians... This, for the first time, made regular exchange possible."²

Archaeology tells us that in the period of the appropriating economy occasional and sporadic exchange did occur, mainly among kindred communities. With the development of the reproductive economy, a new form of connection was established between the individual communities. The connection between the various types of production led to the origination of branches of the social economy that were dependent on each other. Henceforth, products were constantly produced for exchange, that is, they were converted into commodities (a thing produced for exchange). Exchange became regular.

Factors behind the Disintegration and Downfall of the Primitive Mode of Production

The first great social division of labour, which produced regular exchange, made for the origination of new economic relations among men. This new type of relations ultimately ruled out the relations of collective communal property.

¹ See, Karl Marx, *Capital*, Vol. I, p. 332.

² Frederick Engels, "The Origin of the Family, Private Property and the State", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, pp. 317-318.

The appearance of improved implements of labour and the new methods of work made it possible to abandon collective communal labour in some instances. Thus, with the appearance of the plough in agriculture, the soil no longer had to be tilled collectively. Whereas the obtaining of meat once used to require the efforts of a large group of hunters, this labour became unnecessary with the development of cattle-breeding. The common dwelling lost its erstwhile economic importance and gave way to individual family homes. At the same time, the tribal community began gradually to develop into the primitive neighbourhood (territorial) community.

Marx designated the primitive neighbourhood (territorial) community as agricultural. In contrast to the tribal communities, it consisted not only of kindred but also of unrelated families independently engaged in farming on the land allotted for their use. In the agricultural community, the house and its appendage, the yard (the homestead), were the private possession of the farmer. Meanwhile, the cultivated land remained the property of the community, and was periodically redistributed among its members. Pastures, wastelands and forests also remained common property. But it was the individual family which cultivated the farmland, and also appropriated crop. In this way, in the neighbourhood community private property emerged alongside collective property.

This interlacing of two principles (the dualism of the neighbourhood community) was fraught with deep contradictions. Private property was a negation of collective property, and that is why the commune carried within itself the seeds of its own destruction.

The emergence of parcel labour was the main element in the disintegration of the neighbourhood community. It was the source of private appropriation and the accumulation of property in kind and as treasure. This property of the family was no longer subject to the community's control, and became the object of individual commodity exchange and the enrichment of private property holders. The fragmentation of labour among the families which had set up on their own tended to undermine the common property in cultivated land and then also in the meadows, pastures, forests, and so on. With the passage of time, these also turned into private property.

The ever more complex organisation of production in the neighbourhood community and of the other aspects of its social life also added complexity to the functions of administration. The elders were gradually released from direct participation in the collective production processes as persons performing social functions required by the community. Making use of their privileged status, they began to appropriate a part of the surplus product created in the community, and also a part of the product obtained by means of exchange. Private accumulation was also promoted by wars between the communities. Military commanders and tribal elders enriched themselves by seizing for their personal use the largest share of the war booty, including prisoners of war, who were turned into slaves.

Private property took shape in a situation of sharp struggle against the tradition of collective property and the egalitarian distribution of products, but the relations of production in the primitive society had already become an obstacle in the way of the further growth of the productive forces.

It is not right to regard the origination of private property as some sort of "original sin" among primitive men, as the Utopian socialists, for instance, believed. In reality, private property and proprietary inequality were a natural result of the development of primitive-communal production. Engels says: "Wherever private property evolved it was the result of altered relations of production and exchange, in the interest of increased production and in furtherance of intercourse—hence as a result of economic causes."¹

Survivals of Primitive Relations in the Modern World

Survivals and relicts of the communal system will be found in the world even today. They have assumed the form of the subsistence economy, tribal relations and the traditional power of the tribal chiefs, that is, tribalism.

When the imperialist powers ruled the colonies, they artificially preserved tribal relations and made use of the tribal elite for the most brutal exploitation of the bulk of the population in the dependent countries. With the rise to political independence, the former colonial countries strove at first to rely on the existing communal sector in order to

¹ Frederick Engels, *Anti-Dühring*, p. 199.

transform the economy, but it turned out that that was an unviable approach, which is why there is an increasingly negative attitude to tribalism in these countries.

Countries escaping from colonial oppression could benefit from the USSR's experience in overcoming the historically rooted backwardness of some parts of the country, where the socialist revolution found a patriarchal economy. Soviet experience demonstrates the need for making skilful use of tribal relations for the purpose of transforming them into socialist relations through the development of cooperative property.

The elaboration of the theory of economic development of the primitive-communal system by the classics of Marxism-Leninism is of intransient importance, for it provides the basis for a practical transformation of the survivals and relicts of primitive-communal relations in the modern world.

2. THE SLAVE-HOLDING MODE OF PRODUCTION

In the history of mankind, the slave-holding system was the first social mode of production based on exploitation of man by man and the antagonism of classes.

Emergence of the Slave-Holding Mode of Production

In the period of its disintegration, the tribal community contained within itself, alongside the freemen, some who were not free, namely, prisoners of war, who were made to work in the economy of the community.

The use of unfree men (slaves) as a work force is characteristic of the epoch of patriarchal slavery, a protracted epoch which is to be found in the history of many peoples, including those among which the slave-holding mode of production did not subsequently take shape.

The objective condition for society's transition to the slave-holding mode of production was the attainment of a new stage in the development of the productive forces as a result of the *second great social division of labour, the separation of the handicrafts from agriculture*, that led to an increase in material wealth, which was considerable by the standards of that period. The spread and consolidation of private property, the growth of proprietary inequality and the ap-

appropriation of a part of the surplus product created by the community by persons enjoying a privileged status within it exerted a crucial influence on the development of social relations in that direction.

The separation of the handicrafts from agriculture led to an increase in the making of instruments of labour out of metal. The accumulation of wealth in the hands of a few families provided the necessary material conditions for the systematic and massive use of slave labour, which was becoming the predominant type of labour, ousting the labour of freemen.

Exchange had a big part to play in the spread of private property, in proprietary differentiation and the consolidation of slavery. The development of exchange, now proceeding on the basis of private property, had as its direct outcome the conversion of slaves into commodity. Engels says: "Men had barely started to engage in exchange when they themselves were exchanged."¹

The proprietary inequality which prevailed in society, on the one hand, and the developing trade, especially trade in the prisoners-of-war-turned-slaves, on the other, created extensive possibilities for debt servitude. Not only prisoners of war, but also impoverished members of the tribe who fell into material dependence were turned into slaves.

The slave-holding mode of production marks the start of its history from the point at which the exploitation of slaves became the predominant form of production and when society itself was divided into antagonistic classes: slave-owners and slaves. Apart from these two classes, the slave-holding society also had freemen: urban handicraftsmen and small peasants, traders and usurers.

The establishment of slave-holding exploitation in society led to the emergence of the class state, and to the political domination of the class of slave-owners over the class of slaves.

Productive Forces in the Slave-Holding Society

Agriculture, cattle-breeding and the handicrafts were the chief branches of material production in the slave-holding society. At the initial period of its development, farming tech-

¹ Frederick Engels, "The Origin of the Family, Private Property and the State", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, p. 331.

niques were extremely primitive, and mostly involved the use of wooden or stone implements. Later came metal implements of labour, first made of copper and bronze and then of iron. The most common implements in agriculture were the wooden plough, the harrow, the spade, the sickle, the pick and the pitchfork.

Handicraft production was initially carried on mainly by small and free commodity producers. Much later there arose large-scale handicraft shops, mines and other enterprises belonging to individual slave-owners or to the state, on which vast masses of slaves were exploited. The handicraftsmen gradually learned to make and use in their production the bellows, the potter's wheel, the wheel-barrow, a primitive type of loom, the millstone, the harnessed vehicle, etc.)

The development of the instruments of labour was paralleled by an improvement in men's labour skills. The specialities and trades of stonemason, carpenter, potter, saddler, metalworker and others appeared in the handicrafts. In agriculture, horticulture and viticulture were separated from crop-growing, while horse-breeding and sheep-breeding became separate branches.

Simple cooperation was the prevailing form in which slave labour was organised in all the branches. It differed from the cooperation of labour in the primitive society in that it was organised on a much larger scale and was based on the direct coercion of the labourers, the slaves. Grand testimonials of the cooperation of slave labour have come down to our day in the form of the Egyptian pyramids, the Roman theatres, canals and aqueducts, Greek and Indian temples and palaces, and so on.

Production Relations in the Slave-Holding Society

Land, forcibly seized either from the communities or from ruined free peasants, was an important part of the slave-owners' property. At different stages in the development of slave-holding society in various states, landed property appears in different concrete forms: communal, temple, state and individual private property. Landed property was of substantial importance only because the large landed proprietor had at his disposal subservient labourers, the slaves, who created a surplus product.

In the slave-holding society, a specific feature of the conjunction of labour power with the means of production was that the labouring man, the slave, was not only deprived of any property in the means of production whatsoever, but was himself an object of the slave-owner's property like the material means of production.

The coercion to work involved the overt use of force. There was no question at all of offering the slave any personal material incentives for his labour.

The slave-owner had full disposal of the material goods produced by his slaves. A part of these was returned to the slave as the means of subsistence, as the necessary product ensuring the reproduction of his capacity for work. The other, rather substantial part went to satisfy the diverse requirements of the slave-owner and constituted the surplus product. That is why the slave's working time consisted of necessary and surplus time, and his labour of necessary and surplus labour.

A certain part of the surplus product produced by the slaves was ceded by the slave-owners to other exploiters, those who represented commercial and usury capital, who supplied them with luxuries or money. A sizable share of the surplus product went to the slave-holding state in the form of taxes, for it protected the interests of the ruling class.

The slave-owning economy produced everything for its own use. It was essentially a natural economy. The conversion of some articles into commodities most frequently occurred whenever the need arose to acquire products not produced locally. As a rule, the slave-owners used the surplus product unproductively. A sizable mass of surplus product went into personal consumption and for servicing the members of the ruling class. It was expended on the erection of all kinds of architectural structures (temples, monuments, etc.), and also on religious rituals, games, spectacles, etc. In short, the slave-holding economy was confined to the task of meeting the "requirements of the stomach and the imagination" of the exploiters.

The purpose of slave-owning production was the satisfaction of the requirements of the slave-owners. This was done through the merciless exploitation of the slaves. That is, in effect, the substance of the basic economic law of the slave-holding society.

The Contradictions of the Slave-Owning System

The slave-holding mode of production was a progressive stage in social development, as compared with the primitive-communal system. It ensured a higher stage in the organisation of labour, more extensive and ramified cooperation of labour, and some progress in production, which means a further development of the productive forces.

But the slave-holding mode of production was fraught with deep internal antagonistic contradictions, which doomed it to extinction.

The slave form of labour and the slave-holding form of property, the diametrically opposite condition of the slave and the slave-owner, and the antagonistic contradiction between the slave-owners and the slaves constitute the *basic contradiction* of the slave-holding society, which led to its inevitable downfall.

Alongside the basic contradiction of the slave-holding mode of production there were other related contradictions, namely, those between the large-scale production of the slave-owners and the small-scale economy of the free labourers, the contradiction between mental and manual labour, and that between town and country.

The slave system was a peculiar form of division of labour in the society into manual labour, performed by the slaves, and mental labour, done by the slave-owners. The negative aspect of the antithesis between mental and manual labour consisted in the fact that the slaves were expected to do no more than act as mechanical executors of someone else's will. They had no stake in the results of their labour, and this was a drag on the growth of the productive forces. Everywhere, slave labour was maintained by coercion.

One widely accepted view among bourgeois scholars is that not only did slavery involve coercion, but that the use of force itself constituted the substance of slavery. Of course, slavery and slave labour are inconceivable without coercion, but coercion itself, as a means of forced labour, sprang from a definite level in the development of the productive forces, which means, from purely economic factors. The substance of slavery consists in the appropriation of the product of another's labour through the slave's extra-economic coercion.

In the slave-owning epoch, cities, together with the surrounding countryside, made up isolated slave-holding states,

or poleis, as they did in Ancient Greece. But the cities were the centres of handicraft production, commerce and culture, where there was a relatively rapid growth of the population and of material wealth. The provinces surrounding these cities consisted of a countryside with backward forms of production and with many survivals of the primitive-communal system. The cities exploited the countryside. The relations of exploitation produced the antithesis of town and country, the constant ravage and impoverishment of the countryside, and led to the practice of colonial policies by the slave-holding states.

One of the consequences of the slave-holding mode of production was the ruin and expulsion of the free small producers, the handicraftsmen and the peasants. Being free men with an economic stake in increasing the production of material wealth and directly involved in the process of production, they worked to improve the instruments of labour. But these toilers bore the brunt of the taxes levied for the maintenance of the state, and they provided the bulk of the soldiers for the slave-holding army, and this depleted their economy.

Developing competition led to the mass expropriation of the free small proprietors. The same kind of goods produced on the slave-holding estates were, as a rule, offered at lower prices, for their costs of production were very much lower, because the maintenance of the slave required insignificant outlays.

Other factors which led to the ruin and expulsion of the small proprietors were debt slavery and the outright seizure of peasant lands by slave-owners. The expropriation of the small-scale economy eventually led to the emergence of a great mass of impoverished citizens. Consequently, *slavery, as the predominant form of labour, undermined the productive labour of the free population, thereby slowing down the development of the productive forces in the slave-holding society.*

Role of Commercial and Usury Capital

Historically, the initial forms of capital—commercial and usury capital—first originated and developed on a relatively extensive scale within the entrails of the slave-owning society. The emergence of commercial capital marked the *third*

great social division of labour, the separation of the class of merchants.

The big merchants of the period of antiquity were above all slave-traders who followed in the wake of the invading armies conquering tribes and peoples, but they also traded in other commodities. As a result, the merchants received a sizable share of the surplus labour both of the free labourers and the slaves. The latter's exploitation was intensified. The developing trade had a direct influence on the intensive differentiation of the small-scale economy of the free peasants and handicraftsmen.

The development of usury capital, capital which yields an interest, is connected with the spreading circulation of commodities and money. By supplying the slave-owner with money, the usurer made him convert an ever greater part of his product into commodities and, consequently, to convert his estate into a commodity economy. Both the small-scale peasant and handicraft production, in which the producer was still the owner of the instruments of labour, also made use of enslaving loans. As a rule, usury capital ruined the small producers and turned them into slaves.

An important consequence of the development of commercial capital and usury in the slave-holding society was the conversion of land into a commodity and the emergence of mortgage debt, that is, the mortgaging of land by labouring people going to the wall.

Disintegration and Downfall of the Slave-Ownning System

The limited and transient nature of the slave-holding mode of production was increasingly revealed in the unfolding of its irreconcilable contradictions. Slave-holding production could exist on the basis of predatory exploitation of an ever growing mass of slaves, but the sources from which the slaves were forthcoming began to dry up, and it was becoming obvious that slave labour was an extremely limited form of productive activity. Despite the overtly despotic form of coercion, the slaves' productivity declined. The slave-holding form of exploitation even ceased to ensure simple reproduction. With the decline in the slaves' productivity and the sharpening struggle between the exploited and the exploiters, the slave-holding estates became increasingly unprofitable. The worsening of conditions in agricul-

tural production was inevitably followed by a similar trend in handicraft production based on slave labour.

With the onset of the decline of the slave-holding economy in Rome from A. D. 2nd-3rd centuries, the owners of the latifundia began to fragment their estates and to make these available for cultivation by slaves or free peasants who had lost their own land. The two groups constituted the mass of indentured labourers—the *coloni*—who were bound to work and to give up a sizable share of their product to the landowners. That was the *colonatus system*, the prototype of feudalism, the new system of production.

The slave-holding mode of production reached its highest development in the Roman state, which in the last centuries of its existence presented the most impressive picture of the final disintegration and downfall of the system.

The slave-holding mode of production went down once all its potentialities had been depleted, and its inherent contradictions sharpened to an extreme. The class struggle between the slaves and the slave-owners, between the toilers and the exploiters was a striking expression of the contradictions of the slave-holding society. The significance of the slave uprisings consisted in the fact that they were a manifestation of the protest against the slave relations, that they eroded the slave-holding mode of production and paved the way for a transition to more progressive social relations.

Bourgeois scholars seek to present the slave-holding mode of production as the capitalism of the ancient world, and slavery as accidental. But in so doing they are merely trying to distort the uniformity of historical processes and to set up capitalism as an everlasting phenomenon.

3. THE FEUDAL MODE OF PRODUCTION

The feudal mode of production was a law-governed stage in the progressive development of the human society. The forms of transition to feudalism differed from country to country, being determined by different concrete historical conditions.

With many peoples, elements of feudalism emerged in the entrails of the slave-holding mode of production, subsequently to become the predominant form of production relations. But not all the peoples reached feudalism via the slave-own-

ing system. Some of them went on to feudalism directly from the primitive-communal system, bypassing the slave-owning system. The specific features of this origination of feudalism were clearly seen in Rus and some other Slavic countries.

While the peoples may have advanced to feudalism along different roads, the main content of the process was similar: the rise of the class of feudal lords—the owners of the land—and the class of dependent and exploited peasants, who had no land, and who worked small farms on the land belonging to the feudal lords to which they were tied down and from which they had to give up a share of their produce through extra-economic coercion.

An analysis of the feudal mode of production is contained in the works of the classics of Marxism-Leninism, and is concentrated in Chapter XLVII of Volume III of Marx's *Capital*.

The Productive Forces of Feudalism

Agriculture was of crucial importance in the economy under feudalism. Land was the basic means of production. At the early stages of feudalism, the two-field system prevailed in agriculture, with the fallow-field system of cultivation widespread in some places. The three-field system was established as time went on, while the gradual introduction of the iron plough, the harrow and other metal farming implements helped to raise the level of agricultural techniques. Wind mills and subsequently water mills were a characteristic attribute of the feudal economy and one of its technical achievements.

In the period of feudalism, there was a further development of market-gardening, grass farming, vine-growing and other branches of agriculture. Because of the agrarian character of the economy and the military needs of the feudal lords, ever greater importance was attached to animal breeding, especially horse-breeding.

The improvement of agricultural implements and of the methods of smelting and treatment of metals helped to revive the handicrafts, which had declined during the disintegration of the slave-holding system. The development of the handicrafts led to a deepening of the social division of labour and to the rise of the feudal cities and promoted the development of feudal society's productive forces. However, the changes in hardware and technology were slow. Feudal

production on the whole was based on the manual labour of peasants and artisans. The relations of production in the feudal society corresponded to the character and level of the development of the productive forces.

Feudal Property in Land and Peasant Land-Tenure

The feudal form of property differed from the slave-holding form in that under feudalism not all the means of production were separated from the working people. This gave the peasant an interest in the results of his work and was, for that reason, another stage in social progress.

Land, the basic means of production, did not belong to those who tilled it, but was owned by the lay and clerical feudal lords. The economic substance of the feudal property in the means of production is that the actual producers, the peasants, own no land, that is, the basic means of agricultural production. They received land from the feudal lords not to own but to use, and in return had to perform various feudal services. Consequently, the feudal lords' property in land was the economic basis for their exploitation of the peasants. Formally the peasant could be driven off his allotment at a moment's notice. But that was an exception; the rule was, on the contrary, that the peasant was tied to the land. The peasants' allotments were a means of ensuring the feudal lords with a free labour force. The peasants' land-tenure in the form of allotments was, as a rule, hereditary.

In the European countries, there was a strict legal hierarchy among the feudal lords with respect to the feudal property in land. Indeed, the term "feudalism" itself derives from the feud or fief, the characteristic form of landed property in that period, being a landed benefice held by a vassal in fee from his seigneur, or superior feudal lord, contingent on the performance of definite services.

The social system which is based on landed property in the form of a feud is known as feudalism.

Toilers' Property and Extra-Economic Coercion

Alongside the property of the feudal lords there was also the personal property of the peasants and handicraftsmen, the people who produced the goods. The peasant, for instance,

had in his property farming implements, draught and productive cattle, poultry, fodder, seeds for sowing, farm buildings, a dwelling house, household utensils, etc. The urban artisans also possessed definite means of production. A fundamental feature of the property of the small producers, peasants and handicraftsmen was that it was based on their personal labour and was not exploitive.

The feudal monopoly of land, the key means of production, made the peasants economically dependent on the lord. But feudalism also practised extra-economic coercion, without which feudal production would have been impossible. Lenin says: "If the landlord had not possessed direct power over the person of the peasant, he could not have compelled a man who had a plot of land and ran his own farm to work for him. Hence, 'other than economic pressure', as Marx says in describing this economic regime, was necessary... The form and degree of this coercion may be the most varied, ranging from the peasant's serf status to his lack of rights, in the social estates."¹ The peasants were tied to the land, and the feudal lord frequently also had the right to sell them.

The Natural Economy

The predominance of natural economy was an essential feature of the feudal economy. The needs of the feudal lord, his family and the host of retainers were met by the products supplied by the lord's estate or by the indentured peasants. On the feudal estate, the handicrafts were supplementary to farming. In this way, the feudal lords obtained the diverse products they needed, and solved the problems of reproduction on a natural economy basis. Only a few vital products, like salt, ironware and luxuries, were usually supplied by merchants. The peasants' was a natural economy, and they engaged not only in farming but also in the processing of the raw materials they produced, spinning, weaving, making footwear, various implements, etc.

The natural economy predominated under feudalism because of the relatively low level in the development of the productive forces and the social division of labour.

¹ V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, p. 193.

The Substance and Forms of Feudal Exploitation

In the feudal society, the indentured peasant reproduced his labour power by means of the product which he obtained on his allotment. Consequently, the feudal lord imposed on the peasant himself the concern for the reproduction of labour power.

The surplus product created by the surplus labour of the direct producers was appropriated by the feudal lord in the form of *feudal land rent*, which was the economic form of realisation of the feudal lords' property in land. Feudal land rent included the whole of the surplus product, and frequently also a part of the necessary product created by the peasant. Thus, *the basic economic law of feudalism consists in the production of the surplus product, which is created through the exploitation of indentured peasants and appropriated by the feudal lord in the form of feudal land rent.*

As the feudal mode of production developed, there was also a change in the form of land rent. The initial form of feudal land rent was *labour rent*, known as *corvée*. The peasant produced the necessary product on his farm, and the surplus product on the lord's estate. With the labour rent, the surplus labour is separated from the necessary labour both in time and space. A part of the week—three days and more—the peasant worked on the lord's estate, and the rest of the week, on his own farm. He tilled the lord's land with his own implements and draught animals, and performed building and other works. Quite naturally, the peasant had no incentive to increase labour productivity on the lord's estate. That is why, the peasant's surplus labour assumed the form of coercive labour for the feudal lord and was done under direct supervision by the landed proprietor or his representative, the supervisor. Here, we find direct extra-economic coercion of the peasant. He had an incentive to increase his productivity only on his own farm, because it was the source of his own subsistence.

The second form of feudal rent is *rent in kind* (quit-rent). In most instances, it was combined with the initial form of rent, labour rent.

Under this form of rent, the bulk of the feudal lord's land was allotted to the peasants. Rent in kind differed from labour rent in that the surplus labour was not performed by the peasant as a separate or special kind of labour on his

master's estate, but together with the necessary labour on his own farm. The indentured peasant gave up to the feudal lord a part of his products, either raw or processed, in the form of quit-rent. He did not work under the supervision of the landed proprietor or his representative, but on his own, and disposed of all his working time.

The rent in kind (quit-rent) system of economy enabled the peasants to toil for their own benefit over and above all the feudal services and gave them an interest in the results of their work, and so an incentive to improve their farming.

The third form of feudal rent was *money rent*. This is a converted form of rent in kind. The difference between money rent and rent in kind is that the peasant gave up the surplus product to the feudal lord not in kind but in cash. It was no longer sufficient for the peasant to produce the surplus product on his farm, for he also had to sell it to convert it into cash. Rent in kind was converted into money rent because of the development of the division of labour, the further separation of the handicrafts from agriculture, and the development of commodity-money relations.

Money rent was the final form of feudal land rent. It marked the period of the disintegration of feudalism and the gradual development of the capitalist structure within its womb. Relations between the feudal lord and the indentured peasant were increasingly transformed into contractual and quit-rent and money-rent relations. The status of the indentured peasant was becoming akin to the status of the ordinary tenant. This meant that the peasant was in a position to buy out his quit-rent obligation and to become an independent peasant with full ownership of the land he cultivated. Land was beginning to enter into commerce and was being bought and sold. Plots of land could now be bought not only by those who had once been quit-rent peasants, but also by urban dwellers. The development of commodity-money relations deepened the differentiation of the peasantry: alongside the independent peasants who had bought their way to freedom were others—ruined peasants—who had to work for a wage.

The transition from one form of rent to another, being a reflection of the growth of the productive forces, proceeded in clashes and struggles between the peasants and the feudal lords, so deepening the antagonistic character of the production relations in the feudal society.

Handicrafts and Commerce

The system of production relations under feudalism includes not only the relations between the peasants and the feudal lords, but also the economic relations taking shape in the process of *handicraft production* in the towns.

There, handicraft production had a peculiar structure. The artisans were united in guilds. In order to adapt themselves to the requirements of a limited local market, and also to prevent competition between master craftsmen and their proprietary differentiation, the guild stringently regulated the technology and volume of production. The guild structure of the handicrafts, as a rule, made possible to effect only simple reproduction, that is, production on the same scale. Handicraft production was manual and small. The master craftsman's higher status with respect to the apprentices was determined not so much by property in the means of production, as by his professional skills. There was virtually no division of labour in the workshop. In those conditions, it took a long time to become a master craftsman, and this put a high value on craftsmanship.

The purpose of the master craftsman's economic activity was the attainment of a standard of existence which was "appropriate" to the status established by his guild rather than the making of money and enrichment. At the early stage in the development of the urban handicrafts, relations between the master craftsman and his subordinates were mainly patriarchal, although the apprentices were already being exploited. With the development of commodity-money relations, the gap between the proprietary and production status of the guild master craftsman, on the one hand, and the apprentices, on the other, tended to grow: the former grew rich through the exploitation of the latter. The contradictions between the master craftsman and the apprentices developed into irreconcilable and antagonistic ones.

In the feudal epoch, the towns were the centres not only of the handicrafts but also of *commerce*. Merchants and usurers made up the richest part of the urban population. The merchants were organised in merchant guilds.

Merchants' or commercial capital under feudalism operated as the medium in the exchange of the surplus product, appropriated by the feudal lords, for luxuries and other rare

consumer articles, and also in the exchange of the products of feudal peasants and the guild handicraftsmen.

The deepening of the social division of labour and the growth of the productive forces gradually transferred the leading role in the development of the productive forces from the agricultural countryside to the handicraft and commercial cities.

A specific feature of the relations taking shape between town and countryside under feudalism was that, politically, the countryside dominated the town, because the state power was wielded by the landowners, while the town engaged in the economic exploitation of the countryside. Marx says: "If the countryside exploits the town politically in the Middle Ages, wherever feudalism has not been broken down by exceptional urban development—as in Italy, the town, on the other hand, exploits the land economically everywhere and without exception, through its monopoly prices, its system of taxation, its guild organisation, its direct commercial fraudulence and its usury."¹

Further Development of the Productive Forces under Feudalism

The advantages of the economic system of feudalism over the slave-owning system gave rise to new and higher level productive forces. In agriculture, extensive use was made of iron implements of labour. The development of farming implements raised the agro-technical level of agriculture. New branches of cropping emerged. The importance of animal husbandry increased.

Handicraft production also underwent substantial changes.

The improvement of smelting and the treatment of metals was of primary importance in perfecting the instruments of labour. The simplest wire-drawing and rolling mills for the production of wire and sheet iron were made. Lathes, grinders and screw-cutters, even if highly primitive ones, were already being used in the 15th century. The first drilling tools, driven by water-wheels, were developed. The over-shot water-wheel was used as a source of energy in mining and sawing, and in paper and gun-powder making. Building was being developed.

¹ Karl Marx, *Capital*, Vol. III, Progress Publishers, Moscow, 1971, p. 801.

Some technical changes also occurred in textile production. There was ever wider use of looms, and in the 14th and 15th centuries came the switch to horizontal looms. The mechanical drawboy loom was invented in 1600. At the end of the 16th century, the spinning wheel came into wide use. Warping drums and fulling mills were used in cloth-making. The important technical advances made in the feudal epoch are evidenced by the invention of the clock, paper, and printing. The invention of the mariner's compass helped further to develop shipping and navigation. There appeared a new type of sea-going ship, the caravella, which was fast and manoeuvrable.

Progress in production techniques and the rising standard of professional skills among the working people testified to a growth of the productive forces in the feudal society. But the development of production was also hemmed in by the narrow framework of the feudal relations of production. The discrepancy between the growing productive forces and the backward relations of production objectively led to a sharpening of all the contradictions of feudalism: those between the peasants and the feudal lords; between the working people (peasants and handicraftsmen) and the bourgeoisie originating within the entrails of feudalism, on the one hand, and the feudal lords and the feudal system, on the other; between town and country; between mental and manual labour; and between the subsistence character of feudal production and the growing commodity economy.

Disintegration of Feudalism

The part of the products turned out by the handicraftsmen and peasants for the purposes of exchange constituted the production of commodities. The simple commodity economy of the handicraftsmen and peasants provided, within the system of feudalism, the basis for the growth of capitalist relations of production. The development of the productive forces in agricultural and handicraft production, the deepening of the social division of labour between town and country intensified the market ties between the individual economic units and led to the formation of local markets, while the lively economic ties between the economic regions and towns led to the creation of a national market.

Various commodity producers spent different quantities

of time for making the same kind of commodities. Those whose labour inputs were higher, because of worse conditions of production, recouped these in the sale of their commodities only partially and so eventually went to the wall. The others were enriched because of the better conditions of their labour and the appropriation of the product of the labour of others. The continued development of commodity-money relations accelerated the economic stratification of the commodity producers: on the one hand, there was a mass of people deprived of the means of production and the means of subsistence, and on the other, a handful of rich men.

The expansion of the market beyond the national frontiers was highly important for the origination of the capitalist economic order. A tremendous demand for goods came from the emerging world market. Meanwhile, the guild handicrafts turned these out in limited quantities. The guild system, with its isolation, routine and stringent regulation of techniques and the volume of production acted as a constraint on society's economic development. That being so, some master craftsmen began, in defiance of the guild charter, to expand production, and to increase the number of workers in their workshops and the length of the working day. Some craftsmen transferred production to the countryside, where there was no guild control, and handed out orders to their apprentices to work on at home. The monopoly status of the guild was being undermined. The richest master craftsmen became capitalists by exploiting wage workers, and the indigent mass of apprentices became proletarians deprived of any means of production and were forced to sell their labour power as a commodity.

Commercial capital, which grew together with the development of commodity-money relations, had a big part to play in the origination of capitalist economic forms. Its role was of a dual nature. On the one hand, the merchant could subordinate the small commodity producer (handicraftsman or peasant) and make him work for his profit. In that case, he did not introduce any technical or organisational innovations into production, but merely converted the small commodity producer into an actual wage worker, while leaving him outwardly independent. On the other hand, the commodity producer himself now and again became an industrial capitalist and merchant.

The disintegration of feudal and the origination of cap-

italist relations proceeded both in town and country. Engels says: "Long before the walls of the knightly castles were breached by the shot of the new cannon, their foundations were undermined by money. In fact, gun-powder was, one could say, merely the bailiff of money."¹

The feudal lord's economy was being increasingly drawn into commerce and fell under the power of money. While the amount of corvée and quit-rent was limited by the requirements of the feudal lord and his retainers, the money form of rent went to increase the peasants' services. They were now constantly in need of money, and their exploitation was further increased by the merchants through non-equiv alent exchange and by the usurers through enslaving loans. The development of commodity-money relations accelerated the differentiation and stratification of the peasantry into social groups. Whereas a majority of the peasants fell into poverty, were forced to do back-breaking toil and were ruined, there was a growth in the number of village kulaks, the rich peasants who bought their freedom from the feudal lord and, in their turn, became exploiters of the poor peasants.

The origination of the capitalist mode of production was accelerated by the most brutal use of force on the part of the bourgeoisified landlords, the urban bourgeoisie and the state power. Force, says Marx, is the midwife of every old society pregnant with a new one.

So-called Primitive Accumulation of Capital

The forcible separation of the direct producers from the means of production and the concentration of the latter in the hands of a few, the conversion of these means of production into capital, such is the content of the primitive accumulation of capital. It is so called because it was a process creating the necessary conditions for the origination of the capitalist mode of production. A comprehensive analysis of the process will be found in Chapter XXIV of Volume I of Marx's *Capital*.

The process of primitive accumulation first began in Britain in the final third of the 15th century and went on until the end of the 18th century. The flourishing of cloth

¹ F. Engels, "Über der Verfall des Feudalismus und das Aufkommen der Bourgeoisie", in: Karl Marx, Friedrich Engels, *Werke*, Vol. 21, Dietz Verlag, Berlin, 1962, p. 394.

manufactories caused the development of pasture sheep-breeding. Accordingly, the landlords drove the peasants off their lands and "enclosed" these. This overt plunder of the peasants was sanctioned by the state which passed "enclosure acts" for the benefit of the rising bourgeoisie. The forcible expropriation of peasant lands by the bourgeoisified landlords led to the emergence of a class of people who were free from feudal dependence but who were deprived of the means of production and the means of subsistence. The extensive expropriation of the peasantry in Britain was also connected with the confiscation of monastery lands and the expulsion of peasants from these. The culminating stage in the forcible creation of a class of proletarians was the so-called "clearing of the estates" of the farm labourers who lived on their territory and who were now deprived of hearth and home. This was done as early as the beginning of the 19th century. The robbed and ruined masses of people had nothing but their own labour power. Such is one aspect of the primitive accumulation of capital.

The other is the concentration in the hands of a few of vast fortunes in the form of money, which they used to set up capitalist enterprises. Here, an important part belonged to the money accumulated by merchants, usurers and artisans grown rich. An important source for the accumulation of wealth by the emergent bourgeoisie was its predatory plunder of the colonial peoples, non-equivalent trade, piracy and the highly lucrative trade in Negro slaves. The formation of fortunes was accelerated by the policy of protectionism and other methods.

With some specific features, the primitive accumulation of capital was a process that was also under way in other countries, including Russia.

The transition from feudalism to capitalism was effected by means of bourgeois revolutions, in which the peasants and artisans were the chief revolutionary force. The bourgeois revolutions led to the collapse of the feudal system and the domination of capitalism.

Survivals of Feudalism Today

Even today, survivals of feudalism will be found in many countries of the capitalist world, above all in agriculture. They are especially widespread in the economically less

developed and dependent countries of Asia, Africa, and Latin America. These survivals of feudal relations hamper the developing countries' progress and the struggle for national revival and economic independence. Because feudal oppression in these countries is closely interwoven with imperialist oppression, the peoples' struggle in the economically less developed countries against the feudal order tends to merge with the struggle against imperialism, and for an end to exploitation.

Bourgeois ideologists distort the substance of feudalism. They insist on regarding some of its superficial and inessential features as the characteristic ones, like the nominal holding of land, the subordination of people to their seigneur instead of the king, the hierarchy of vassals and the political fragmentation. But they deliberately discover in the Middle Ages so many "embryos" and "beginnings" of capitalism, that feudalism begins to look like capitalism. That is yet another futile attempt to prove that capitalism is everlasting. In actual fact, capitalism began to germinate in Europe only in the period of the disintegration of feudalism, beginning from the late 15th century and early 16th century (only with a few exceptions in the 14th and 15th centuries) in the form of the capitalist cottage industry, capitalist cooperation and manufacture.

PART ONE
THE CAPITALIST MODE
OF PRODUCTION

Section 1

THE GENERAL PRINCIPLES
OF THE CAPITALIST MODE OF PRODUCTION

Capitalism is a socio-economic system based on the further development of private property under a new level of development of the productive forces, which is higher than the one under feudalism. The bulk of the people under capitalism are deprived of the means of production and are exploited as wage workers by those who own the means of production. The truly scientific explanation of the substance of capitalist relations was given by Marx in his *Capital*. Lenin described *Capital* as the greatest politico-economic work and also as the chief and basic work containing an exposition of scientific socialism. Engels says this about *Capital*: "As long as there have been capitalists and workers on earth no book has appeared which is of as much importance for the workers as the one before us."¹

Marx set himself the task of understanding the law of motion, the basic law governing the development of the capitalist mode of production. By means of the method of materialist dialectics, Marx gave scientific proof that capitalism was historically transient, that it was bound to disappear, to be replaced by the communist mode of production resulting from a proletarian revolution. He also established the epochal role of the working class as the grave-digger of capitalism and the creator of a new and more progressive mode of production.

Marx's *Capital* consists of four volumes.² Volume I contains an analysis of capitalist production, Volume II, cap-

¹ Frederick Engels, "Marx's *Capital*", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 2, p. 146.

² Volume I was first published in German in 1867, and volumes II and III were prepared for the press after Marx's death by Engels, respectively, in 1885 and 1894. The material of Volume IV was first published scientifically in the USSR in 1954-1961.

italist circulation, and Volume III, production and circulation as a unity; Volume IV deals with the history of the origination of the theory of surplus value.

In Volume I, Marx begins his analysis of the economic relations of capitalism with the commodity, because in the capitalist society the production of products as commodities is predominant. Having discovered the dual nature of labour which produces commodities and the substance of the value of commodities, Marx goes on to an examination of the form of value and money. He goes on to show how, at a definite stage in historical development, money was converted into capital. Marx discovered surplus value and so showed the source from which all the exploiter classes derived their incomes under capitalism. For the first time in the history of economic science, he laid bare the substance of capitalist exploitation and showed that with the development of the productive forces of capitalism the exploitation of the working people was bound to be intensified.

Marx's analysis of the accumulation of capital was new and highly important. He showed the actual causes behind the growth of unemployment in the midst of the capitalist's growing wealth. Volume I ends with an analysis of the historical trend in capitalist accumulation, and scientific proof that the socialist revolution is inevitable. Lenin showed that Marx had given a model of scientific analysis of socio-economic formation.

Capital is a powerful weapon of the working class in the fight against the anti-communist ideology. Lenin described it as a specimen of inexorable objectivity in scientific research, adding that "rarely will you find in a scientific work so much 'feeling', so much heated and passionate polemical attacks on representatives of backward views, on representatives of the social classes which, in the author's convinced opinion, are hampering social development".¹

It was Lenin who analysed the highest and final stage in the development of capitalism—imperialism—in his work entitled *Imperialism, the Highest Stage of Capitalism*, and other works. The specific features of the present stage in the development of capitalism are described in the documents of the Marxist-Leninist parties.

¹ V. I. Lenin, "The Heritage We Renounce", *Collected Works*, Vol. 2, Progress Publishers, Moscow, 1963, p. 531.

Chapter three

COMMODITY PRODUCTION, COMMODITIES AND MONEY

1. THE UNIVERSAL NATURE OF COMMODITY PRODUCTION UNDER CAPITALISM

By commodity production, says Lenin, is meant an economic system "in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) in the market".¹

Under capitalism, the production of commodities has become universal. It is not only the thing produced by hand, but also man's own labour power that becomes a commodity. The purchase and sale of labour power was the starting point for the process which converted private property commodity production into the dominant form of economic relations.

Capitalist commodity production differs essentially from commodity production in precapitalist formations. Typical for the latter was simple commodity production. The simple commodity producers—small owners of property—apply their personally owned means of production. They own the product of their labour. Production is effected by means of personal labour for the purpose of satisfying the producer's personal requirements. At the capitalist enterprise, the means of production belong to the capitalists, while the workers are deprived of the means of production. The capitalist exploits wage labour and gratuitously appropriates a sizable part of the product of the labour of others. The capitalist uses the joint work of many workers under his command for the purpose of obtaining profit.

Consequently, there are essential distinctions between simple and capitalist commodity production. But they are

¹ V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, Progress Publishers, Moscow, 1960, p. 93.

intrinsically of the same kind, because both are based on private property in the means of production. With the domination of private property, simple commodity production constantly generates capitalist relations. The problems considered in this chapter were analysed by Marx in Chapters I-III of Volume I of his *Capital*.

2. THE COMMODITY AND ITS PROPERTIES

The commodity is a product of labour designed for exchange through purchase and sale. The commodity has two properties: first, it satisfies some human requirement, and second, it is a thing capable of being exchanged for another. In other words, the commodity has use value and exchange value.

The Two Factors of Commodities

The use value of a thing consists in the fact that it satisfies some human need either as an article of personal consumption, or as a means of production. The material wealth of a society consists of use values. Under commodity production, the use value does not satisfy the producer's own needs, but of those who buy the given commodity. So, the production of commodities is a process which must lead to the creation of social use value. Because commodities have the property of being exchanged for other commodities, the historical peculiarity of the use value of the commodity consists in the fact that it is the vehicle of exchange value.

Exchange value is the capacity of a commodity of being exchanged in a definite proportion for other commodities. Although in individual acts of exchange these proportions may be accidental, on the whole they spring from definite uniformities. The labour theory of value sums up the experience in the development of exchange over the centuries.

Commodities exchanged for each other as use values differ from each other, for otherwise the exchange would be meaningless. The common and objective property of commodities which makes it possible to regard them as equivalents is that social labour has been expended on their production. As use values, commodities are different, but as the embodiment of social labour they are homogeneous.

The social labour embodied in a commodity constitutes the value of that commodity. Value is the labour condensed in the commodity. The whole of social life is based on labour. In exchanging commodities, commodity producers must reckon with this objective fact. When exchanging freely reproducible commodities, they must, in their own interests, proceed from their labour equivalence, from their value. The exchange value of commodities, that is, the proportion in which one commodity is exchanged for another, is determined by their value. Exchange value is the form of value, its expression in the act of exchange.

Only a thing that is a use value can have value. Not all useful things, not each use value, however, has value: there is no value in things to which no human labour has been applied (for instance, uncultivated land, the water of rivers and seas, wild plants, etc.). But the outlay of labour does not of itself turn a product into a value. A product of labour has value only in definite social conditions, in the presence of commodity production. Value is a historical category.

The Dual Character of Labour Embodied in Commodities. Private and Social Labour

The commodity producer's labour has a dual character. On the one hand, it is useful labour creating the things that satisfy men's various requirements. Some kind of useful labour is an everlasting and natural necessity in human existence, regardless of social conditions. On the other hand, the labour of each commodity producer is a particle of the whole of social labour, an expenditure of human labour power generally, irrespective of its concrete forms. The former type of labour is called *concrete labour*, and the latter, *abstract labour*. Concrete labour is that which is expended in a definite useful form and creates a definite use value (coal, metal, corn, etc.). The specific features of the concrete labour of each commodity producer inevitably spring from the distinctions in the objects of labour, the instruments of labour, the character of production operations, and the end result of labour. Use value results from the conjunction of some nature's substance and labour.

But whatever the type of concrete labour we consider, it is an expenditure of human energy (muscles, brain, nerves), a particle of the aggregate outlays of general human social

labour. The social labour of commodity producers, labour generally, irrespective of its concrete form, is abstract labour. It is a characteristic feature of commodity production. It expresses the relations among the commodity producers and is, for that reason, a historical category. Even in the natural economy, there was something common to the labour of all men, but this common feature of labour was manifested directly, and not through an equation of things in the process of exchange.

When private property led to the separation of the producers, each of them began to engage in a definite type of labour as a private pursuit. Labour ceased to be immediate social labour, and its social nature was obscured. The exchange of commodities alone establishes the fact that the labour of a given producer is required by society, that it is a particle of social labour. The expenditure of social labour by the commodity producers under private property is calculated spontaneously, through exchange.

So, abstract labour is general human labour, whose social character is expressed in the process of commodity exchange: it is labour that creates value.

Value is abstract labour crystallised in a commodity. Abstract labour expresses definite relations of production, the relations among commodity producers. This means that *value is not the property of a thing either, but an expression of the relations of production among commodity producers.*

It was Marx who discovered the dual character of labour producing commodities, and this discovery was of exceptional importance for the scientific elaboration of the political economy of capitalism, because it helped to formulate a truly scientific labour theory of value, to show the contradictions of the commodity economy, and then the contradictions of capitalist production, the laws governing its development, and its inevitable decline.

Commodity producers are divided by private property, but the social division of labour invests labour with a social character and connects the independent private commodity producers with each other. The result is the emergence and development of a deep-seated *contradiction between private and social labour.* Private property inevitably brings about a haphazard development of commodity production, and engenders competition among commodity producers. The social character of these producers' labour and their depen-

dence on each other is manifested only on the market, in the spontaneous exchange of commodities and in market competition.

The contradiction between private and social labour is antagonistic and is the basic contradiction of simple commodity production. It is expressed in the fact that in the process of competition, some commodity producers are enriched, while others are ruined and perish. Under the capitalist mode of production, this contradiction tends to sharpen and develop into a contradiction between the social character of production and the private capitalist form of appropriation. This will be considered below.

The Magnitude of the Value of a Commodity

The magnitude of the value of a commodity is determined by the quantity of labour that is socially necessary for its production, and it is measured by labour time. Different commodity producers expend different quantities of time for the making of the same type of commodity, and as a result of this commodities have different individual values. But because value embodies social labour, the magnitude of the social value cannot be determined by the individual expenditure of labour. The social value of a commodity is determined by the socially necessary labour time required for its production. Socially necessary labour time is the time expended on the making of a commodity under the given socially normal conditions of production with an average level of skill and intensity of labour in the given society.

The magnitude of the value of commodities tends to change depending on *labour productivity, which is determined by the quantity of products turned out in a unit of labour time.*

Labour productivity depends on a number of factors, above all, on the level in the development of the instruments of labour and their efficiency. Of tremendous importance is the level of the worker's skill, the level in the development of science and technology, and the application of their achievements in production, the extent to which production is concentrated, and natural conditions.

Labour productivity refers to concrete labour because it is expressed in greater or lesser quantities of the use value turned out in a unit of labour time. Concrete labour, says Marx, may be a richer or scarcer source of product. But ab-

stract labour (of the same complexity and intensity) turns out one and the same value in a unit of time. That is why the magnitude of the value of a commodity tends to change in direct proportion to the labour expended on it, and in inverse proportion to its productive power.

Labour may be more intensive or less. *By intensity of labour is meant the expenditure of labour power per unit of time.* In an equal period of time, more intense labour creates a greater value than less intense labour.

Labour producing commodities is called *simple labour*, if it does not require special training, and *complex labour*, if it does. Simple labour is unskilled, and complex labour is skilled. Every complex labour is, in effect, multiplied simple labour.

3. THE FORM OF VALUE. THE EMERGENCE OF MONEY

Value is the social property of a thing. It is impossible directly to discover value in a commodity by means of some physical or chemical analysis. It is manifested only in the relations among commodity producers, when a given commodity is equated to other commodities in the process of exchange, that is, through exchange value.

Development of the Form of Value

The most elementary form of value is the *simple* (or accidental) form of value, and it is an expression of the value of one commodity in terms of another. For instance:

$$1 \text{ axe} = 1 \text{ sheep.}$$

In this equation, one commodity (the axe) expresses its value in terms of another commodity (the sheep). The latter commodity (the sheep) is an expression of the value of the former commodity (the axe), and serves as the material for expressing its value. The commodity expressing its value in another commodity is in the *relative* form of value. The commodity which expresses the value of another commodity is in the *equivalent* form of value, is its equivalent.

The simple (or accidental) form of value relates to the time in which exchange originated, a time in which exchange was accidental. At that stage, the role of equivalent was

not fixed in some single commodity and was performed by different commodities.

The development of the social division of labour and the continued growth of production made for the development of exchange. Ever greater quantities of product were involved in the process of exchange. It became more regular. As a result of the first great social division of labour (the separation of cattle-breeding from agriculture), cattle was no longer accidentally, but systematically exchanged for other commodities. The other commodities (corn, axes, etc.) came to be related to cattle not as accidental, but as special equivalents. Each of them came to be one of many equivalents to which cattle was equated. Exchange assumed the following form:

1 sheep = 4 sacks of corn, or = 1 axe, or = etc.

This form of exchange, expressive of a new stage in its development, is known as the *total* or *expanded* form of value. It characterises the expansion and consolidation of production ties. In these conditions, the exactness of the quantitative proportions between commodities tends to grow in importance, because exchange comes to play an ever greater part in the recoupment of the labour expended on their production.

The further growth of commodity production and exchange and the deepening of the social division of labour result in the singling out from the commodity world of one commodity which becomes the equivalent for all the other commodities, the *universal equivalent*. The expanded form of value is gradually transformed into the universal form of value:

$$\left. \begin{array}{l} 4 \text{ sacks of corn} = \\ 1 \text{ axe} = \\ \text{etc.} \end{array} \right\} 1 \text{ sheep.}$$

At the preceding stages in the development of exchange, any commodity could perform the function of equivalent. Now, the value of all the commodities is expressed only in one commodity, which operates as the immediate embodiment of social labour. Any commodity can be obtained for the commodity which plays the role of universal equivalent. The need for a universal equivalent is due to the fact that, at a definite stage in the development of the productive

forces, exchange became regular and acquired vital importance.

The universal equivalent appeared as a result of the spontaneous process in the development of exchange. The role of universal equivalent fell to that product which operated as a commodity par excellence, that is, a commodity that was produced mainly for exchange. The function of universal equivalent in the various concrete conditions of production was performed by different commodities: cattle, the skins of wild animals, fish, shells, etc. When exchange expanded and spilled over the limits of the local market, there arose the need for fixing this function in one commodity, and this commodity became money. Consequently, *money is the consummate form of universal equivalent, a special commodity whose use value is closely knit with the equivalent form of value.*

As production developed, the role of money was gradually fastened on gold.

This is not due to any supernatural properties that gold may have, but to the fact that the properties of precious metals generally (homogeneity, divisibility, durability) make them most suitable for the social role of money, while gold, in addition, contains a large quantity of social labour in a small unit of weight. Gold assumed the function of money later than other metals, because it required a large quantity of labour, and society had to become sufficiently rich to use it as money.

4. THE SUBSTANCE OF MONEY AND ITS FUNCTION

The Substance and Role of Money

Money is a commodity which has a special role to play as universal equivalent. Only through exchange for money is it possible to establish that commodities are, in effect, the products of social labour. In other words, money is that medium in the market-place which helps to take stock of social labour in terms of quantity and quality. Under private property, this stock-taking is effected spontaneously, behind the backs of the commodity producers.

Bourgeois economists regard money as a technical means of exchange. But the fact is that money is an expression of

definite social relations among men. The circulation of money is not a technical but a social process.

Under capitalism, money becomes the universal instrument of capitalist exploitation, the means for the purchase of wage labour and for the gratuitous appropriation of a part of the labour of others. But in itself money is not capital. It becomes capital only when it is used for exploitation of man by man.

*The Functions of Money.
Money as a Standard of Value*

The substance of money is expressed in the functions which it performs in the process of commodity production and circulation.

The first function of money is to operate as a *standard of value*. The value of various commodities is commensurable, which means that it can be compared in terms of quantity. The contradictions of the social labour embodied in a commodity make it impossible to express value directly in terms of labour time. It is expressed in terms of money. But it is not money that makes commodities commensurable, but the fact that all of them, including gold, are the product of social labour. The value of commodities is measured in terms of gold precisely because social labour has been expended both on the commodities and on gold.

In order to express, or measure, the value of a commodity there is no need to have ready money—gold. Money performs the function of standard of value as ideal money, as a mental image. *The value of a commodity expressed in terms of money is the price of that commodity*. The price of a commodity signifies the equivalence of the value of a definite mass of gold and the value of a definite quantity of the commodity. The price corresponds to the value of the commodity only when supply coincides with demand. Otherwise, price inevitably departs from value. Consequently, the prices of commodities depend on the value of these commodities, on the value of money (gold), and on the correlation between supply and demand.

The prices of commodities are expressed in a definite quantity of the money commodity, gold. The quantity, the mass of gold is measured by its weight. A definite weight quantity of gold is taken as the unit for the measurement of its mass. This unit, established by the state as the unit

of money, is called the *standard of price*. This serves for measuring the mass of gold. All the prices of commodities are expressed as a definite quantity of money units or, in other words, as a definite quantity of the weight units of gold.

Money as the Medium of Circulation

In the circulation of commodities, money must be readily available because the ideal prices of commodities must be converted into real money. In that event, money performs the function of the *medium of circulation*. The process of circulation can be expressed by the formula $C-M-C$, consisting of two acts: $C-M$ and $M-C$ (the conversion of commodity into money and of money into commodity). The conversion of commodity into money signifies social recognition of the fact that the labour expended by the commodity producer on the making of the commodity is required by society.

Commodity-money circulation contains within itself the possibility of the acts of purchase and sale of commodities being disrupted, and the possibility of economic crises of overproduction.

As a medium of circulation, money initially appeared in the form of ingots. But the exchange of commodities for ingots produced some difficulties, and there arose the need for an authoritative authentication of the content of metal in an ingot. It is the coin that is the established form of ingot containing a known quantity of metal in terms of weight and purity, and this is certified by a special state stamp.

Money's performance of the function of the medium of circulation is fleeting; having serviced one commodity transaction, it then goes on to service the next, and so on. The fleeting nature of this function makes it possible to replace full-value money with substitutes of inferior value (for instance, copper money), or paper tokens of value.

Money as a Means of Hoarding.

Money as a Means of Payment

For various reasons, the process of circulation may be interrupted, as a result of which money ceases to circulate

and becomes immovable. In that event, it begins to perform a new function, that of a *means for the formation of hoards*.

As a hoard, money represents wealth generally. This function can be performed not only by gold coins, but also by the money material in its immediate natural form: gold bullions, articles made of gold, etc.

Money acts as a *means of payment* (unit of account) when payment for the commodities sold is postponed. The buyers pay money for the commodities only when the date of payment falls due. Consequently, in that event money enters into currency only after a definite lapse of time. In this way, the function of the means of payment reflects the further development of production and commercial ties between men.

The functioning of money as a means of payment is not confined to the sphere of commodity circulation. Money also performs that function in the loan of money, the payment of rent, and the payment of taxes.

The sphere of this function is expanded by the development of credit and the credit system. In large transactions under developed capitalism, money operates mainly as the means of payment. The development of credit relations creates the possibility of cancelling debts by means of mutual write-offs of promissory notes without the involvement of ready money. Under private property in the means of production, this system of settlements contains within itself a contradiction which is rooted in the very nature of relations between private commodity producers. Where a debtor is unable to sell his commodity in due time or recoups a lesser amount in its sale than he had anticipated in consequence of a drop in prices, he finds himself unable to pay his debt. This entails non-payment not only by the given commodity producer, but also by his creditor. In a chain reaction, this will affect the interests of a large number of commodity producers who have sold their goods on credit.

This contradiction is expressed most acutely during economic crises of overproduction. Failure to pay on a number of transactions tends to undermine the confidence of commodity producers in each other, and there begins a rush for ready money. It turns out that it is gold, the real money commodity and not promissory notes, that is the real money in the capitalist economy.

World Money

Within a given country, tokens of value may be substituted for the money commodity in the fulfilment of some of its functions. International payments require the functioning of money in its natural form, in the form of ingots of the precious metal. *Gold is the world money.* Gold operates on the world market as the universal means of payment and the universal instrument of purchase. There it functions as an absolute social materialisation of wealth (when capital is transferred from one country to another).

With the development of world trade and credit relations, a country's currency which has the greatest weight in that trade and which extends sizable credits to other countries obtains some advantages, because the settlements between countries are effected in that currency.

Besides, the development of world economic ties leads to the emergence of various international means of settlement as substitutes for gold. But to the extent that world money must, by its very nature, appear in the direct form of gold, the means of settlement representing world money must be freely convertible into gold. Whenever they are not, there is a world payments crisis.

The Quantity of Money Necessary for Circulation

The circulation of commodities determines the currency of money. That is why the quantity of money required for circulation depends above all on the sum-total of the prices of commodities. Furthermore, there is a need to take account of the velocity of currency. It follows that the *quantity of money required for circulation is equal to the sum-total of the prices of commodities divided by the velocity of currency* (of one and the same monetary unit: rubles, marks, dollars, etc.). As a result, the quantity of money required for circulation (Q) is determined by three factors: 1) the quantity of commodities (C); their prices (P); and 3) the velocity of currency (VC). This equation may be expressed by the following formula:

$$Q = \frac{CP}{VC}$$

The purchase and sale of commodities, the speed of the process, together with the velocity of currency, depend on

the conditions of production, the development of transport, the state of economic ties, the development of the credit system, etc.

In view of the fact that money is not only the means of circulation but also the means of payment, the full formula for the law of the currency of money assumes the following form:

$$Q = \frac{CP - C_r + P_a - PW}{VC}$$

The quantity of money in circulation is equal to the sum-total of the prices of commodities up for sale (CP) minus the sum-total of the prices of commodities sold on credit (C_r) plus payments fallen due (P_a) minus the amount of mutual payments write-offs (PW) and all of this divided by the number of circuits of the given currency units (VC).

One of the most popular bourgeois theories of money is the *quantity theory*, according to which the value of money is determined by its quantity in circulation. It claims that commodities enter into circulation without price, and money without value, and that price fully takes shape only in the process of circulation. The mass of money is simply exchanged for the mass of commodities. But in fact, money, the money commodity, like all other commodities, has a value of its own, and this is formed even before the process of circulation, in the process of production. That is why it is not the prices of commodities that depend on the quantity of money, but the quantity of full-value money in currency that depends on the value of the money commodity and on the sum-total of prices expressing the total value of the given commodities.

Paper Money

The development of currency brings out the possibility of substituting for money tokens which have no value of their own. Even gold coins are worn out in the process of circulation and, in effect, become an inferior token, a symbol of their erstwhile value. Hence the appearance of inferior coins as substitutes for gold (silver, copper, nickel, etc. coins) and then also of paper money. Like inferior coins, paper money substitutes for gold, the money commodity, in circulation. However, the function of the standard of value is still performed by gold even with the currency of paper

money, because the latter has no value of its own and is merely a token of the gold.

Paper money is introduced into currency by the state, which establishes its compulsory rate of exchange. But the real value represented by paper money depends on the objective law of the currency of money. When paper money is issued in quantities necessary for the currency of gold money, it circulates according to the value of the gold coins for which it is a substitute. Whenever the quantity of paper money ceases to correspond to the requirements of commodity circulation in gold money, the quantity of gold represented by each paper money unit will deviate from its denominated value. If the quantity of money issued is, say, double that which is necessary for the currency of the corresponding gold coins, each paper money unit will represent only one-half of the value of the corresponding gold unit. As a result, the sum-total of the prices of commodities will double.

The excessive issue of paper money and its depreciation is used in the capitalist world as a means of increasing the profits of the bourgeoisie and of depressing the real incomes of the working people, so as to get them to shoulder the burden of budget deficits caused by the aggressive policy of imperialist states.

The bourgeois *nominalist theory of money* frequently seeks to justify the excessive issue of paper money by presenting money as a nominal unit of account which has no material content. It says that money is no more than a token which has no intrinsic value, a mere unit of account, and that money is the product of state power which determines its value. But this theory cannot explain how the value of commodities is measured and compared by means of objects which have no value of their own. In fact, paper money is the representative of the money commodity which has value, and that is precisely what is expressed when paper money depreciates as a result of its excessive issue.

5. THE LAW OF VALUE

The law of value is an objective economic law of commodity production. When products are produced as commodities, expenditures of social labour inevitably assume the form of value and the exchange of commodities takes place in accord-

ance with the labour time socially necessary for their production, that is, in accordance with their social value. When commodities are exchanged at social value, the commodity producers whose individual expenditures of labour in the production of the given commodity turn out to be smaller than the socially necessary ones, gain, while those whose expenditures are larger than the socially necessary ones, lose. The law of value forces commodity producers to see to it that inputs going into the production of commodities should not be in excess of those socially necessary.

Under private property, the law of value acts as a spontaneous regulator of commodity production. The price coincides with the value of a commodity only when supply is equal to demand, that is, only when the production of a given commodity corresponds to effective demand. Otherwise, the price of the commodity will deviate from its value. An excess of market price over value tends to stimulate the production of commodities, but a drop of price below value causes a contraction in the production of commodities. Accordingly, there is a redistribution of labour and the means of production among the sectors of the economy.

The fluctuation of prices round value is determined not only by spontaneous fluctuations in the sphere of circulation—the market—but also by changes in the sphere of production. Changes in the productivity of labour, which determine changes in the magnitude of the value of a product unit also cause, through the fluctuation of prices, a redistribution of labour between the branches of production.

With the spontaneous regulation of production, producers learn of society's actual requirements only after they have produced their commodities, and this inevitably results in sizable economic losses.

The law of value induces commodity producers to reduce individual labour inputs as compared with those socially necessary. The most favourable conditions for this are available to large-scale production, which has the greatest potentialities for boosting labour productivity and cutting the cost of commodities, and also more flexibly adapting itself to the market. The spontaneous fluctuation of prices round value inevitably results in the ruin of the bulk of the middle and small commodity producers, who are turned into proletarians deprived of the means of production and forced to do wage labour for the owners of enterprises. Meanwhile,

a small number of commodity producers is enriched and turned into capitalists, exploiting the labour of others. Consequently, the operation of the law of value results in a stratification of simple commodity producers, in their differentiation, and in the development of capitalist relations of production.

The problem of stratification among the simple commodity producers is considered in detail in Lenin's *The Development of Capitalism in Russia*. His study of these processes was an important prerequisite for substantiating the need for an alliance between the proletariat and the peasantry in the fight against capitalism. Lenin showed that small commodity production generates capitalism constantly and on a massive scale.

The spontaneous operation of the law of value, as a regulator of production, induces a rise in labour productivity, while resulting in a tremendous waste of social labour, sharpening the antagonistic contradictions of commodity production based on private property in the means of production.

Bourgeois ideologists have trotted out a number of apologetic theories to counter Marx's labour theory of value. One of these is the *supply and demand theory*, which denies that value has an intrinsic content, and usually reduces it to a purely quantitative equation. Another theory of value says that the *prices of commodities are determined by the cost of their production, that is, by the sum-total of the prices of commodities expended on their production*. Present-day bourgeois economists widely advocate the theory, which Marx criticised in his lifetime, and which says that value *results from the operation of the three factors of production: labour, capital (embodied in the means of production) and land*. The Marxist analysis shows that value is created by labour. It is the basis of all life in society, of the relations between commodity producers, and determines all their economic ties.

The *marginal utility theory*, with its subjective treatment of value, is also widespread. It claims that value is a subjective assessment of commodities and that it is determined by their utility. In actual fact, value does not result from psychological evaluations but is an objective economic relation. Whatever these evaluations, that commodity will have the greater value on which more socially necessary labour is expended. All these bourgeois theories are designed to cover

up the exploitation of the working people by capital and to divert them from the class struggle, which is why they seek to distort the actual social relations.

Fetishism of Commodity

Under private property in the means of production, the ties between commodity producers in the process of production, which are determined by the social division of labour, are expressed in the exchange of the products of their labour, through the movement of commodities. The social character of private labour and its social recognition are brought out only in the spontaneous process of exchange. Consequently, social relations among commodity producers assume the form of relations among things, they are reified. The sway of social relations over men assumes the outward form of their domination by definite things. The commodity producers' dependence on the market is expressed as their domination by some supernatural power of things (commodities and money). This reification of the relations of production, that is, the appearance of relations among men in the form of relations among things was designated by Marx as the *fetishism of commodities*.

The cult of money which rules the capitalist world is the supreme expression of the fetishism of commodities. This is a historical category and exists only under private property commodity production.

Chapter four

CAPITAL AND SURPLUS VALUE.
THE BASIC ECONOMIC LAW OF CAPITALISM

Having examined the labour theory of value, which helped to discover the laws of the capitalist mode of production, we now go on to a consideration of capitalist production, the internal causal nexus between its factors, and the content and mechanism of the basic economic law of capitalism. These problems are analysed by Marx in Chapters IV-XVI of Volume I of *Capital*.

1. THE CONVERSION OF MONEY INTO CAPITAL

The General Formula for Capital

The objective prerequisite for the origination of capital is a definite level in the development of commodity production and commodity-money circulation. Historically, capital starts out on its career as merchants' and usury capital in the form of money. Each new capital on the commodity market, the labour market or the money market also appears in the form of money, which is converted into capital only through a definite set of processes.

Money as money, and money as capital first differ from each other only in their different forms of circulation. The form of commodity circulation is: C (commodity)— M (money)— C (commodity). In this form, the sale of the commodity is performed for the purpose of buying another commodity. Here there is an exchange of the different use values for the sake of satisfying some immediate requirements. The form of the circulation of money as capital is different: $M—C—M$, which means that the purchase is performed for the purpose of sale, for the purpose of enrichment. That is why the full form of the circulation of money as capital

is expressed in the following circuit: $M-C-M'$, where $M' = M + \Delta M$, that is, it is equal to the originally advanced sum of money plus a certain increment. This increment, or excess over the originally advanced value, is designated by Marx as surplus value. The circuit $M-C-M'$ converts the originally advanced value into capital. The originally advanced value is not only preserved in the circulation but also increases as a result of the addition to it of surplus value. Consequently, *capital is self-expanding value, or value which begets surplus value.* The circulation of money as capital has the purpose of increasing capital.

The $M-C-M'$ formula is the general formula of capital as it appears directly in the sphere of circulation. It applies to every type of capital: merchants', usury and industrial capital (the predominant form of capital under capitalism).

Contradictions in the General Formula of Capital

The circuit $M-C-M'$ of capital does not show where and how surplus value is created. This process—the buying of a commodity in order to sell it—occurs in the sphere of circulation, where only the form of value is altered: the money form is converted into the commodity form, and the commodity form into the money form. According to the law of value, the exchange of commodities is effected in accordance with the labour time socially necessary for their production. Consequently, in the sphere of circulation there is no increase in value.

Nor do we find an answer to the question by assuming that in the individual acts of exchange commodities are bought and sold at prices which deviate from value. If the price of a commodity is higher than its value, the seller of the commodity gains and the buyer loses. Conversely, if the price of a commodity is lower than its value, the buyer of the commodity gains and the seller loses. The capitalist alternately acts as seller and buyer. Consequently, with the prices of commodities deviating from their values, the capitalist will lose as buyer while gaining as seller. Assuming that because of the discrepancy between prices and values, individual capitalists or a group of capitalists receive more money than they have originally advanced, as so often happens in reality. But this explains only the enrichment of the individual capitalists, which occurs through the redistrib-

ution of already created value. The whole class of capitalists, however, cannot grow rich at its own expense, because circulation does not create value. Consequently, the deviation of the prices of commodities from their values does not explain the origination and increase of value, nor the conversion of money into capital. Analysis of circulation shows that surplus value cannot originate from circulation, which amounts to the sum-total of all the exchange relations among commodity producers.

But the capitalist is unable to obtain surplus value unless he enters into the process of circulation. The value of a manufactured product is greater than the value of the material expended on its production (for instance, the value of a suit is greater than the value of the fabrics of which it is made). Consequently, a new value is added to the value of the materials as a result of the labour expended by the workers in the process of production. But that does not in itself mean that the new value is the source of the capitalist's profit. In order to convert his money into capital, into an expanding value, the capitalist must sell his commodity by entering into commerce with other commodity owners on the market. "It is therefore impossible for capital to be produced by circulation, and it is equally impossible for it to originate apart from circulation. It must have its origin both in circulation and yet not in circulation."¹

In order to discover the source of expanding value, let us consider the material elements of the circuit $M-C-M'$. Is it here that the mystery of surplus value lies hidden? Money, which is to be converted into capital, cannot of itself be the source of surplus value. It operates as the means of purchase and payment and helps to realise the price of the commodities for which it is paid. The value of a commodity acquired in the first act $M-C$ cannot be the creator of surplus value either, because there is an exchange of equivalents. The change in value and its expansion can arise only from the consumption of the goods which the capitalist buys to effect the process of production. Consequently, the capitalist finds on the market, in the sphere of circulation, a commodity whose use value has the property of creating value, and one that is greater than its own. It is labour power that is this specific commodity.

¹ Karl Marx, *Capital*, Vol. I, p. 163.

2. LABOUR POWER AS A COMMODITY

The Conversion of Labour Power into a Commodity

Labour power is "the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description".¹ Labour power, as the human capacity for labour, will be found in any society, whatever its historical form. Under capitalism, it becomes a commodity.

When and how does labour power become a commodity?

First, when the owner of the labour power is a free man. On the market, the owner of the labour power, as the seller, meets the owner of the money, as the buyer. The continuance of this relation requires that the owner of the labour power should sell it only for a definite period, for otherwise the owner of the labour power would be converted from a free man into a slave, from an owner of a commodity into a mere commodity.

Second, labour power becomes a commodity when its owner is deprived of the means of production and the means of subsistence. If he had any means of production, he would sell on the market the commodities embodying his labour, as the small commodity producers—the peasants and the artisans—do.

Under capitalism, labour power, being a commodity, has two properties which are inherent in every commodity: use value and value.

The Value of the Commodity Labour Power

The value of labour power, like that of any other commodity, is determined by the labour time necessary for its production and reproduction. Labour power, as human capacity for labour, is inseparable from the living individual. That is why its production and reproduction mean, above all, the reproduction of man himself, the preservation of his normal vital activity.

The means of subsistence necessary for satisfying the worker's requirements have a definite value. Consequently, the labour time necessary for the reproduction of labour power amounts to the labour time necessary for creating such means of subsistence, so that the value of the labour power is

¹ Karl Marx, *Capital*, Vol. I, p. 164.

the value of the means of subsistence required for the maintenance of its owner's life. Climate and other natural conditions in a given country have an influence on the volume and structure of natural requirements. The means of subsistence necessary for the reproduction of labour power are not limited to the means for satisfying a man's natural wants in food, clothing, housing and fuel. These also include the means for satisfying spiritual requirements. The expenditures for the satisfaction of such requirements also form part of the value of labour power.

Human wants are not innate or prescribed for men by nature. They are the product of social development. The volume and structure of human requirements and the mode of their satisfaction depend on the economic and cultural development in a given country and largely also on the conditions in which the vital requirements of the working class have been shaped. Thus, in the developed capitalist countries, the volume of workers' requirements is much larger than that of workers in economically less developed countries. Marx says: "In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known."¹

The continuous conversion of money into capital requires the constant perpetuation of workers, who are only mortal and whose organism is rapidly worn out. The labour market is replenished above all by the children of workers.² That is why the value of the means of subsistence required for the reproduction of labour power also includes the value of the means of subsistence of the workers' families. Furthermore, the worker must have skill and handiness in a given field of labour. That is why the cost of acquiring such skills and knowledge, that is, education and training, form a part of the value of labour power. The higher a worker's skill standard, the greater the value of his labour power.³

Consequently, *the value of labour power is the value of the means of subsistence required for its reproduction, which must*

¹ Karl Marx, *Capital*, Vol. I, p. 168.

² The labour market is also filled with ruined small commodity producers, artisans and peasants.

be of normal quality. Labour power tends to change with the development of production, with the progress in the means of production. The worker's craftsmanship, skill and experience increase. Human wants tend to grow. For every stage in the development of production there is a corresponding socially normal quality of labour power. The bottom, or minimum, limit of the value of labour power is determined by the value of the means of subsistence physically indispensable for the worker's existence and for the maintenance of his capacity for work.

As capitalism develops, the value of labour power is lowered or raised through the operation of various factors. Among those which tend to lower the value of the commodity labour power is, above all, the growth in the productivity of social labour, as a result of which the value of the worker's means of subsistence, and so of the labour power itself, is lowered. The ever broader involvement of members of working-class families—women and children—also tends to lower the value of labour power.

Among the factors raising the value of labour power are the rise in the worker's skill standards and the inclusion of new commodities and services among his own requirements and those of his family. The current scientific and technical revolution makes ever greater demands on the general educational and special training of the workers. As production develops, the mix of products consumed by the worker tends to change, there is a growth of spending on new everyday services, and new social and spiritual requirements appear.

The value of labour power also increases because of the greater intensity of the workers' labour. This makes him expend more energy, which is why he needs more means of subsistence.

The nature of capitalism is such that it tends to depress the value of labour power with the growth in the productivity of labour. Material production simultaneously generates factors which cause a tendency towards an increase of its value. The one or the other tendency predominates at various stages of the capitalist mode of production and in the various countries. At the same time, there is a tendency for the price of labour power to decline as compared with its value, and it is only the workers' resistance and struggles that help to block this tendency.

The value of labour power expresses the relations of production under capitalism, the sale and purchase of labour power and its use by the owners of the means of production to extract surplus value.

The Use Value of the Commodity Labour Power

A distinction needs to be drawn between the capacity for labour and labour itself. Marx says: "When we speak of capacity for labour, we do not speak of labour, any more than when we speak of capacity for digestion, we speak of digestion."¹ Labour is the process in which labour power is consumed, *the process of the production of commodities, value and surplus value*. In contradistinction to other commodities, labour power creates value, and one which is greater than its own. *The excess value created by the worker's labour over and above the value of his labour power constitutes surplus value*. It is this special use value of labour power that commands the capitalist's interest.

Having bought labour power on the market, the capitalist uses its use value in the process of production, outside the framework of circulation. He makes the worker expend a greater quantity of labour than is required for the reproduction of the means of subsistence the worker needs.

On the market, the capitalist and the worker outwardly meet each other as equal commodity owners: one as the buyer, and the other as the seller. Accordingly, bourgeois economists seek to prove that there are no contradictions between labour and capital. Marx showed that there can be no equality between them—and there is, in fact, none—and that, consequently, there is no community of interests in the capitalist society, for the means of production are monopolised by the bourgeoisie, while the workers have none. In order to purchase the means of subsistence they have to sell their capacity of labour to the capitalists, thereby enabling the owners of the means of production to enrich themselves by appropriating the surplus value created by the workers.

¹ Karl Marx, *Capital*, Vol. I, p. 170.

3. THE PRODUCTION OF SURPLUS VALUE

The Character of Capitalist Production: the Process of Labour and of the Expansion of Value

In the capitalist society, the conjunction of labour power and the means of production is effected through the acts of purchase and sale on the market, where the capitalist buys the labour power and the means of production. That is why labour appears as a process in which the capitalist consumes the wage worker's labour power. There are two characteristic aspects to this labour process. First, it is performed for the capitalist and under his control. He has a monopoly ownership in the means of production, and in the course of the labour time disposes of the labour power which he has bought as a commodity. Second, the product created in the process of production does not belong to the wage worker, the man who actually produced it, but to the capitalist.

When buying the means of production and labour power, the capitalist wants, first, to produce a use value which would have exchange value, that is, a commodity; second, to produce a commodity whose value would be greater than the value of the factors consumed in the process of labour, for otherwise it is impossible to obtain surplus value. The production of use value is necessary to the extent that it is the material vehicle of value. The capitalist takes an interest in the creation of commodities as the source for the extraction of surplus value.

The value advanced by the capitalist increases because the workers work more time than is required for the reproduction of the equivalent of the value of their labour power. The value of the labour power and the value created in the process of its consumption are two different magnitudes. It is the expenditure of labour over and above the limit required for the reproduction of the equivalent of the value of labour power that is the source of surplus value. Marx says: "The process of production, considered, on the one hand, as the unity of the labour-process and the process of creating value, is production of commodities; considered, on the other hand, as the unity of the labour-process and the process of producing surplus-value, it is the capitalist process of production, or capitalist production of commodities."¹

¹ Karl Marx, *Capital*, Vol. I, p. 191.

The production and appropriation of surplus value are effected on the basis of the law of value: the capitalists buy the factors of the labour process—the means of production and labour power—at value. But, as Marx shows, even if the capitalists paid the full value of the labour power they would still extract surplus value from the workers' labour. He demonstrates that the obtaining of surplus value is not a casual phenomenon, but the objective law-governed process of capitalist production.

The production and appropriation of surplus value implies the unity of circulation and production. In the sphere of circulation, the capitalist buys the commodities: labour power and the means of production. In the sphere of production, the advanced value is increased as a result of the wage workers' labour, and surplus value is created. It is realised in the sphere of circulation, when the capitalist sells the produced commodities, with surplus value assuming the form of money.

Necessary and Surplus Labour Time

The working day is divided into two parts. One part of it consists of the time needed by the worker to produce the equivalent of the value of labour power. Marx designated this time as *necessary labour time*, and the labour expended in the course of this time, as *necessary labour*.

The other part of the working day consists of *surplus working time*, that is, labour time continued beyond the limits of necessary labour time. The labour expended in the course of surplus labour time is the *surplus labour* which creates the *surplus product*. The surplus labour and the surplus product, which it creates (that is, the product over and above that necessary for the worker's existence), will be found in any society, but only under capitalism is the surplus product the material vehicle of surplus value. This is due to the fact that capitalism is the universal form of commodity production, under which man's labour power also becomes a commodity.

Surplus value is the specific form of the surplus product created by the labour of wage workers and gratuitously appropriated by the capitalists. It characterises the relations of production between the bourgeoisie and the proletariat, which express the wage workers' exploitation by the capitalists, and which are the source of incomes of the exploiter

classes in the capitalist society: the capitalists and the big landed proprietors. The capitalist system is based on the surplus labour of wage workers.

Even before the capitalist mode of production came on the scene, under the slave-owning system and feudalism, man was exploited by man, but each socio-economic formation based on private property in the means of production and exploitation of man by man had its own socio-economic form of labour organisation and appropriation of surplus labour by the exploiters. Thus, the exploitation of serfs was based on a combination of economic and extra-economic coercion to labour. Under capitalism, the producer is coerced to labour mainly by economic means. Wage workers are free of any personal dependence. But being deprived of the means of production and the means of subsistence, they are forced to sell their capacity for labour to the capitalists. In this way, the wage worker, while not being the property of this or that capitalist, belongs to the whole class of capitalists and his labour is, in effect, coercive. *The wage labour system is a system of wage slavery.*

The veiled character of coercive labour is the distinctive feature of capitalist exploitation. Because the worker is a free man and sells his labour power, the coercive character of his labour, his dependence on the capitalist, and the latter's gratuitous appropriation of surplus labour are obscured.

The peculiarity of the capitalist exploitation, which springs from the very nature of capitalist production, is the boundless urge to appropriate the results of surplus labour. This produces new and unprecedented methods of labour exploitation.

4. THE SUBSTANCE OF CAPITAL: CONSTANT AND VARIABLE CAPITAL

Capital as a Social Relation

Whatever the form capital assumes, wherever it is applied, it is always a relation of exploitation, a means for the appropriation of the labour of others. Industrial capital, as a self-expanding value, has its own peculiarities. It is a production relation of the capitalist society, a relation between its two chief classes: the class of capitalists and the class of wage workers. The substance of this production

relation is the wage workers' exploitation by the capitalists, who have monopoly ownership of the means of production. Industrial capital is an instrument for the exploitation of wage labour. Marx says: "Capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character."¹

Capital exists in the form of a definite amount of money owned by the capitalists, and in material content consists of the means of production he has purchased, and also in the form of the finished goods produced at the capitalist enterprise. But money, the means of production and the means of subsistence are converted into capital only when they are used to obtain surplus value, when they are used as an instrument of exploitation.

When bourgeois economists define capital, they try to strip it of its social-class substance, by identifying it with money or with the means of production as material factors of any production. Thus, the well-known US economist Paul Samuelson regards capital only as a mediating factor of production. Other bourgeois economists insist that capital is anything that has a utility in production: means of production, land, minerals, consumer goods, labour power. They claim that capital is a perpetual, extra-historical category, because things, the means of production, will be found in any socio-economic formation. They deny that there is any difference between capitalism and socialism, the two opposite socio-economic systems, on the plea that the means of production are required to produce goods in either society. But, says Marx, while the means of production are, indeed, the material factor of any process of labour, only in the capitalist society are they converted into capital, into an instrument for the appropriation of the wage workers,' surplus labour.

Constant and Variable Capital

The capitalist organising production converts his capital (initially appearing in the form of money) into the factors of labour: the means of production and labour power. Thus, the means of production and the labour power bought by the

¹ Karl Marx, *Capital*, Vol. III, p. 814.

capitalist are only a different form for the existence of the initial capital value.

The means of production and labour power have a different role to play in the formation of the value of the product. In the process of labour, labour power consumes the means of production and creates a new product. The means of production, while having lost the initial form of their use value, retain their value, which is transferred to the new product.

The transfer of the value of the means of production occurs simultaneously with the addition by the worker of a new value to the object of labour. This twofold result of production is effected by the worker because of the dual nature of his labour. At one and the same time, his concrete labour creates a use value and transfers to it the value of the means of production, while his abstract labour creates a new value and adds it to the old value. The new value, created by the labour of the wage worker, contains within itself the equivalent of the value of his labour power and surplus value.

That part of capital which is converted into the means of production and does not change the magnitude of its value in the process of labour was designated by Marx as *constant capital*. That part of capital which is converted into labour power and changes its value in the process of production he called *variable capital*.¹

If production is seen as a labour process, the component parts of capital appear as objective and subjective factors, as the means of production and labour power. If production is seen as a process in which value is increased, these same factors appear as constant and variable capital. The value of constant capital, that is, the means of production consumed in the process of production, is retained unchanged in the finished product. The value of the variable capital, which is equal to the value of the labour power bought by the capitalist, increases in the process of production, because by applying his labour the worker creates a new value which is equal to the magnitude of the variable capital and the surplus value. Consequently, surplus value is an increase only of variable capital. The magnitude of the newly created

¹ Marx designates surplus value by the letter "m" (Mehrwert); constant capital by "c" (constant); and variable capital by "v" (variable).

value may be expressed as $v + m$, where v is the reproduced value of the labour power, and m —the surplus value.

The value of the commodities (w) produced at capitalist enterprises is expressed by the following formula: $w = c + v + m$. This value reflects the relations of production in the capitalist society and the exploitation of the wage workers by the capitalists.

Rate and Mass of Surplus Value

The mass of surplus value appropriated by the capitalist is its absolute magnitude. The relative magnitude of surplus value, or the extent to which variable capital increases, is determined by the ratio of surplus value to variable capital: $\left(\frac{m}{v}\right)$. Marx called this ratio, expressed as a percentage, the *rate of surplus value*, and designated it with the letter m' .

The value of labour power, and the value of variable capital are determined by the expenditure of labour required for the reproduction of labour power. In other words, variable capital is reproduced throughout the necessary labour time by the worker's necessary labour. Surplus value is created in the surplus time by the worker's surplus labour. That is why surplus value relates to variable capital, as surplus labour to necessary labour, or

$$m' = \frac{m}{v} = \frac{\text{surplus labour}}{\text{necessary labour}}.$$

In the first instance $\left(\frac{m}{v}\right)$, the rate of surplus value is expressed in the form of materialised labour; in the second $\left(\frac{\text{surplus labour}}{\text{necessary labour}}\right)$ in the form of current labour. The ratio of surplus labour to necessary labour $\left(\frac{\text{surplus labour}}{\text{necessary labour}}\right)$ expresses the degree of the producer's exploitation by the owner of the means of production in any antagonistic society while the ratio of surplus value to variable capital $\left(\frac{m}{v}\right)$ is the specific form expressing the degree of exploitation of wage workers by capitalists.

The rate of surplus value shows how the newly created value ($v + m$) is distributed between the capitalist and the wage worker, and also which part of the working day is spent by the worker on the reproduction of his labour power, and which part—on the capitalist. If a worker works half the

working day to reproduce his labour power, and half—for the capitalist, the degree of exploitation equals 100 per cent.

In an article entitled "Workers' Earnings and Capitalist Profits in Russia"¹, Lenin considered a worker who created 498 roubles' worth of new value a year. Of this amount, the capitalist gave him back 246 roubles in the form of wages, and retained 252 roubles as his profit. Comparing the worker's wage and the capitalist's profit, Lenin pointed out that the worker spent less than half a day working for himself, and more than half—for the capitalist. Consequently, in pre-revolutionary Russia the degree of workers' exploitation was in excess of 100 per cent.

With a given value of labour power, the rate of surplus value determines the mass of surplus value produced by the individual worker. The greater the degree of exploitation, the larger the mass of surplus value, which depends on the rate of surplus value and the number of workers employed.

With the development of capitalism, the rate of surplus value tends to grow. This means that there is growing exploitation of the workers. Thus, in the developed capitalist countries it used to average about 100 per cent, but now comes to 300 per cent and more.

The growing exploitation of the workers springs from the capitalists' insatiable greed for surplus value and also from the competition between them.

5. TWO WAYS OF INCREASING THE DEGREE OF EXPLOITATION OF THE WORKING CLASS

Absolute Surplus Value

One way of increasing the degree of exploitation and the mass of surplus value is to lengthen the working day. Under capitalism, the working day is the sum-total of the necessary and the surplus working time, which means that it consists of periods of time in the course of which the worker reproduces the equivalent of the value of his labour power and creates surplus value.

That part of the working day in the course of which the

¹ V. I. Lenin, "Workers' Earnings and Capitalist Profits in Russia", *Collected Works*, Vol. 18, Progress Publishers, Moscow, 1973 pp. 256-257.

equivalent of the value of labour power is reproduced under the given conditions of production and at the given stage of society's economic development is a constant magnitude. Once the necessary working time is known, the surplus time and, consequently, the rate of surplus value depend on a lengthening of the working day beyond the limits of necessary labour time. Let us assume that the working day is equal to ten hours, of which 5 hours is the necessary working time and 5—the surplus working time. If the working day is increased from 10 to 12 hours (the value of the labour power remaining unchanged) the surplus working time increases from 5 to 7 hours. If the surplus working time increases, the degree of exploitation also increases. With a working day of 10 hours, the degree of exploitation comes to 100 per cent $\left(\frac{5 \text{ hours}}{5 \text{ hours}} \times 100\right)$, and with a 12-hour working day—140 per cent $\left(\frac{7 \text{ hours}}{5 \text{ hours}} \times 100\right)$.

The surplus value obtained through an absolute lengthening of the working day was designated by Marx as *absolute surplus value*.

The production of absolute surplus value constitutes the universal basis of capitalist exploitation, but it was predominant at the early stages in the development of capitalism, before large-scale machine production came on the scene.

The Limits of the Working Day. The Working-Class Struggle for Its Reduction

The working day has its limits, and its duration can change only within those limits. The maximum limit of the working day is determined by two factors: first, the physical bounds of labour power. Within the 24 hours of the natural day, a man can expend only a definite quantity of vital force. He needs time for leisure and for satisfying other physical needs to restore his expended vital force. Second, the maximum duration of the working day has social limitations. The labourer needs time for satisfying not only his physiological wants, but also his intellectual and social needs. The extent of these needs and the ways of satisfying them depend on the level of a country's development, the general state of its culture, and the historical condition in which the working class has taken shape. The variation of the working day fluctuates between its physical and

social bounds, within which the rehabilitation of normal-quality labour power is ensured.

The struggle for a shorter working day is an organic part of the proletariat's class struggle. The shorter week today is the result of the age-old class struggle between the capitalists and the workers. But this struggle brings about no more than a certain improvement of the conditions in which the proletarians apply their labour power. The socialist revolution alone emancipates the working people from exploitation and ensures a radical improvement of their conditions.

The production of absolute surplus value is achieved not only through a lengthening of the duration of the working day. The capitalists also try hard to intensify labour. Once labour is intensified, the worker expends more vital force in the same working time, and so creates more value and more surplus value. The production of absolute surplus value and the increase in the degree of exploitation of the working class are achieved through a longer working day, more intense labour, overtime, and payment for labour power below its value.

Relative Surplus Value

Another way of increasing the degree of exploitation and surplus value entails the capitalists' use for their own benefit of scientific and technical achievements and the growing social productivity of labour. Here, surplus value is increased through a reduction of the necessary working time and a corresponding increase in surplus working time.

Rising labour productivity in industries turning out consumer goods for workers and in industries turning out the means of production for manufacturing these consumer goods helps to reduce their value and, consequently, also the necessary working time.

Let us take a 10-hour working day, in the course of which 5 hours are necessary working time and 5 hours—surplus time. Assuming that, as a result of the cheapening of consumer goods, the necessary working time is cut by one hour and comes to 4 hours, in that case the surplus working time increases to 6 hours. In consequence of the change in the ratio between the necessary and the surplus working time, the degree of exploitation in this example goes up from 100 per cent to 150 per cent. The mass of surplus value is also increased.

The surplus value obtained through a reduction in the necessary working time and the corresponding increase in the surplus working time was designated by Marx as *relative surplus value*.

Extra Surplus Value

At enterprises where new machinery and improved methods of production are used, individual labour productivity tends to rise above its social level. The individual value of the commodities produced in these conditions is lower than their social value. And because commodities are sold at their social value, this guarantees the capitalists who own these enterprises *extra surplus value*. The owner of the commodities produced by highly productive labour has advantages in the competition with his rivals. He is able to sell his commodities at a price below the social value, while still extracting a part of the extra surplus value.

Individual labour productivity may rise and the individual value of a commodity may fall, not only in the production of consumer goods for the worker, but also of any other commodity. That is why the production and appropriation of extra surplus value does not result in a lowering of the value of labour power.

But whenever individual labour productivity rises above its social level, the value of labour power is reproduced in a shorter working time. The labour that is more productive than social labour functions as multiplied labour, that is, creates in equal periods of time a social value that is greater than that produced by socially necessary labour. Consequently, the source of extra surplus value is the more productive labour of workers at enterprises with new machinery and better production techniques. As the improved implements of labour and production techniques spread generally throughout a given industry, the social value of the commodity tends to decline and the differential between the social and the individual value of the commodity to disappear, together with the extra surplus value. Whenever the rise in labour productivity spreads to industries whose commodities are among the workers' necessary means of subsistence the general rate of surplus value tends to increase.

The extraction of extra surplus value in the capitalist society is natural and commonplace. It disappears at some enterprises and appears at others. In the drive for extra sur-

plus value, the capitalists install new machinery and use improved techniques in production. This, on the whole, results in a development of society's productive forces. But each capitalist seeks to keep his technical innovations secret from the others, because the longer the time in the course of which the individual capitalist or groups of capitalists enjoy a monopoly on the new production techniques, the longer is the time in the course of which they obtain extra surplus value. The concealment of technical innovations exerts a drag on technical progress. Consequently, under capitalism the development of the productive forces is contradictory and antagonistic. Technical progress creates the prerequisites for the even greater enrichment of the bourgeoisie and a worsening of the condition of the working class.

6. THREE STAGES IN THE DEVELOPMENT OF CAPITALIST INDUSTRIAL PRODUCTION

Analysing the production of relative surplus value, Marx brought out the three main historical stages in the growth of labour productivity under capitalism leading to a growth of relative surplus value: 1) simple capitalist cooperation of labour; 2) division of labour and manufacture; and 3) machinery and large-scale industry. These three stages reflect the process in which the capitalist mode of production originated and was established.

In *The Development of Capitalism in Russia*, Lenin used a vast array of statistical data to study the development of capitalism in Russia at its three successive stages.

Simple Cooperation

Capitalist production starts at the point at which one capital simultaneously employs many workers. Capitalist enterprises first appeared in the form of simple capitalist cooperation of labour. The *cooperation of labour* is a form of labour organisation under which "numerous labourers work together side by side, whether in one and the same process, or in different but connected processes".¹ The cooperation of

¹ Karl Marx, *Capital*, Vol. I, p. 308.

labour is to be found even in the precapitalist society, but in the capitalist society it assumes the largest scale and is invested with the corresponding socio-economic content.

In material content, the labour process in capitalist cooperation differed from the labour process in handicraft workshops and on peasant farms only in terms of scale: the mass of simultaneously employed labour power, the concentration of the means of production, and the volume of output. The scale of the capitalist cooperation of labour was determined by the size of the individual capital.

In socio-economic content, the capitalist cooperation of labour is characterised by the fact that it is based on the employment of the labour of wage workers. In it, production is effected under the capitalist's control and for the purpose of his extraction of surplus value, and the product of labour is appropriated by the capitalist.

The mere association of many workers employed by the capitalist already made for a qualitative change in the labour process and gave it advantages over the individual labour of handicraftsmen and peasants. In cooperation, the individual labour of each individual worker operates as a particle of the aggregate labour. Social contact in the process of joint labour induces something like competition among the workers, which tends to increase individual labour productivity.

The cooperation of labour made for economies in the means of production because of their joint use in the labour process, and a reduction in working time for the making of an aggregate product through a merger of the various labour processes.

The qualitative changes in the process of cooperated labour predetermined the growth of social labour productivity and a reduction in the cost of commodity production. As a result, the inputs of living and past labour into the making of a product unit were reduced, the value of labour power fell, and the necessary working time contracted. The capitalist cooperation of labour was the first historical stage in the production of relative surplus value. It generated a new productive power of labour—the productive power of joint labour—of which all the benefits went to the capitalists.

Manufacture

With the development of capitalist production its form was also improved. Simple capitalist cooperation gave way to manufacture. In Western Europe, it predominated from about the mid-16th century to the last third of the 18th century. Manufacture is capitalist cooperation of labour based on a division of labour within the enterprise in the making of one and the same commodity.

New qualitative changes occurred in the process of production, and manufacture marked a new stage in the growth of the social productivity of labour and the production of relative surplus value. In manufacture, the worker specialised in a given operation or the making of some detail of the product. This turned him into a detail worker performing some individual functions of the aggregate worker, and so deprived him of the possibility of turning the product out on his own. The labour of the manufacture worker could be used only jointly with the labour of other workers and through the sale of their labour power to the capitalist. The workers' economic dependence on the capitalist and the power of capital increased.

The workers' specialisation helped them to develop skills, reduce the unproductive waste of labour power, and achieve a useful result with smaller inputs. The implements of labour were differentiated and improved; they became more diverse and adapted to the fulfilment of partial production operations. The specialisation of the implements of production enhanced the efficiency of their use and led to a reduction in the magnitude of the value transferred to a unit of the product. But the development of one-sided handiness, the monotonous and tiring work of the manufacture labourer impoverished him spiritually and crippled him physically. There was a further separation of mental and manual labour.

The differentiation of working implements was one of the material prerequisites for the creation of machines. The stringent division of labour, the specialisation in the making of a definite detail, the performance of the definite operation helped to train skilled and expert workers alongside those who performed the simplest labour operations which did not require any special training. The early scientific and technical elements of machine production were developed in the period of manufacture.

Machinery and Large-Scale Industry

The advance from manufacture to large-scale industry proceeded above all through the replacement of the system of manufacture labourers with their specialised manual implements of labour by a system of machines into whose appendages the workers were converted. The machine is an implement of labour which acquires a material form of existence necessitating "the substitution of natural forces for human force, and the conscious application of science, instead of rule of thumb".¹ Whereas in manufacture, labour productivity was increased by specialising labour power on individual operation, in large-scale industry labour productivity is boosted through the use of implements of labour—machines—which operate with many instruments under the workers' control.

Capitalist enterprises employing simple or complex co-operation of machines are known as *factories*.

Machines were initially made by means of manual labour. When machines came to be used to make other machines, large-scale industry was provided with an adequate technical basis. The industrial revolution of the late 18th century and the early 19th century began with the use of working machines and ended when machines came to be made by means of other machines, with the establishment of large-scale machine production.

The industrial revolution brought about radical changes in the process of production and in its material and technical basis, and profound changes in the relations of production. Handicraft techniques and manual labour gave way to large-scale machine production. The machine became the characteristic implement of labour.

The transformation of the instruments of labour changed the worker's role in production. The use of machinery invested the labour process with a social character. Machines, as a rule, could function only with joint, collective labour. Their production functions now determined the division of labour between the workers within the capitalist enterprise. The worker was converted into a living appendage of the machine. He was no longer able to display his capacity for labour outside the capitalist enterprise.

¹ Karl Marx, *Capital*, Vol. I, p. 364.

Machine production increased labour productivity as compared with earlier forms of production. That is why capitalism finally triumphed over the preceding modes of production and was established as a special historical form of production. The industrial revolution led to the formation of the basic classes of the capitalist society: the class of wage workers, who live solely through the sale of their labour power, and the class of capitalists, the monopoly owners of the means of production exploiting wage labour.

The machine, the material factor in the process of production, is a mighty instrument for boosting labour productivity, lowering the cost of goods, improving working conditions, and making work easier. It creates broad potentialities for mastering the forces of nature and applying scientific discoveries in the labour process. But the capitalists use machines exclusively for the production and increase of surplus value.

The capitalist will use a machine only if its value is lower than that of the labour power it ousts. "Instead of paying for the labour, he only pays the value of the labour-power employed; therefore, the limit to his using a machine is fixed by the difference between the value of the machine and the value of the labour-power replaced by it."¹

7. CAPITALIST MACHINE PRODUCTION AND THE GROWING EXPLOITATION OF THE WORKERS

Impact of Capitalist Machine Production on the Condition of the Working Class

The advance to the factory made it possible sharply to increase the exploitation of labour by capital and further worsened the condition of the working people. The use of machinery helps to establish the capitalist discipline of labour.

The contradiction between mental and manual labour has deepened. Manual labour falls mainly to the lot of the worker, while engineers and technicians assume the functions of mental labour in managing production.

The machine simplifies production operations and makes it possible to use workers who do not have great physical strength. This has enabled the capitalists to make wide use

¹ Karl Marx, *Capital*, Vol. I, p. 370.

of the labour of women and children, by including them in a mixed labour force. The use of female and child labour tends to lower the value of the commodity labour power, for now all the able-bodied members of the worker's family create the equivalent of the value of their labour power. The use of female and child labour increases the production of surplus value, because they are paid a lower wage than men for their labour. The capitalists' profits are also increased with the growing supply of labour power, because its price tends to fall.

The sharp rise in labour productivity with the use of machinery resulted in a situation in which the production of relative surplus value became the main method of producing surplus value.

The machine, as such, is a powerful instrument for the boosting of labour productivity, that is, for reducing the working time necessary for the production of goods. At the same time, as a vehicle of capital, it is a powerful means for increasing surplus working time. The longer the time in the course of which the machine is in the process of production, the more living labour it assimilates, the greater the surplus value created. All of this induced the capitalist to lengthen the working day.

The lengthening of the working day leads to a drop in the demand for labour power, so increasing the number of workers ousted by the machine. But let us bear in mind that the magnitude of the surplus value appropriated by the capitalist depends on two factors: the rate of surplus value and the number of workers employed. The use of machines results in a growth in the rate of surplus value, but reduces the number of workers employed. This induces the capitalist to lengthen the working day. He seeks to compensate for the reduction in the number of workers through an absolute increase in surplus time.

The capitalist's urge to lengthen the working day is resisted by the workers, and their struggle eventually leads to the enactment of legislation limiting the working day. The capitalist seeks to compensate the legal limitation of the working day by intensifying the workers' labour, and this is done by increasing the speed of machine operations and the number of machines handled by one worker. The machine, a vehicle of capital, is an instrument for intensifying the worker's labour.

The use of machines sends more small producers to the wall, because the goods they produce by manual labour cannot compete with the goods turned out by the machine. Once ruined, they join the ranks of the proletariat and swell the number of unemployed.

A scientific and technical revolution began in the mid-20th century and has now spread to all the industrialised countries.

The automation of production and the use of highly productive implements of labour help rapidly to boost labour productivity and to lower the cost of goods. But under capitalism, this means greater exploitation of the workers and the production of more surplus value, because the bulk of the product increment obtained from higher labour productivity is gratuitously appropriated by the capitalists, who own the means of production. The automation of production under capitalism engenders excessive intensification of labour and excessive expenditure of the worker's mental and nervous energy. This tends to increase the number of industrial accidents, the incidence of occupational diseases and early loss of the capacity to work.

8. THE UNITY OF AND DISTINCTION BETWEEN ABSOLUTE AND RELATIVE SURPLUS VALUE

The production both of absolute and relative surplus value implies a definite level in social labour productivity which makes it possible to limit the necessary working time to a part of the working day. If all the working time at the producer's disposal were used for the production of the means of subsistence required by him and his family, he would have no time left for performing gratuitous labour for the benefit of the exploiter. That is why absolute surplus value, says Marx, is relative, while relative surplus value is absolute, because its production implies a lengthening of the working day beyond the limits of necessary working time. This is an increase in surplus time within the framework of an unchanged working day.

The two ways of producing surplus value are also a unity in that intensification of labour is a means of obtaining absolute and relative surplus value. The degree of the exploitation of workers engaged in more intense labour tends to

grow because the necessary working time in the case is reduced, while the surplus time, is, correspondingly, increased. The change in the correlation of necessary and surplus working time with the growing intensity of labour takes place as a result of the compression of the working day. The increase in the individual intensity of labour amounts to a covert lengthening of the working day (its compression) and so becomes a way for the production of absolute surplus value.

The growth in the social intensity of labour means that the normal social conditions of production have changed, that is, that the social productivity of labour has gone up, while the social value of a product unit has gone down. If the change in the conditions of production also extends to the industries turning out the means of subsistence, the necessary working time is reduced, and this goes to benefit the whole class of capitalists, who begin to receive relative surplus value.¹ A rise in the socially normal level of labour intensity amounts to a way of producing relative surplus value.

There is an essential *distinction* between the ways of producing absolute and relative surplus value. It is most manifest whenever it comes to the ways of raising the norm of exploitation in a given set of concrete conditions. The production of absolute and relative surplus value differs according to the ways and means used to increase the worker's surplus time. There is also a difference in the social consequences resulting from an increase in absolute and relative surplus value. The production of surplus value effected through a lengthening of the working day illustrates the growing exploitation of the workers by the capitalists and the bourgeoisie's drive on the vital interests of the proletariat.

The obtaining of relative surplus value is the more refined way of exploiting the workers, because it does not affect the total length of the working day, and so covers up the greater degree of exploitation. The production of relative surplus value results from growing labour productivity and improvement of production techniques. The application of improved instruments of labour and changes in the organisation of production under capitalism inevitably tend to intensify labour, oust workers from production and produce other consequences which worsen the condition of the workers.

The production of surplus value implies labour's subordination to capital. This means that the wage worker sells his labour power to the capitalist, works under his control and creates surplus value.

In the capitalist countries today, there is an extensive use of both ways of producing surplus value, but the production of relative surplus value continues to prevail. The capitalists' use of scientific and technical progress and intensification of labour result in an ever greater degree of exploitation of the workers.

9. BASIC ECONOMIC CONTRADICTION OF CAPITALISM. BASIC ECONOMIC LAW OF CAPITALISM

Basic Economic Contradiction of Capitalism

Machine production has markedly enhanced the social character of capitalist production. The use of new machinery requires a concentration of large numbers of workers at enterprises. The development of machine production has led to a growth in the social division of labour. New industries spin off from the old ones and there is a separation of individual production operations. The interconnection and interdependence of enterprises, industries and regions tend to grow.

Consequently, *commodities produced at capitalist enterprises are the result of the joint labour of hundreds and thousands of workers, but the product of this social labour is appropriated by the capitalists. The contradiction between the social character of production and the private capitalist appropriation of its results is the basic economic contradiction of capitalism.* It is manifested above all in the contradiction between the two classes of the capitalist society: the working class and the capitalist class. That is the basic class contradiction of capitalism.

The Basic Economic Law of Capitalism

Under the domination of the capitalist property in the means of production, the labour of the actual producers is used to create and increase surplus value, which goes to enrich the bourgeoisie. That is the intrinsic economic con-

tent of capitalist production as a process of the production of surplus value.

The production of the maximum surplus value and its appropriation by the capitalists through an increase in the number of wage workers and their growing exploitation—such is the content of the basic economic law of the capitalist mode of production. Marx says: "The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus-value, and consequently to exploit labour-power to the greatest possible extent."¹

The basic economic law of capitalism, which Marx discovered, is the law of surplus value, and it helps to understand and explain all processes and phenomena under way in the capitalist society. This law of capitalism expresses the substance of the capitalist mode of production and determines the main processes in its economic development. Capitalist production does not have the immediate purpose of satisfying the working people's requirements; the workers' labour is designed to increase capital. The law of surplus value is the law governing the movement and development of capitalism.

The development of capitalist production runs in an antagonistic form. The basic economic law of capitalism is the most profound expression of the contradictions of capitalism. Its operation tends constantly to sharpen these contradictions, so determining not only the development but also the collapse of the capitalist system.

Marx's Theory of Surplus Value

Lenin says that the theory of surplus value is the cornerstone of the Marxist economic doctrine, for it goes to the very root of capitalist production, exposes its exploitive substance, and helps to provide a genuine scientific explanation for the development of the bourgeois society.

Marx showed the diametrically opposite economic condition of the proletariat and the bourgeoisie, and exposed the underlying cause of the antagonistic contradictions between the chief classes of the bourgeois society. He demonstrated that class contradictions tend to develop and deepen with the growing exploitation of the wage workers. The

¹ Karl Marx, *Capital*, Vol. I, p. 313.

proletariat's class struggle against the bourgeoisie is an organic feature of capitalism. It is rooted in the very mode of production, in the exploitation of the wage workers by the capitalists. The advance of the workers' class struggle inevitably erodes the pillars of the capitalist system. "The proletariat's struggle against the bourgeoisie, which finds expression in a variety of forms ever richer in content, inevitably becomes a political struggle directed towards the conquest of political power by the proletariat (the dictatorship of the proletariat)."¹ Marx deduced the inevitable transformation of the capitalist society into a socialist society entirely and exclusively from the economic law governing the movement of capitalism, that is, the law of surplus value. Lenin says: "It may be said that the whole of Marx's *Capital* is devoted to explaining the truth that the *basic forces of the capitalist society are, and must be, the bourgeoisie and the proletariat*—the bourgeoisie, as the builder of this capitalist society, as its leader, as its motive force, and the proletariat, as its grave-digger and as the only force capable of replacing it."²

Marx's theory of surplus value provides the proletariat with a spiritual weapon in the fight against capitalism for its vital rights, for the establishment of a new social system.

¹ V. I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, Progress Publishers, Moscow, 1964, p. 71.

² V. I. Lenin, "Eighth Congress of the R.C.P.(B.), March 18-23", *Collected Works*, Vol. 29, p. 199.

Chapter five

WAGES UNDER CAPITALISM

The theory of wages under capitalism is an organic component of Marx's theory of surplus value and is set forth in his *Capital*. Marx showed not only the laws through which the value and price of labour power are transformed into wages, but also the laws governing the movement of wages, the specific functions wages perform in the process of capitalist production, and their role as an instrument for increasing the exploitation of the working class and, simultaneously, as a means for covering up this exploitation

1. THE SUBSTANCE AND FORMS OF WAGES
IN THE CAPITALIST SOCIETY

*Wages as the Converted Form of the Value
and Price of the Commodity Labour Power*

In the preceding chapter it was established that under capitalism labour power has value, like all other commodities. The price of labour power is the expression of its value in terms of money. On the surface of the capitalist society, the wages received by the worker appear as the price of his labour, and not as the price of his labour power. But Marx proved that labour is not a commodity, which is why wages do not constitute its price.

First, if labour is to be sold on the market as a commodity it must exist before it is sold, but if the worker could give his labour an independent existence, he would sell a commodity created by his labour, and not labour itself. But then he would not be a wage worker but would operate as a private commodity producer.

Second, if labour were a commodity, it would have value, like any other commodity. But how would its value be

measured, considering that labour itself is the source and standard of values. It turns out that labour would be measured in terms of labour.

Third, if the capitalist bought labour, instead of labour power, and paid for the labour he had bought, he could not obtain surplus value. The capitalist economic system could not exist.

The possessor of money on the commodity market comes face to face not with labour but with the labourer, who is deprived of the means of production, and so has to sell the only thing he has, his labour power. When his labour is set in motion, it no longer belongs to the worker and cannot be sold by him.

In capitalist production, the capitalist pays wages for the value of the labour power expended by the worker in the labour process. In other words, *wages are the form of the value or price of labour power*. But why do wages appear as the value of labour and the price of labour on the surface of the capitalist society? That is so because the worker's labour at the capitalist enterprise is a condition for his receiving the means of subsistence. The capitalist does not pay the worker his wages at the time when the latter is hired, but only after he has expended a definite quantity of labour. Wages are fixed either as time-wages (so much per hour, per day) or as piece-wages. This creates the impression that wages are payment for labour, and not the value and price of labour power.

Outwardly, wages appear as payment for labour, and this obscures the exploitation of wage labour by capital, and the worker's sale of this labour power to the capitalist. It also obscures the division of the working day into necessary and surplus time, into paid and unpaid labour. The whole labour of the worker in the course of a working day, including the surplus time, appears to be paid labour, and the whole of the time in which labour is performed leaves the impression of being necessary working time.

Bourgeois economists assert that wages are either the price of labour, or the price of labour services, or even the price of the product of labour. This helps them to present the outward appearance as the reality, to deny that wage workers are exploited by the capitalists, and to cover up the antagonistic contradiction between the proletariat and the bourgeoisie.

Basic Forms of Wages

There are two basic forms of wages: *time-wages* and *piece-wages*. Under the first, the magnitude of wages depends on the length of the time worked, and under the second, on the quantity of the products turned out. Each of these two basic forms has varieties, or *systems of wages*. These differ from each other mainly in the concrete character of the functional relation between the time worked, and the volume of output, on the one hand, and the level of wages, on the other.

The basic purpose in the use of this or that form and system of wages is to induce the workers to increase the intensification and productivity of their labour, thereby reducing the expenditures on labour power, and also the total inputs per product unit. The result of all this is a growth of surplus value and a rise in the degree of exploitation.

Labour power is always sold for a definite period of time. That is why time-wages are the converted form in which the value of labour power is directly expressed. Wages may be hourly, daily, weekly or monthly.

With time-wages, the capitalist can force the worker to increase the time of his labour, without a corresponding increase in wages, by lowering the hourly payment for labour. In that case, the surplus value extracted from the workers' labour is increased. The capitalist can achieve the same purpose even without lengthening the working day, by forcing the worker to work more intensely for the same (or slightly higher) daily or weekly payment. That is one of the most widespread methods for intensifying the worker's exploitation in the capitalist countries.

Nowadays, workers in the industrialised countries are paid wages on the basis of fixed hourly basic rates, and this helps to intensify the worker's exploitation. The fact is that a sizable part of the working people in the capitalist countries fall into the category of partially unemployed: they are provided with work in the course of a part of the working day or a part of the working week. The capitalists pay the partially employed workers only for the hours actually worked in the course of the working day or working week, extracting surplus value under a level of wages that fails to ensure the normal reproduction of labour power.

Piece-wages are a converted form of time-wages. Among

its varieties are payment by the piece, or direct piece-wage. This envisages direct proportional dependence between the growth of output and the rise of wages. Thus, the daily wage of a piece-worker turning out one and the same type of product is calculated by multiplying the number of articles turned out in the course of a day by the piece-rate.

Piece-wages leave the impression that the whole labour of the worker embodied in the product is paid for, and that the labour expended by the worker is measured by the number of articles he has produced and that it is fully paid for. This merely goes further to veil the relations of capitalist exploitation. Piece-wages, in contrast to time-wages, enable the capitalist to use more effective means for intensifying labour. In order to overfulfil the output rate, and so increase his wages, the worker must work much more intensely. Piece-wages to some extent induce the worker to abide by the established quality standards, because he is paid only if the articles he has produced are up to the average quality indicators.

Capitalist piece-work breeds competition between workers, leads to an intensification of their labour, and to a reduction in their living standards.

2. EVOLUTION OF THE FORMS AND SYSTEMS OF WAGES

With the development of the capitalist mode of production, the forms and systems of wages are subjected to changes under the impact of various socio-economic and technical factors. Technical advances make for changes in the technology and organisation of production, in the content and character of labour, and in the trades and skills structure of the labour force, and this, for its part, has an effect on the forms and systems of wages.

Present-Day Systems of Time- and Piece-Wages

Today, with modern batch and flow production, when output and the pace of work are forcibly dictated by the speed of the assembly line and the flow line, the capitalists find it economically inexpedient to use piece-wage systems. This is even truer of automated production and apparatus processes, where *time-wages are the basic form*.

Another reason for the growing use of time-wages is that, in any case, it is combined with the setting of labour norms. By means of modern methods of norm setting, the capitalists establish an intensity of labour not only for piece-workers but also for time-workers that makes them work at the required pace without any incentive additions to wages.

As a result, time-wages have become predominant in most developed capitalist countries. This is combined with a forced labour pace, which is determined by the speed of the operation of the plant or the regime of the technological process, with labour norm setting, and frequently also with additional bonuses for greater output, higher quality, economies in raw and other materials, etc. All of this invests time-wages with many characteristic features which are proper to piece-wages.

Today, so-called incentive systems of time-wages are used. Among them are *systems of two or more basic rates and controlled daily (shift) output*. These envisage payment by time but the wage-rates are differentiated depending on the extent to which workers have fulfilled or overfulfilled the normative volume of output. The so-called piece-bonus system is based on a combination of time-wages with the payment of bonuses, whose size depends on the extent to which the output norm has been exceeded. Besides, there are time-and-bonus systems in which time-wages are combined with the payment of bonuses for the observance or improvement of the established indicators of production efficiency.

Piece-wages are still used in operations involving a high level of manual labour, and here ever subtler methods are used to intensify labour through the introduction of piece-regressive and fines systems for failure to fulfil the high output norm. New wage systems have also appeared: *piece-bonus* and *multi-factor systems* which make wages contingent on factors characterising the efficiency of labour (better use of equipment, economies in raw and other materials, etc.). Failure to meet the highly stringent norms established for the various factors usually result in corresponding cuts in the workers' wages.

Profit-Sharing Systems

Diverse "collective bonus" systems are introduced in the capitalist countries to leave the impression that the workers have a say in the activity of the enterprise. There are systems

purporting to give the workers a share "in profits", "capital", the "results of higher labour productivity", etc. These are designed by the bourgeoisie to stimulate among workers an interest in making production more efficient through higher productivity and intensification of labour. An illusion is created that the bourgeoisie shares its profits with the workers. These wage systems are used by bourgeois propaganda to spread in the midst of the working class the ideology of collaboration with the bourgeoisie, and the idea of class harmony in the capitalist society.

The truth is that the funds shared out among workers under "profit-sharing" schemes do not come out of profits but out of workers' wages, a part which is not paid regularly, and whose payment is made contingent either on the level of profits or on the size of that part of them which comes from economies in production costs. Because these payments help to make production more profitable and are tax free, they ultimately help to increase capitalist profits, instead of reducing them.

Discrimination in Wages

In the capitalist countries, there is discrimination in the payment of wages to some categories of working people, especially women, young people, and members of ethnic minorities. For equal work, women and teenagers are paid less than men. In the United States, for instance, annual average wages of women are roughly 35 per cent lower than those of men, in Britain and the Federal Republic of Germany, 30 per cent, and in France, 15 per cent. In the United States, wages paid to the Blacks and members of other ethnic minorities are very much lower than those of white workers.

All of this enables the capitalists to extract additional profits through the superexploitation of these categories of working people.

3. THE MAGNITUDE OF WAGES AND THE WORKING-CLASS STRUGGLE TO INCREASE IT

Nominal and Real Wages

A distinction is drawn between nominal and real wages. *Nominal wages* are wages which the workers receive in money form. *Real wages* are the sum-total of the consumer goods

(goods and services) which a worker is able to buy for his nominal wages, with the given level of prices, following tax and other deductions.

The growth in the army of chronically unemployed and its pressure on the labour market, the decline in the demand for labour power when the economic outlook is unfavourable, and the growing proportion of low-paid strata of the working people within the labour force (low-skilled workers, women, young people, members of discriminated ethnic minorities) make it possible to depress nominal wages and so to reduce real wages as well.

Bourgeois economists variously distort the interpretation of the factors which determine the level of wages in order to justify their low level. The "marginal productivity" theory claims, for instance, that every additional increase in the number of workers, with the volume of capital remaining constant, produces a lower level of productivity than the previous increase in the number of workers. The level of wages is determined by the product of the last worker, the least productive from this standpoint (or of the so-called marginal productivity of labour). This theory ignores the impact of technical progress, which, far from lowering, in effect, raises labour productivity. This theory seeks to blame the low wages on the workers, alleging that the growth of the working population tends to lower the wages of the "marginal" worker.

On the strength of the "marginal productivity" theory, John M. Keynes claims that the only way to increase the number of workers employed is to lower real wages. What Keynesians were in effect inviting the workers to do is to accept both a freeze on wages and their depreciation through inflation, for the sake of increasing employment.

A common method of additional exploitation of the working class is to bring about a reduction in real wages by raising the prices of consumer goods, rent, the cost of public services, public transport, and other types of services and also to increase taxes on the working people. The workers seek to resist this by demanding higher nominal wages and, in particular, insisting on the insertion of clauses into collective agreements on the "indexing" of wages, that is, their adjustment depending on the movement of the official — and frequently doctored — cost of living index.

These measures help to increase the monopolies' profits.

Under the pretext of combating inflation, capitalist governments frequently resort to the "freezing" of wages and other forms of so-called wage regulation: legislative prohibition of any wage increases or establishment of wage ceilings over a given period.

Wage-freeze policies are justified on the plea of some "inflationary wage and price spiral" suggesting that higher wages increase the costs of production and necessarily result in higher prices, while the growth of prices forces the workers to demand higher wages, and this again increases prices, and so on, round the mulberry bush.

Marxism-Leninism has long since exploded the inventions of bourgeois political economy, claiming that the prices of commodities are either determined or regulated by wages. In actual fact, wage increases do not have an effect on the value of the commodities, which determines prices, but on the magnitude of profit.

In the recent period, fresh attempts have been made in the capitalist countries to dupe the working class by means of a "compensation" theory, which says that wages go only to satisfy physiological requirements, and that they are quite adequate for this. That is why what should be at issue is not wage increases but only the satisfaction of the worker's emotional and social requirements, which can be done by giving him a definite social status (for instance, by giving the most skilled workers the status of employees, with all the privileges that this entails, and also "a say in management", guaranteed benefits upon retirement, etc.). However, the workers' social status can truly be changed only when the means of production are converted into social property.

The decline in real wages as a result of the growth of prices and taxes can occur when nominal wages are constant or even on the upgrade, whenever the growth of wages lags behind the growth of prices and taxes.

Among the factors which have an effect on the rise in the level of real wages is the growth of the requirements of the working class in the process of the society's economic and cultural development, the growth of its social requirements.

The level and movement of wages differ from country to country. National wage differentials are expressed above all in the different volumes or the means of subsistence which the workers in this or that country are able to buy for their nominal wages. This means, above all, differentials in real

wages. These are determined by a number of factors connected with the economic and historical conditions in which the working class has taken shape and developed in the various countries, above all, the differences in the value and price of labour power. Capitalists use national wage differentials to boost their profits, by transferring their capital to countries with traditionally low living standards.

The Trend in Wages and the Working-Class Struggle for Higher Wages

In order to increase the mass and rate of surplus value, the capitalists strive to depress wages, which may result in a trend for wages to fall below the value of labour power. But for the workers, wages are the only source of livelihood, the only means for the daily rehabilitation of their capacity for labour. That is why they have to fight for higher wages in an effort to bring it closer to the level of the value of labour power. The results of this struggle ultimately depend on the balance of class forces. In the capitalist countries, the working class is able to maintain the wage levels it has secured, and to raise them only through persevering class struggle and at the cost of much sacrifice and privation. Of much importance in the working-class struggle for higher wages is the exposure of the bourgeois theories which vindicate the anti-labour policies of the state and cater for the requirements of the capitalists. Bourgeois wage theories are designed to provide ever subtler camouflage of the decline in the workers' real incomes.

In the capitalist countries, there is a steady growth of prices as inflation develops apace, and frequently, together with it, a drop in real wages. All the apologetic theories of the bourgeois ideologists are daily exploded by the facts of life in the capitalist society.

Chapter six

THE GENERAL LAW OF CAPITALIST ACCUMULATION

Marx's analysis of the substance of the capitalist exploitation is contained in Part VII, in Volume I of *Capital*, where he examines the conversion of surplus value into capital. Characterising Marx's doctrine, Lenin says: "New and important in the highest degree is Marx's analysis of the *accumulation of capital*."¹ Engels says that the most remarkable thing here is the evidence concerning the necessity of a socialist revolution.

Before going on to an analysis of the conversion of surplus value into capital, there is a need to characterise some of the general principles of capitalist reproduction.

1. CAPITALIST REPRODUCTION

If a society is to exist, production must be a continuous process. The process of production viewed as flowing on with incessant renewal is known as the *process of reproduction*. Like production, reproduction is social, because men obtain and produce material goods, combat the elemental forces of nature and use them together.

Alongside the reproduction of means of production and articles of consumption in every socio-economic formation, there is also the reproduction of definite relations of production. Under capitalism, it is capitalist social relations of production, the relations of labour's exploitation by capital, that are reproduced.

In history, there have been two types of social reproduction: simple and expanded. The renewal of production on

¹ V. I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, p. 63.

the same scale is known as simple reproduction. By expanded (extended) reproduction is known the resumption of production on a growing scale. Although capitalism effects expanded reproduction, Marx starts by analysing simple reproduction, because it is always the basis of expanded reproduction.

Capitalist Simple Reproduction

Capitalist simple reproduction means that all the surplus value created by the wage workers is used for the capitalist's personal consumption and the process of production is repeatedly resumed on the same scale. An analysis of simple reproduction helps to gain a deeper insight into the specific features of capitalist relations of production.

The first thing to note is that the capital advanced by the capitalist for production is created as a result of this appropriation of the workers' labour. When considering the single act of the purchase and sale of labour power, variable capital appears as a value advanced from the capitalist's own fund. Actually, the very opposite is true: it is not the capitalist who gives the worker a loan, but the other way round. It turns out that variable capital is no more than a special historical form in which the fund of the worker's means of subsistence appears. From the value newly created by him he receives only the value of his labour power, and he uses this to buy from the capitalist class the products he himself has produced.

Furthermore, analysis of capitalist simple reproduction shows that even if the production process is repeated on the same scale the total amount of the surplus value appropriated and used by the bourgeoisie sooner or later reaches the magnitude of the originally advanced capital. Regardless of its origin, upon the expiry of a definite period, any capital is converted into accumulated capital, or into capitalised surplus value. That is why, when in the course of the socialist revolution, the working class expropriates the capitalists it retrieves what has been created by its own labour.

The capitalist takes an interest in the workers' individual consumption because it is necessary for rehabilitating the labour power to enable the worker to create profit with a minimum outlay of advanced capital. The workers are accessories of capital like tools, and their individual con-

sumption is a component part of capitalist reproduction. Being deprived of the means of production, the wage workers are invisibly but tightly chained to the capitalist class. Marx says: "In reality, the labourer belongs to capital before he has sold himself to capital."¹

The capitalist emerges from each round of the reproduction process still in possession of his capital, and the worker, a proletarian without any means of production. Consequently, *capitalist reproduction is reproduction of material goods, labour power and capitalist relations of production: the capitalist, on the one side in society, and the wage worker, on the other*. In this way, there is a reproduction of the conditions for exploitation.

Capitalist Expanded Reproduction

Capitalist expanded reproduction differs from capitalist simple reproduction in that in the process of it there is a steady addition of a part of the surplus value to the functioning capital through the purchase of additional means of production and the hire of additional labour power. Marx says: "Employing surplus-value as capital, reconvertng it into capital, is called accumulation of capital."²

The expanded reproduction of the aggregate capital of a society and of individual capital can be effected (under the same productivity of labour) if: a) additional means of production, b) additional means of subsistence, and c) the necessary number of free labourers are available on the market.

The new capital, which springs from surplus value, results from the appropriation of the unpaid labour of others. The capitalist uses this unpaid materialised labour of the workers in order to squeeze out of them even more unpaid living labour. Even the semblance that in selling his labour power the worker is advanced by capital disappears, because the capitalist exchanges the unpaid materialised labour he had earlier appropriated for an even greater quantity of the living labour of others.

In the capitalist society, the outward form of the law of exchange of equivalents is also maintained with respect to

¹ Karl Marx, *Capital*, Vol. I, p. 542.

² *Ibid.*, p. 543.

the commodity labour power. The worker receives the value of his commodity labour power. However, in substance the law of equivalent exchange operates here as its antithesis, as the law of capitalist appropriation, because the whole product created by worker belongs to the capitalist. The value of the product includes the surplus value gratuitously appropriated by the capitalist. He increases his capital, while the surplus value created by the worker is constantly expropriated by the capitalist, and this enables him to enlarge the sphere of exploitation.

Consequently, *capitalist expanded reproduction is a reproduction of material goods, labour power and capitalist relations of production on a progressively growing scale.* This means that the mass of values and use values concentrated in the hands of the capitalists tends to grow together with the growth in the number of proletarians, who are forced to enrich the capitalist class in virtue of their status in capitalist production. In the drive for maximum surplus value, the capitalist constantly increases his capital, being forced to do so also by the bitter competition. Capital is increased through growing accumulation, through the exploitation of the workers.

Factors Behind Capital Accumulation

In expanded reproduction, surplus value can be divided into the capitalist's accumulation fund and the consumption fund. The accumulated part of surplus value is expended on the purchase of additional means of production and the hiring of additional labour power, that is, the accumulation fund is divided into *constant* and *variable* capital.

The size of the accumulation fund depends on a number of factors, which determine the overall amount of surplus value. First, the degree of exploitation of labour power; second, the rise in the productivity of labour. Because growing labour productivity leads to a cheapening of labour power, variable capital of the same magnitude can set in motion a greater mass of living labour; third, the balance which accrues between used and consumed capital. The value contained in the basic part of constant capital, that is, in the instruments of labour, is not transferred to the product all at once, but part by part. However, while the instruments of labour are used up entirely in the process of production, they lose their

value gradually. That is why throughout the period of their functioning they provide the capitalist with almost free services; and fourth, the magnitude of the functioning capital. With the same degree of exploitation, the mass of surplus value depends on the number of workers being used simultaneously, and the number of workers, above all on the magnitude of the operating capital. Consequently, accumulation tends to grow together with the expansion of capital.

2. TECHNICAL PROGRESS AND CAPITAL ACCUMULATION

The Organic Composition of Capital

Capital has a *material* and a *value form*. That is why the composition of capital needs to be considered from two angles. In its natural, material form capital consists of a definite mass of means of production (buildings, machines, equipment, raw materials, fuel, etc.) and a definite number of employed workers. The ratio between the mass of the means of production and the number of workers employed depends on the level of technical and technological development in production, and the peculiarities of each industry.

The ratio of the mass of the means of production to the number of employed workers setting these in motion is known as the technical composition of capital. The capital expended on the means of production tends to grow with the development of capitalism, with the introduction of improved machines and production techniques. The quantity of machines, mechanical energy and processed raw materials per worker increases, so resulting in a growth in the technical composition of capital.

The value of capital functioning in production is divided into the value of the means of production (constant capital) and the value of labour power (variable capital). *The ratio of constant capital to variable capital is called the value composition of capital.* This changes with the change in the ratio of the value of constant capital to the value of variable capital.

There is a close interdependence between the technical and the value composition of capital. A change in the technical composition of capital as a rule leads to a change in its value

composition. *The ratio of constant to variable capital* ($\frac{c}{v}$), that is, the value composition of capital, is called the organic composition of capital in so far as it is determined by its technical composition and mirrors the changes in the latter. When changes in the value composition of capital are caused by temporary fluctuations of prices for raw materials and labour power, instead of advances in production techniques, they do not affect the organic composition of capital.

The technical and the value composition of capital both tend to change with the development of the productive forces. The organic composition of capital on the whole tends steadily to grow both in industry and in agriculture. Under the impact of the scientific and technical revolution, contradictory trends develop in the composition of capital at the present stage in the development of capitalism. On the one hand, the revolutionary advances in hardware and technology entail a rapid growth of constant capital, and on the other, the composition of capital is affected by the increasing expenditures on variable capital because of the growing share of highly skilled and engineering labour within the structure of labour power. Some influence is also exerted on the organic composition of capital by an increase in the output of products with the use of more economical raw materials and fuels, or with their more economical use.

An increase in the organic composition of capital and labour productivity is expressed in a relative reduction in the mass of living labour consumed by capital as compared with the mass of means of production. This tends to exclude workers from production and to intensify the exploitation of those employed, so increasing the army of unemployed. Marx says: "It is the absolute interest of every capitalist to press a given quantity of labour out of a smaller, rather than a greater number of labourers, if the cost is about the same."¹

Concentration and Centralisation of Capital

The accumulation of capital is inevitably connected with the growth in the size of individual capitals, a process which results from the concentration and centralisation of capital.

¹ Karl Marx, *Capital*, Vol. I, p. 595.

Concentration of capital is an increase in its size through the capitalisation of a part of surplus value, or in other words, the reproduction of capital on an extended scale.

The concentration of capital is closely bound up with the concentration of production. With the development of capitalism, production is increasingly concentrated at a relatively small number of large and giant enterprises.

The concentration of social capital in the hands of an ever smaller number of independently functioning capitalists occurs mainly through a *centralisation of capital, that is, the concentration of already formed capitals in the hands of one big capitalist or a group of capitalists.*

The centralisation of capital proceeds in a twofold manner. First, through the forcible take-over of weak enterprises faced with bankruptcy by stronger ones. Second, through a merger of many individual capitals in the form of joint-stock companies. In both instances, the centralisation of capital proceeds through the expropriation by big capital of small and medium-sized capitals which cease to be independent, and through the conversion of many small and middle capitals into one or several big capitals.

The accumulation, concentration and centralisation of capital led to the rise of monopolies and—at a definite stage—to the domination of monopoly capital, to imperialism.

3. CAPITALIST ACCUMULATION AND THE FORMATION OF A RESERVE ARMY OF LABOUR

The Substance and Sources of the Industrial Reserve Army of Labour

The growth of aggregate capital results in a growth in the absolute size of variable capital. But the growth of the organic composition of capital causes a contraction in the share of variable capital within the total mass of capital. Because the demand for labour power is determined by the magnitude of variable capital, the contraction of its share leads to a relative drop in the demand for labour power. The demand for it tends to grow more slowly than the aggregate social capital and production. Meanwhile, the supply of labour power on the labour market tends to increase. Capitalist competition leads to the ruin of small producers. Deprived of their own means of production, they are forced to

seek work for a wage. Besides, the development of machine production creates the conditions for the wage work of women and teenagers. The supply of labour power also tends to increase in consequence of the natural growth of the active population.

Meanwhile, the use of ever more productive hardware, the intensification of labour and frequently also a lengthening of the working day enable the capitalists to lay off some of their workers, while maintaining the same scale of production, and these workers go to swell the reserve army of labour. Consequently, while forcing a part of the working class to work excessively, the capitalists plunge into forced idleness the other part of it, namely, hundreds of thousands and even millions of unemployed.

Consequently, the mechanism of capitalist accumulation and the conditions in which capitalist production develops create a correlation between the supply of and demand for labour power, which is unfavourable for the working class. A section of the working class is doomed to unemployment. When production shrinks, this section sharply increases. When the economy is on the upgrade and enterprises require additional numbers of workers, the unemployment is reduced. The industrial reserve army is not only a product but also a condition of capitalist accumulation, "an indispensable attribute of the capitalist economy, *which could neither exist nor develop without it*".¹

The Capitalist Law of Population

How and to what extent labour resources are used and the specific conditions for population growth under a given mode of production are determined by the law of population. *The formation and growth of the industrial reserve army of labour is the economic law of population organic to capitalism.* Marx says: "The labouring population therefore produces, along with the accumulation of capital produced by it, the means by which it itself is made relatively superfluous, is turned into a relative surplus-population; and it does this to an always increasing extent."²

¹ V. I. Lenin, "A Characterisation of Economic Romanticism". *Collected Works*, Vol. 2, Progress Publishers, Moscow, 1972, p. 184.

² Karl Marx, *Capital*, Vol. 1, p. 591.

The capitalist law of population discovered by Marx exposed the obviously unscientific and biased nature of the attempts to proclaim some eternal law of population, allegedly operating in every socio-economic formation. Such an attempt was made in the late 18th century by Thomas R. Malthus, who claimed that the population tends to grow at a geometrical progression, and the means of subsistence only at an arithmetical progression; the condition of the working class is characterised by unemployment and low living standards because its numbers grow too fast. Marx showed these claims to be baseless, and set forth the true causes of the relative overpopulation under capitalism, which are rooted in the very substance of the accumulation of capital. The theory spun out by Malthus applies the laws of nature to the development of society.

Present-day Malthusians insist that the low living standards in the economically less developed countries allegedly result from an absolute "surplus" of the population, whereas, in actual fact, the relative surplus of the population (as compared with the labour power requirements for production) is the result of their long and savage exploitation by the imperialist powers. The way to eliminate mass poverty is not to eliminate the "surplus" population, as the Malthusians propose, but to eliminate capitalism.

Forms of Relative Overpopulation

Modern productive forces make it possible to employ the whole population in useful activity and to provide it with the means of subsistence. Overpopulation is, in fact, relative, that is, it is an excess of labour power as compared with the demand for it on the part of capital. It exists in three main forms:

1. *Current overpopulation* is expressed in the workers' alternative expulsion from and re-absorption into capitalist production. Current overpopulation results from the uneven development of capitalism, the accumulation of capital and changes in its organic composition in the various industries, and the alternation of boom and bust periods, which are inescapable under capitalism.

2. *Latent overpopulation* is connected mainly with agrarian overpopulation. The growth in the organic composition of capital in agriculture brings about an absolute contrac-

tion of demand for labour power. Simultaneously, small-scale farming is ousted by large-scale capitalist production, and a mass of small holders is ruined. These processes constantly generate agrarian overpopulation. It is latent because a large part of the labourers made redundant in agricultural production fail to find anything to do in the towns, and for that reason remain in the countryside, frequently engaging in small-scale farming, which does not provide them with the necessary means of subsistence. Large-scale latent overpopulation will be found in the towns, too, (small impoverished artisans, traders, etc.).

3. *Stagnant overpopulation*. To this Marx referred a part of the working class without regular employment, notably those in the "domestic industry". Many workers obtain jobs only from time to time, and they remain unemployed for so long that there is good ground to refer them to a category in the grip of a stagnant form of relative overpopulation.

The lumpen-proletariat apart, the *lowest sediment of the unemployed* consists of three categories: a) persons able to work but remaining without work for a long time, and living on charity; b) orphans and pauper children, the poor without any income or means of subsistence; and c) the mutilated, the sickly, the widows, the aged. This sediment "is the hospital of the active labour-army and the dead weight of the industrial reserve army".¹

Capitalism also has *partial unemployment*, which springs from the less than full employment of a large number of workers in view of the chronic underloading of production capacities. The existence of a mammoth army of unemployed and chronic unemployment are characteristic of present-day capitalism.

In the course of the scientific and technical revolution, so-called *technological unemployment* has emerged. It is brought about by the disappearance of a number of trades and the emergence of fundamentally new ones requiring not only special knowledge, but also a higher level of education, to which many workers have no access. This prevents them from finding jobs.

A new structural feature of the unemployed army today is that the percentage of employees within it has markedly increased.

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

Besides, unemployment has steadily spread to *workers by brain*: engineers, technicians, science workers, teachers and even managers.

Unemployment, bourgeois economists assert, results from inadequate effective demand for goods and from excessively high wages. They say that the inadequacy of effective demand is caused by the human propensity to save and by the inadequate incentives for investment.

However, it is the capitalist mode of production, notably, the operation of the accumulation of capital law, that causes unemployment under capitalism. The low wages tend to narrow the capacity of the capitalist market.

4. THE GENERAL LAW OF CAPITALIST ACCUMULATION. RELATIVE AND ABSOLUTE WORSENING OF THE CONDITION OF THE WORKING CLASS

The General Law of Capitalist Accumulation

It was Marx who discovered the *general law of capitalist accumulation*. He formulated it as follows: "The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army. ... But the greater this reserve army in proportion to the active labour-army, the greater is the mass of a consolidated surplus-population, whose misery is in inverse ratio to its torment of labour. The more extensive, finally, the lazarus—layers of the working class, and the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation.*"¹

The operation of the general law of capitalist accumulation builds up the antagonism between labour and capital, which inevitably leads to a revolutionary elimination of capitalism.

The Marxist-Leninist theory has established the existence of two contending trends in the capitalist society: a constant basic trend towards a worsening of the condition of the working class, which is determined by the accumulation of capital; and the countervailing tendency produced by the social forces burgeoning within the capitalist system: the

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

growing size, organisation and militant political consciousness of the working class and its allies. At a definite stage in world history, the world socialist system becomes a force exerting an influence on the internal contradictions of capitalism and creating favourable conditions for the successful struggle by the working class in the capitalist countries against the bourgeoisie.

But no matter how the conditions of the class struggle may change, however high wages may be in some periods, the objective economic laws of capitalism generate a basic trend towards a worsening of the condition of the working class.

Relative Worsening of the Working Class' Condition

The relative impoverishment of the proletariat means a worsening of its condition as compared with the battenning bourgeoisie. This process is described by Marx as follows: "The condition of the workers... *worsens* relatively in the same ratio as the general wealth increases, i.e., as capital is accumulated."¹

The concrete indicators of the relative worsening of the condition of the working class are: a contraction of the working-class share in the national income and an increase in the norm of surplus value; a contraction of the working-class share in the aggregate social product and in the national wealth.

In an article entitled "Impoverishment in Capitalist Society", Lenin emphasised that relative impoverishment is the most graphic process. Statistical data show that relative impoverishment also takes place in the period of industrial expansion. While real wages in that period may grow, the capitalist's profits tend to grow even faster.

Absolute Worsening of the Working Class' Condition

Marx says that the general law of capitalist accumulation determines the accumulation of misery corresponding with the accumulation of capital. However high a worker's wages, the workings of the objective laws of capitalism tend to worsen his condition. In a 1899 review of Karl Kautsky's

¹ Karl Marx, *Theories of Surplus-Value*, Vol. III, Progress Publishers, Moscow, 1975, p. 335.

book *Bernstein und das sozialdemokratische Programm. Eine Antikritik*, Lenin noted two phenomena characterising the worsening condition of the working class: a) a growth of poverty as physical poverty, and b) a growth of poverty not in the physical but in the social sense.¹

Physical poverty means malnutrition and even downright starvation for masses of the population, indecent housing conditions, and extremely limited potentialities for satisfying elementary requirements in clothing and household items, that is, absolute impoverishment in the proper sense of the word. A sizable part of the labouring population in the capitalist countries lives in a state of physical poverty, and this includes various categories of workers suffering from wage discrimination by sex and age and for racial and ethnic reasons, and those who work in arduous and hazardous conditions.

In the capitalist society, there is also a growing discrepancy between the rising level of requirements and the level of real consumption of the means of subsistence by the working class, that is, a growth of poverty in the social sense. The spread of this gap also means that the workers' condition is worsened in absolute terms.

While wages may rise, they do not, on the whole, correspond to the magnitude of the value of labour power. The consumption of new goods is frequently increased through cut-backs in the use of other necessary items. The workers' strength is exhausted by the excessive intensity of labour, and in order to rehabilitate it, he has need of much larger quantities of consumer goods. Thus, he needs better housing conditions and medical services, which in the capitalist countries are extremely expensive. With technical progress, there is also a rise in the general educational requirements presented to the worker, and he has to make definite outlays to reach and maintain that level. With the proletariat's growing social activity, the worker has need of money, for instance, to support the trade union of which he is a member.

Economic crises, in the course of which huge masses of men lose their jobs and are left without the means of subsistence, have a great influence on the absolute worsening of the working people's condition. The capitalists use the exis-

¹ See V. I. Lenin, "Review of Karl Kautsky's Book *Bernstein und das sozialdemokratische Programm. Eine Antikritik*", *Collected Works*, Vol. 4, Progress Publishers, Moscow, 1972, p. 201.

tence of millions upon millions of unemployed to keep the wages of those who work at a low level, thereby further worsening the condition of the whole working class.

Consequently, the development of capitalism, on the one hand, leads to a growth of requirements without whose satisfaction labour power can be reproduced only in an ever sicklier state, and on the other, causes growing insecurity within the working class. *The tendency towards a worsening of the condition of the working class is a socio-economic law of capitalism.*

The worsening of the proletariat's condition is countered by its class struggle against the bourgeoisie.

The Marxist-Leninist theory of capital accumulation refutes the apologetic theories concerning some community of interests between the capitalists and the workers, be it the "social partnership" theory, which depicts the capitalist and the worker as partners with common economic interests, or the "human relations" theory. The harsh reality in the capitalist countries incontrovertibly proves that the class interests of the workers and the capitalists have been—and remain—antithetical.

5. THE PROLETARIANISATION OF THE WORKING PEOPLE AND CHANGES IN THE STRUCTURE OF THE WORKING CLASS UNDER CAPITALISM TODAY

In the developed capitalist countries, there are over 100 million industrial workers, and together with the employees—220 million, or 79 per cent of the active population. In the less developed countries, capital exploits at least 100 million proletarians.

There is a steady increase in the share of industrial workers and employees within the active population of the capitalist countries. The numerical strength of the working class tends largely to grow from the conversion into proletarians of small producers of town and country. As capitalism develops, there is a change in the structure of the proletariat.

Over the past few decades, the share of those employed in manufacturing has grown within the industrial proletariat. The number of workers in modern industries, like the atomic, missile, electronic, petrochemical and other indust-

ries—has gone up. These industries are characterised by a high level of concentration of production. As the scientific and technical revolution advances, an ever larger part of the labour force is concentrated at the biggest enterprises.

Substantial changes have taken place in the trades structure of the working class. In the early 20th century, the industrial proletariat consisted mainly of universal-type skilled workers (machine operators, fitters, mechanics, etc.) and general workers. The introduction of assembly lines in the 1920s and 1930s led to the emergence within the proletariat of high-skilled workers controlling sets of machines, workers specially trained to perform simple operations on assembly lines, flow lines, etc. Automation has caused more changes in trades and skills. Some of the massive trades became superfluous or lost their erstwhile importance (like carpenters or pattern-makers). Among the new trades are electronic equipment mechanics, operators, setters-up of automatic machines, and so on.

The increase in the numerical strength of the industrial proletariat and the growing share of workers employed in the technically most advanced and concentrated industries testifies to the growing social role of the most active, conscious and organised contingents of the working class.

Historical Tendency of Capitalist Accumulation and the Growth of the Proletariat's Forces

With the accumulation of capital under full-fledged capitalism, there is a growth of the concentration and centralisation of capital. In the course of competition, the small capitalists are expropriated by the big capitalists. An ever greater part of the aggregate social capital is concentrated in the hands of the biggest capitalists and their associations, while an ever more sizable part of aggregate production is concentrated at the big and giant enterprises. There is a parallel development of the social division of labour. Many industries are fragmented to form new narrowly specialised branches. Ever closer ties are established between the specialised parts of social production through the market.

The accumulation of capital, therefore, goes hand in hand with an enhancement of the social character of production, but the means of production are simultaneously concentrated in the hands of a relatively small number of capitalists.

This tends to sharpen the basic contradiction of capitalism, that between social production and private capitalist appropriation. This means that capitalist relations of production do not correspond to the nature of the productive forces. As capitalism develops and the accumulation of capital grows, this discrepancy is intensified. As a result, capitalist relations of production, once a factor behind the development of the productive forces—as they were in the initial period of capitalism—are increasingly converted into a factor slowing down their development.

The growing capitalist socialisation of production and labour creates the material prerequisites for transition to a more progressive social system, namely, socialism. In the process of its development, capitalism creates not only the objective but also the subjective prerequisites for the transition to socialism.

With the development and amalgamation of capitalist production there is a growth in the numerical strength of the proletariat together with its ever more intense exploitation, and this brings about an improvement in the organisation and cohesion of the working class, and raises its class consciousness. The proletariat sets up its own trade unions and political parties and carries on an economic, political and ideological struggle against capitalism. In many capitalist countries, the working class, led by its communist vanguard, rallies round it the non-proletarian masses of the working people and ever more resolutely attacks the system of capitalist exploitation, demanding its replacement by socialism, a social system without private property in the means of production or man's exploitation of man.

The working class is engaged in large-scale machine production. It is the most organised and progressive class, because its vital interests are in line with the course of historical development. In performing its mission of effecting a revolutionary transformation of the capitalist system and establishing a new system, the working class expresses not only its own class interests but also those of all the other working people. It is the leader of all the forces fighting against capitalism.

Capitalists make extensive use of the capitalist state, an instrument of capital's political dictatorship, for the purposes of their drive against the working people's vital interests and suppression of their class action. In our day,

action by workers is aimed not only against this or that capitalist entrepreneur, but also against the capitalist state, against the very pillars of the present-day capitalist society.

The historical tendency of capitalist accumulation is, in effect, preparation and development of the objective and subjective prerequisites for a revolutionary transition from capitalism to socialism.

Marx's prediction that capitalism is a historically transient system has been fully borne out. Socialism has already triumphed in a number of countries, and a world socialist economic system has taken shape. The capitalist economic system, which exists alongside of it, is in the throes of a deep crisis.

Chapter seven

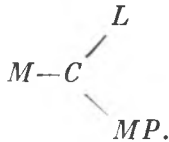
THE CIRCUIT AND TURNOVER OF CAPITAL

In its movement, capital runs through the process of production and the process of circulation. That is why it is important to examine capital in movement and, in particular, to analyse the sphere of circulation and its influence on the production of surplus value. This problem is scientifically analysed in Volume II of Marx's *Capital*.

1. THE CIRCUIT OF CAPITAL

The Three Stages in the Circuit of Capital

The movement of any capital invested in production starts in its money form. The owner of capital advances a definite amount of money for the purchase of factors of production: the means of production (*MP*) and labour power (*L*). The *first stage in the circuit of capital* may be expressed as follows:



At this stage of the circuit, money capital is converted into productive capital. After this, the process of circulation of the advanced value is interrupted.

The purchase of labour power on the labour market is the crucial condition for the conversion of the advanced value, appearing earlier in the money form, into capital, that is, value which yields surplus value. The purchase of labour power, that is the act $M-L$ expresses the class relations

between the capitalist and the wage worker. The purchase of the means of production, that is, the act $M-MP$, expresses the relations between the capitalists concerning the distribution of the means of production.

The *second stage in the circuit of capital* consists in the productive consumption of the means of production and labour power purchased by the capitalists. It is expressed as: $\dots P \dots$. The dots before the P indicate that the circulation of capital is interrupted, but the process of its circuit has not stopped, because from the sphere of commodity circulation it enters the sphere of production. The functioning of productive capital produces a commodity embodying surplus value. Once the commodity has been produced, the process of production is once again interrupted, and productive capital is converted into commodity capital, into C .

The *third stage in the circuit of capital* is designated by the formula $C'-M'$, where C' means that the produced commodity contains surplus value. At this stage, the capitalist operates as the seller of the commodities produced at his enterprise. As a result of their sale, capital once again assumes its initial form, its money form. Surplus value is also converted from its commodity form into its money form.

So, in its movement, capital consistently assumes three forms: the money, the productive and the commodity form, corresponding to the three stages of its circuit. One of these stages relates to the sphere of production, and the other two to the sphere of circulation.

The conversion of capital from its productive form into its commodity form is called by Marx the real metamorphosis of capital, in contrast to its formal metamorphoses, which occur in the sphere of circulation at the first and third stages, and in the course of which capital does not expand but merely changes its forms.

The *movement of capital in the course of which it is successively converted from one form into another and returns to its initial form*, was called by Marx the *circuit of capital*. It is expressed in the following formula:

$$\begin{array}{c}
 L \\
 \diagup \\
 M-C \\
 \diagdown \\
 MP
 \end{array}
 \quad \dots P \dots C' - M'.$$

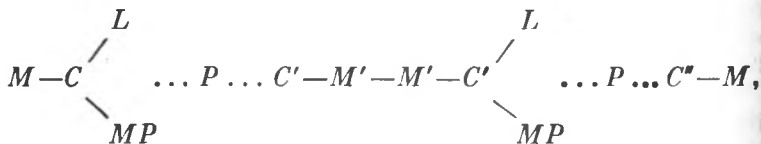
It shows very well that the purpose of capitalist production is the expansion of advanced capital value by the amount of surplus value.

Three Forms of Industrial Capital

The circuit is performed by industrial capital. The word "industrial" is used here in the sense in which it applies to any sector of production run on capitalist lines.

The circuit of industrial capital is a unity of the process of production and the process of circulation. At each stage of the circuit, capital performs special economic functions. The function of money capital is to combine the means of production and the labour power in the hands of the capitalist; the function of productive capital is to create surplus value, and the function of commodity capital is to realise the capital value and the surplus value. Money capital, productive capital and commodity capital are the functional forms of industrial capital.

Since the purpose of capitalist production is the expansion of surplus value, the movement of capital is not confined to one circuit and is constantly resumed. As a result, the formula for the circuit of capital assumes the form of an endless spiral:



and so on.

In the process of the ceaseless resumption and repetition of the circuit, industrial capital not only successively assumes three forms—money, productive and commodity—but will simultaneously be found in all these three forms at any given moment. The capitalist must constantly have at his disposal capital in the money form, in order to be able to hire the labour power and purchase the means of production. A part of his capital must and does remain in the sphere of production. The finished product must be constantly fed into the marketing outlets. Any delay in the sale of the finished products, that is, in the conversion of capital from its commodity into its money form, may cause

a shortage of capital in the money form, so preventing the replenishment of the elements of production. Consequently, each industrial capital exists simultaneously in all three forms, and this is a necessary condition for the continuity of capitalist production.

The Three Forms of the Circuit of Industrial Capital

Each functional form of industrial capital has its own circuit. The *circuit of money capital* is expressed as

$$M - C \begin{array}{l} \nearrow L \\ \searrow MP \end{array} \dots P \dots C' - M'.$$

This coincides with the general formula of the circuit of industrial capital and is the most explicit expression of the purpose of capitalist production, namely, the expansion of surplus value.

The *circuit of productive capital* is expressed in the following form: $P \dots C' - M' - C' \begin{array}{l} \nearrow L \\ \searrow MP \end{array} \dots P$, and emphasises the continuity and reiteration of the process of production.

The formula of the *circuit of commodity capital* is as follows: $C' - M' - C' \begin{array}{l} \nearrow L \\ \searrow MP \end{array} \dots P \dots C''$. The circuit of commodity capital opens with the expanded capital value, and consists in the realisation of the capital value and surplus value.

An analysis of the three forms of the circuit of capital shows the content of the circuit of industrial capital. Only the unity of all the three forms of circuit makes for the uninterrupted movement of capital, for the unity of the process of production and the process of circulation. What is common to all the forms of circuit of capital is the expansion of value as the ultimate goal and motive force of capitalist production.

The continuous circuit of industrial capital requires a successive and constant change of its forms and the main-

tenance of the necessary proportions between them. But this continuity in the circuit of capital is periodically interrupted because of the domination of capitalist property in the means of production, and the antagonistic and haphazard development of capitalist production.

Capitalist Production and Circulation

The circuit of industrial capital is a unity of the process of production and the process of circulation. In the process of circulation there is only a change in the forms of capital: it is converted from the commodity form into the money form, and from the money form into the commodity form. The priority belongs to production, because that is where commodities, value and surplus value are created. Only in the process of production, as a result of the exploitation of wage labour, is there a real expansion of capital and a change in capital value. In the process of circulation, it is not the magnitude but only the form of capital that is changed.

However, circulation exerts a definite influence on production. When the realisation of commodities is accelerated, it promotes the growth of production, and when it is slowed down, it operates as a constraint on it.

Bourgeois economists assume that the sphere of circulation has the crucial role to play vis-à-vis the sphere of production, and claim that value is created in the sphere of circulation, an assertion which is theoretically substantiated in the so-called *exchange conception*. On the assumption that value is created in the sphere of circulation, the relations between the capitalists and wage workers are presented as relations of equality involving reciprocal services: the capitalist allegedly pays the workers in full for their labour, while the workers perform the production, technical function, which is useful for the capitalist. The suggestion is that no capitalist exploitation exists.

The exchange conception is characteristic of the whole of bourgeois economics. John M. Keynes, for instance, substituted the concept of a money economy for the capitalist economic system, and held the market to be of crucial importance.

Present-day reformists argue the possibility of radical social transformations under capitalism through an improve-

ment of exchange. But changes in the sphere of circulation (for instance, government take-over of banks) will not dismantle the pillars of capitalism—private property in the means of production and the exploitation of wage labour. Only the elimination of capitalist relations can change the nature of circulation and subordinate it to the interests of society as a whole.

2. THE TURNOVER OF CAPITAL. FIXED CAPITAL AND CIRCULATING CAPITAL

The Turnover of Capital

The circuit of capital seen not as a separate act but as a periodical process is known as the turnover of capital.

The movement of capital proceeds in the course of a definite period. The total time in the course of which the whole advanced capital value goes through the stages of production and circulation constitutes the *time of turnover of capital*.

A year is usually taken as the unit of time in order to compare the speed of the turnover of functioning capitals. The speed of their turnover can be determined if we know the number of turnovers performed by various capitals within a year.

The number of turnovers of capital is calculated according to the formula: $n = \frac{T}{t}$, where n is the number of turnovers, T —the unit of measure of the turnover time (1 year = 12 months) and t —the time of turnover of a given capital. Thus, a capital which is turned over once in three months is turned over four times a year ($n = \frac{12}{3}$), and a capital with a turnover time of 18 months will perform only two-thirds of its turnover in the course of a year ($n = \frac{12}{18}$).

The acceleration of capital turnover has a substantial influence on the magnitude of the advanced capital and, as we shall see, on the mass and norm of surplus value for the year as a whole. The faster the turnover of capital, the more rapid the turnover of its variable part, and the larger the capitalist's surplus value.

The composition of productive capital, which is divided into fixed and circulating capital, is one of the key factors behind the speed of capital turnover.

Fixed Capital and Circulating Capital

The division of capital into fixed and circulating is predetermined by the different nature of the turnover of its component parts and the mode in which their value is transferred to the product. Elements of productive capital which are involved in the process of production in their entirety but which transfer their value to the product in parts, as it is subjected to wear and tear, are known as *fixed capital*. This includes the capital advanced for the purchase of the instruments of labour, that is, for the erection of industrial buildings, purchase of machinery, equipment, etc. Fixed capital is advanced by the capitalist at once for the whole period of its functioning, but its value is extracted from circulation in portions.

Circulating capital is that part of productive capital whose value, as it is consumed, is fully transferred to the product and is returned in its entirety to the capitalist in the money form in the course of each circuit. Circulating capital includes the capitalist's expenditures on the purchase of the objects of labour, like raw and auxiliary materials, fuel, etc., which are fully consumed in the process of production. They either enter the finished product materially or help to make it.

Circulating capital also includes that part of capital which is advanced for the purchase of labour power, that is, variable capital. In the process of production, labour power does not transfer its value to the product being created, but creates its equivalent and surplus value. In mode of circulation, variable capital does not differ from the other elements of circulating capital. The capitalist's expenditures on the purchase of labour power are fully included in the value of the commodities produced and are returned in their entirety to him after their realisation.

The division of productive capital into fixed and circulating obscures its division into constant and variable capital, for it leaves the impression that variable capital is a part of circulating capital. That is why, it appears that surplus

value is a product of the whole of advanced capital, and not just of its variable part.

Fixed and circulating capital have different speeds of turnover. Circulating capital performs several turnovers within the period in which fixed capital performs one turnover. That is why the greater the share of circulating capital within advanced capital, the shorter the time of turnover for the whole of capital, and consequently, the larger the surplus value received by the capitalists.

The division of capital into fixed and circulating applies only to productive capital. Commodity and money capitals are *capital in circulation*.

Wear and Tear and Obsolescence of Fixed Capital

There is a definite average duration for the use of fixed capital, because in the process of its use it is subject to wear and tear and obsolescence.

The *wear and tear* of fixed capital means that as the instruments of labour are used they lose their use value, and their value is transferred to the product to the extent to which they lose their use value.

The *obsolescence* of fixed capital occurs as a result of the capital's depreciation, regardless of the extent of its wear and tear. There are two types of obsolescence. The first is determined by the fact that it is ever cheaper to produce the machines of the old design because of the reduction in their value as a result of growing labour productivity. The second is connected with the design of better machines, and this reduces outlays per product unit. Accordingly, the functioning fixed capital partially depreciates. Massive obsolescence of fixed capital usually occurs during economic crises of overproduction.

In their efforts to accelerate the transfer of the value of fixed capital to the newly produced commodities, so as to recoup the advanced capital as soon as possible, the capitalists seek ways of getting the wage workers to perform their work with greater intensity or ways of intensifying their exploitation.

Depreciation

The value of the instruments of labour transferred to the commodities created and returned to the capitalist in money form once these are sold constitutes the *depreciation fund*,

that is, a fund for the replacement of fixed capital. The ratio of the amount of depreciation allowances to the value of the instruments of labour expressed as a percentage represents the *rate of depreciation*. It takes into account the wear and tear and obsolescence of fixed capital. Technical progress is the most important factor accelerating obsolescence and inducing the capitalists rapidly to replace their fixed capital.

Driven by competition, the capitalists seek to recoup a sizable part of their capital investments at the earliest and most intensive stage of exploitation of the new equipment. That is why the rates of depreciation are increased.

With scientific and technical progress, fixed capital tends to increase faster than circulating capital, so inevitably raising the degree of the exploitation of the working class and ousting a sizable part of the workers from the sphere of production.

With the growth in the scale of fixed capital, industrial capital loses its mobility and capacity for rapidly switching from production of one type of goods to production of other types. It is more difficult to transfer capital from one industry to another. All of this goes further to aggravate the contradictions of the capitalist mode of production.

Capital Turnover Time and Its Components

The time of the turnover of capital is that time in which it takes the whole of the advanced value to move through the sphere of production and the sphere of circulation. Apart from the composition of productive capital, the time of production and the time of circulation have a substantial effect on the duration of the turnover of capital.

The *time of production* is the time during which capital remains in the sphere of production. This includes, first, the time of the direct action on the object of labour, second, the time of action on the object of labour by natural forces, and also the interruptions in the production process connected with the technique of production, and third, the time in which productive capital remains in the form of business stocks.

The time in the course of which the worker directly acts on the object of labour constitutes the working period. It

is the time in the course of which the object of labour is directly acted upon by living labour. It is in the working period that value and surplus value are created.

The duration of the working period has an influence on the turnover velocity and the magnitude of the advanced capital. The shorter the working period, the faster capital is turned over and, consequently, the less capital needs to be expended on production. In order to accelerate the turnover of capital, the capitalist seeks to reduce the working period by raising the productivity and intensity of labour, introducing multi-shift work, making diverse technical improvements, etc.

The present level in the development of production, the major advances in chemistry, biology and other sciences make it possible sharply to reduce the time spent on natural processes in industrial production, and to intensify them, so accelerating the turnover of capital.

A great influence on the duration of the turnover of capital is exerted by the *time of circulation*, that is the time in the course of which capital is in the sphere of circulation. This time differs in the various sectors of production, and consists of the time it takes to transport the commodity from the producer to the consumer, to store business stocks, sell finished goods, and buy the means of production and the labour power.

Under capitalism it is harder to sell the commodities produced than to buy the means of production. As capitalism develops, the difficulties of marketing commodities tend to increase, despite the fact that the volume of the capitalist market increases (in view of the increase in government procurement, growing sales in credit, etc.). The working people's purchasing power is inadequate; that part of capital which assumes the commodity form and is expended on the use of the means of transport, communications, storage, etc., tends to increase. Another factor that lengthens the time of the turnover of capital is that a part of it is periodically released in the process of its circuit, and assumes the form of temporarily uncommitted money capital, which is accumulated as a reserve fund used for purchases and payments. With the development of the credit system, money capital temporarily uncommitted at one enterprise may be used at other enterprises through the medium of the banks.

A reduction in the time of circulation tends to reduce the

capital employed in the sphere of circulation, and creates the prerequisites for increasing the capital in the production sphere, and consequently, for increasing surplus value.

The Aggregate and Real Turnover of Capital

The *aggregate turnover* of advanced capital is the average turnover of the fixed and circulating capitals. The various elements of the fixed capital have a different life span and so turn over in different periods. The time of the turnover of the fixed capital, or the time of its reproduction, determines the cycles of turnover of the whole of the advanced capital.

The circulating capital performs the full turnover in each circuit and the duration of its turnover, all other conditions being equal, is determined by the time of production and the realisation of the product.

The *real turnover* of capital is the replacement of all its constituent parts both in terms of value and material composition.

For all practical purposes, the turnover of capital in value occurs faster than its replacement in material form. It takes a number of turnovers of capital value for the capital to be replaced in material terms. That is why the real turnover of capital includes a cycle of inter-related turnovers of its constituent parts.

3. THE TURNOVER OF VARIABLE CAPITAL AND ITS INFLUENCE ON THE ANNUAL MASS AND ANNUAL RATE OF SURPLUS VALUE

In mode of turnover, variable capital relates to circulating capital. But the turnover of variable capital has its own peculiarities. In contrast to the other components of circulating capital, the capital advanced for the purchase of labour power is not transferred to the product, but is reproduced in the given process of production, expanding by the magnitude of the surplus value. That is why at the stage of circulation it is not the advanced variable capital but a new value that is realised. When the produced commodities are sold, the new value replacing the earlier advanced variable capital assumes the form of money and is once again advanced for the purchase of labour power.

On the speed of the turnover of variable capital depend the annual mass and annual rate of surplus value.

The sum of surplus value produced in the course of a year with a given amount of advanced variable capital constitutes the *annual mass of surplus value*.

The ratio of the mass of surplus value obtained in the course of a year to the advanced variable capital constitutes the *annual rate of surplus value*. It is equal to the rate of surplus value obtained in one turnover of variable capital multiplied by the number of turnovers within a year.

The faster the variable capital turns over, the larger is the mass of surplus value appropriated by the capitalists.

Take two enterprises with the same variable capital (\$5,000 each), with the rate of exploitation coming to 100 per cent. The first capitalist has his variable capital perform 12 turnovers a year, and the second only one turnover. In the course of the year, the first capitalist obtains \$60,000 of surplus value ($5,000 \times 12$), and the second only \$5,000. This is also reflected in the annual rate of surplus value.

In the first instance, it comes to 1,200 per cent ($\frac{60,000}{5,000} \times 100$)

and in the second to 100 per cent ($\frac{5,000}{5,000} \times 100$). This

difference in the annual mass and annual rate of surplus value arises from the fact that the first capitalist's advanced variable capital turns over faster.

The fact that advanced variable capitals which are similar in magnitude produce different annual masses and annual rates of surplus value when turning over at different speeds is used by bourgeois economists to assert that surplus value springs from circulation. That this is not so will be quite obvious if a distinction is drawn between the advanced variable capital and the variable capital actually used in the course of the year.

Advanced variable capital is capital used to pay wages in the course of a year. The actually used variable capital may be greater than the advanced variable capital if the latter performs several turnovers a year.

In the above example, the advanced variable capital of the first capitalist performed 12 turnovers a year. So, the variable capital he actually used in the course of the year came to \$60,000 ($5,000 \times 12$). That is why the number of workers exploited by the first capitalist was 12 times larg-

er than the number of those exploited by the second capitalist.

Consequently, analysis of the circulation of capital shows that all the factors which directly or indirectly influence the speed of capital turnover are also factors intensifying the exploitation of the working class.

Chapter eight

PROFIT AND THE PRICE OF PRODUCTION

It is not only the production and realisation of surplus value that are effected in the movement of capital: surplus value is also distributed between the various groups of capitalists. The problems of distribution of surplus value were analysed by Marx in Volume III of his *Capital*. This chapter describes the laws and mechanism underlying the realisation and distribution of surplus value between industrial capitalists, and the attendant deepening of the contradictions between the working class and the capitalist class, and the sharpening of all the contradictions of capitalism.

1. THE CONVERSION OF SURPLUS VALUE INTO PROFIT

Value and the Capitalist Costs of Production

The value of a commodity for a society and its value for the capitalist are two different magnitudes. The value of a commodity for a society is made up of all the expenditures of socially necessary labour on its production. However, it is not labour but capital that the capitalist expends on the production of a commodity, with one part of it going to buy the means of production, and the other to pay for the labour power. Surplus value does not cost the capitalist anything, for he does not pay for the whole of the new value created by the worker ($v + m$), but only for a part of it, and that is equal to the price of the labour power used. Consequently, "the capitalist cost of the commodity is measured by the expenditure of *capital*, while the actual cost of the commodity is measured by the expenditure of *labour*".¹

¹ Karl Marx, *Capital*, Vol. III, p. 26.

The capitalist costs of production consist of a part of the value of the commodity which is separated in the process of capital turnover, and which is equal to the amount of the constant and variable capital expended on its manufacture. These costs of production are expressed by the formula: $k=c + v$. The formula of the value of a commodity $W=c + (v + m)$ is converted into the formula: $W=k + m$, that is, the value of the commodity is equal to the costs of production plus surplus value.

The capitalist costs of production are an expression of real relations of production in the capitalist society: if the process of production has to be resumed even on the old scale, there is a need to use a part of the receipts for sold commodities to replace the expended means of production and to hire wage labour. The reality of the capitalist costs of production is also expressed in the fact that they constitute the lowest limit of the selling price of the commodity below which the price will not cover the capitalist's expenditures, so making it meaningless for him to carry on the production of commodities.

The separation of a part of the value of the commodity in the form of capitalist costs of production obscures the real source of surplus value: the living labour of wage workers.

*Profit,
the Converted Form of Surplus Value*

On the surface of the capitalist society, surplus value assumes the form of profit. The latter is a product not only of variable, but also of the whole of the advanced capital. This is due to the fact that in the capitalist costs of production the dividing line between constant and variable capital is obliterated, and so the source of surplus value is obscured. *Surplus value appearing as the offspring of the aggregate advanced capital assumes the converted form of profit.*

Designating profit as p , and the capitalist costs of production as k , the formula for the value of a commodity assumes the form: $W=k + p$, that is, the value of a commodity is equal to the costs of production, plus profit. This expression for the value of a commodity covers up the capitalist relations of exploitation.

The magnitude of the profit depends not only on the conditions of production but also on the conditions of the sale of commodities. Where the selling price of the commodity coincides with its value, profit is equal to surplus value, and where the price deviates from the value, the magnitude of the profit deviates from surplus value accordingly. This creates the impression that profit is created in the sphere of circulation. But profit cannot originate in the sphere of circulation, because the value of commodities is created in the process of their production and not of their sale.

Bourgeois economists try to camouflage the exploitive substance of profit. Back in the early 19th century, Jean Baptiste Say set forth a theory of the factors of production, according to which each of the three factors involved—land, labour and capital—allegedly has independent productivity and is the source of the corresponding type of income: the land yields ground rent, labour—wages, and capital—profit. The suggestion was that no one is exploited by anyone, that each receives his income, and that profit results from the productivity of capital. Bourgeois economists make wide use of the productivity theory even today.

That is an untenable theory. First, it identifies capital and the means of production. But the fact is that the means of production are not in themselves capital. They become capital when they are converted into an instrument for the exploitation of wage labour. Second, the means of production are invested with the capability of independent activity not connected with the labour of the workers. In actual fact, the workers alone possess productive power, and they produce material goods by using the means of production, which do not create value.

Bourgeois economists also have theories of expectation and risk, claiming that profit is the capitalist's reward for putting his capital at risk and never being sure of the extent to which his investment in production will be recouped.

The class meaning of the bourgeois theories of profit, their unscientific and apologetic nature, amount to an attempt to prove that there is no exploitation of wage labour under capitalism and that, on the contrary, there is harmony of class interests, so that everyone receives as much as he produces in accordance with the laws of the market.

2. THE RATE OF PROFIT AND ITS FACTORS

The Rate of Profit and Its Distinction from the Rate of Surplus Value

In advancing capital for the production of commodities, the capitalist's main interest lies in the degree of its expansion. This is expressed in a comparison between the surplus value obtained in a year and the whole of the advanced capital, that is, in the rate of capitalist profit. The *rate of profit is the ratio of surplus value to the whole of the advanced capital* (because it is not only variable but also constant capital that is involved in the process of production), *expressed as a percentage*.¹

The rate of profit is expressed in the following formula:

$$p' = \frac{m}{AC} \times 100 = \frac{m}{c+v} \times 100,$$

where p' is the rate of profit, and AC —the advanced capital.

The rate of profit is always smaller than the rate of surplus value. Whereas the rate of surplus value is determined by the ratio of the obtained surplus value to the variable capital ($\frac{m}{v}$), the rate of profit is the ratio of the same mass of surplus value to the whole of the advanced capital

$$\left(\frac{m}{c+v} \right).$$

The rate of profit is the converted form of the rate of surplus value. Whereas in the rate of surplus value, the surplus value appears as the result only of variable capital, which corresponds to the actual state of things, in the rate of profit the surplus value appears as the offspring of the whole of the advanced capital, and this distorts the actual relations of the capitalist exploitation of wage workers. The rate of profit camouflages the real degree of exploitation and shows

¹ $c + v$ is a formula which expresses not only the advanced capital but also the current costs of production, but these two concepts should not be identified. The advanced capital includes the whole of the constant and variable capital. As for the costs of production, they include only a part of the advanced capital expended, in the course of a year, on wages and the means of production, which are consumed in the process of production. Marx's doctrine of fixed and circulating capital provides the theoretical basis for an understanding of the distinctions between advanced capital and the costs of production.

the extent to which the capitalist enterprise is advantageous and profitable, and the extent of the self-expansion of capital. Marx says: "The rate of profit is the motive power of capitalist production. Things are produced only as long as they can be produced with a profit."¹

The *mass of capitalist profit*, which shows the absolute scale of capitalist gain, closely depends on the rate of profit. The mass of profit is determined by the magnitude of the advanced capital and the rate of profit:

$$p = AC \times p'.$$

With the magnitude of the advanced capital constant, the mass of profit tends to increase in direct proportion to the rise in the rate of profit. This induces the capitalist to make the utmost use of all the factors behind its growth.

Factors Determining the Rate of Profit

The rate of profit depends above all on the *rate of surplus value*. The higher the rate of surplus value, the higher, all other things being equal, the rate of profit. This is due to the fact that an increase in the rate of surplus value leads to an increase in its mass, and this, for its part (the advanced capital being constant), leads to a rise in the rate of profit.

All the methods by which the capitalists increase the rate of surplus value (a longer working day, greater intensity of labour and its productivity, lower wages as compared with the value of the labour power, etc.) simultaneously go to increase the rate of profit as well.

The rate of profit depends on the *organic composition of capital* and changes in inverse proportion to its magnitude: the lower the organic composition of capital (that is, the larger the share of variable capital), the higher (all other conditions being equal) the rate of profit and vice versa.

The rate of profit is also influenced by the *speed of the turnover of capital*: all other conditions being equal, the rate of profit is directly proportional to the number of turnovers of capital and inversely proportional to the time of its turnover.

Economies in the use of constant capital are a factor which influences the rate of profit. Such economies enable the capi-

¹ Karl Marx, *Capital*, Vol. III, p. 259.

talist to reduce the costs of production, and this increases the mass and rate of profit at the same selling prices. In addition, all other conditions being equal, economies in the use of constant capital tend to lower the organic composition of capital, and this increases the rate of profit. These economies are obtained by lengthening the working day and intensifying the labour of the wage workers. With the same fixed capital, this sets in motion a larger mass of living labour, so yielding more surplus value and a higher rate of profit.

Economies on labour conditions are an important way of reducing expenditures on constant capital. But wherever expenditures are made to improve working conditions, these are well compensated by higher labour productivity and intensification of labour.

Making use of the achievements of the scientific and technical revolution and applying camouflaged and more refined methods of exploitation, capitalism has now brought about a marked acceleration in the pace of production and a higher degree of labour intensification.

3. FORMATION OF THE AVERAGE RATE OF PROFIT AND CONVERSION OF THE VALUES OF COMMODITIES INTO PRICES OF PRODUCTION

Intrasectoral Competition and Formation of Market, or Social Value

Competition is an antagonistic form of economic rivalry, a struggle between entrepreneurs for the most advantageous conditions for the investment of capital with the purpose of obtaining the highest profit. Its main method in the epoch of free competition is reduction of the costs of production and the prices of the marketed commodities. Of some importance in the competition are also the raising or lowering of the quality of commodities, the use of advertising, etc.

Intrasectoral competition is the struggle between the capitalists in one and the same branch of production for the most advantageous conditions of production and marketing of commodities, and for the extraction of superprofits. It is the starting point in the whole mechanism of price formation and competition. In every industry there are

many enterprises which differ in size, technical equipment, technology and organisation of production, and consequently, in the level of labour productivity. This means that the individual values of similar commodities produced at different enterprises are different. The magnitude of the value of a commodity is not determined by the expenditures of individual, but of socially necessary labour. *The social value of commodities established as a result of intrasectoral competition* was designated by Marx as *market value*. The market, or social value, is determined by the individual value of the commodities which are produced under average conditions in the given sphere and which constitute a sizable mass of its products.

The owners of enterprises functioning in better conditions receive additional profit or superprofit, which is equal to the differential between the market value and the individual value. Conversely, capitalists who own technically backward enterprises turning out commodities at an individual value that is over and above the market value lose a part of the produced value and cannot fully realise the surplus value embodied in the commodities they own. They fail to stand their ground in the competition, and many go to the wall.

For each individual capitalist, superprofit is not a constant phenomenon. It goes to the capitalists whose enterprises use the latest methods of production, and they continue to receive it so long as most enterprises have not introduced the methods. In this way, intrasectoral competition tends to stimulate scientific and technical progress and promote the growth of the organic composition of capital in the given branch and, consequently, a reduction in the sectoral rate of profit. In the drive for superprofit, the small and technically backward enterprises cannot stand the competition and are ruined, while the big enterprises, equipped with the up-to-date equipment, strengthen their positions.

Superprofit is the converted form of excess surplus value.

Intersectoral Competition and the Formation of the Average (General) Rate of Profit

Intersectoral competition is competition between capitalists in different sectors of the economy for profitable spheres of capital investment.

The differences in the organic composition of capitals mean that capitals of the same magnitude operating in different sectors of production set in motion different quantities of living labour and produce different masses of surplus value. This inevitably produces differences in the rates of profit (provided commodities are sold at social value).

Anything like substantial differentials in the rate of profit cannot be maintained for long. Under free competition, the capitalists in industries where the rate of profit is lower will seek to invest their capital in the industries with the highest rate of profit. The mass transfusion of capitals, and of labour together with them, from one industry to another inevitably tends to change the balance between the supply of commodities and their demand, and so cause a deviation of prices from value.

The outflow of capitals from an industry with a low rate of profit will inevitably reduce the scale of production in it. The prices of the commodities produced at enterprises in the given industry will rise above their value, and the rate of profit will increase. Conversely, in industries with a high rate of profit, the influx of new capitals will tend to increase the scale of production, prices will drop below value and the rate of profit will fall. This ebb and flow of capitals from one industry to another will continue until the rate of profit in all the industries is equalised into an average, or general, rate of profit.

The average rate of profit is the ratio of the aggregate surplus value created by the whole working class to the whole social capital invested in all the sectors of production and expressed as a percentage. For instance, if the social capital is equal to 300 monetary units ($240c + 60v$), and the mass of surplus value to 60 units, the average rate of profit comes to 20 per cent $\left(\frac{60m}{240c + 60v} \times 100\right)$. The profit obtained in accordance with the average rate on the advanced capital is known as average profit.

The Price of Production as the Converted Form of Value

The conversion of profit into average profit produces a situation in which commodities are not sold at value, but at the prices of production. *The price of production includes the*

costs of production and the average profit on the advanced capital.

Let us assume that the advanced capital in all the industries turns over once a year; it will, accordingly, be equal to the sum-total of the costs of production. Assuming the rate of surplus value to be equal to 100 per cent, the formation of the average rate of profit and the conversion of value into the price of production will appear as follows:

Industries	Advanced Capital ($c + v$)	Rate of surplus value (m' , %)	Surplus value (m)	Cost of commodities ($c+v+m$)	Average rate of profit (p' , %)	Average profit (p)	Price of production ($k + p$)	Deviation of prices of production from value
I	$90c + 10v$	100	10	110	20	20	120	+10
II	$80c + 20v$	100	20	120	20	20	120	coincides
III	$70c + 30v$	100	30	130	20	20	120	-10
	$240c + 60v$		60	360		60	360	0

$$p' = \frac{60m}{240c + 60v} \times 100 = 20 \%.$$

The price of production in our example comes to $100k + 20p = 120$. When selling their commodities at the prices of production, the capitalists in the third industry lose 10 units of the surplus value created at their enterprises, while the capitalists in the first industry, where the organic composition of capital is the highest, receive an additional profit equal to 10 units. In the second industry, which has an average organic composition of capital, the price of production coincides with value. In social production, as a whole, the mass of surplus value coincides with the mass of profit, the sum-total of value (360) coincides with the sum-total of the prices of production (360). This means that intersectoral competition results only in a spontaneous redistribution of aggregate surplus value between capitalists in various industries, but is not a new source of it.

Consequently, *in the capitalist society there is an economic law of average profit in accordance with which the aggregate mass of surplus value is spontaneously redistributed in the marketing process between capitalists in the various industries in*

proportion to the magnitude of the advanced capitals invested in production. Each capitalist does not receive the surplus value which is produced at his enterprise, but a profit equal to the magnitude of his advanced capital multiplied by the average rate of profit. Only in industries operating in average conditions of production do surplus value and average profit coincide. As a result of the spontaneous redistribution of surplus value and the equalisation of profit into average profit, the value of commodities is converted into the price of production.

The price of production is the converted form of value. It differs from the value of a commodity in form and magnitude. The magnitude of value is measured by the time socially necessary for the production of a commodity. *The price of production is determined by the costs of production and the average profit on the advanced capital.* Both elements of the price of production are not connected outwardly with the expenditures of labour but with the magnitude of the used capital, which is why, on the surface of the capitalist society, the costs of production appear as expenditures of capital and not of labour, and average profit, as the product of the whole of advanced capital, instead of the surplus labour of the wage workers. In addition to this deceptive picture, the price of production and value does not coincide in quantitative terms. But that does not mean that in the capitalist economy the law of value ceases to operate, or that the price of production does not depend on the value. First, the sum-total of the prices of production of all the commodities is equal to the sum-total of their values (as was demonstrated in the example above). Second, the prices of production of the commodities turned out in average conditions of production and with an average organic composition of capital coincide with their value. Third, a change in the magnitude of the value of commodities results in a change in their prices of production. The table above shows that a change in the value of commodities in any industry inevitably brings about a change in the prices of production.

The law of surplus value is modified into the *law of average profit*, and the law of value, into the *law of the price of production*. Under simple commodity production, prices are directly based on value. The origination of capitalism, the emergence of capital with a differing organic composition, and the development of capitalist competition result in a

conversion of the value into the price of production. This is a real historical process reflecting the development of the capitalist relations of production.

*The Importance of the Theory of Average Profit
and Price of Production
for the Proletariat's Class Struggle*

Marx's theory of average profit and price of production suggests the following important conclusion. Capitalist exploitation is the exploitation of the working class by the whole capitalist class, because every individual capitalist appropriates the surplus value which is a part of the aggregate surplus value created by the whole working class of the capitalist society.

Every capitalist has a stake in the more intense exploitation not only of the workers who labour at his enterprise, but also of the working class as a whole, because the greater the degree of exploitation, the larger the mass of aggregate surplus value and, consequently, the higher average rate of profit. The ever more intense exploitation of the class of wage workers for the purposes of increasing the aggregate surplus value is an expression of the class solidarity of the bourgeoisie in its fight against the proletariat.

Consequently, the Marxist theory of average profit and price of production substantiates the necessity both of economic—and especially—the political struggle of the working class against the whole class of capitalists, against the capitalist system of wage labour as a whole.

4. THE LAW OF THE TENDENCY OF THE RATE
OF PROFIT TO FALL

Why the Rate of Profit Tends to Fall

With the development of capitalism, the general rate of profit has a tendency to fall. It was Marx who first gave a scientific explanation of this phenomenon. His theory of profit and price of production exposes the antagonistic contradictions between the development of the productive forces and the capitalists' urge to obtain the maximum profits, and shows why the average rate of profit has a tendency to diminish.

The general rate of profit has a tendency to fall because

of the rise in the organic composition of capital. Subjectively, every capitalist wants to appropriate superprofits, and that is why he seeks to introduce technical improvements into production, with the objective result of this activity being a rise in the organic composition of social capital and a fall in the general rate of profit. Another factor behind the decline in the average rate of profit is the slow-down in the turnover of social capital, which is due to an increase in fixed capital and ever greater difficulties in marketing commodities. In consequence of this there is a reduction in the annual mass of surplus value per unit of capital, or a reduction in the general rate of profit, which is the same thing.

*Factors Countering the Tendency of the Rate
of Profit to Fall*

Under capitalism, a number of counteracting factors tend to slow down the decline in the general rate of profit. Among the main ones is the growing degree of exploitation of wage workers as the result of a reduction in the value of labour power, growing intensification of labour, lengthening of the working day and the fall of wages below the value of labour power.

The growth of relative overpopulation also counteracts the decline in the general rate of profit. The existence of an industrial reserve army of labour helps to increase the degree of exploitation of the employed workers, to slow down technical progress and the growth in the organic composition of capital, and this holds in check the decline in the general rate of profit.

Another counteracting factor is the cheapening of the elements of constant capital in consequence of growing labour productivity, for this lowers the organic composition of capital.

The superprofit obtained by the capitalists through foreign trade has an important part to play in countering the tendency of the rate of profit to fall.

Consequently, the law of the falling rate of profit operates as a tendency which takes effect only in definite circumstances and over a long period of time, being a reflection of the deep-seated antagonistic contradictions of the capitalist mode of production, and evidence of its historical limitations.

*The Law of the Tendency of the Rate of Profit to Fall
and the Development of Capitalism's Contradictions*

The first thing that the law of the tendency of the rate of profit to fall expresses is the contradiction between the goal of capitalist production—*increase of profit*—and the means used to obtain it, between the expansion of production and the self-expansion of capital. In their drive to increase surplus value, the capitalists develop and improve production, and this results in a growth of the productive forces. This inevitably leads to a growth in the organic composition of aggregate capital and a decline in the general rate of profit. That is the constraint on the development of capitalist production.

The fall in the rate of profit intensifies the contradiction between the growth of production and consumption. In order to increase the mass and rate of profit, the capitalists expand the production of commodities on a progressive scale. Meanwhile, the rise in the organic composition of capital reduces the share of variable capital in the aggregate capital and brings about a relative contraction of demand for wage labour. Accordingly, the working people's share in the national income is reduced, and the paid-up demand with the masses increasingly lags behind the growth of production. It is the narrow basis of people's consumption that prevents the expansion of capitalist production.

The tendency of the rate of profit to fall increases and sharpens the basic contradiction of capitalism, *that between social character of production and private capitalist appropriation of its results*. In their effort to secure a high rate of profit, the capitalist seeks to specialise, concentrate and combine production, and this multiplies the interconnections throughout the economy. There is a growth in the level of socialisation of capitalist production and its efficiency increases. But the appropriation of the results of capitalist production, which becomes ever more social, continues to be private, the bourgeoisie receives tremendous profits and is enriched, while the condition of the working masses is worsened relatively, and now and again, absolutely as well.

The sharpening of the basic contradiction of capitalism tends to deepen its other contradictions, so that these periodically explode in the form of economic crises of overproduction. The destruction of a sizable part of the productive

forces and of the social wealth in the period of crisis epitomises the incapacity of capitalism to ensure uninterrupted development of production and shows that capitalist relations of production are historically doomed.

The operation of the law of the tendency of the rate of profit to fall sharpens the socio-class and economic contradictions both within each capitalist country and between them. The bourgeoisie's urge to secure a growing mass and rate of profit at the expense of the working people generates growing resistance on their part.

The struggle for maximum profits also proceeds within the framework of the world capitalist economic system, and this tends to sharpen the contradictions between the capitalists of various countries. The contradictions between the developed capitalist countries and the less developed countries are also intensified.

Consequently, the operation of the law of the tendency of the rate of profit to fall induces a development and exacerbation of all the antagonistic contradictions of capitalism and shows that the capitalist mode of production is no more than a transient stage of history.

Chapter nine

COMMERCIAL CAPITAL AND COMMERCIAL PROFIT.
LOAN CAPITAL AND INTEREST

This chapter deals with commercial and loan capital as parts of capital which have hived off from industrial capital, and the mechanism underlying the distribution of surplus value among industrial, commercial and money-dealing capitalists. It also considers the peculiarities of wage labour exploitation in the sphere of circulation.

1. COMMERCIAL CAPITAL AND COMMERCIAL PROFIT

*Commercial Capital as a Separate Part
of Industrial Capital*

In the capitalist society, commercial capital is a separate part of industrial capital used by a special group of capitalists exclusively in the sphere of circulation. It has the specific function of servicing the marketing of commodities produced by the industrial capitalists.

The circuit of commercial capital ($M-C-M$) entails not only a replacement of the capital advanced by the merchants for the marketing of commodities, but also the extraction of profit on that capital.

On the surface of capitalist relations, commercial profit appears as an increment to the price of the commodity. Actually, commercial profit is a transmuted form of surplus value created by the wage workers in the sphere of material production. *It is a part of the surplus value which the industrial capitalists concede to the commercial capitalists for their efforts in marketing the commodities.*

Industrial and commercial capitalists join together in exploiting the working class, and share out the surplus value it has produced in accordance with the principle: equal profit on equal capital.

Costs of Circulation and Their Recoupment

The process of circulation requires not only an advance of capital for the purchase of commodities, but also expenditures for organising their sale. These are known as the *costs of circulation*.

Additional costs of production in circulation consist of the costs of finishing, parcelling, packaging and storing commodities and their delivery to the consumer. Indeed, they arise from a continuation of the process of production in the sphere of circulation. The labour expended in the process creates value and surplus value, in consequence of which the value of the commodities handled in these operations tends to increase.

The *real costs of circulation* are the expenditures arising from the purchase and sale of commodities, advertising, etc. These are recouped by means of a deduction from the whole surplus value produced in the society. The workers catering directly for the marketing of products do not create value, which is why their labour is non-productive.

Exploitation by Commercial Capital of Workers in Trade and Other Working People

The industrial and office workers engaged in commerce constitute a special category of wage workers. Wage labour in the sphere of circulation is exploited by capital, as it is in the sphere of material production. The working day of workers in commerce also falls into two parts: necessary and surplus working time. However, the exploitation of workers in commerce engaged directly in the purchase and sale of commodities has its specific features. Although their labour falls into the category of non-productive labour, and consequently, does not reproduce the equivalent of the value of its labour power, and does not create surplus value, it does ensure the realisation of the value contained in commodities and creates the conditions for the extraction of profit by the commercial capitalists. In the course of the necessary working time, workers in commerce sell a mass of commodities containing a portion of the surplus value which goes to pay the value of the labour power employed in commerce. In the additional labour time, they sell the commodities which embody that part of the surplus value that constitutes the profit of the commercial capitalists. With the develop-

ment of capitalism, the exploitation of wage labour in commerce is intensified.

The exploitation of all the sections of the working people through the sale of commodities at prices above their value is a most important source for increasing the gain of the commercial bourgeoisie today. The industrial proletariat is exploited not only in the sphere of production but is additionally exploited in the sphere of commerce.

The commercial capitalists also exploit the small commodity producers (peasants and handicraftsmen), mainly by means of non-equivalent exchange.

2. FORMS OF CAPITALIST COMMERCE

Wholesale and Retail Trade

Wholesale trade is trade between industrial and commercial capitalists and within these special groups of capitalists. It usually takes place in the centres of wholesale trade: commodity exchanges, fairs and auctions.

The commodity exchanges are the centres for the sale of similar-type commodities. Most of the transactions on these exchanges envisage delivery of goods at a fixed price at some time in the future, and this provides the basis for price speculation.

In the process of wholesale trade, a sizable mass of commodities does not yet move from the sphere of circulation to the sphere of consumption, this movement being completed in the sphere of retail trade.

Retail trade is the sale of commodities by the commercial capitalists directly to the consumers. The main line in the development of retail trade under capitalism is its concentration at mammoth department stores, a trend dictated by the universal nature of consumer demand and competition. But there are specialised shops and large commercial companies selling definite types of commodities.

Commerce, like industry, is now dominated by capitalist monopolies.

Cooperative Trade.

Critique of the "Cooperative Socialism" Theory

Consumer, purchasing and marketing cooperatives have a small part to play in the capitalist trade. Consumer and marketing cooperatives, which bring together mainly the

working people in the towns, buy commodities directly from the producers and sell them to consumers at slightly lower prices than those in the shops owned by commercial capitalists. Purchasing and marketing cooperatives bring together small commodity producers, mainly peasants, and organise the marketing of their produce and the purchase of the means of production they require on more advantageous terms.

The classics of Marxism-Leninism gave a positive assessment to the importance of cooperative trade under capitalism as a form for uniting the working people in the struggle against exploitation. But they criticised the advocates of the petty-bourgeois theory of "cooperative socialism", who claimed that the cooperation of consumers and small commodity producers under private property could be a means for the gradual socialist transformation of society. They lose sight of the crucial importance of property in the means of production for the transformation of society and fail to understand the social nature of cooperation under capitalism.

Foreign Trade

Foreign trade and its growth under capitalism are made necessary by the following factors: first, the development of the social division of labour and commodity production which spills over the boundaries of the national states; second, the uneven development of the capitalist economy which makes additional marketing outlets necessary for the sale of products turned out by rapidly developing industries and enterprises; third, the sharpening of the contradictions between production and consumption within capitalist countries; fourth, the growing export of surplus capital from the industrial capitalist states, which stimulates the export of commodities to other countries; and fifth, technical progress in transport which makes economic sense of the haulage of large masses of commodities over long distances.

Foreign trade consists of *export* and *import*, and the balance between the value of the commodities exported and the value of the commodities imported over a definite period is known as the *balance of trade*. It is *active* when the value of the exported commodities is greater than the value of the imported commodities, and when imports outrun exports, the balance of trade is *passive*. The state of the balance of

trade is an important indicator of the competitiveness of a given country's commodities on the world market and, in a sense, of the state of its economy as well.

3. LOAN CAPITAL AND INTEREST

The Substance of Loan Capital

Loan capital is money capital which yields an interest. Loan capital is made up of temporarily uncommitted money capitals of the whole class of capitalists, and the money incomes and savings of other classes and social strata of society. These funds, accumulated by the commercial banks and savings banks, make up a sizable and constantly expanding loan capital.

The bulk of loan capital consists of the temporarily uncommitted money capital of industrial capitalists. These capitals are constantly released in the circuit of industrial capital because of the time lag of the receipts behind the sale of the products and the various investments, expenditures and payments.

The uncommitted money capitals are loaned out to the capitalists who are in need of them, for a definite compensation, which assumes the form of interest.

When capital is loaned out, it undergoes a kind of dichotomy: the same amount of money appears as property capital in the hands of the creditor and as functioning capital in the hands of the borrower. The separation of property in capital from its function provides the basis for the shaping of a special strata of exploiters, the money capitalists (rentiers, bankers, stock-market speculators, etc.) who appropriate the results of the labour of others, without being directly involved either in social production or in trade. That is why loan capital is the most parasitic form of capital.

Loan capital is also the most fetishised form of capital. In its specific movement, which is expressed in the advance of money and its return with an increment ($M - M'$), loan capital does not outwardly assume either the productive or the commodity form of capital, but constantly retains the money form. The actual source of the expansion of value is here camouflaged to the utmost; capital appears to be a self-creating source of its own expansion. In its capacity as loan capital, money increases because the borrower

uses the loaned money capital to buy the means of production and the labour power, whose exploitation produces surplus value. Consequently, loan capital is used by functioning capitalists to obtain surplus value (that is, the functioning capitalist converts this money into the productive and commodity form of capital).

Loan capital is a separated part of industrial capital, a value which is made available by capitalist owners as a loan to functioning capitalists and which yields an interest on the basis of exploitation of wage labour.

Loan Interest. Interest Rate

The functioning capitalists use the borrowed capital either in production or trade and obtain an average profit on it. A part of the profit must be surrendered to the loan capitalists as payment for the use of their capital. That part is *loan interest*. The other part of the profit, which is appropriated by the functioning capitalists, is called the *profit of enterprise*. Since profit is the converted form of surplus value, the loan interest has the same economic nature. Consequently, *loan interest is a special form of surplus value, that part of it which is appropriated by the loan capitalists.*

The ratio of the amount of the income on loan capital to the amount of this capital is known as the *interest rate*. Under free competition, the interest rate is a highly dynamic magnitude and is determined, at any given moment, mainly by two factors: the average rate of profit and the balance between the supply and demand of loan capital.

The interest rate, calculated over a more or less lengthy period, usually an industrial cycle, is called the *average rate of interest*. With the development of capitalism, the average rate of interest has shown a tendency to fall, and this is due above all to the operation of the law of diminishing returns. In addition, specific factors tending to lower the interest rate are the growth of the rentier stratum, which leads to an increase in the supply of loanable funds, and the development of the capitalist credit system which concentrates uncommitted monies from various strata of the population, thereby producing an increase in the supply of loan capital.

Under present-day capitalism, the militarisation of the economy and growing budget deficits swallow up a part of the uncommitted capital, thereby diminishing the interest rate.

4. CAPITALIST CREDIT

The movement of loan capital is effected by means of credit: creditors make available and borrowers receive capital on loan. *Capitalist credit is, in fact, nothing but spontaneous movement of loan capital.*

Two Main Types of Capitalist Credit: Commercial and Bank Credit

Commercial credit is credit extended by functioning capitalists to each other in the form of commodity capital. In such cases, commodities are sold on credit with payment for its value effected at some time in the future.

The instrument of commercial credit is a *bill of exchange*. Commercial credit, being directly linked with the turnover of commodities, is the basis of the whole system of credit.

Bank credit is credit extended by money capitalists and banks to functioning capitalists in the form of money loans. Bank credit is the movement of loan capital as a separated part of industrial capital and will be found at more developed stages of the capitalist mode of production.

Banks are the centres of capitalist credit. These are enterprises with the special function of acting as intermediaries in credit and payments, in converting into capital the money incomes and savings of the population, and creating the credit instruments of circulation. The chief function of the banks is to accumulate money capital and to make them available on loan. The banks realise their function through two types of inter-related operations: *passive*, that is, operations in forming bank resources, and *active*, that is, the deployment and use of these resources. Bank resources are made up of the banks' own capitals and attracted funds. As a rule, the banks' own capitals constitute only an insignificant part (in the United States, about 8 per cent) of all the funds at the disposal of the banks, the bulk consisting of *deposits* which belong to their clients.

Apart from passive and active operations and settlements, the banks engage in commercial discount operations: the purchase and sale of gold, the exchange of national currency into foreign currency, the floating of loans, the sale of stocks and bonds, etc.

Like other capitalist industrial and commercial enterprises, the banks operate for the purpose of obtaining profit. The difference between the amount of the interest charged by a bank (on extended loans) and the amount of interest paid (on deposits) makes up the *bank's profit* from its credit operations. This profit (like interest as a whole) is a converted form of surplus value created by wage labour in the process of material production. Like industrial and commercial capitalists, bankers take part in the exploitation of the working class.

Depending on the nature of their functions, capitalist banks are of three main types: banks of issue, commercial banks and specialised banks. *Banks of issue*, in which the state vests the monopoly right of issuing banknotes, are the centre of the credit system in each country. They provide credits to other banks, and in that sense, are the bankers' banks.

Commercial banks provide credits for industrial, commercial and other enterprises mainly from the money capitals obtained by them in the form of deposits, and also engage in stock exchange, commission and foreign exchange operations. *Specialised banks* mainly engage in definite types of credit operations. Thus, mortgage banks make available loans secured by real estate (land, buildings), while export and import banks specialise in foreign trade credits.

Consumer Credit

Consumer credit is made available for the sale of consumer goods directly to consumers with payment by instalments. Consumer credit has developed because of the lag of the working people's effective demand behind the growth of production, a situation which hampers the marketing of goods. Consumer credit carries a higher interest charge than that on loan transactions between capitalists. As a rule, higher prices are also fixed on the goods sold on credit. Consumer credit may be an instrument of additional exploitation of the working people in the sphere of circulation.

State Credit

Credit obtained by the bourgeois state through the issue of bonds and the floating of loans is known as state credit. Here, it is mainly banks and insurance companies that act

as the creditors. Bourgeois governments resort to loans in order to cover state budget deficits, which under present-day capitalism have become virtually chronic. Because the expenditures of the bourgeois state are, as a rule, non-productive (maintenance of an inflated bureaucratic apparatus, the police, military expenditures, support of reactionary regimes in other countries, etc.) the loans and interest on them are mainly paid off through higher taxes levied on the working people.

International Credit

International capitalist credit, that is, credit relations between the capitalists of various countries and the states exists in all three forms of credit: commercial, bank and state. The growth of foreign trade and the sharpening struggle among the industrialised countries for marketing outlets tend to increase the sale of goods to foreign importers on credit with deferred payments. Whenever a loan is made available to the capitalists of other countries in the form of money it is bank credit. Whenever the borrower is a foreign state, it is international state credit.

International capitalist credit has been and continues to be an instrument for the exploitation of peoples in economically less developed countries. By extending loans to the governments of these countries, foreign banks not only earn a high interest on these loans, but also insist on tying them to the purchase of goods in the creditor countries, so as to give the capitalists of these countries a monopoly right for exploiting the natural resources of the borrowing countries. International credit is widely used by the imperialist powers in the guise of so-called aid (grants) to increase their influence in the young developing countries and also in other countries for providing financial support to reactionary regimes and the cobbling together of aggressive blocs.

5. JOINT-STOCK COMPANIES. FICTITIOUS CAPITAL

As loan capital comes into its own and property capital is separated from functioning capital, there is a wide spread of *joint-stock companies*. The joint-stock company (corporation) is an association whose capital is formed through the sale of shares (stocks).

The *share* is a security testifying to its owner's investment of a definite amount of money in a joint-stock enterprise and entitling him to receive income from that enterprise. The income accruing from a share is known as *dividend*.

*Share Prices. Controlling Interest.
Promotional Profit*

The amount designated on a share is its *nominal value*. The price at which a share is sold and bought on the stock exchange or in a bank is known as the *share price*. It depends on the size of the dividend and the interest charged on loans. The larger the dividend carried by a share, the higher its price. The higher the level of loan interest, the lower the share price on the stock exchange, and vice versa.

Consequently, the share price is capitalised dividend, that is, it is equal, on average, to the amount of money capital which, when loaned out, could bring in an income equal to the dividend. Share prices are calculated in accordance with the following formula:

$$\frac{\text{dividend}}{\text{rate of loan interest}} \times 100.$$

Every joint-stock company is run by a board which is elected by a general meeting of shareholders, each shareholder being a nominal co-owner of the enterprise. In practice, joint-stock companies (corporations) are run by the big capitalists who own a relatively large number of shares. The number of shares which enables a holder to dominate a joint-stock company is known as the *controlling interest*.

The men who found joint-stock companies—the biggest industrialists and bankers—derive huge incomes in the form of *promotional profit*. This is the differential between the sum-total of share prices sold by the promoters at the share price, and the amount of capital invested by them in a joint-stock enterprise. Promotional profit is a form of capitalist profit, which means also of surplus value.

Shares, bonds and other securities are capital because they entitle their owners to appropriate a definite portion of the surplus value in the form of interest or dividend. They have no intrinsic value of their own and do not take part in the reproduction process. That is why capital represented by securities is not real, but fictitious capital.

Fictitious capital is a title of property giving the right to income, to the receipt of dividend or interest. Fictitious capital emerged in the movement of loan capital, was separated from the latter, and went on to perform its own movement on the stock exchange, reflecting the movement of real capital only remotely and in a distorted way.

6. THE ROLE OF CREDIT IN THE DEVELOPMENT OF CAPITALISM AND THE SHARPENING OF ITS CONTRADICTIONS

In the capitalist economy, credit has an important but highly contradictory role to play. It has the following impact on the development of production. First, credit creates the possibility of rapidly moving capital from one sector of the economy to another, from less profitable to more profitable industries, and so mediates the equalisation of the rate of profit. Second, credit helps to accelerate the marketing of commodities, and consequently, the turnover of industrial capital as a whole. Third, as it develops, credit increasingly helps to reduce the expenditures incidental to the currency of money. Credit makes it possible for capitalists to effect the bulk of their payments to each other by means of clearing. Fourth, credit acts as a catalyst in the accumulation of capital, actively promoting its concentration and centralisation.

However, while promoting the development of the productive forces, credit is also a powerful factor behind the sharpening of the antagonistic contradictions inherent in capitalism. Thus, by intensifying the concentration and centralisation of capital, it advances the capitalist socialisation of production and, consequently, the aggravation of the basic contradiction of capitalism, that between social production and private capitalist appropriation.

The development of capitalist credit accelerates the preparation of the material, organisational and technical prerequisites for the transition from capitalism to socialism. It produces a system of social accounting in the form of banks and joint-stock companies which, under the new social system, are converted into the property of the whole people and are used for accounting and controlling production and the distribution of the social product for the benefit of the working people.

7. THE CURRENCY OF MONEY AND THE CAPITALIST SOCIETY

The Currency of Coins and Banknotes

Systems of metallic currency were predominant over the ages. In the 19th century, gold was firmly established on the world and national markets of the capitalist countries as the universal equivalent. A monetary system based on the use of one precious metal is known as *monometallism*. A monetary system based on two equally valid metals (gold and silver) is known as *bimetallism*.

The development of the credit system resulted in a substantial change in the currency of money and the emergence of credit money, with the simplest of these assuming the form of promissory notes—bills of exchange—and improved types in the form of banknotes, which (in their classical form) were issued in place of the commercial bills of exchange of individual capitalists.

The *banknote* is a bill of exchange issued by a bank, which means that it has a wider sphere of circulation than private bills of exchange. Banknotes are convertible into gold.

Nowadays, no capitalist country has banknote currency in the full sense of the word (just as none has a gold currency). Money is merely designated as banknotes, but in economic substance is paper money: it is not convertible into gold and is issued not so much for the purpose of providing credits for trade (in exchange for promissory notes), as for the purposes of covering state expenditures.

Inflation and Its Socio-Economic Consequences

Today, the currency of paper money is highly unstable in all the capitalist countries, and this is a reflection of the general instability of the economy of present-day capitalism. The vast expenditures, going mainly into the arms race and the support of reactionary regimes have produced virtually chronic budget deficits of such proportions that they can no longer be covered merely through a levying of higher taxes on the working people. The capitalist states increasingly resort to the issue of paper money to cover their non-productive expenditures.

The oversaturation of the sphere of money circulation with an excess mass of paper money, which causes it to de-

preciate and which brings about a redistribution of the national income and the national wealth in favour of the exploiter classes at the working people's expense, is known as *inflation*.

Under the general crisis of capitalism, inflation has become chronic. It has hit all the capitalist countries, without exception, and has become a covert, constant and most effective way of intensifying the exploitation of wage labour by the whole capitalist class, especially its monopoly elite.

Inflation is expressed in the rapid and spontaneous growth of prices, especially for consumer goods,¹ reducing the real wages of industrial workers and employees. Small commodity producers—peasants (farmers) and artisans—suffer from inflation above all because they have to buy manufactured goods at increased prices, while the benefit from the growth of consumer prices goes mainly to the commercial capitalists, who monopolise the purchase of the commodities turned out by the peasants and artisans. Inflation tends to reduce the real incomes of all other strata of the working people. It depreciates the cash savings of the population.

Inflation is closely bound up with the militarisation of the economy and the growth of military expenditures by imperialist states. A new and important factor behind inflation today is the constant hiking of prices by the monopolies as they increasingly dominate the economy of the capitalist world.

Inflation tends to increase the disproportions within the capitalist economy, to disrupt the credit and monetary system, to disorganise the whole process of capitalist reproduction, and to sharpen class antagonisms. Accordingly, the capitalist states have to take steps to limit inflation and stabilise their currencies.

The most widespread way of stabilising a currency is *devaluation*, which is a legislative reduction of the metallic content of the national currency unit or a lowering of the given country's official exchange rate against some other foreign currency or currencies. Changes in the exchange rates of the capitalist currencies with respect to each other result in an even greater disruption of the monetary and financial system of capitalism and futher sharpen its contradictions.

¹ Let us bear in mind that not every growth of prices or depreciation of money amounts to inflation. The growth of prices during the cyclical upturn of production and that resulting from the drop in the value of gold do not amount to inflation.

Chapter ten

GROUND RENT.

THE DEVELOPMENT OF CAPITALISM IN AGRICULTURE

1. CAPITALIST GROUND RENT

The Capitalist System of Agriculture

In the capitalist society, there is an exploiter class of big landed proprietors alongside the exploiter class of capitalists also taking part in the appropriation of surplus value.

As capital penetrates into agriculture, it is confronted there with forms of landed property which took shape earlier and transforms these in accordance with the conditions of capitalist production. The transformation of precapitalist forms of landed property and precapitalist relations in agriculture—the development of capitalism in agriculture—is characterised by the separation of the direct producers, the peasants, from the land, and the formation of a class of agricultural wage workers. There is also the formation of various strata of capitalist entrepreneurs renting land from its owners and using the labour of wage workers. There is a separation of the real use of land from property in land. Landed property is converted into a mere title giving the landed proprietors the right to receive income from the land they lease, as payment for the use of land.

Agricultural capitalists who rent land pay the landed proprietors *ground rent* which is a part of the surplus value created by agricultural wage workers. The surplus value is distributed among the capitalist leaseholders and the landowners through competition.

As in the feudal, so in the capitalist society, ground rent is the economic form in which the landowners appropriate the product of the surplus labour of the actual producers in agriculture. But while capitalist and feudal ground rent may have the same exploitive character, there are some distinctions between the two, namely: feudal ground rent, which contains the whole of the surplus product, and sometimes even a part of the necessary product of the serfs,

occurs mainly in kind, first in the form of *labour rent*, or *corvée*, and then in the form of *rent in kind*, or *natural quit-rent*. The third form of feudal rent is *money rent* (or *money quit-rent*) under which the peasant gives the feudal lord a sum of money following the sale of his commodities on the market. Money rent is the last form of feudal rent and signals the disintegration of the feudal economy under the impact of developing commodity-money relations. It helps to convert feudal rent into capitalist rent.

Capitalist ground rent expresses the relations of production between three classes of the capitalist society: the wage workers, the capitalist leaseholders and the landed proprietors. Feudal ground rent expresses the relations between two classes: the serfs and the feudal landed proprietors.

Capitalist ground rent is a part of the surplus value appropriated by the landed proprietor who leases land to a capitalist entrepreneur. It is based on the relations of the capitalist exploitation of wage labour.

The profit of agricultural entrepreneurs on their invested capital cannot be lower than the average rate of profit, which is common to all the capitalists. Consequently, the ground rent which the capitalist leaseholders pay for the use of land is an excess of surplus value over average profit.

Ground rent was analysed by Marx in Part VI of Volume III of *Capital*.

Rent and Rental Payment

Capitalist ground rent is exacted in the form of a rental payment by the capitalist leaseholder to the landed proprietor. While rent is the main content of rental payment, the two are not identical. Apart from rent itself, as payment for the use of land, rental payment frequently includes an interest on the capital invested in the land, and also the depreciation of this capital. With high rental rates, the landowner can also appropriate a part of the average profit of the agricultural entrepreneur, and even also a part of the wages of the agricultural workers. The person who receives the rent does not have to be the *de jure* owner of the land. In the case of mortgage¹, for instance, the rent on the mort-

¹ Mortgage is the conveyance of property by a debtor to a creditor as security for a debt. Mortgage banks in the capitalist countries make loans available with land or buildings as security, and charge

gaged lands in the form of interest is received by the bank, which becomes the owner of these lands economically, although juridically the farmers mortgaging the land continue to be their owners. The growth of the mortgaged debt with the development of capitalism testifies to the concentration of land at the disposal of the mortgage banks and joint-stock companies, and to the spreading ruin of the small holders.

There are two main forms of ground rent under capitalism: differential and absolute ground rent.

2. DIFFERENTIAL RENT

Monopoly of Land as Economic Object and Differential Rent

The formation of differential ground rent is connected with some specific features of agriculture. In contrast to industry, the social price of production in agriculture is the price of the product obtained from the worst lands in terms of fertility and location, instead of the product obtained in the average social conditions of production. This is due to the fact that the quantity of land suitable for cultivation is limited. That is why in order to meet social demands, not only the lands that are best or average in fertility and location, but also the worst lands are brought into cultivation. The cost of production on these lands, in effect, constitutes the social cost of production in agriculture.

The monopoly of land as an economic objective is based on the limited availability of land and its employment by capitalist estates. This type of monopoly is the basis for the formation of differential rent. Each land tract, as an economic object, is at the monopoly disposal of a definite entrepreneur, and this enables the leaseholders of better and average land to obtain superprofit, which is then appropriated by the landed proprietors in the form of differential rent.

Differential rent, Marx says, "is nothing but surplus profit, which exists also in every sphere of industrial production for any capital which is put to work under conditions better

such a high interest rate that small and middle peasants and farmers are ruined. The right of the debtor to dispose of the land so conveyed for a loan is limited. Lands mortgaged by small and middle peasants gradually pass into the full ownership of the creditors.

than the average. The only thing is that in agriculture it gets firmly established because it is based on such a solid and (relatively) firm foundation as the different degrees of natural fertility of different types of soil."¹ Differential rent falls into differential rent I and differential rent II.

Differential Rent I

Differential rent I is based on the difference in the price of the product produced on the worst land (in terms of fertility or location), which is simultaneously the social price of production, and the individual price of producing the product on, respectively, the best and average land.

Let us assume that there are three land tracts of equal area but with differing fertility. With the expenditure of equal amounts of capital, they will yield a different quantity of produce. The following table illustrates the mechanism behind the formation of differential rent in this case.

Tract of land	Capital inputs	Average profit	Product (centners)	Price of production of 1 centner		Differential rent I per centner	Price of production of whole product		Total amount of differential rent I
				individual	social		individual	social	
1	100	20	4	30	30	0	120	120	0
2	100	20	5	24	30	6	120	150	30
3	100	20	6	20	30	10	120	180	60

As a result of the higher productivity of the agricultural workers' labour, superprofit is formed on the best and average tracts of land, and this is appropriated by the landowners in the form of differential rent I.

Differential rent I emerges not only as a result of differences in soil fertility, but also in consequence of the different location of the tracts with respect to marketing outlets, transit lines, etc. These differences result in unequal transport and other costs per product unit, and this creates the condition for the formation of differential rent I by location.

¹ Marx to Engels in Manchester, August 2, 1862, in: Karl Marx and Frederick Engels, *Selected Correspondence*, Progress Publishers, Moscow, 1975, p. 124.

Differential Rent II

Differential rent also originates when successive investments of capital are made into one and the same tract of land, that is, when capital is concentrated on one and the same area of land. The expenditures of equal amounts of capital successively invested in a given tract of land may have different effectiveness. In view of the fact that the social price of production of agricultural produce is determined by the price of producing the product with the least productive expenditures of capital, more effective expenditures of capital also bring in superprofit, in addition to the usual average profit. Until the expiry of the term of the lease contract, the superprofit remains at the disposal of the capitalist leaseholder. But when a new lease agreement is contracted, the landowner appropriates this superprofit by exacting a higher rental payment. This constitutes differential rent II.

Differential rent I is connected with the extensive development of agriculture and the involvement of new lands in cultivation. Differential rent II is connected with the intensive development of agriculture and the concentration of capital on one and the same land area, instead of its distribution among adjacent land tracts. At the same time, differential rent II sets limits to the capitalist rationalisation of agriculture, makes it unprofitable for leaseholders, because upon the expiry of the term of the lease the benefits of this rationalisation pass to the landowners. There is a constant struggle for lease terms between the landowners and leaseholders.

The two forms of differential rent have common features, as well as distinctions. First of all, the first and second forms of differential rent exist because of the monopoly of land as an economic object. They originate because labour productivity may differ even while equal amounts of capital are invested in agriculture. The source of both forms of rent is the surplus labour of the agricultural workers and the excess surplus value they create.

In order to justify the low living standards of the masses under capitalism, the ruin of small farmers, and the exploitation of peasants, a "law of diminishing returns" has been trotted out to back up the assertion that beyond a certain limit each successive expenditure of capital in agriculture

is allegedly less productive than the preceding one. In his work, "The Agrarian Question and the 'Critics of Marx'", Lenin proved that this is nonsense, because technical progress is also under way in agriculture and it helps to make agriculture more efficient.

When it comes to fertility, it is economic fertility depending on the productive forces and the relations of production that needs to be considered. "Indeed, the very term 'additional (or successive) investments of labour and capital' presupposes changes in the methods of production, reforms in technique."¹

The worsening condition of the working people in the capitalist world does not result from the operation of some imaginary law of "diminishing returns" or the "operation of the forces of nature", but from the workings of that society's social system. The growth of crop yields under intensive agriculture, in effect, refutes the "law of diminishing returns".

3. ABSOLUTE RENT

The Monopoly of Private Property in Land and Absolute Rent

The demand for agricultural produce causes the need to cultivate the worst lands. These are also rented by agricultural entrepreneurs from the landed proprietors, who use the monopoly of private property in land to exact payment for the use of these. But the capitalist farmers leasing these tracts can make rental payments without incurring any losses only if the price of agricultural produce grown on the worst lands will assure them of an excess over average profit. The agricultural entrepreneur will receive average profit on invested capital, while the landed proprietors appropriate the excess over average profit in the form of rent. Such rent is known as *absolute rent*.

Because the market prices of agricultural commodities are regulated by the price of the product from the worst tract, absolute rent, which is contained in the price of this product, is also included in the price of the product from the best and average lands. All land tracts which are leased out

¹ V. I. Lenin, "The Agrarian Question and the 'Critics of Marx'", *Collected Works*, Vol. 5, Progress Publishers, Moscow, 1977, p. 109.

yield absolute rent for the landowners. Consequently *absolute rent is a peculiar tribute which the big landed proprietors levy on the whole of society, by making use of their monopoly of private property in land.*

Absolute rent *originates* from the excess of surplus value over average profit, an excess which in agriculture takes shape as a result of the lower organic composition of capital in this sector. Every 100 monetary units of capital in agriculture bring in more surplus value than they do in industry. Average profit on capital invested in agricultural production is determined by the average profit originating in the process of intersectoral competition. In the absence of private property in land, the excess of surplus value over average profit created in agriculture (with a relatively lower organic composition of capital in the sector) would be redistributed among all the capitalists. As a result, the average rate of profit would go up. But large private property in land hampers the movement of capitals from industry to agriculture. That is why agricultural produce is not sold at the prices of production, but at prices which correspond to the value of the product produced on the worst lands, while the excess of the value of the agricultural products over the price of their production (the excess of surplus value over average profit) is appropriated by the landowners in the form of absolute rent.

The formation of absolute ground rent may be illustrated as follows.

Average organic composition of 100 units of capital	Mass of surplus value	Value of product	Average rate of profit (%)	Price of production	Difference between value and price of production	Absolute rent
In Industry $80c + 20v$	20	120	20	120	—	—
In Agriculture $60c + 40v$	40	140	20	120	20	20

Consequently, absolute ground rent originates from the monopoly of private property in land.

The analysis of absolute ground rent is one of Marx's greatest achievements: it was he who first theoretically showed that absolute rent could exist without any breach of the law of value.

The monopoly of private property in land has a negative effect on the development of agriculture, because capitalist entrepreneurs are forced to expend capital on the purchase of land instead of investing it in production. Besides, because of the short periods of lease, the capitalist leaseholders have no incentive to invest capital in agricultural production wherever these investments are not recouped in the period in which the lease contract is in effect, and induce them to make predatory use of the soil.

The monopoly of private property in land and the whole system of capitalist relations of production, together with the survivals of precapitalist relations, are the main reasons for the lag of agriculture behind industry, especially in the less developed capitalist countries.

Absolute rent disappears with the nationalisation of land, which eliminates the monopoly of private property in land. Differential rent goes to the state. Marx says: "The radical bourgeois ... therefore goes forward theoretically to a refutation of the private ownership of the land, which, in the form of state property, he would like to turn into the common property of the bourgeois class, of capital. But in practice he lacks the courage, since an attack on one form of property ... might cast considerable doubts on the other form. Besides, the bourgeois has himself become an owner of land."¹

Despite the fact that the organic composition of capital in agriculture and industry tend to approximate each other, the gap between the two remains a sizable one, and this is most evident in the economically less developed countries. But even where the organic composition of capital in agriculture is close to that in industry, the positions of the big landed proprietors are not weakened and they retain the possibility of levying a peculiar tribute on the whole of society in the form of ground rent. There is continued coalescence of the monopolies and the big landed estates, the fusion of rent and monopoly profit, and this makes for a growth in

¹ Karl Marx, *Theories of Surplus-Value*, Part II, Progress Publishers, Moscow, 1975, pp. 44-45.

the incomes of the big landowners and more intense exploitation of masses of working people by entrepreneurs and landed proprietors.

The landowners receive rental payments not only for the lands used for agricultural purposes, but also for tracts earmarked for the construction of buildings and installations, and also for lands leased for the mining of minerals. The peculiarity of rent collected from building sites is that its magnitude is predominantly influenced by differential rent by location. Building sites in large and rapidly growing urban areas as a rule carry the highest rent. The high rent for building sites (the mass of it consists of rent on lands under dwelling houses) tends to slow down housing construction in the cities, and one result of this is the housing shortage and higher rents.

In the mining industry, rent originates in the same way as it does in agriculture. Differential rent in the mining industry is based on different levels in labour productivity and costs of production predetermined by the different size and accessibility of deposits in pits, mines, etc. In the mining industry, absolute rent originates from a lower organic composition of capital as compared with its organic composition in manufacturing industries. Whenever private landed proprietors appropriate an excess of the value of the minerals mined over the price of their production in the form of absolute rent, the monopoly of private property in land brings about an increase in the cost of the products of the mining industry.

Rent on Small Peasant Farms

On small farms run by peasants on their own land, the cultivation of the best plots of land also makes it possible to produce an additional product. But even if the small peasants manage to keep this product or its value, they can do so only partially. Competition from highly productive capitalist farms, the high prices paid by the small peasants for manufactured products, their exploitation by commercial middlemen, etc., result in the peasants' loss of the additional product created by their labour and constituting the material substance of differential rent.

There is no absolute rent in small-scale peasant farming because production there is carried on actually to satisfy

vital requirements. The small peasants also cultivate lands which do not yield any additional product once the costs of production have been recouped.

In the agriculture of the capitalist countries, there are millions of peasants who farm not on their own land, but on leased land. A distinction should be drawn between toiling tenants and enterprise tenants. Labour tenancy is based on the tenant's own work (sometimes involving work by members of his family) and is characterised by relatively small dimensions of production which yields a product that frequently falls short of the peasants' own needs. The rent extracted by the landowners from toiling tenants includes not only the whole of their surplus product, but frequently also a sizable part of the necessary product. This is a survival of the precapitalist ground rent modified under capitalist conditions and constituting a capitalist form of exploitation of peasants. The presence of a numerous stratum of small tenants engaged in primitive farming, which assures them only of a hand-to-mouth existence, is especially characteristic of economically less developed countries.

4. THE PRICE OF LAND AS CAPITALISED RENT

Land is not a product of human labour and, for that reason, has no value. Nevertheless, under capitalism it is bought and sold, like all the other commodities.

The capitalist who owns a tract of land will give it up only if the amount received in exchange, being deposited in a bank or loaned out, will yield an income in the form of interest which is equal to the rent he receives from that tract. If the income in the form of interest is smaller than the rent, the landowner is unlikely to sell it. On the other hand, before becoming the owner of a tract of land, its buyer will compare the rent carried by the tract with the interest he would receive if his money were in the bank. Thus, the *price of land is capitalised rent*.

The price of a tract of land is determined according to the following formula: $\frac{R}{S} \times 100$, where R is the rent, and S , the rate of loan interest.

Under capitalism, there is a tendency for the rate of loan interest to fall, and this results in a growth in the price of

land. The price of land also rises as a result of the growth in rent, which is increased by differential rent II due to additional investments in agriculture and involvement of new lands in cultivation.

Landowners living off the rent are a parasitic class in society. In the form of differential rent II, landed proprietors appropriate the results of progress of the productive forces in agriculture. At the same time, they make money on the growth of prices for agricultural produce. There are contradictions between agricultural entrepreneurs and landed proprietors, and these stem from the struggle over the appropriation of a larger share of the surplus value. But both these classes want to see the exploitation of the working people intensified.

When an agricultural entrepreneur is also the proprietor of the cultivated land, he receives, as the owner of the land, a superprofit, which constitutes the basis of rent, and which comes in addition to the ordinary average profit on capital.

Whenever on a given tract of land because of its peculiarities (in agriculture or mining) products are turned out with some kind of properties and in quantities which fall short of demand, the prices of these products rise above their value. This leads to the formation of monopoly prices, which yield superprofit. This is appropriated by the landowner in the form of *monopoly rent*. The price of land goes up accordingly.

5. THE DEVELOPMENT OF CAPITALISM IN AGRICULTURE

The agriculture of the capitalist countries is, in effect, ruled by the same economic laws as in industry. But the forms of their manifestation are specific. Agriculture has a number of peculiarities which are determined by its very nature: dependence on climate and weather, seasonal production, a relative scattering of production over a large territory, the remoteness of many farms from marketing outlets, the specifics of agricultural produce which frequently makes long storage impossible and which requires substantial processing, etc. These peculiarities put the small producers at a disadvantage and make them dependent on the capitalists operating in the buying up, processing, transportation and storage of farm produce.

One theory says that in virtue of the natural peculiarities of agriculture, small-scale farming under capitalism is allegedly "stable", viable and develops successfully. In actual fact, says Lenin, large-scale production has advantages over small-scale production not only in industry, but also in agriculture. Among the crucial advantages of large-scale capitalist agricultural production over small-scale peasant farming is its technical superiority arising from the use of the latest agronomical and zootechnical methods, better organisation of labour and production, advantageous conditions for the marketing of produce and the acquisition of the necessary means of production, and easy terms of credit.

The development of capitalism in agriculture leads to the expulsion of small peasant farms by the big capitalist farms. This, Lenin says, also includes "the ruin of the small farmers and a worsening of conditions on their farms, a process that may go on for years and decades".¹

The expulsion of the small peasant farms by the large-scale capitalist production has intensified over the past few decades in view of the progressing industrialisation of agriculture. The employment of machines in farming calls for sizable investment, which cannot be made by small and middle peasants and farmers, and which results in the growing concentration of capital. The growth in the organic composition of capital in agriculture reduces its variable component, that is, the number of wage workers used for cultivating a given area of land. That is why the accumulation of capital in agriculture results in the expulsion of large masses of peasants and workers from agricultural production.

The development of capitalism increases the antithesis between town and country. The technical progress under way in the agriculture of the capitalist countries does not ease this contradiction. This is also prevented by private property in land, which is a key factor contributing to the uneven development of the capitalist town and the capitalist countryside.

Large-scale capitalist farms and agricultural enterprises, acting together with associations in the processing and

¹ V. I. Lenin, "New Data on the Laws Governing the Development of Capitalism in Agriculture", *Collected Works*, Vol. 22, Progress Publishers, Moscow, 1964, p. 70.

other industries connected with agriculture, form intersectoral complexes. Among them are also the agro-industrial complexes, which have been broadly developed in our day. These subordinate agriculture to the power of big capital on an ever increasing scale. The working people employed in agriculture, as in other sectors of the economy, equally suffer from exploitation by big capital, regardless of whether they work in agricultural or non-agricultural production.

The social content of the antithesis between town and country under capitalism is the antagonistic relations of exploitation of the working people by the ruling classes. The contradiction between town and country tends to deepen with the development of capitalism. There is growing exploitation of rural working people by the urban bourgeoisie, by the agricultural entrepreneurs and the landed proprietors.

Chapter eleven

REPRODUCTION OF SOCIAL CAPITAL.
ECONOMIC CRISES

This chapter examines the reproduction and circulation of the whole of social capital, the process of reproduction as a whole. A scientific analysis of capitalist reproduction was first given by Marx in his *Capital*.

1. THE AGGREGATE SOCIAL PRODUCT
AND ITS COMPONENT PARTS

Social Capital and Social Product

Individual capitals interlaced and interconnected in an aggregation constitute social capital. The circulation of social capital consists in the sum-total of turnovers of individual capitals, which are interconnected and interdependent, but which function separately. The movement of aggregate social capital in the spheres of production and circulation characterises the process of its reproduction.

The social process of production yields the *aggregate social product*. Because capitalist production is commodity production, this product assumes the form of a definite mass of commodities.

In terms of *value* the aggregate social product of a capitalist society, like the product of individual capital, is divided into three parts: the expended constant capital (*c*), the variable capital (*v*), and the surplus value (*m*). The first part is the value of the expended means of production which has been transferred by the concrete labour of the workers to the newly created product. The second and third parts (*v + m*), taken together, constitute the newly created value, or the *national income*.

In *natural material form*, the aggregate social product consists of objects designed to satisfy the needs of production (raw and other materials, machines, instruments, industrial buildings, etc.), and objects of personal, or individual, consumption of the workers and capitalists (foodstuffs, clothing, footwear, luxury items, etc.).

If the process of reproduction is to run without interruption, the aggregate social product must be realised. The realisation of the aggregate social product, both in value and in natural, material form, is one of the most important problems in the reproduction of social capital.

Clarifying the substance of the problem, Lenin wrote: "Now, however, the question is: where will the workers and the capitalists obtain their articles of consumption, where will the capitalists obtain their means of production, how will the finished product meet all these demands and enable production to expand? Here, consequently, we have not only 'a replacement of value, but also a replacement in material'... and hence it is absolutely essential to distinguish between products that play entirely different parts in the process of the social economy."¹

Together with the reproduction of the aggregate social product there is a reproduction of the capitalist relations of production.

*Departments I and II of Social Production.
Productive and Personal Consumption*

The sum-total of the sectors turning out raw and other materials, machines, tools, etc., that is, the means of production, was designated by Marx as *Department I of social production*. The sum-total of sectors turning out products which go to satisfy personal requirements, that is the articles of consumption, was designated by Marx as *Department II of social production*.

The two departments of social production differ from each other above all in the way in which their products are consumed: the products of Department I are designed for productive consumption, and those of Department II for personal consumption. The division of social production into two

¹ V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, Progress Publishers, Moscow, 1972, p. 52.

departments applies to any society, because the main exchange of substances in society occurs between these two departments.

The examination of how the exchange between Department I and Department II takes place, how the component parts of the aggregate social product are replaced in terms of value and in natural, material form, constitute the basis of the theory of reproduction of the whole of social capital.

2. SIMPLE AND EXPANDED REPRODUCTION OF SOCIAL CAPITAL

Scientific Abstraction in the Analysis of Reproduction

In order to bring out the main uniformities of the reproduction of social capital, one has to abstract oneself from the phenomena which complicate their understanding without making much difference to the content of these processes.

First, one has to assume that all the enterprises simultaneously begin and, by year's end, complete the production cycle, and that the whole value of the fixed capital is transferred to the new product within the limits of that year. Second, one has to consider capitalism as a society, consisting only of two classes: wage workers and capitalists. Third, one has to abstract oneself from foreign trade. Fourth, one has to assume that the commodities produced are sold and purchased at value.

For all the years in the course of which reproduction is analysed, the rate of surplus value is to be considered invariable ($m' = 100\%$). Starting from these scientifically grounded assumptions, Marx examined the simple and expanded reproduction of social capital.

Realisation of the Aggregate Social Product under Simple Reproduction

Simple reproduction is a repetition of the process of reproduction on the old scale (see Chapter Six). In that case, the whole of the surplus value goes into the personal consumption of the class of capitalists and is not converted into additional capital. Marx illustrates the realisation of the social product under simple reproduction by means of the

following scheme. It is assumed that the whole of the social capital consists of 7,500 monetary units. Of these, 5,000 units function in Department I, which produces the means of production, with constant capital (c) amounting to 4,000, and variable capital (v) to 1,000 units.

Department II, which turns out the articles of consumption, has functioning capital amounting to 2,500 monetary units, of which constant capital totals 2,000, and variable capital 500 units.

In Department I, 6,000 units' worth of commodity products in the form of the means of production have been produced. In terms of value, they consist of the following parts:

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

In Department II, 3,000 units' worth of commodity products in the form of articles of consumption have been produced. In terms of value, they consist of:

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

Let us now consider the realisation of the whole social product. To do so, one needs to find out which part of the product of Department I and Department II is used in the department in which it has been produced. In Department I, 4,000 of the 6,000 units embodied in the means of production can be used in the same department, and this is equal to the amount of the constant capital expended in the given department. The rest of the product of Department I, totalling 2,000 units, equal in value I ($v + m$), constitutes the fund of the personal consumption of the workers (1,000 v) and the capitalists (1,000 m) of this department. It cannot be used within the framework of this department because Department I does not turn out any articles of consumption.

Within Department II, which turns out the articles of personal consumption, products equivalent in value to the wages of the workers and the surplus value of the capitalists of this department, that is, II 500 $v +$ II 500 m , can be realised. The rest of the product of Department II comes to 2,000 c . In value, it is equivalent to the value of the constant capital consumed in this Department (II c). There arises the need for an exchange of the product of Department II constituting 2,000 units, for an equivalent product of Department I. As a result of the exchange of products between Department I and Department II production is resumed the

following year on the same scale in both departments of social production, that is, there is simple reproduction.

The basic condition for realisation under simple reproduction is the existence of the following proportion: $I(v + m) = IIc$, that is the amount of the annual incomes of the workers and capitalists of Department I must be equal to the constant capital consumed in Department II in the course of the year.

From this basic condition follow these two corollaries:

a) $I(c + v + m) = Ic + IIc$, that is, the value of the annual product of Department I must be equal to the amount of constant capital in both departments;

b) $II(c + v + m) = I(v + m) + II(v + m)$, that is, the value of the annual product of Department II must be equal to the amount of the incomes of the workers and capitalists in both departments.

Such are the conditions for the realisation of the social product under the simple reproduction of social capital.

*Realisation of the Aggregate Social Product
and the Proportions of Social Production
under Expanded Reproduction*

Expanded reproduction is a renewal of the process of production on an enlarged scale. A part of the surplus value is converted into additional constant and variable capital. Marx used the following scheme to illustrate the realisation of the social product under expanded reproduction. The capital invested in Department I of social production comes to 5,000 monetary units (I. 4,000 c + 1,000 v). The capital of Department II comes to 2,250 units (II. 1,500 c + 750 v).

With the degree of exploitation coming to 100 per cent, the whole of the aggregate social product comes to 9,000:

$$\left. \begin{array}{l} \text{I. } 4,000c + 1,000v + 1,000m = 6,000 \\ \text{II. } 1,500c = 750v + 750m = 3,000 \end{array} \right\} 9,000.$$

Let us assume that in Department I one-half of the surplus value, that is, 500 units, is used for the accumulation of capital. The capitalised surplus value is divided into additional constant and additional variable capital in the same proportion in which constant capital stood to variable capital in the preceding year, that is, 4 to 1. In that event, 400 units of the capitalised surplus value are converted into additional constant capital (c_1) and 100 units into additional

variable capital (v_1). This means that within Department I is realised that part of its product which replaces the constant capital of this department ($4,000 c$) and that part of it which is required for increasing its constant capital ($400c_1$).

The rest of the product of Department I in monetary terms is equal to the amount of the wages of earlier employed workers ($1,000 v$), the additionally hired workers ($100 v_1$), and also the part of the surplus value personally consumed by the capitalists ($500 m$). It cannot be realised within Department I.

For simple reproduction, Department II requires 1,500 units of constant capital. Besides, the capitalists of Department I present additional demand for the product of Department II (100 units) required for the personal consumption of the newly hired labour power. By increasing the constant capital by 100 units, the capitalists of Department II expand production. Consequently, 1,600 units of the value of the product of Department I are exchanged for the same magnitude of the value of the product of Department II. The realisation of the product of Department I is complete.

The remaining unrealised product of Department II coming to 1,400 units has to be used within the framework of the same department. Of these, 750 units go into the consumption of earlier employed workers. But because the constant capital of Department II has increased from 1,500 to 1,600 units, that is, by 100 units, the capitalists need to employ additional workers. Assuming the invariable organic composition of capital (in Department II, it comes to 2 to 1), an increase in constant capital by 100 units will require additional variable capital of 50 units. Consequently, 800 units ($750 v + 50 v_1$) will be required for the personal consumption of the workers in Department II. This is realised within Department II itself.

Now in Department II there remains an unrealised product of 600 units, which is the part of the surplus value remaining after accumulation ($100c_1 + 50v_1$). This is used for the personal consumption of the capitalists of this department. Consequently, the whole of the product of Department II has been realised.

From this follows the *basic condition of expanded reproduction: the sum-total of the variable capital and the surplus value in Department I must be greater than the value of the*

constant capital consumed in Department II in the course of the year, that is, $I(v + m) > II c$.

From this basic condition also follows the *second condition* of expanded reproduction: the value of the product of Department I must be greater than the value of the constant capital consumed in the previous year in both departments of social production, that is, $I(c + v + m) > I c + II c$. In other words, an additional quantity of the means of production needs to be produced in Department I so as to ensure an increase of constant capital in departments I and II the following year.

The *third condition* of expanded reproduction is: the national income of the society must be greater than the value of the product of Department II, that is, $I(v + m) + II(v + m) > II(c + v + m)$. In other words, under expanded reproduction, the national income created in Department I and Department II of social production does not go into personal consumption in its entirety: a part of it goes to increase the constant capital in both departments.

Consequently, by the end of the first year of production the scale of production has been expanded through the addition of surplus value both in Department I and Department II. At the start of the second year of production, the social capital consists of:

$$I. 4,400 c + 1,100 v$$

$$II. 1,600 c + 800 v.$$

By the end of the second year of production, the whole of the social product increases from 9,000 to 9,800 (with $m' = 100\%$).

$$\left. \begin{array}{l} I. 4,400 c + 1,100 v + 1,100 m = 6,600 \\ II. 1,600 c + 800 v + 800 m = 3,200 \end{array} \right\} 9,800.$$

We find, therefore, that expanded reproduction requires an interconnection between the two departments of social production, with Department I having the leading role to play. It is Department I that ensures the material basis for expanded reproduction, because it provides the additional means of production for all the sectors of production. That is why the growth of production in Department II depends on the growth of production in Department I. But Department I, for its part, cannot effect expanded reproduction in isolation

from Department II because it realises a part of its product in Department II, and obtains from Department II the articles of consumption for the personal consumption of the workers and capitalists.

3. LENIN'S DEVELOPMENT OF THE MARXIST THEORY OF THE REPRODUCTION OF SOCIAL CAPITAL.

THE LAW OF THE PRIORITY GROWTH OF THE PRODUCTION OF THE MEANS OF PRODUCTION

Lenin creatively developed the Marxist theory of the reproduction of social capital. His works on reproduction, especially "On the So-Called Market Question", "A Characterisation of Economic Romanticism", *The Development of Capitalism in Russia*, "A Note on the Question of the Market Theory", "Reply to Mr. P. Nezhdanov" had an important role to play in the ideological defeat of the liberal Narodniks¹ and the "Legal Marxists",² who had fallen so low as to advocate capitalism. These works contributed to the elaboration of the Party's scientific policy on basic questions of revolution.

Lenin continued the Marxist analysis of reproduction and realisation of the aggregate social product and analysed the uniformities of reproduction under technical progress. The Narodniks asserted that capitalism could not develop in Russia. Continuing Marx's studies, Lenin drew attention to the fact that under private property in the means of production the social division of labour led to the conversion of the subsistence economy into simple commodity production, which then developed into capitalist commodity production through the operation of the law of value and compe-

¹ The liberal Narodnik trend took shape in Russia in the early 1890s and was an expression of the interests of the richer section of the countryside. In contrast to the Narodniks of the 1870s, who had selflessly fought against the autocracy, the liberal Narodniks completely abandoned the struggle against tsarism and pursued a policy of conciliation with it. The Narodniks' attitude to Marxism was a peculiar species of revisionism.

² "Legal Marxists" were liberal bourgeois intellectuals who falsified Marxism on the plea of its creative development, seeking to adapt it to the defence of the interests of the bourgeoisie. "Legal Marxism" took shape as an ideological trend in the early 1890s, and was the Russian species of the then emergent international revisionism.

tion. Parallel to this there was a growth of the domestic market for capitalism. In this way, as capitalist production developed, the market expanded and the problem of the realisation of commodities under capitalism could be theoretically solved even if one were to abstract oneself from the external market.

Lenin was the first to substantiate the law of the priority growth of the production of the means of production as compared with the production of the articles of consumption. Starting from Marx's proposition that technical progress is expressed in a rise in the organic composition of capital, Lenin gave—in his work entitled "On the So-Called Market Question"—schemes of expanded reproduction with a changing organic composition of capital. In so doing, he divided Department I into the production of the means of production for the production of the means of production, and the production of the means of production for the production of the articles of consumption.

Having analysed the growth of each of these subdepartments, Lenin drew the conclusion that under technical progress, the production of the means of production tended to grow faster than the production of the articles of consumption, and that for capitalism "the growth of the home market is to a certain extent 'independent' of the growth of personal consumption, and takes place mostly on account of productive consumption", a fact which invalidates all the theories claiming that under capitalism there can be no growth of the internal market. But the independence of the growth of production from the growth of personal consumption is relative, because, "in the last analysis, productive consumption is always bound up with personal consumption".¹ The means of production are not made for the sake of the means of production themselves, but merely for the purpose of turning out more and more means of production which are required in the various industries turning out the articles of consumption. Even with an ideally proportional reproduction and circulation of the whole social capital, the contradiction between the growth of production and the narrow limits of consumption under capitalism is inevitable. Realisation is a process that does not run with ideal pro-

¹ V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, pp. 54-55.

portionality, but through the disruption of proportionality and crises.

The "Legal Marxists" tried to blunt the class edge of Marx's schemes illustrating the process of realisation by asserting that Marx's theory proved the capitalist mode of production to be harmonious. According to their schemes, capitalist reproduction can go on endlessly merely through a growth in the production of the means of production, while the production of the articles of personal consumption for the working class remains stagnant, or even if that class "disappeared" altogether. Lenin showed that these claims were theoretically untenable and practically unfeasible. He showed that realisation of commodities and expanded reproduction were possible under capitalism, but that they developed in deep contradictions, with the development of capitalism sharpening the contradiction between social production and the private capitalist appropriation of its results and the resultant contradiction between capitalist production and mass consumption, both of which could be eliminated only through a revolutionary transition from capitalism to socialism.

4. THE NATIONAL INCOME OF THE CAPITALIST SOCIETY. ITS PRODUCTION AND DISTRIBUTION

The national income is the newly created value on the scale of the whole of society in the course of a definite period (say, a year). It is the part of the value of the aggregate (gross) social product which remains after the deduction from it of the consumed constant capital (c). In value form, it includes the value of the variable capital and the surplus value, that is, $(v + m)$, and in natural, material form it consists, under simple reproduction, of the articles of consumption, and under expanded reproduction, also of the means of production designed to expand production.

The part of the national income remaining after the deduction from it of the value of variable capital (or wages) constitutes the *net income* (m) of the society. In magnitude, it is equivalent to the surplus value.

The national income is created by living labour in the sphere of material production, that is, in the sectors of the economy where value and surplus value are created. Its magnitude depends on the quantity of labour expended in

the sphere of material production, and on the level of labour productivity. Economies in the use of constant capital are also a factor in the growth of the national income.

The growth of the national income is the leading indicator of the state of a country's economy.

*The Class Character of the Distribution
and Redistribution
of the National Income in the Capitalist Society*

The national income is constantly reproduced. In its movement it passes through the following phases: production, distribution, redistribution and final use.

The *distribution* of the national income is effected for the benefit of the exploiter classes. The capitalists, the owners of the means of production, appropriate the whole of the net income of the society, the surplus value which is distributed between the various exploiter classes and their groups. The working class receives wages. Its share of the national income is limited to the value of the labour power, it cannot, for all practical purposes, exceed that limit, and is, as a rule, below that limit. As capitalism develops, there is growing inequality in the distribution, and this is expressed in a shrinking of the share of the working class and a growth of the share of the bourgeoisie in the national income.

There is a *redistribution* of the national income on the basis of this primary distribution. Secondary (derivative) incomes are formed from a part of the primary (basic) incomes of the classes of the society. One of the main types of secondary incomes is payment for the services rendered by those who are employed in the non-productive sphere.

The *state budget* has an important role to play in the redistribution of the national income. A sizable part of the incomes of the population, above all, of the working people, is funnelled into the state budget through the tax system. A large part of the revenues of the state budget of the capitalist countries goes to militarise the economy, to maintain large armies both at home and abroad. Through a system of arms contracts, a part of these funds passes into the hands of the capitalists.

Inflation, and also state loans, are powerful instruments for the redistribution of the national income in favour of the exploiter classes.

Consequently, the distribution and redistribution of the national income in the capitalist society are effected on purely class lines and have the purpose of enriching the exploiter classes.

5. THE ANTAGONISTIC CONTRADICTIONS OF CAPITALIST REPRODUCTION. ECONOMIC CRISES OF REPRODUCTION

The capitalist economy has a cyclical development and runs through crises of overproduction.

The Basic Contradiction of Capitalism and the Inevitability of Economic Crises

Marx showed that the abstract possibility of crises is already latent in the simple commodity economy, and springs from the functions of money as the medium of circulation and the means of payment.

But crises are no more than latent in the simple commodity economy, whereas in the developed capitalist economy the potentiality is converted into reality. The contradiction of the simple commodity economy, that between private and social labour, develops into a basic contradiction of capitalism, that between social production and the private capitalist appropriation of its results, which is the root-cause of economic crises.

The extensive development of the social division of labour turns each capitalist enterprise into a cog of the intricate mechanism of social production. That is why the labour of each producer objectively appears as a portion of labour expended by the whole of society to satisfy its production and personal requirements, that is, it has a social character. Besides, in consequence of the concentration and centralisation of capital there is a unification of labour at the large-scale industrial enterprises. In this way, production becomes ever more social in character, and should objectively serve society as a whole, be regulated by it and satisfy its requirements. But in virtue of the domination of private property in the means of production, social production under capitalism is geared entirely to the interests of the entrepreneurs, who appropriate its results.

The capitalist's purpose is the production and appropri-

ation of surplus value. That is why the "expansion or contraction of production are determined by the appropriation of unpaid labour ..., by profit and the proportion of this profit to the employed capital ..., rather than the relation of production to social requirements, i.e., to the requirements of socially developed human beings. ... It comes to a standstill at a point fixed by the production and realisation of profit, and not the satisfaction of requirements of socially developed human beings."¹

This basic contradiction of capitalism generates a number of derivative contradictions, which make economic crises of overproduction inevitable.

Anarchy of Social Production. Contradiction Between Production and Consumption

One of the most important manifestations of the basic contradiction of capitalism is the contradiction *between the organisation of production at the individual enterprises and the anarchy of production in society as a whole*. The anarchy, the disproportionality in social production, and the impossibility of its balanced development are an inevitable corollary of the private capitalist property in the means of production. As capitalism develops, production under it becomes increasingly disproportionate. Proportionality appears only as a particular moment in the movement of capitalist production.

Another manifestation of the basic contradiction of capitalism is the deep contradiction *between production and consumption*. It is due "to the tremendous rate at which production is growing, to the tendency to unlimited expansion which competition gives it, while consumption (individual), if it grows at all, grows very slightly; the proletarian condition of the masses of the people makes a rapid growth of individual consumption impossible."²

The growth of effective demand among the population tends to lag behind the growth of social production as a whole. The commodities produced do not find enough marketing outlets. Production contracts. Overproduction follows. However, it is not absolute, but relative. Marx says: "There are

¹ Karl Marx, *Capital*, Vol. III, p. 258.

² V. I. Lenin, "Reply to Mr. P. Nezhdanov", *Collected Works*, Vol. 4, p. 161.

not too many necessities of life produced in proportion to the existing population. Quite the reverse. Too little is produced to decently and humanely satisfy the wants of the great mass."¹

There is a close connection between the anarchy of production and the contradiction between production and consumption as the manifestation of the basic contradiction of capitalist production, and it is the two together, as a unity, that directly lead to *economic crises of overproduction*.

Bourgeois economists say that the crises of overproduction are accidental disruptions of proportionality between the various sectors of the economy. They regard money only as a technical instrument in the process of circulation, and assert that commodities are, in effect, exchanged for commodities. Consequently, there can never be a general excess of commodities. The theory of disproportionality ignores the contradictions of capitalist reproduction, denies the inevitability of crises, and claims that these can be overcome under capitalism.

In his work "A Characterisation of Economic Romanticism" and others, Lenin gave a full-scale critique of the petty-bourgeois theories which say that economic crises stem from underconsumption. He emphasised that it is precisely in the precrisis periods that the workers' consumption increases and that the employment of the workers is at its highest level. Besides, "underconsumption (to which crises are allegedly due) existed under the most diverse economic systems, whereas crises are the distinguishing feature of only one system—the capitalist system".² The basic methodological defect of the underconsumption theory is that it is distribution and consumption, instead of production, that are assigned the decisive role in the reproduction of the social product.

The urge to extract the maximum surplus value induces the capitalists to improve machinery and technology in production. But the growth of the technical, and then also of the organic, composition of capital ultimately leads to a fall in the rate of profit. This acts as a constraint on the expan-

¹ Karl Marx, *Capital*, Vol. III, p. 257.

² V. I. Lenin, "A Characterisation of Economic Romanticism", *Collected Works*, Vol. 2, p. 167.

sion of production. The difficulties of marketing are compounded by more intense exploitation of the workers and a curbing of their purchasing power, which leads to a relative reduction in demand. It then transpires that more means of production have been turned out in the society as compared with the requirements of capital. But the resultant overproduction of the means of production is not absolute. It is overproduction only to the extent to which the means of production function as capital, which must expand itself and yield more and more surplus value. The basic contradiction is also manifested as the contradiction between the purpose of capitalist production and the means of achieving it.

Crises reveal that capitalism is incapable of making full use of the productive forces it has created. The boundless development of social productive forces tends to run into constant conflict with the limited purpose of capitalist production, which is to increase the value of existing capital.

The Contradiction Between the Proletariat and the Bourgeoisie

The contradiction between social production and the private capitalist appropriation of its results is ultimately expressed as the contradiction between the proletariat and the bourgeoisie.

The concentration of capital and production tends increasingly to concentrate the social means of production in the hands of the capitalist class, so extending the front of the exploitation of labour by capital. The growing social character of capitalist production goes hand in hand with a steady polarisation of the capitalist society into the proletariat and the bourgeoisie, and this is expressed in the growing share of wage workers within the active population.

In present-day conditions, the contradiction between the proletariat and the bourgeoisie, the chief class contradiction of capitalism, has been supplemented with the contradiction between the monopoly bourgeoisie and all the non-monopoly strata of society suffering from oppression by the monopolies. This provides the basis for the growth of social and class contradictions in the capitalist society today.

6. CYCLICAL CHARACTER OF CAPITALIST REPRODUCTION

The Cycle and Its Phases

Reproduction under capitalism is effected cyclically, that is, in its development it periodically runs through the following phases: economic crisis, depression, recovery, boom, and crisis once again. *The capitalist cycle is the movement of the capitalist economy from one crisis of overproduction to the next. Crisis is the main phase of the cycle.*

In the first half of the 19th century, economic crises recurred after more or less definite periods, which tend to grow shorter with the development of capitalism. At first, the periods lasted for 10-11 years (the crises of 1825, 1836, 1847, and 1857). In the second half of the 19th century, the crises of overproduction became more frequent and recurred after 7-9 years (the 1857 crisis was followed by the crises of 1866, 1873, 1882 and 1890). In the epoch of imperialism, crises became even more frequent: before the First World War, there were the crises of 1900 and 1907 and in the inter-war period, the crises of 1920-1921, 1929-1933 and 1937-1938, that is, three crises occurred in less than 25 years; since the Second World War, the United States, the citadel of present-day capitalism, has had six crises: 1948-1949, 1953-1954, 1957-1958, 1960-1961, 1969-1971, and 1974-1975. In that period, the capitalist world has been hit by a number of world economic crises. In the early 1980s the capitalist world is experiencing the third economic slump over the last decade.

The crises of overproduction are characterised by a marked aggravation of the difficulties of marketing commodities. Stocks of unsold goods tend to grow. Orders for equipment and construction dwindle. Overproduction gradually spreads to every sector. There is bankruptcy of commercial and industrial companies on a massive scale. The financial and credit systems are unhinged. The crisis gradually spreads to every sphere of the economy. Industrial production shrinks and production capacities remain unused.

The economic function of the crisis ultimately boils down to the forcible and temporary establishment of proportionality between the various elements of the capitalist economy. In time of crisis, competition becomes extremely sharp. The concentration and centralisation of capital are

accelerated. The cut-backs in production cause a tremendous growth in unemployment and a further decline in the working people's purchasing power. Their condition sharply worsens, wages drop, and exploitation is intensified. Economic life in the society is disrupted.

This is followed by the phase of *depression*, in the course of which production marks time. There is a gradual running-down of commodity stocks, of which some are destroyed and others are sold at cut prices. Obsolete and low-productivity equipment is dumped. Overproduction contracts, the sale of commodities is gradually increased and the decline in prices halted.

The phase of depression gives way to the phase of *recovery*. The biggest and most viable enterprises adapt to the low level of prices by making use of the most efficient equipment, which ensures a growth of labour productivity and a greater degree of exploitation. The drive for profit and competition make most capitalists replace their equipment simultaneously. The renewal of fixed capital is the crucial factor in the advance from depression to recovery. The development of Department I of social production proceeds with the involvement in production of a sizable part of the industrial reserve labour army and a reduction in unemployment, and this, for its part, helps to raise wages. This increases the demand for the articles of consumption and stimulates the expansion of production at enterprises in Department II. Output reaches the precrisis volume.

The phase of recovery moves into the phase of *boom*, in which the level of industrial production attained in the preceding cycle is exceeded. The demand for credit expands. Profits grow, the prices of shares and other securities increase, and speculation in these acquires tremendous proportions. Simultaneously, all the contradictions which had earlier plunged the economy into crisis are reproduced on an extended scale. Eventually, the development of these contradictions causes a new economic crisis.

The spontaneous and mass renewal of fixed capital constitutes the material basis of the cycle and the periodic nature of economic crises of overproduction. It constitutes the starting point and material basis for the movement of the capitalist economy first out of its state of crisis and then out of the depression, and its movement through the following two phases of the cycle: recovery and boom. But the cyclical repro-

duction of fixed capital is not the cause of the crisis, but, like the crisis itself, results from the basic contradiction of capitalism.

Agrarian Crises and Their Peculiarities

The contradictions of capitalist reproduction are also manifested in agrarian crises. These are also engendered by the basic contradiction of capitalism.

Agrarian crises are manifested above all in a relative overproduction of agricultural produce and the piling up of vast unsold stocks of it. Meanwhile, there is a growth in the debt owed by peasant households to the mortgage banks, and small and middle producers are ruined on a massive scale. Competition is sharpened, and in it only the biggest farms with the most modern machinery and technology survive. Agrarian crises accelerate the concentration and centralisation of capital in agriculture. The specific features of the development of capitalism in agriculture determine the peculiarities of agrarian crises.

Agrarian crises are protracted and continue for decades, in the course of which industrial production runs through several cycles. Agrarian crises are protracted because of the monopoly of private property in land, the existence of ground rent and its steady growth.

The development of the productive forces in agriculture is slowed down by the extraction of an ever greater proportion of the incomes from agriculture in the form of rent. This prevents the massive and intensive renewal of fixed capital and, consequently, makes it difficult to overcome the agrarian crisis, so dragging it out.

Finally, another reason for the protracted nature of agrarian crises is the existence of a great many small peasant farms. In a period of crisis they are unable, like the capitalists, to cut back production, and continue to farm on the old scale so as to have enough to eat and continue to make the rental payments. They cannot use new machinery to reduce labour inputs and to adapt to new and lower prices.

The overproduction of agricultural produce is likewise relative and not absolute. Millions of people in the capitalist world regularly eat less than their fill.

By the beginning of the 1970s, the agrarian crisis of overproduction, which began in the mid-1950s, gave way to the

crisis of underproduction of agricultural produce. That is evidence of the deep-seated disproportionality in the development of world capitalist agriculture.

*Economic Crises and the Sharpening of the Contradictions
of Capitalism*

Economic crises testify to the historical limitations of the capitalist mode of production and expose the plunderous nature of capitalism, and the waste of social wealth and of society's productive forces. In periods of crises, material values created by social labour are destroyed on a massive scale.

While partially resolving the contradictions of capitalist reproduction, crises further exacerbate these contradictions. By accelerating the concentration and centralisation of capital, they raise the socialisation of production to a higher level and further aggravate the basic contradiction of capitalism. There is a growing discrepancy between the modern productive forces and the capitalist relations of production.

Economic crises sharpen class contradictions. In periods of crises, the working people's condition worsens: unemployment grows, wages decline, and small holders in town and country are ruined on a massive scale. Crises nullify the partial improvements in the economic condition of the working people which they had earlier won in persevering struggle against capital. But the working people intensify their resistance to capital. In the course of this struggle, their consciousness is revolutionised. They come to see for themselves that their life can be radically improved only through revolutionary struggle to eliminate the capitalist mode of production.

Theories that crises of overproduction can be averted (and that, consequently, capitalism can develop without crises) emerged under the general crisis of capitalism. Keynes claimed that crises sprang from underconsumption. In contrast to petty-bourgeois theorists, he asserted that the personal underconsumption of the masses could well be compensated by an increase in consumption by the capitalist class through more intense investment activity on their part. Keynes held that inadequate investments by the capitalists and underconsumption by the masses were due

largely to a psychological factor: the propensity of people to save.

Keynes's main proposal was utmost intervention by the capitalist state in the reproduction of social capital. The state, he said, must itself become a major investor, by organising all manner of "public works", and also by increasing parasitic, non-productive consumption, like larger expenditures for militarisation and direct outlays on the conduct of war. He also propounded a policy of moderate inflation, which he saw as a means of stimulating production and achieving a high level of employment, and increasing the profits of business. The measures which Keynes proposed for averting crises testify to a recognition of the fact that crises under capitalism are inevitable. His purpose was to maintain the capitalist system and get the working people to shoulder the main burden of crises.

Keynes's recommendations were adopted as the basis of economic policy in many capitalist states after the Second World War. But they failed to stand the test of practice: the capitalist economy has continued to develop cyclically, and its instability has grown.

Section 2

IMPERIALISM IS MONOPOLY CAPITALISM

A. The Uniformities of Monopoly Capitalism

The previous chapters contained an analysis of the uniformities inherent in capitalism at every stage of its development. The following chapters contain an analysis of the operation of economic laws under imperialism, the highest and final stage of capitalism.

New phenomena emerged in the capitalist society in the late 19th and early 20th century. Some of them were noted by Engels, but it was Lenin who first made a comprehensive and systematic study of these new phenomena, and that was the basis of his scientific theory of imperialism. It is set forth in his book *Imperialism, the Highest Stage of Capitalism* and in several other works of his written at the beginning of this century and constituting a great contribution to Marxism, a new stage in its development.

Before Lenin carried out his study, most theorists of various schools reduced imperialism mainly to the policy of colonial invasions, and ignored its important economic features. These unscientific theories were subjected by Lenin to an in-depth critique. He made a study of imperialism in the light of historical materialism and revolutionary dialectics, making use of all the instruments of the Marxist theory.

Every antagonistic class formation passes through two different stages, namely, the stage at which its economic relations promote the development of the productive forces, and the stage at which these relations cease to be forms for their development and become their fetters. Marx showed the general conditions in which the capitalist formation would enter upon the epoch of conflict. The objective logic of accumulation, he said, would, first, inevitably lead to the domination of society by a handful of capitalist magnates;

second, it would involve all the peoples in the network of the world market, and cause the capitalist regime to become international; third, it would, for that reason, drive the contradiction between social production and capitalist appropriation to its final stage, when "the monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it".¹ At that point the last hour of capitalist property inexorably strikes and "the expropriators are expropriated", as Marx put it.

Lenin analysed the changes which had occurred in the capitalist system in the period of imperialism and showed that the old free competition capitalism had given way to monopoly capitalism, that it had moved into a new, higher and final stage of its history.

Lenin wrote his *Imperialism, the Highest Stage of Capitalism* in 1916, and it was published under the tsarist censorship. That is why many questions of the policy, strategy and tactics of the working class could not be openly presented and were expressed in veiled form. Lenin also analysed imperialism in other works of his, especially in those connected with the drafting of the Party's Second Programme. Lenin's doctrine of imperialism and socialist revolution is an important contribution to the development of the Marxist theory. Nowadays, the theory of imperialism is being developed and elaborated by the Communist and Workers' parties, who take account of the new phenomena in the economic life of the modern world and the experience of the struggle of the working class and the other working people.

Relying on the Marxist theory, Lenin showed that, in economic terms, imperialism is characterised by five main features:

"(1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world among themselves, and (5) the

¹ Karl Marx, *Capital*, Vol. I, p. 714-15.

territorial division of the whole world among the biggest capitalist powers is completed."¹

All these features are diverse forms manifesting the basic feature of imperialism, the domination of the monopolies. According to Lenin's definition, *economically imperialism is monopoly capitalism*.

Lenin also showed the *political substance* of imperialism, having proved that politically imperialism is not only an urge to seize colonies and new territories, but is, on the whole, a swing from bourgeois democracy to reaction and violence in every sphere of social life.

Lenin analysed the *specific feature of imperialism and its historical place*. Characterising its triple feature, he said that imperialism is monopoly, decaying or parasitic and moribund capitalism. Compared with premonopoly capitalism, imperialism is the highest stage of capitalism, but is also its final stage, the threshold of the socialist revolution. The whole system of world capitalism is mature for socialist revolution. But because of the *operation of the law of uneven economic and political development of capitalism in the epoch of imperialism*, the socialist revolution can initially win out in a few countries or even in one, individual country. The analysis of imperialism provided the basis for a new *theory of the proletarian revolution*, which was a major contribution to the Marxist theory.

Lenin's doctrine of imperialism is an organic blend of the most profound scientific analysis of the intricate processes under monopoly capitalism and a sharp critique of the bourgeois and opportunist conceptions of imperialism. It has the decisive role to play in the exposure of present-day bourgeois apologetic views and is a tried and tested weapon in the fight against reformist and revisionist conceptions of imperialism.

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 266.

Chapter twelve

THE MAIN FEATURES OF IMPERIALISM

1. CONCENTRATION OF PRODUCTION AND MONOPOLIES

*Concentration of Production, the Material Basis for the
Emergence of Monopoly Power*

The final third of the 19th century was marked by a series of major scientific discoveries and technical advances in metallurgy, engineering, and the chemical and electro-technical industries. In that period, new types of machines were introduced, radical changes were effected in the generation of energy and the technology of production, new industries emerged and developed, and the structure of industry itself underwent a change. In these conditions, the concentration of production was further intensified.

Among the important advantages of large-scale enterprises, which increasingly enhanced their role in industrial production, were their technical superiority, better organisation of production, economies on overhead expenses, high labour productivity, and greater opportunities for obtaining credits.

By the turn of the century came the period in which the concentration and centralisation of capital and production on the basis of free competition produced substantially new phenomena. It turned out that the bulk of social production was concentrated at and monopolised by a few of the largest enterprises. Free competition had given way to monopoly, which emerged from the concentration of production and capital at a definite stage in their development. Several dozen giant enterprises find it easier to reach agreement with each other as compared with a large number of small enterprises. Lenin showed the causal nexus between the concentration and monopolisation of production, and said: "The rise of monopolies, as the result of the concentration of production, is a general and fundamental law of the present stage of development of capitalism."¹

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

Lenin spoke of three stages in the development of monopolies: the first stage relates to the 1860s and 1870s, when free competition reached its highest level, and the monopolies were still embryonic. The second stage covers the period from the economic crisis of 1873 to the end of the 19th century, when the monopolies became relatively widespread, but were not yet firmly established. The third stage began with the industrial upswing in the late 19th century and continued until after the crisis of 1900-1903, when the concentration of production was further intensified and the monopolies became of crucial importance in economic life. That is the stage at which industrial capitalism was converted into imperialism.

The Substance and Forms of Monopolies in Production

The substance of monopoly may be characterised in terms of three main aspects: (1) the concentration in its hands of a sizable share of production which ensures dominant positions in one or more industries; (2) the possibility, to some extent, of dictating prices on the market; and (3) the appropriation of monopoly-high profit as the form in which its domination is economically realised.

There are diverse forms of monopolies in production: cartels, syndicates, trusts and concerns.

The *cartel* is an association of several enterprises in an industry under which its participants retain their property in the means of production and the product. They also sell their own products on the market. The object of the cartel agreement may involve quotas for the cartel members in total output, selling prices, allocation of marketing outlets, etc. In the event a participant in the cartel goes back on the terms of the agreement, he may be penalised by means of a fine. Cartel agreements frequently contain clauses aimed against the workers' strike movement and their trade unions. Cartels set up by individual owners of big enterprises were typical in the early 20th century. Nowadays, cartels frequently have among their members major monopolies like trusts and concerns.

The *syndicate* is an association of a number of enterprises which, as a rule, turn out similar products, with the parti-

cipants retaining their property in the means of production, while the product is sold as the property of the syndicate. In contrast to the cartel, the syndicate ruptures the direct ties between the individual enterprises and the market.

The *trust* is a form of monopoly under which a group of capitalists have joint property in the means of production. When a trust is set up, the owners of the enterprises involved transfer to the association their property in the means of production, technology, patents, etc., and, in consequence, in the product as well. In return for the transferred capital, they receive shares from the trust which entitle them to co-participation in managing the trust and to a corresponding share of its profit. Nowadays, trusts do not usually arise as a result of the association of several independent enterprises, but are set up by powerful financial groups as their own or controlled enterprises.

As the process of monopolisation advances, the "horizontal" trustification, that is, the association of enterprises in the same industry, is increasingly complemented with "vertical" trustification under which the trust includes enterprises in industries constituting a technological sequence, like coal mining, metallurgy and engineering. In terms of the enterprises they involve, such trusts are combines.

The *concern* is a complex of diverse enterprises, some of which may be monopolies, in various industries, commerce, banking, insurance and transport companies, which are under the control of one financial group. Enterprises within the concern formally retain their production, commercial and legal independence, but are linked with each other financially. Real power over the controlled enterprises is vested in the head firm of the concern.

Today, monopolies have spread to every sector of the economy, with multi-sectoral diversified concerns the prevalent form of monopoly association.

The purpose of monopoly is to ensure monopoly profit on capital invested by the leading capitalist magnates.

By monopolising the latest technical inventions, creating fresh potentialities for the exploitation of labour, improving production, concentrating it to a high degree, improving product quality and cutting production costs, the monopolies obtain tremendous advantages over non-monopolised enterprises. But that is not the only way in which they obtain monopoly profits. They use their economic domination to

establish monopoly prices, resorting to various means to eliminate rivals, and make extensive use of the state machine. The major monopoly enterprises are highly profitable.

*Peculiarities of Concentration
of Production and Capital Today*

The concentration of production was the prerequisite for the emergence and growth of the monopolies. In the present period, the monopolies' domination operates as a tremendous force behind the continued concentration of production and also behind the concentration and centralisation of capital.

Among the basic factors in the growing concentration of production are: acceleration of scientific and technical progress, the sizable growth of outlays on R & D, and the mounting costs of development and introduction of new hardware and technology. The concentration of production is also accelerated by the extreme sharpening of competition on the world market, above all in view of the ever more uneven development of imperialism and the grave upheavals on the world capitalist market caused by the monetary, energy and raw materials crises.

Within the monopolies, production is concentrated through the amalgamation of enterprises connected through a single technological basis, or enterprises in various industries and lines of production controlled by one financial group. The sharpening competition, the emergence of new industries and lines of production, and the widening range of products have also engendered a trend towards the *diversification of production*, that is, the penetration of the big monopolies into other industries which do not have direct production or functional ties with the main industry in which they operate.

Production is also concentrated through the *division of labour and its specialisation*, on the basis of agreements by means of which the monopolies cooperate with middle and small enterprises. Today, thousands of small enterprises frequently operate as subcontractors for the big monopolies, specialising in the manufacture of one or two items. They turn out an intermediate product which has no independent market value. Such enterprises have lost their direct ties with the market and the consumer, so that production is, in effect, concentrated in the hands of the monopoly.

The concentration of production proceeds within the enterprises, the industries, and social production as a whole because large-scale enterprises are nowadays, as a rule, multisectoral.

The monopolisation of production includes two processes: concentration and centralisation. Management of numerous large enterprises in an industry from one and the same centre tends to concentrate within the framework of the trust or the concern a sizable share of the output of the product, so creating favourable conditions for obtaining monopoly profit.

An indirect indicator of the intensity of this process is the growing share of monopoly corporations in US manufacturing, where, in 1960, giant corporations with assets worth \$ 250 million and over had 46 per cent of the aggregate assets, in 1970, 58 per cent, and subsequently—over 60 per cent.

Today, *capital is centralised* mainly through the merger and take-over by stronger monopolies of rival enterprises and whole companies.

The internationalisation of production carries the concentration of production beyond the national boundaries. Large international monopolies take over local companies or set up mixed companies with their participation.

The level of concentration of production is determined mainly by the number of major enterprises in an industry. In the past, the concentration of production was characterised above all by the number of workers employed at an enterprise. With the rise in the technical level of production, the basic indicators of concentration are: volume of output, R & D outlays, the number of patents and licences held by the monopoly, and the volume of profit.

But whatever the changes in the forms and mechanisms of concentration of production and capital under monopoly domination, its substance remains the same: the build-up of the economic power of the capitalist magnates and concentration in their hands of control over an ever growing share of social production.

Monopoly and Competition

It was Marx who shed light on the contradictory unity of monopoly and competition. He says: "In practical life we find not only competition, monopoly and the antagonism

between them, but also the synthesis of the two, which is not a formula, but a movement. Monopoly produces competition, competition produces monopoly. Monopolists compete among themselves; competitors become monopolists... The synthesis is such that monopoly can only maintain itself by continually entering into the struggle of competition."¹ Elaborating this idea in the epoch of imperialism, Lenin showed the diverse forms and methods of competition under monopoly capitalism. He says: "The monopolies, which have grown out of free competition, do not eliminate the latter, but exist above it and alongside it, and thereby give rise to a number of very acute, intense antagonisms, frictions and conflicts."²

The facts show that, with the rarest exceptions, the monopolisation of production does not lead to a concentration of the whole of the production of this or that commodity by a single monopoly. Under monopoly domination, there can be a large number of outsiders, enterprises which are not included in the monopoly. In each country, monopolies also have to face competition from foreign companies which seek to infiltrate their internal, national market.

The main types of competition inherent in industrial capitalism—intrasectoral and intersectoral competition—also remain. *Intrasectoral competition* under imperialism proceeds, first, between monopolies producing similar types of goods. This struggle also involves foreign monopolies. Second, the struggle goes on within the monopolies between the owners of capital for the most advantageous positions, for governing posts and control over the monopoly. Third, there is a struggle between the monopolies and the non-monopolised enterprises turning out the same product. Fourth, numerous non-monopolised enterprises operate on the principle of free competition on which the monopolies exert an influence.

Free competition under imperialism operates in only an insignificant sphere of the capitalist economy, because despite the large number of enterprises within the non-monopolised sector, the volume of its output as a percentage of the

¹ Karl Marx, "The Poverty of Philosophy", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 6, Progress Publishers, Moscow, 1976, pp. 195-96.

² V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 266.

whole is not large; it also has a limited influence on technical progress, because the R & D facilities and the bulk of the technical improvements are concentrated mainly in the monopolies. Free competition between the small and middle enterprises selling and buying commodities from the monopolies enable the latter to dictate their own terms and to exploit the outsiders.

Intersectoral competition occurs through the transfusion of capital from less profitable industries to more profitable ones. In the epoch of imperialism, the evening out of profit rates in the various industries occurs through the operation of two opposite trends. On the one hand, the large size of the enterprises and the high cost of their technical equipment hamper the flow of capital between industries. Monopolies, which may be regarded as "old hands" in the industry, also block the penetration of "foreign" capital into "their" industry. On the other hand, the availability of uncommitted funds and the development of the joint-stock form of capitalist property helps the monopolies rapidly to centralise large funds and convert them into productive capital, and this facilitates the flow of capital between industries. The process is accelerated by the scientific and technical revolution and the emergence of new industries.

Under imperialism, *new methods of competitive struggle arise*. Apart from the traditional methods of combating rivals, like depriving them of raw materials, marketing outlets, and credits, and price-cutting, "monopoly hews a path for itself everywhere without scruple as to the means, from paying a 'modest' sum to buy off competitors, to the American device of employing dynamite against them".¹

Factors like product mix and product quality are also widely used in competition. Advertising and non-market forms of struggle are being ever more widely used, including lobbying for government contracts, pushing through or blocking legislation on economic regulation, enticement of specialists, financial machinations, etc.

Consequently, imperialism is characterised by a unity of opposites: monopoly and competition—and this goes to create especially acute socio-economic contradictions.

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 208.

2. FINANCE CAPITAL AND THE FINANCIAL OLIGARCHY

Formation and Main Forms of Banking Monopolies

At the beginning of the 20th century, the concentration of bank capital in some industrialised capitalist countries reached a new high, and this led to the emergence of banking monopolies, which established their undivided control in the sphere of capitalist credit.

The concentration and monopolisation of industrial production provides the material basis for the monopolisation of bank capital. Big industrial enterprises have need of large and usually long-term credits, which the small banks are unable to provide, and this led to the faster unification of many banks and to the centralisation of their capital. The emergence of banking monopolies was an objective result of the high degree of concentration and centralisation of capital also operating in the sphere of credit.

Consequently, banking monopolies are associations of banks, or giant banks which dominate the banking business and which appropriate monopoly-high profit.

The banks have had the traditional functions of acting as intermediaries in credit and payments, the conversion of savings and uncommitted funds into capital, and the creation of credit instruments of circulation.

The emergence of banking monopolies led to a substantial change in the relations between the banks and the industrial monopolies. The banking monopolies concentrated in their hands the bulk of the uncommitted monetary resources in the society. They went beyond the provision of credits to industrial monopolies and penetrated directly into industry, becoming co-owners of industrial enterprises. Lenin brought out this new role of the banks and showed the fundamental causes for which monopoly banking capital tends to coalesce with monopoly industrial capital.

Coalescence of Industrial and Banking Monopolies

The monopolisation of credit by a handful of banks forced the industrial monopolies to consolidate their ties with the big banks by buying their shares and so acquiring seats on their boards or directorates.

Industrial capitalists began to penetrate into the "alien" sphere of credit and credit monopolies, investing a part of their capital in it and taking part in formulating the policy of the major banks. This was paralleled by the opposite process, as the capital of the banking monopolies penetrated into industrial monopolies. When making large amounts of money available to industrial monopolies, the banking monopolies seek to insure themselves against the risk of loss by exerting a direct influence on the activity of the industrial corporations. In order to appropriate a part of the monopoly-high industrial profit, they buy up the shares of industrial monopolies and become their co-owners. This gives them direct participation in the industrial monopolies' governing bodies. Besides, the major banking monopolies, at the request of the industrial monopolies, issue new stock and sell their shares on the money market, making a sizable profit in the process. Finally, major banks take an active part in setting up new industrial corporations and appropriate high promotional profits.

Thus, on the one hand, the banking monopolies became the co-owners of industrial monopoly enterprises; on the other, the industrial monopolies took part in banking monopolies. The interests of the magnates of banking and industrial capital were intertwined. That was the beginning of the interpenetration, of the coalescence of the capitals of industrial and banking monopolies. The result was a new type of capital—*finance capital* permeating every sphere of economic enterprise and bending all economic activities to its interests.

The Substance of Finance Capital

"The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of that concept."¹ According to Lenin's definition, *finance capital is monopoly industrial capital which has merged with monopoly bank capital.*

All the forms of capital which originated in the epoch of free competition continue to exist under imperialism. Industrial capital functions in the sphere of production, com-

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 226.

mercial capital in wholesale and retail trade, and loan capital in the sphere of credit. Finance capital subordinates to its interests the circuit of all the three forms of industrial capital.

In his *Imperialism, the Highest Stage of Capitalism* and his *Notebooks on Imperialism*, Lenin criticised the erroneous definition of finance capital given by Rudolf Hilferding, who ignored the material basis of finance capital, namely, the concentration and monopolisation of production. Hilferding defined finance capital as capital held by the banks and used by the industrialists. This interpretation of finance capital was adopted as the basis for opportunist theories whose authors, assuming that finance capital functioned only in the sphere of circulation, claimed that it was possible to do away with its domination even while the magnates of capital retained their property in the means of production. Lenin's critique of Hilferding's theory of finance capital still holds good today.

The Financial Oligarchy and the Mechanism of Its Power

Finance capital is concentrated in the hands of the *financial oligarchy*, a small elite of the bourgeoisie which dominates every sector of the economy. Lenin showed the mechanism by means of which the financial oligarchy appropriates the bulk of the social wealth and controls the political power in the country, turning the other classes and strata of the society into its tributaries. This mechanism has many aspects.

The organisational form of the power of finance capital is the *financial monopoly group*, which is an aggregation of industrial, banking, credit, insurance, transport, commercial and other companies under the control of one or several allied magnates of capital.

At the centre of the financial monopoly group stands the head body, which may be a major bank, industrial trust, or insurance or holding company. From the head company run intricate channels of influence on the other enterprises within the group.

Most enterprises within a financial monopoly group are not the individual property of this or that magnate at the head of the group. His power is mainly based on the possession of the controlling interest (portfolio). When shares are

widely scattered among small shareholders, even less than 10 per cent of the total stock of an enterprise will give complete control over it.

The mechanism of the power of a financial monopoly group usually rests on a system of shareholdings and a personal union, which, for their part, make use of the joint-stock form of enterprise. The controlling interest of the head joint-stock company is held by a financial magnate or group of financiers.

For its part, the head company (the parent company) acquires a controlling interest in other joint-stock companies, which are affiliates. These, for their part, purchase a controlling interest in a subsidiary group of joint-stock companies, and so on, down the pyramid, so that the total capital of all the companies may be many times larger than the capital of the parent company. In this way financial tycoons control tremendous amounts of the capital of others and extract monopoly-high profit.

Closely connected with the shareholding system is the *personal union*, which means that the same people—financial magnates or their agents—simultaneously sit on the boards of several industrial, banking and commercial monopolies. Kinship and well-established business ties between magnates of capital are an important aspect of the personal union and substantially increase the number of enterprises controlled by a financial monopoly group.

The personal union of banks and industry was supplemented by a personal union between the two and the government at an early stage in the coalescence of finance capital with the bourgeois state apparatus. Today, the activity of the financial oligarchy is closely bound up with the system of state-monopoly measures.

Imperialist governments set up military-industrial complexes representing a mighty personal union of government military departments with the biggest financial oligarchy groups. This alliance ensures tremendous profits for finance capital.

The Financial Oligarchy's Methods of Enrichment

The shareholding system and the personal union establish the power of the financial magnates in the imperialist countries' economics and politics. On that basis, the finan-

cial oligarchy develops numerous methods for plundering every stratum of the society. The issue of different kinds of shares is an important instrument of the power and enrichment of the financial oligarchy. There are "common" and "preference" shares, those which do and do not carry a vote, and also "plural" shares each of which carries several votes.

Lenin says: "Finance capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever increasing profits from the floating of companies, issue of stock, state loans, etc.; strengthens the domination of the financial oligarchy and levies tribute upon the whole of society for the benefit of monopolists."¹ A financial magnate who has invested some of his capital in a portfolio of shares issued by a monopoly receives not only dividends, as do all the ordinary shareholders. To these earnings on his capital should be added the large salaries for directorships, for sitting on the boards and supervisory councils of corporations, etc. Apart from fat salaries, the corporate elite receives special bonuses or *tantièmes* on the strength of performance, and these frequently exceed their salaries. Bonuses going to senior executives in the form of options on corporate stock at lower prices are now an important source of earnings for the financial magnates. A sizable part of the personal expenditures of the financial magnates is charged to expense accounts and written off as product costs.

The financial oligarchy also has other ways of enrichment, including the monopoly price system, stock-market speculations, government contracts, and speculation in real estate.

Present-Day Capital Tycoons

The financial oligarchy dominates in the economies of the developed capitalist countries. The economic affairs of the USA are dominated by 20 to 25 financial oligarchy groups, those of Britain by 15 to 20, of France by 10 to 16 and of Japan by 5 to 10 such groups. In the USA, 53 per cent of private wealth is concentrated in the hands of 5 per cent of the population and only one per cent own 72 per cent of all

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 232.

shares. The leading financial oligarchies are the Morgan group, controlling \$ 254.4 billions; the Rockefellers—\$ 163.2 billions; the Bank of America—\$ 172.3 billions; the Mellons—\$ 52.4 billions, and so on. The chief spheres of activity of these financial giants are oil, electronics, the aerospace, chemical and iron and steel industries. Such financial oligarchies dominate in the economic and political affairs of other imperialist states, too.

*Changes in the Credit System of Capitalism
under the Domination of Finance Capital*

In the 20th century, substantial changes have occurred in the structure of financial and credit institutions and the nature of their activity. The financial oligarchy, relying on a far-flung network of banks, has markedly improved the mechanism for centralising temporarily uncommitted funds from every stratum of the society and has developed its new forms. This has produced a system of private investment banks, loan and savings associations, mammoth insurance companies (mainly for the insurance of life and property), pension funds—government and private—and other specialised institutions. The new-type credit and financial institutions control a sizable part of accumulated capital.

New phenomena have also appeared in the organisation of finance capital. It is a coalescence of industrial monopolies not only with the banks but also with diverse financial and credit institutions (insurance companies, investment trusts, etc). Today, *the financial oligarchy group is a union of several billionaires with common interests.*

Credit and financial institutions have become an important instrument in the struggle for larger spheres of domination between various groups of the financial oligarchy. The major shareholders of different companies frequently keep their portfolios in credit institutions, authorising the latter to act on their behalf at general meetings of shareholders. This enables the banking monopolies to concentrate large portfolios of shares of competing companies, and to try to establish control over them.

Present-day finance capital has produced fresh potentialities for intensifying the exploitation of the working class, broad masses of peasants, the urban middle strata.

3. EXPORT OF CAPITAL

Causes, Substance and Forms of Capital Export

The monopoly bourgeoisie, which extracts the highest profits, amasses tremendous amounts of money capital. At the same time, the development of monopolies hampers sufficiently profitable use of this capital within the imperialist countries. Having established their control over whole industries, the monopolies block their infiltration by "alien" capital in order to prevent competition from sharpening and the profit rate from falling. Frequently they even refrain from investing their own capital in production, because an increase in output could lower prices, make the marketing of their products more difficult, and so cut profits.

Consequently, the development of monopolies has led to the formation of a relative "excess" of money capital in the imperialist countries and the *necessity* for its export. There is an "excess" of such capital not in the sense that it cannot be invested at home, but in the sense that its investment abroad will yield higher profits for the monopolies. By the beginning of the 20th century, the potentialities for the export of capital increased. All the countries had been drawn into the system of the world capitalist economy; the main railway lines had either been built or were under construction, and this made it possible to bring up raw materials to the ports more rapidly. Sailing ships had given way to steamships, so making the carriage of bulk cargoes over long distances profitable. The export of capital became highly important, a typical phenomenon, and one of the economic hallmarks of imperialism. At the same time, there was a growth in international capitalist trade.

Consequently, *the export of capital in the imperialist epoch is the export by the monopolies and the financial oligarchy of "excess" capital, which emerges as a result of their domination within their countries, to other countries for the purpose of increasing monopoly profits, and strengthening their economic and political positions in the struggle for external markets and the extension of the sphere of imperialist exploitation.*

With the development of monopoly capitalism, the export of capital increasingly becomes the function of the major monopoly associations. Thus, fewer than 500 corporations account for over 90 per cent of all US investments abroad.

The export of capital proceeds in two basic economic forms: *enterprise* and *loan capital*. In its enterprise form, it involves the establishment by the monopolies of affiliates in other countries, juridically independent subsidiaries and mixed enterprises with the participation of national and foreign capital. The exporters of capital receive enterprise profits. Frequently, they merely loan their capital out to businessmen or governments in other countries, in which case the export of capital assumes the form of loan capital, on which interest is charged.

In contrast to the initial period of the epoch of imperialism, capital is now exported not only by private monopolies. Large amounts of capital are exported by the governments of the imperialist powers and by international, mainly intergovernmental, institutions specifically set up for that purpose. That is the *state-monopoly export of capital*.

The mass of capital functioning abroad can increase not only through its export, but also in consequence of *re-investment*, that is, the capitalisation of a part of the surplus value obtained in the country of investment.

Main Lines of Private Capital Export

Monopolies export capital not only to economically less developed countries which have a shortage of funds, but also to industrialised capitalist countries which have their own relative "excess" of capital.

In 1929, only 45 per cent of US direct investments went to the developed capitalist regions—Western Europe and Canada—and the rest to colonial and dependent countries. By the end of the 1960s, the situation had undergone a sharp change. The export of capital to developed capitalist countries increased.

One of the reasons for the change of direction in the export of capital was the fear of losing capital as a result of the further growth of the national liberation movement and the nationalisation of foreign property in the former colonies and semicolonies. Of much importance also was the changing structure of production under the impact of the scientific and technical revolution.

Among the factors promoting the export of capital to developed capitalist countries are:

1. National distinctions in wage levels. Monopolies in a country with a higher level of wages will export their capital to a country where the level is lower, and so obtain superprofit.

2. Uneven development of the productive forces. With technical progress running unevenly in the various capitalist countries, a monopoly which has an advantage in the level of hardware, technology or organisation of production can profit from the investment of its capital in other developed capitalist countries.

3. Customs barriers. Because monopolies penetrating into the markets of other imperialist countries come up against high customs barriers, it is frequently more profitable for them to set up their own enterprises in these countries with their large domestic market than to incur the cost of transporting the commodities, paying the customs duties, etc. The export of US capital to the West European Common Market countries is stimulated by the fact that the enterprises set up in the area by US capital enjoy the duty free import and export of goods between Common Market countries. Transnationals use the export of capital as a mighty instrument in their struggle for marketing outlets. Thus, the value of US foreign-based companies' output is three to four times higher than that of the commodity export from the USA. The export of capital is, says Lenin, "parasitism raised to a high pitch", because capital is not used productively at home, but, being exported abroad, especially to economically less developed countries, serves as an instrument of exploitation of these countries and slows down their independent development.

The surplus value created by the wage workers at the factories and plantations owned by foreign monopolies has expanded the sources and increased the volume of the colonial tribute levied by the imperialists. The export of capital has intensified the dependence of the economically lagging countries on the imperialist powers, and has become an economic instrument for their further enslavement and their retention within the imperialist sphere of influence.

The export of capital also has some negative consequences for the exporting country, because it intensifies the uneven development of the economy and sharpens the contradictions of reproduction.

Export of Capital Today

The tremendous growth in the scale and share of the export of state capital is a most important feature of the export of capital today.

The export of state capital does not arise from any "excess" of budgetary resources. On the contrary, the budgets of imperialist states are usually in the red. Nevertheless, the governments of the imperialist powers make large outlays from the state budget in order to maintain the world capitalist economy, to safeguard the capitalist system, and to set up and bolster aggressive military and political blocs directed against the socialist countries and the national liberation movement. But the export of capital by the governments of the imperialist powers also has economic purposes: first, external government loans carry a high interest rate; and second, they ensure the most favourable conditions for the export of private capital and the extraction of maximum profit by the monopolies of the exporting countries.

Now and again, imperialist governments give other capitalist and newly-free countries so-called grants, which carry no interest and which are nominally non-repayable. But these grants are in no sense gratuitous assistance, because they always have various strings attached, like privileges for monopolies from the donor countries in their operation in the recipient countries. "Aid" to many newly-free countries has now become the main instrument of neocolonialist policy.

The underwriting (guaranteeing) of private capital exports is a new role which the capitalist state now has to play. With this aim in view, special organisations are set up for the purpose of ensuring export credits.

The export of state capital tends to change, depending on the concrete historical conditions. In the first decade after the Second World War, the bulk of US state capital went to Western Europe. The disintegration of the colonial system of imperialism induced a predominant flow of state and intergovernmental funds to the countries of Asia and Africa which had been freed from colonial oppression but which still remained within the system of the world capitalist economy.

The growing export of capital by international organisa-

tions of the imperialist powers is now an important feature of the export of capital. The resources of the Inter-American Development Bank, the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and other similar outfits consist mainly of budget appropriations from the imperialist states and, consequently, do not imply any "excess" of capital. International credit institutions operate on a commercial basis. Their credits are repayable, are mainly extended for the purpose of investment in production, and yield an interest. The growth of the imperialist powers' international credit institutions since the Second World War has been mainly due to the need to consolidate the power of capital in the economically less developed countries.

The present historical situation also adds *special features to the export of private capital*. To some extent, the monopolies have to agree to set up in the developing countries industrial enterprises and other economic facilities designed to satisfy the host countries' requirements. The result is a change in the sectoral structure of capital export.

The imperialist powers strive to gain control over the industrial development of the former colonies. They try to turn these countries from agricultural-raw material into raw material and industrial-agricultural appendages of world capitalism, that are dependent technically and economically on the imperialist powers. Foreign capital can only speed up the development of productive forces provided it functions under the control of a revolutionary-democratic government.

The sale of patents and licenses to other countries is an important form of private capital export.

Every important discovery or invention involves large investments of capital. That is why, in economic terms, the sale of patents and licenses abroad is equivalent to the export of capital. It is a peculiar, "invisible" export of capital. One usual condition in the sale of licenses is the extension to the licensor of the right to participate in the capital of the licensee, and in this way the exporter of the licence acquires property in another country and the right to receive an income.

In the late 1960s and early 1970s, some developing countries, which had until then only imported capital, began to export it. The monopolies of Brazil, India and the Philip-

pires have been expanding their export of capital. In the early 1970s, capital was first exported on a sizable scale from the oil-extracting countries. The huge oil revenues of some countries (like Saudi Arabia) are now being exported in the form of capital investments in the United States, Britain and other countries.

*Export of Capital and the Aggravation
of the Contradictions of Imperialism*

Whenever the export of capital removes a sizable part of the capital taking shape in a country, it may temporarily slow down its development as compared with other countries. Thus, before the First World War, a sizable part of the joint-stock capital which took shape in Britain was earmarked for enterprises abroad. Meanwhile, economic development in Britain itself was slow.

When capital investments abroad begin to yield a high profit, the repatriation of capital may and usually does exceed the current export of capital. This goes to increase the "excess" of capital in the exporting country, and further to exacerbate the struggle between the imperialist powers for spheres of investment throughout the world.

The export of capital to developed capitalist countries limits the potentialities for the monopolies of these countries for investing their capital at home and so sharpens the internal competition. The export of capital to economically less developed countries tends to specialise the economy in the production of the mineral raw materials and farm produce required by the capital-exporting countries, and this results in their one-sided development and long-term economic dependence on the imperialist powers.

A sizable part of the national income of economically less developed countries tends to flow abroad in the form of imperialist monopoly profits, and this reduces the potentialities of internal accumulation in these countries, and sharpens the contradictions between them and the capital-exporting countries. At the same time, the export of capital to economically less developed countries promotes the establishment of capitalist enterprises and expands the sphere of capitalist relations of production, so accelerating the growth of the proletariat and the shaping of its revolutionary contingents.

The influx of foreign capital into economically less developed countries, bourgeois ideologists assert, helps to raise living standards in these countries, promotes the productive use of their natural resources and the growth of business activity of local entrepreneurs, and serves as an important channel for the transfer of scientific and technical achievements from one part of the world to another. Actually, however, the monopolies' technical and technological achievements going to their enterprises abroad mainly remain in the possession of these monopolies and not of the countries they exploit.

Bourgeois ideologists argue that the export of capital to sovereign countries is not exploitive, but experience shows that the existence of nominal state sovereignty falls far short of safeguarding a country from the harmful consequences of the export of foreign capital.

4. THE ECONOMIC DIVISION OF THE WORLD BY CAPITALIST ALIGNMENTS

International Monopolies and Their Forms

The export of capital expanded the international ties of the biggest monopolies and prepared the ground for the formation of international monopolies. Lenin wrote on this: "As the export of capital increased, and as the foreign and colonial connections and 'spheres of influence' of the big monopolist associations expanded in all ways, things 'naturally' gravitated towards an international agreement among these associations, and towards the formation of international cartels."¹

Monopolies operating on an international scale fall into two groups. One includes monopolies which are owned by the capital of some single country; the second includes monopolies which are owned by the capital of two or more countries, and which are, in effect, international associations of monopolists.

Monopoly capitalism has made inevitable the struggle between international trusts, between international alliances of monopolists not only for marketing outlets but also for sources of raw materials. The imperialist powers consume

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 246.

the bulk of the world's production of raw materials, but most of them do not have any appreciable raw material sources of their own.

The export of capital, and the establishment of affiliates or subsidiaries abroad have served and continue to serve as the monopolies' main instrument for penetration into other countries. In their effort to maximise their profits, they conclude agreements with each other on a partition of the world market. The economic division of the world becomes the key feature of imperialism.

Cartel-type agreements are the most common type of agreement on a division of the world market. They are frequently no more than "gentlemen's" agreements, which means that they are secret. Patent cartels, that is, agreements among several, usually only a few, international trusts and concerns on the mutual exchange of patents and technical improvements in some line of production, are another species of such agreements, which, for all practical purposes, keep out "aliens" from the sphere of activity monopolised by the cartel and enable it to increase prices.

Monopoly-high profit is the main goal of the supermonopolies. When a supermonopoly sells a commodity, the main way for obtaining monopoly-high profit is regulation of the volume of production and restraints on competition, which create an artificial shortage of the monopolised commodity and ensure a marked growth of prices. Whenever a supermonopoly operates as the "organiser" of supply of raw materials to the participants in an agreement, it uses the opposite methods: it seeks to intensify the competition between the countries or enterprises supplying raw materials so as to increase output and depress the prices for these materials.

Economic Division of the World Since the Second World War

The formation and consolidation of the world socialist system and the deepening of the general crisis of capitalism have essentially changed the conditions for the division of the world markets among the international monopolies. These monopolies, of course, continue to conclude market-sharing agreements, but the process becomes more difficult. They are forced to manoeuvre and in some cases even to cover up their activity.

The scientific and technical revolution has created the objective prerequisites for the development of diverse types of international monopolies, for the international interlacing of capital. There is, for that reason, an extensive spread of international monopoly agreements on the manufacture of engineering products, on the sharing out between them of the production of parts and components of machines and equipment, all of which helps a handful of companies to monopolise the manufacture of the key means of production.

At the beginning of this century, international monopolies emerged mainly through the merger of the capitals of different nationalities, but today so-called *transnational monopolies* are much more common. These are national in capital and control, but international in the sphere of their operations.

According to UN data, there are about 7,300 international monopolies, each of which has subsidiaries in 20 or more countries. International monopolies control almost three-fifths of world capitalist trade. The annual turnover of the biggest transnationals exceeds the gross national product of many developed capitalist countries.

Transnational and international monopoly organisations now have a big part to play in the capitalist economy. Interstate monopolistic associations are created. Interstate monopolistic agreements take the form of imperialist integration, as represented most fully by the European Economic Council (EEC) or the Common Market, as it is called. In 1958, there were six West European countries belonging to the EEC, in 1973—nine. This interstate monopolistic organisation, in addition to struggling to divide the world economically, also pursues military and political goals: the struggle against world socialism, against the working-class and national liberation movements. They are more mobile, more capable of taking advantageous positions in competition, to organise the specialisation and cooperation of production on a large international scale, to extract additional earnings from various international operations, to monopolise technical innovations and to exert a great influence on the policy of the capitalist governments. The international monopolies are, in a sense, sprawling private monopoly empires. The growth of the transnational monopolies is a reflection of the objective process of international-

isation of capitalist production and the economy, and tends to sharpen the internal and international contradictions.

World market-sharing agreements between the imperialist governments were an important feature in the development of supermonopolies after the Second World War.

By means of such agreements, the capitalist monopolies seek to resolve the contradiction between the ever more international development of the productive forces and the narrow national boundaries of monopoly capital.

The international monopolies play a reactionary role in the world today. Their penetration into the economies of the young states has particularly serious consequences. The former colonies become increasingly dependent economically on foreign capital; their economic backwardness is preserved; exploitation of their working people is intensified; the opportunities for accumulation decrease; the technico-economic gap between these and the developed capitalist countries widens.

The transnational monopolies play an extremely reactionary role in the formulation of the home and foreign policies of their governments. They initiate attacks on the social and political rights of the working people, and support and inspire aggressive actions by their governments on the world stage.

The Reactionary Role of International Monopolies

The rapid growth of international market-sharing agreements was seen by Karl Kautsky, the theorist of the Second International, as signifying capitalism's entry upon a period of peaceful resolution of its economic contradictions through an amicable division of the world markets. He said that with the passage of time, imperialism would develop into "ultra-imperialism", so putting an end to the competition between the imperialist monopolies and ushering in an epoch of lasting peace.

Kautsky's theory of "ultra-imperialism" is a distortion of Marxism. History shows that it is totally wrong to assume that under imperialism there may come a time when the world's markets would be finally shared out, with capital-

ism running a peaceful way of development. The struggle for markets can never end, and that for a number of reasons. The uneven development of the monopolies and the emergence of new major producers of a given commodity necessitate a redivision of the markets. The development of science and the emergence of new industries also make it impossible to complete the sharing out of world markets. The emergence of new commodities calls for new world market-sharing agreements. The discovery of new and the depletion of old sources of raw materials tend to change the balance of forces between the monopolies involved in their extraction and cause periodical redivisions of the raw material markets.

Consequently, the division of the world market by the monopolies is a process which runs right through the history of imperialism. The assumption that it can one day be ended with an amicable division of the world by capital organised on an international basis is theoretically "absolutely absurd, while in practice it is sophistry and a dishonest defence of the worst opportunism".¹ Nor is there any truth in the assertion by present-day advocates of imperialism that the struggle between the biggest monopolies for hegemony in exploiting the capitalist world can be ended. The switch from "peaceful" means of struggle for the markets to armed struggle is no more than a change of form in the struggle for the economic domination of the world. Under monopoly capital, this struggle must go on, for it is the very substance of the international relations of imperialism.

In our day, the interimperialist rivalry has intensified and the growing strength of the international monopolies has made competition even more ruthless.

History shows that both world wars were caused by international monopolies. They made fortunes on arms deliveries. In 1938, US corporations had profits totalling \$ 3.3 billion, but within five years—in 1943—these had shot up to \$ 24.6 billion, so starting a new level in the accumulation of capital.

Present-day military-industrial monopolies work on sophisticated and costly military programmes yielding tremendous profits. They have become the material basis of the

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 252.

aggressive policy of imperialism, and its active architects and ideologists. The sale of weapons beyond the NATO framework in the 1970s increased from \$ 3 billion to \$ 20 billion a year, and already tends to start wars. The struggle against socialism and disarmament is closely bound up with the operations of the military-industrial complexes.

5. THE TERRITORIAL PARTITION OF THE WORLD BY THE IMPERIALIST POWERS AND THE STRUGGLE FOR ITS REPARTITION

The End of the Territorial Partition of the World

At the turn of the century, the imperialist powers completed the territorial partition of the world, so producing the colonial system of imperialism. The switch to the domination of the monopolies produced new factors inducing the imperialist powers to colonial takeovers. Among these are: the formation of "excess" capital and the need to export it; demand for new types of raw materials in view of the emergence of new lines of production and the growing consumption of imported raw materials, and the pre-emptive takeover of territories in the hope of raw materials being discovered in the area later on; possession of strategically important, even if economically unimportant territories for the maintenance of earlier possessions. Apart from economic factors, much importance attaches to other factors behind the step-up in the policy of colonial seizures: the urge to remove from the metropolitan countries some of the "surplus" unemployed population so as to damp down the proletariat's discontent in the centres of world capitalism, and the urge to lash on to imperialism some strata of the population at home through their involvement in the exploitation of other peoples.

The Struggle for a Repartition of the World and Imperialist Wars

The growing unevenness of the capitalist countries' economic and political development has produced acute contradictions within the system of imperialism and

sharpened the imperialist powers' struggle for world supremacy.

Lenin's analysis of the economic and political history of imperialism led him to draw the conclusion, which has since been borne out by history, that the policy of imperialism, which is rooted in its economy, is a policy of preparing and starting world wars for a redivision of a divided world.

The struggle for a redivision of the world does not boil down to a mere occupation of economically less developed countries. Lenin says: "The characteristic feature of imperialism is precisely that it strives to annex *not only* agrarian territories, but even most highly industrialised regions."¹ This has been fully borne out by history. Nazi Germany began its aggression by invading industrialised countries in Europe.

The epoch of imperialism is one which is keynoted by militarism and wars. Within two decades after the First World War, imperialism started the Second World War, after which new historical conditions took shape. The formation and development of the world socialist system, the rise of the working-class movement in the capitalist countries, the disintegration of the colonial system of imperialism and the entry of once oppressed peoples upon the path of independent development, and the mass movement for peace—all of these go to create favourable conditions for the struggle to avert another world war. This has been made possible by the growing strength of socialism and peace, but not in any sense by a reduction in the aggressiveness of imperialism. In present-day conditions, the aggressiveness of the bellicose circles of imperialism is manifested above all in the policy of neocolonialism and militarism.

Present-day militarism is aimed above all against the socialist countries and the revolutionary forces in the capitalist world. The aggressiveness of imperialism is rooted in its nature. Only the forms of its manifestation tend to change. The growth of the forces of socialism and peace helps to frustrate implementation of the aggressive plans of imperialism.

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, pp. 268-69.

6. THE WORLD CAPITALIST ECONOMIC SYSTEM

The Formation and Substance of the World Capitalist Economy

The transition to imperialism completes the formation of the world capitalist economy. Large-scale production, spilling over the national boundaries, constitutes its material basis, and the financial oligarchy, its leading class force; the export of capital and commodities, the economic division of the world by associations of capitalists, and the territorial division of the world by the imperialist powers constitute the most important means in the shaping and assertion of the domination of the world by the financial oligarchy.

In 1920, Lenin wrote: "Capitalism has grown into a world system of colonial oppression and of the financial strangulation of the overwhelming majority of the population of the world by a handful of 'advanced' countries."¹

The world capitalist economy is a system of the international economic relations of imperialism produced by the domination of the financial oligarchy of the major imperialist powers and meeting its class interests. The world capitalist economy constitutes a complex and contradictory combination of national economies that are interlinked by the capitalist *international division of labour* and various forms of economic relations.

The decades since then have been a period of the disintegration of capitalism. The capitalist system has ceased to be worldwide and all-embracing. A world socialist system has emerged and is developing. The sphere for capitalism to operate in has become much narrower. Accordingly, changes have also occurred in the mechanism of the world domination of the financial oligarchy.

International Economic Relations of Imperialism

The economic ties between the countries of the world capitalist economy are effected through the international movement of capitals, commodities, labour power and gold and currency resources. The export of capital and commodi-

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 191.

ties, and the migration of labour resources beyond the national boundaries of states tend to sharpen the internal contradictions of the capitalist countries, with the international economic relations of imperialism developing into peculiar ganglions of these contradictions.

The *export of capital* is one of the fundamental features of the world capitalist economy. A world capital market tends to emerge under imperialism on the basis of the export and import of capital. It helps to implant capitalist production in countries lagging in their historical development, and is the basic instrument for involving them in capitalist development. Each such country is converted into a unit of the overall system of the world capitalist economy, an element of the mechanism underlying the reproduction of monopoly capital.

In addition to the export of capital, the international economic relations of capitalism include *foreign trade*. Capitalism has always had a tendency to increase the output of commodities, and to expand their sale beyond the framework of the national market. The transition to imperialism completes the formation of a world capitalist market.

Monopoly capitalism has not merely increased the international flows of commodities. On the one hand, it has specialised production in most countries within the capitalist economy on the manufacture of mineral or agricultural raw materials for the centres of world capitalism, and on the other, it has concentrated the bulk of the industrial facilities in the imperialist countries. That is why raw materials constitute such an important part in the export of countries which had been subjected to colonial exploitation.

The flows of raw materials to the developed capitalist countries and the flows of manufactured goods to the economically less developed countries have become a characteristic feature of world trade. Seven chief countries of monopoly capitalism (USA, Britain, FRG, France, Italy, Canada and Japan) have the leading role to play in world trade. They have less than 25 per cent of the capitalist world's population, but control 50 per cent of its trade.

The *international migration of labour power* has an important part to play within the world capitalist economic system. It is caused, above all, by the relative overpopulation which is organic to capitalism. Each form of such overpopulation—current, latent and stagnant—may generate

flows of migrants going to other countries in search of jobs and the means of subsistence. The migration of labour power within the framework of the capitalist world economic system is a means for ensuring monopoly profit.

Monetary relations within the framework of the world capitalist economy spring from the export of commodities and capital and the extension of diverse international services. Their results are reflected in the balance of payments. Today, the monetary system of imperialism is in a state of deep crisis.

The Colonial System of Monopoly Capitalism

The colonial system of imperialism is a special part of the capitalist world's economic system. *It is a system of antagonistic relations of production between the imperialist powers and the peoples of the economically less developed countries they have enslaved.*

The overt use of force and armed territorial occupation have always been the main means for the formation of colonies. Political coercion has been the main instrument in the economic exploitation of the oppressed peoples, whom the invaders forced to pay tribute and to work for them.

Monopoly capital has modified the framework of colonialism. It has enlarged the scale of territorial seizures until the whole world was partitioned, a state of things that did not exist in the past under any of the earlier socio-economic formations. But imperialism has also created new means of exploitation based on the substantial differences in levels of economic development between the enslavers and the enslaved. Its most important instruments are the export of commodities and, in particular, the export of capital.

The export to the colonies of commodities produced at technically more advanced factories in the metropolitan countries slowed down the development of traditional industries in the colonial countries which were unable to compete with foreign manufactures, and this was a drag on the emergence of a national industry. In this way, the economic mechanism of the capitalist world economy perpetuated the economic backwardness of the colonial possessions of the imperialist powers.

The export of capital led to the emergence and development in the colonial and dependent countries only of indus-

tries which catered for the needs of the metropolitan countries, and it was the colonialists who decided on the volume and the prices of the commodities that would be purchased there. The result was that the colonies had to purchase the required manufactured goods from the foreign monopolies at monopoly-high prices. In this way, the whole process of reproduction in the colonies, the national income level and living conditions of the population depended on the monopoly capital of the metropolitan countries, and this made the independent development of the economically lagging peoples impossible.

Consequently, the capitalist world economic system used economic means to reproduce the relations of colonial bondage.

The division of the countries of the capitalist world into economically developed and backward countries became a characteristic feature of the world capitalist economic system. The profound differences in development levels between the countries of the capitalist world, which had existed by the time the epoch of imperialism began became an insurmountable gap.

Lenin's characterisation of imperialism contains three forms of colonial bondage which are typical of monopoly capitalism: colonies, semicolonies and dependent countries.

These forms of colonial bondage assured the imperialist powers of markets for their commodities, sources of raw materials, spheres of capital investment, military-strategic springboards and reserves for manning their armies. The colonial system of monopoly capitalism, in which colonies predominated, was the most far-flung system of colonial bondage involving a large part of the peoples of the globe. It was a combination of exploitation based on direct coercion and forms of economic bondage.

The role of the colonies within the world capitalist economic system did not remain unchanged throughout the history of imperialism. For a long time, the colonies supplied the metropolitan countries with ores and agricultural raw materials, took up the surplus consumer commodities, surplus capital and surplus population, and provided the imperialist powers with convenient strategic bridgeheads and cheap cannon fodder.

In the early 1950s, US, British and French capital controlled roughly 73 per cent of all the oil deposits explored

in the economically less developed countries, 72 per cent of the natural gas deposits, 90 per cent of the iron ore, 90 per cent of the chrome ore, 87 per cent of the nickel, 100 per cent of the molybdenum, vanadium and mercury, 83 per cent of the copper, 93 per cent of the lead, etc.

Bourgeois theorists seek to cover up the connection between monopoly capital and colonial bondage, the class substance of colonialism and neocolonialism and the concrete forms of its expression. Bourgeois ideologists assert that the colonial policy of the epoch of imperialism did not spring from the exploitative capitalist system but from human nature, for man has allegedly always striven to enlarge his "living space". However, colonialism is rooted in the class nature of all antagonistic formations.

Bourgeois ideologists assert that the colonialists did not exploit the colonial peoples and had nothing to gain from establishing economic domination over them. But the facts show that the exploitation of the colonial peoples was a substantial element in the reproduction of monopoly capital. They also insist that colonialism was a means for developing the enslaved peoples at a relatively fast pace, whereas political independence would have doomed these peoples to backwardness. But the facts show that it was imperialism that slowed down the development of the enslaved and exploited countries for a long time.

Uniformities of the Development of the World Capitalist Economy

Apart from the general uniformities of capitalism, the world capitalist economy has specific uniformities which operate in the international relations of capitalism.

One of the key features of the world economy under imperialism is the *concentration of the productive forces of the capitalist world in a small number of imperialist states*. Thus, from 1913 to the 1970s, seven leading capitalist countries accounted for nearly 80 per cent of the capitalist world's industrial output.

Another feature of the world capitalist economy is *the tremendous gap in economic development levels between the leading imperialist powers and the economically less developed countries*, a gap which has continued to grow. A century ago, US income per head of the population was three times higher

than it was in the economically less developed countries; today it is 30-40 times higher.

Within the world capitalist economy, *the productive forces in the leading imperialist powers tend to develop unevenly, with the result that some countries recede into the background, while others take their place in the foreground, with the former seeking to restore their lost positions by starting a drive against their rivals.*

The unevenness of development has established the United States as the predominant force of the capitalist world economy. That is why two trends are inevitable in the contemporary capitalist world. One is the urge of the capitalist countries to unite their forces to save capitalism and to carry on a common struggle against socialism and the further development of the world revolution and the policy of peace, by relying on the power of state-monopoly capital; the other trend is fierce struggle against the monopoly of US capitalism.

The uneven economic development generates the most acute contradictions between the imperialist powers themselves, and also between a majority of the peoples in the capitalist world, and finance capital, which has established control of the world. These contradictions tend to erode the world capitalist system and bring on its collapse.

Chapter thirteen

THE HISTORICAL PLACE OF IMPERIALISM

1. IMPERIALISM IS A SPECIAL STAGE OF CAPITALISM

Summing up his analysis of the economic features of imperialism, Lenin emphasised that, in economic terms, *imperialism is monopoly capitalism*. He sharply criticised bourgeois scientists and, together with them, Karl Kautsky, the leader of the Second International, who were wont to reduce imperialism to a policy of conquest. Even in political terms, such a view of imperialism is one-sided, and for that reason, incorrect, to say nothing of the fact that it fails to characterise the economic content of imperialism.

"Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed."¹

This definition shows that *imperialism is not a new mode of production but a stage in the development of capitalism*. In some of his works, Lenin wrote that imperialism is a "superstructure" over the old, premonopoly capitalism and that without this basis monopoly capitalism has never existed anywhere and will never exist. The monopolies dominate the economy, control its key industries, but the economy is not being conducted by the monopolies alone, although the percentage of non-monopolised enterprises within the whole mass of commodities produced and sold in the imperialist countries is relatively small.

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, pp. 266-67.

The monopolies' domination does not—and cannot—completely eliminate petty commodity production or the individual forms of capitalist production. In reality, no “pure” imperialism exists. “The essential feature of imperialism, by and large, is not monopolies pure and simple, but monopolies in conjunction with exchange, markets, competition, crises.”¹

Lenin's doctrine of imperialism includes a definition of the historical place of imperialism, its position with respect to earlier capitalist development and the subsequent development of the human society towards a socialist revolution. *Compared with premonopoly capitalism, imperialism is the highest stage in the development of capitalism. At the same time, imperialism is the final stage of capitalism, the eve of the socialist revolution.* Lenin says that, seen in this light, imperialism is, undoubtedly, a special historical stage of capitalism. “Its specific character is three-fold: imperialism is (1) monopoly capitalism; (2) parasitic, or decaying capitalism; (3) moribund capitalism.”²

The features of imperialism testify to the complete preparation of the material prerequisites of socialism and to a sharpening of the contradictions of capitalism as a result of which the socialist revolution becomes a practical task of the proletariat's revolutionary struggle.

2. IMPERIALISM IS MONOPOLY CAPITALISM

The historical place of imperialism is determined above all by the fact that it is monopoly capitalism.

Lenin noted four main types of manifestation of monopoly: first, the domination of monopolies controlling the crucial share of production and marketing of commodities;

second, monopoly possession of sources of raw materials;

third, domination by the financial oligarchy of the economic and political life of the bourgeois society; and

fourth, monopoly possession of colonies.

¹ V. I. Lenin, “Materials Relating to the Revision of the Party Programme”, *Collected Works*, Vol. 24, Progress Publishers, Moscow, 1974, p. 464.

² V. I. Lenin, “Imperialism and the Split in Socialism”, *Collected Works*, Vol. 23, Progress Publishers, Moscow, 1974, p. 105.

Domination by the monopolies increases the capitalist socialisation of production and carries it to the highest stage that is possible under capitalism. There is a deepening of the social division of labour and a growth of ties between the various industries, whose number tends constantly to grow. Tens of thousands of wage workers set in motion instruments of labour at the largest monopoly enterprises and produce the bulk of the products in the key industries.

The high level in the development of the social character of production insistently requires the planned regulation of production on a social scale and control of it from a single centre. This shows that the material prerequisites for the socialist transformation of society have matured.

However, private property in the means of production and the fragmentation of production among competing enterprises make it impossible to develop the whole of social production according to plan. Alongside the high level of organisation of production and labour within the framework of the large capitalist enterprises, there is anarchy of production on the scale of the society as a whole. A handful of the leading monopolists appropriate the tremendous wealth being created by the labour of millions. This sharpens and deepens the basic contradiction of capitalism to an extreme.

Consequently, in the epoch of imperialism, society's productive forces have reached a level at which they no longer fit into the narrow framework of capitalist relations of production. The integument made up of the capitalist relations of production no longer corresponds to its content, the level and character of the productive forces.

3. IMPERIALISM IS PARASITIC, DECAYING CAPITALISM

The second feature of imperialism characterising its historical place is its parasitism and decay. "Monopolies, oligarchy, the striving for domination and not for freedom, the exploitation of an increasing number of small or weak nations by a handful of the richest or most powerful nations—all these have given birth to those distinctive characteristics of imperialism which compel us to define it as parasitic or decaying capitalism."¹

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 300.

With the transition to imperialism, capitalist relations of production have ceased to be relatively progressive and, once a factor behind the development of the productive forces, have become the greatest drag on social progress. The main reason and basis for the parasitism and decay of capitalism is the power of the monopolies. Lenin says that monopoly in all its forms under private property in the means of production inevitably produces a tendency towards stagnation and decay.

Consequently, at the turn of the century, capitalism, as a socio-economic formation, became decaying and parasitic capitalism, a process which has the following main aspects: the economic possibility for a slow-down of technical progress under monopoly domination, the emergence of a stratum of rentiers and rentier states, the export of capital, the plunder of the colonial peoples, the bribery of the top layer of the working class and the formation of a workers' aristocracy, and political reaction.

Two Trends of Scientific and Technical Progress under Imperialism

There are two contradictory trends in scientific and technical progress under imperialism, *one leading to its slow-down, and the other, to its development*. In the epoch of premonopoly capitalism, the introduction of new machinery, impelled by competition, was one of the main methods for intensifying the working people's exploitation and boosting the capitalists' profits.

The establishment of the monopolies' domination has led to a situation in which profits can be boosted not only through technical innovation but also through the fixing of monopoly prices: "Since monopoly prices are established, even temporarily, the motive cause of technical and, consequently, of all other progress disappears to a certain extent and, further, the *economic* possibility arises of deliberately retarding technical progress."¹

The monopolies find it unprofitable to introduce new machinery whenever this results in a sharp increase in the volume of output with demand remaining unchanged or

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 276.

increasing only a little, because this threatens to depress prices and so to reduce profits. New machinery also tends to depreciate the existing fixed capital, which means the loss of a part of the advanced capital. In their effort to maximise profits, the monopolies are in a position to block the use of technical innovations in production for a certain period.

The concentration in the hands of the monopolies of large-scale R & D facilities is of essential importance. The big corporations become the owners of the bulk of the inventions and are in a position to keep back the discoveries made in their laboratories and patents for improving production, unless faced with competition on the part of foreign or domestic monopolies. They frequently buy up patents for technical inventions not for the purpose of using them at their own enterprises, but to prevent their use by rivals.

Alongside the tendency for the retardation of technical progress under imperialism there is the opposite tendency in its development: "It would be a mistake to believe that this tendency to decay precludes the rapid growth of capitalism. It does not. In the epoch of imperialism, certain branches of industry, certain strata of the bourgeoisie and certain countries betray, to a greater or lesser degree, now one and now another of these tendencies. On the whole, capitalism is growing far more rapidly than before; but this growth is not only becoming more and more uneven in general, its unevenness also manifests itself, in particular, in the decay of the countries which are richest in capital."¹

Consequently, the development of the productive forces under imperialism is contradictory, and proceeds in the struggle between two tendencies: one towards a growth and the other towards a retardation of scientific and technical progress. As the scientific and technical revolution unfolds, the growth tendency acquires much importance, but imperialism is incapable of altogether surmounting the tendency towards decay. There is a growing gap between the vast potentialities opened up by science and technology, and their actual use.

Today, the growing militarisation of the economy, and the arms race, which are most pronounced in the major im-

¹ V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 300.

perialist countries, are the most striking manifestation of the decay of capitalism. New technical development is distorted and given a militaristic twist. Scientific and technical progress is used mainly for the making of mass destruction weapons. The growing militarisation means waste of the productive forces. For society, arms manufacture entails an irretrievable loss of a tremendous part of the gross national product.

*Growth of the Rentier Stratum. Rentier States.
Parasitism of Capital Export*

The decay of monopoly capitalism is also manifested in the growth of the parasitic strata of the society and their incomes. In the epoch of free competition capitalism, the owners of industrial capital were directly connected with material production and frequently performed organisational and managerial functions. Their parasitism consisted in the appropriation of surplus value and enrichment at the expense of the proletariat's unpaid labour.

Under imperialism, the bourgeoisie becomes unwontedly parasitic and this phenomenon acquires new aspects. A sizable section of the bourgeoisie sheds its remaining direct contacts with the sphere of material production. There is a growth of a rentier stratum, that is, of capitalists living off the incomes from securities: stocks and bonds. Salaried specialists are entrusted with the organisation of production and the management of enterprises. Some of the monopoly capitalists sit on the boards and councils of corporations, but only for the purpose of exercising control over the effort of constantly boosting incomes, over the distribution of profit, the bulk of which goes to the major shareholders.

The monopoly bourgeoisie not only leads a parasitic way of life itself; it also distracts an increasingly significant part of the population from productive, socially useful labour. In the imperialist countries, a growing number of people are employed in the army and the police, in the provision of personal services for the capitalists.

The export of capital tends further to separate the rentier monopolists from production and to increase their parasitism. Far from being involved in any enterprise, this stratum of the bourgeoisie frequently does not even know

in which country and for what purposes its capital is being used, and this sheds a glaring light on the fact that the parasitic bourgeoisie is absolutely irrelevant to the process of production.

Whole states exporting capital and living largely off the exploitation of other peoples and countries also find themselves in the condition of rentiers. In his lifetime, Lenin characterised France as a classical specimen of the rentier state. Today, this applies most of all to US finance capital, the chief exploiter of the capitalist world.

Apart from everything else, the export of capital intensifies the separation of property capital from functioning capital and accelerates the growth of the rentier stratum. The tremendous profits extracted from the export of capital enable the monopoly bourgeoisie to increase its bribery of the top section of the working class. The export of capital epitomises the parasitic character of monopoly capitalism. The tremendous profits made from the capital exported abroad reduce the monopolies' interest in developing production at home and so increasingly promote the export of "excess" capital. At the same time, monopoly capital exported to the colonies and dependent countries determines the distorted and one-sided development of their economy. The parasitic enrichment of the capital-exporting imperialist powers through the predatory exploitation and plunder of the peoples of the colonial and dependent countries dooms the less developed countries to long years of economic and cultural backwardness.

Bribery of the Top Section of the Working Class

The bribery of a top section of the working class is one of the most striking manifestations of the decay and parasitism of capitalism in the epoch of imperialism. This is made possible economically by the imperialists' monopoly-high profits, more intense exploitation of the bulk of the proletariat at home, and the extraction of superprofit from the exploitation of the peoples of economically less developed countries. This bribery comes in the form of higher wages, bonuses, the sale of dwellings at reduced prices, the sale at lower prices or even of outright gifts of the shares of enterprises, appointment to managerial posts, etc. This produces a workers' aristocracy, a stratum which is the

social mainstay of the bourgeoisie and its agent in the working-class movement. The workers' aristocracy and the bureaucracy, and also the petty-bourgeoisie provide cadres for the opportunist parties in the working-class movement. Their leaders carry the bourgeois ideology into the working-class movement, splinter it and hamper the unification of all the progressive forces in the fight against imperialism.

The workers' aristocracy should not be identified with all the highly paid workers, many of whom have won their high wages through long and persevering struggle, instead of the artificial privileges handed out by the monopoly bourgeoisie. On the whole, skilled workers nowadays have to play a very important role in the revolutionary movement.

Having brought out the economic causes and social roots of opportunism, Lenin set the key task of carrying on a relentless struggle against every species of opportunism as a necessary condition for the struggle against imperialism.

Political Reaction

The decay and parasitism of capitalism in the epoch of imperialism are also manifested in the swing towards reaction in every sphere of socio-political life. Whereas the economic substance of imperialism consists in the replacement of free competition by monopoly domination, its political substance is characterised by a swing away from bourgeois democracy to political reaction. Lenin says: "Both in foreign and home policy imperialism strives towards violations of democracy, towards reaction. In this sense imperialism is indisputably the 'negation' of *democracy in general, of all democracy*."¹

Monopoly capital seeks to do away with the working people's democratic rights won by generations of the working class in persevering struggle. The growth of political reaction under imperialism is epitomised by the anti-democratic and fascist regimes.

Monopoly domination also carries with it reaction in the sphere of ideology and culture.

The forms in which the decay of capitalism is manifested under imperialism tend to change.

¹ V. I. Lenin, "A Caricature of Marxism and Imperialist Economism", *Collected Works*, Vol. 23, p. 43.

The parasitism and decay of monopoly capitalism show that capitalism has historically outlived itself, and that it has to give way to another, progressive system, namely, socialism.

4. IMPERIALISM IS MORIBUND CAPITALISM, THE EVE OF THE SOCIALIST REVOLUTION

On the strength of his analysis of the monopoly stage of capitalism, Lenin drew the conclusion that imperialism is moribund capitalism: "The epoch of capitalist imperialism is one of ripe and rotten-ripe capitalism, which" is about to collapse, and which is mature enough to make way for socialism."¹ But this does not mean that capitalism will disappear of itself, that it will collapse automatically.

Like all exploiter classes, the bourgeoisie does not leave the historical stage voluntarily, without fierce class battles. That is why, having defined imperialism as the last stage of capitalism, Lenin also pointed out that imperialism is the eve of the socialist revolution.

Imperialism carries the contradictions of capitalism to an extreme. The old contradictions inherent in the whole epoch of capitalism are sharply exacerbated, but new contradictions are simultaneously produced and developed by imperialism. First of all, there is a deepening of the basic contradiction of capitalism, that between social production and the private capitalist appropriation of its results. There is a growth of the antagonism between labour and capital, between the oppressed peoples of the colonies and dependent countries, on the one hand, and the monopoly bourgeoisie, on the other, and of the contradictions between the imperialist powers themselves. It is the sharpening of all these contradictions that carries capitalism to the threshold of a socialist revolution.

The deepening of the contradiction between labour and capital is expressed in the growing discrepancy between the socio-economic conditions of the working class and those of the monopoly bourgeoisie, the discrepancy between their roles in social production.

¹ V. I. Lenin, "Opportunism and the Collapse of the Second International", *Collected Works*, Vol. 22, p. 109.

To promote the interests of the monopolies, the capitalist state intervenes in the relations between the capitalists and the workers, and engages in what is known as the regulation of working conditions and wages. This regulation consists above all in "freezing" wages, banning strikes, and infringing trade union rights. The working people ever more resolutely fight against the power of the monopolies: from year to year there is a growth in the number of strikers, and more and more strikes are political.

The monopolies step up their exploitation of the toiling peasantry. Here, the peasants are plundered mainly through monopoly-high prices for manufactured goods and monopoly-low prices for farm produce. The tax system of the capitalist countries and the credit system also provide an important instrument for the exploitation of the labouring peasantry. Many peasants find themselves heavily indebted to the banks, cannot make both ends meet, lose their land and property, and join the ranks of the proletariat. The monopolies also exploit and ruin handicraftsmen and small businessmen.

Consequently, present-day capitalism tends to sharpen the contradictions between the monopoly bourgeoisie and all the other classes and strata of the nation. Imperialism cuts across the vital interests of workers by hand and by brain, and of various social strata, nations and countries. This creates the condition for a unification of all the democratic forces, led by the working class, in a single anti-imperialist stream.

The contradictions between a handful of imperialist powers and the peoples of the colonial and dependent countries are also aggravated in the epoch of imperialism. Every year, a large part of the value created in these countries goes to the imperialist monopolies in the form of incomes on the export of capital and on non-equivalent trade between the industrialised and the economically lagging countries. At the same time, the export of capital has led to the development of capitalist relations in the colonial and dependent countries, and to the emergence of the proletariat, together with the class contradictions inherent in capitalism.

The national liberation movement tended to become increasingly anti-imperialist. The colonies and dependent countries, once a reserve of imperialism, became a reserve

of the proletarian revolution. The development of contradictions between the imperialist powers and the peoples of the colonial countries led to the disintegration of the colonial system of imperialism.

The contradictions intensify between the various groups of finance capital and between the imperialist powers fighting each other for marketing outlets, sources of raw materials, and spheres of profitable investment of capital. The competition in industry and trade is becoming stiffer and the financial and monetary warfare is extending ever more. The 26th CPSU Congress noted: "The inter-imperialist contradictions are growing more acute, the scramble for markets and for sources of raw materials and energy is more frantic."¹

The victory of the Great October Socialist Revolution led to the emergence of a contradiction between historically doomed imperialism and socialism, the new, progressive social system. The contradiction between imperialism and socialism is manifested on a worldwide scale. This fundamental contradiction now determines the character and specific features of development of all the social phenomena of our epoch, an epoch of transition from capitalism to socialism. This transition is an objective historical uniformity, and is based on the incongruity between the productive forces and the capitalist relations of production, and the sharpening of all the contradictions of capitalism.

5. THE LAW OF UNEVEN ECONOMIC AND POLITICAL DEVELOPMENT OF CAPITALISM

Lenin's analysis of the monopoly stage of capitalism led him to the discovery of *the law of the uneven economic and political development of capitalist countries in the epoch of imperialism.*

At every stage, capitalist economic development is uneven, which means different rates of development for individual enterprises and industries, and for social production as a whole in the various countries. This uneven economic

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, Novosti Press Agency Publishing House, Moscow, 1981, p. 27.

development is determined by the nature of the capitalist relations of production, by the private property in the means of production. It is directly caused by the capitalists' drive for maximum profit, by competition and the anarchy of production.

Imperialism has not only intensified the unevenness in the development of capitalism, but has also markedly modified its character. Instead of its relatively smooth evolution, capitalism now tends to develop in leaps and bounds, so producing acute conflicts and fresh contradictions between the imperialist powers. The importance and consequences of this law for the destiny of capitalism have also changed. The uneven development of capitalism in the epoch of imperialism provided the objective basis for breaking through the chain of imperialism in one of its weak links, and for the victory of the socialist revolution initially in a few countries, or even in one country.

The tremendous earlier gap between the levels of the leading capitalist countries' technical and economic development has been reduced as a result of the major technical advances in the production of these countries. The rapid technical development has enabled the states entering upon the path of capitalism at a later date to use the available advances and rapidly to overtake and surpass the once powerful capitalist countries. Consequently, uneven development has become leap-like.

The monopoly capital of countries forging ahead in their development required new markets for the export of goods and capital, and sources of raw materials. But by the beginning of the 20th century, the territorial partition of the world had been completed. With the operation of the law of uneven development changing the balance of forces between the capitalist powers, the most acute contradictions between them were bound to arise, resulting in world wars for the repartition of a divided world. That was the origin of the First and Second World wars.

In the postwar period, further substantial changes have taken place in the balance of economic forces between the imperialist countries. By the early 1970s, three main centres of imperialist rivalry had taken final shape in the capitalist world: the imperialism of the USA, West European imperialism (especially the Common Market) and Japanese imperialism. There is fierce economic and political competi-

tion between them. With the transition to imperialism, the development of capitalism in breadth—the growth of trade, the export of capital, the economic and territorial partition of the world, and the deepening of the international capitalist division of labour—involved most countries of the world in the system of capitalist relations, and the objective prerequisites for the victory of a socialist revolution on the whole matured within the world capitalist system. But because of the law of uneven development of capitalism, these conditions tend to mature in each individual country at different periods.

Closely connected with the uneven economic development of the capitalist countries in the epoch of imperialism is the unevenness of their political development, that is, the development of political contradictions and the proletariat's revolutionary struggle in the various countries of the capitalist world. Lenin says: "The workers' revolution develops unevenly in different countries, since the conditions of political life differ. In one country the proletariat is too weak and in another it is stronger."¹

The unevenness of political development means that the political prerequisites for the proletarian revolution tend to mature in the various countries at different times. Among the political prerequisites are acuteness of class contradictions and the degree of development in the class struggle, level of class consciousness, political organisation and revolutionary resolve of the proletariat, the rallying round it of non-proletarian strata of the working people, and the influence of the Marxist-Leninist Party, the revolutionary vanguard of the working class.

The unevenness of political development is not a mere consequence or reflection of the unevenness of economic development, but is of relatively independent importance. The sharpness of class contradictions and the development of the proletariat's revolutionary movement are not at all determined solely by the level of capitalist development in this or that country. Class contradictions may be expressed most acutely, and the proletariat's organisation and revo-

¹ V. I. Lenin, "Report at a Joint Session of the All-Russia Central Executive Committee, the Moscow Soviet, Factory Committees and Trade Unions, October 22, 1918", *Collected Works*, Vol. 28, Progress Publishers, Moscow, 1965, p. 119.

lutionary consciousness may be much higher in a capitalist country below the highest level of economic development.

That was precisely the state of affairs in Russia in 1917, where the contradictions of imperialism were most profound and where the subjective prerequisites for the socialist revolution proved to be the most mature. The triumph of the socialist revolution in Russia resulted from a breakthrough in the chain of imperialism at its weakest link.

The unevenness of economic development tends to sharpen the economic contradictions in the various links of the worldwide chain of imperialism. The unevenness of political development converts into reality the possibility of a victory for the revolutionary struggle of the working class in the weak links of the chain of world imperialism where the objective and subjective prerequisites for revolution have matured and where a revolutionary situation has emerged.

Marx and Engels believed that socialism would win out simultaneously in all the leading capitalist countries, a conclusion which followed from their analysis of the whole situation in the epoch of premonopoly capitalism. Lenin continued the analysis of capitalism in the new historical conditions and established that the *possibility had arisen for the victory of socialism initially in a few countries or even in one individual capitalist country*. The doctrine of the possibility of an initial victory of socialism in one country was a most important theoretical contribution to the Marxist theory and provided an invaluable ideological weapon in the working-class revolutionary struggle.

Lenin's theory of socialist revolution is of tremendous importance for stimulating the proletariat's revolutionary initiative. The practical conclusion the working class in each individual country can draw from Lenin's theory of socialist revolution is that pressure needs to be intensified against the bourgeoisie of one's own country so as to win political power, without waiting for the advent of a socialist revolution on a world scale.

B. The Crisis of World Capitalism

Chapter fourteen

THE SUBSTANCE OF THE GENERAL CRISIS OF CAPITALISM. THE DIVISION OF THE WORLD INTO TWO SOCIO-ECONOMIC SYSTEMS AND THE STRUGGLE BETWEEN THEM

The doctrine of the general crisis of capitalism is a component part of Lenin's theory of imperialism and its continuation in the context of a world divided into two opposite socio-economic systems: socialism and capitalism. Lenin's works, and the documents and materials of the CPSU and other Communist and Workers' parties reveal the essence of the general crisis of capitalism, its characteristic features, and the conditions and dialectics of its development.

The general crisis is inexorably rooted in the very nature of imperialism. Lenin's analysis of the economic features and historical place of imperialism showed the origins of this phenomenon. His discovery of the specific operation of the law of uneven economic and political development of capitalism at its imperialist stage enabled him to draw the conclusion that socialism could initially win out in a few countries or even in one capitalist country. Lenin showed that the crisis of world capitalism and the establishment of socialism on the globe would take a definite historical period.

The doctrine of the general crisis of capitalism is a theoretical summing-up of the processes in the aggravation of the internal contradictions of capitalism, the historical inevitability of the transition to a new social formation—socialism—and its growing impact on world development.

1. THE SUBSTANCE OF THE GENERAL CRISIS OF CAPITALISM AND ITS STAGES

The Substance and Key Features of the General Crisis of Capitalism

The general crisis of capitalism, Lenin says, is the period of the actual collapse of capitalism on its entire scale and the birth of a socialist society.¹

The transition from capitalism to socialism is the main content of our epoch, and this transition was inaugurated by the victory of the Great October Socialist Revolution. No event in world history has had such profound and long-term consequences for mankind as has the Great October Socialist Revolution. Since then, the main tendency of world development has been the disintegration of the capitalist system under the blows of the revolutionary forces.

Ours is an epoch of socialist and national liberation revolutions, the epoch of the collapse of imperialism, the liquidation of the colonial system, the epoch of transition to the socialist path by more and more people, and of the triumph of socialism and communism on a worldwide scale.

The manifestations of the general crisis of capitalism are diverse, but these can be reduced to the following main features.

First, the split of the world into two opposite socio-economic systems—socialism and capitalism—and the struggle between them.

Since the Great October Socialist Revolution and the subsequent emergence and consolidation of the world socialist system, the state of capitalism has not been determined by its internal processes alone. Nowadays, the positions of imperialism also largely depend on the state of the forces of the socialist system. As the world socialist system gains in strength and develops, and the world working-

¹ See V. I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B)", *Collected Works*, Vol. 27, Progress Publishers, Moscow, 1965, pp. 130-131. One should not confuse the concepts of "economic crisis" and "general crisis of capitalism". Economic crises of over-production, caused by the cyclical reproduction of capital, are periodical phenomena, while the general crisis of capitalism is the crisis of the capitalist system as a whole, of its economic and state system, its politics and ideology.

class and national liberation movements score their victories, the positions of imperialism are weakened, the sphere of the domination of the world capitalist system is narrowed down, and the general crisis of capitalism deepens.

Socialism stands for peaceful coexistence between states with different social systems. But peaceful coexistence does not eliminate the class struggle between them.

The contest between the two social systems in the *economic sphere* assumes the form of an economic competition which implies mutually advantageous participation in the international division of labour, and cooperation in solving mankind's global problems. In the *political sphere*, this struggle consists in the socialist countries' taking an active stand against the aggressive plans of the imperialists and extending diverse assistance to the peoples defending their independence. The USSR and other socialist countries are in the van of the struggle carried on by masses of people all over the globe to avert the threat of another world war. In the *ideological field*, the struggle against imperialism means daily efforts to expose the bourgeois propaganda attempts to embellish the present-day capitalism, to present it as a system to which the future allegedly belongs.

The second feature of the general crisis of capitalism is the crisis of the colonial system of imperialism, its disintegration and subsequent collapse all over the world. The October Revolution awakened the consciousness of the colonial peoples and helped them to score tremendous successes in the struggle for their liberation from imperialist oppression.

The former colonies, once the reserve and hinterland of imperialism, have now become areas of sharp anti-imperialist struggle and are fighting against neocolonialism. Some of the newly-free countries have taken the way of social progress, the way of non-capitalist development, looking to the construction of socialism over the long term.

The third feature of the general crisis of capitalism is the sharpening of the internal contradictions in the economy of the imperialist countries and its growing instability and decay. The ever deepening antagonistic contradictions in the economy is a constant tendency of capitalism and is, above all, a product of its own development, which is inherent in its type of property in the means of production. These contradictions tend to be extremely aggravated with the development of state-monopoly capitalism, which in-

creases the economic and social prerequisites for revolutionary socialist transformations.

Capitalism's increasing instability is manifested in the structural changes in the world capitalist economy resulting from a further internationalisation of capital and development of such things as the international monetary, energy, raw material, foodstuffs and ecological crises.

The fourth feature of the general crisis of capitalism is the advancing ideological and political crisis of the bourgeois society. It affects the institutions of power and bourgeois political parties, and erodes its moral principles. Corruption becomes ever more glaring, even in the higher echelons of government. There is a steady and continued decline in spiritual culture and a growth of crime.

Because of the deep-seated internal contradictions of the capitalist countries, and under the impact of the world socialist system, the antagonism between the monopolies and anti-monopoly forces tends to grow. The financial oligarchy resorts to new methods in fighting the working people, now by intensifying political reaction all along the line, abolishing bourgeois-democratic freedoms and setting up fascist regimes, now by making partial concessions and engaging in social demagoguery. The whole of bourgeois ideology is designed for the defence of the capitalist system and the spread of slanderous inventions about socialism and communism.

The Stages of the General Crisis of Capitalism

The general crisis of capitalism has run through two stages in its development, and is now at its third stage. The general crisis of capitalism was inaugurated by the First World War and the Great October Socialist Revolution. The victory of the socialist revolution ushered in the epoch of the existence of a socialist society. That was the end of the domination of capitalism as a system embracing all the countries of the world. This radical change in the world situation characterised *the first stage* in the general crisis of capitalism, which lasted until the Second World War.

The Second World War and the socialist revolutions in a number of countries in Europe and Asia ushered in *the second stage* of the general crisis of capitalism. Socialism

became a world socialist system, and this further narrowed down the sphere of world capitalism. The crisis of the colonial system of imperialism was deepened, and it began to disintegrate.

By the end of the 1950s, new and important changes occurred in the balance of forces between the world systems in favour of socialism, and the internal economic and social contradictions of imperialism were aggravated. This determined the transition to *the third stage* of the general crisis of capitalism.

The deepening of the general crisis of capitalism is determined above all by the sharp change in the balance of forces between socialism and imperialism, in favour of socialism.

The start of the first and second stages of the general crisis of capitalism historically coincided with the First and Second World wars. But from this coincidence it does not at all follow that its new stage could only result from a world war. The assertion that the Marxists look to wars for the downfall of capitalism is groundless. The worldwide revolutionary process is above all the outcome of the deep sharpening of the internal and external contradictions of capitalism and the development of class and national liberation struggles.

2. THE CONVERSION OF SOCIALISM INTO THE CRUCIAL FACTOR OF MANKIND'S DEVELOPMENT. PEACEFUL COEXISTENCE BETWEEN THE TWO SYSTEMS, AN OBJECTIVE IMPERATIVE

The Conversion of the World Socialist System into the Crucial Factor of Mankind's Development

The characteristic feature of the third stage of the general crisis of capitalism is the growing influence of the world socialist system on every sphere of life in contemporary society. It becomes the crucial factor of mankind's development.

Back in 1921, Lenin said that the socialist world would exert its main influence on the further development of the world revolutionary process by its successes in the economic sphere: "We are now exercising our main influence on the international revolution through our economic policy...."

The struggle in this field has now become global. Once we solve this problem, we shall have certainly and finally won on an international scale."¹

Socialism has scored great successes in its historical competition with capitalism. The socialist countries now have over 25 per cent of the territory of the Earth and a third of its population. In Europe, the capitalist countries account for 35 per cent of the territory and for about 52 per cent of the population, and in Asia for 36 per cent of the territory and 55 per cent of the population. Capitalism has lost tremendous sources of natural resources. Monopoly capital is no longer able to use the countries which have fallen away from the capitalist world economic system as markets to sell their goods at monopoly prices and as a sphere for the investment of capital to extract maximum profit. The sphere of the imperialist powers' economic expansion has substantially narrowed.

Industrial output in the countries of the world socialist system has been growing rapidly. In 1917, socialism accounted for roughly three per cent of the world's industrial output, and in 1980—for over 40 per cent. The socialist countries markedly surpassed the capitalist countries in industrial growth rates: from 1950 to 1980, the socialist countries increased their industrial output 14-fold, and the developed capitalist countries—3.9-fold.

The socialist countries have an ever more important role to play in the world economy as well.

However, imperialism still has considerable economic, political and military strength, and it has not ceased to be aggressive. The socialist countries resolutely oppose the imperialists' aggressive plans and the attempts by the imperialist powers to support corrupt regimes by means of local wars.

The socialist countries' development has led to a radical change in the balance of forces between the two world systems, and is a factor which helps to prevent aggressive imperialist wars. The 26th Congress of the CPSU¹ noted that the USSR and its allies are today, more than ever, the chief mainstay of peace on earth.

¹ V. I. Lenin, "Tenth All-Russia Conference of the R.C.P.(B), May 26-28, 1921", *Collected Works*, Vol. 32, Progress Publishers, Moscow, 1965, p. 437.

A worsening of the conditions of the working class is inherent in the capitalist mode of production, but the operation of this uniformity is offset by the struggle of the working class against capitalist exploitation. The working people's successes in the socialist countries in developing the economy, science, culture, education, social security and living standards generally have a tremendous impact on that struggle.

The construction of socialism in the USSR and then in other countries has promoted the growth of the proletariat's political maturity in the capitalist countries. The working-class battles for economic and political rights erode the power of the monopolies, exacerbate the contradictions of the capitalist society and deepen its instability.

The achievements of the world socialist system have a tremendous influence on the development of the national liberation movement. It supports the anti-imperialist struggle of the peoples fighting for political and economic independence on imperialism.

The peoples which have thrown off the chains of colonialism have attained various degrees of independence on the imperialist countries, and are faced with the need to fortify their political sovereignty, to beat back the imperialists' attempts to restore the colonial system in new forms, to do away with precapitalist forms of relations on which foreign capitalism relies, to eradicate the economic roots of colonialism and to win economic independence on monopoly capital.

Support from the countries of the socialist system had enabled a number of developing countries to resist the threat of economic blockade by the imperialist powers, and to overcome the resistance of imperialism to the development of the state sector in their economy.

The developing countries receive from the socialist states not only moral and political support but also economic, scientific and technical assistance in developing their national economy.

The world socialist system exerts a tremendous influence on the shaping of the new type of international relations. It is working to assert the principle of peaceful coexistence between states with different social systems, and this advances the international detente and helps to strengthen peace among nations.

The Further Deepening of the General Crisis of Capitalism

Today the general crisis of capitalism is intensifying even further. This is evidenced above all by the consistent strengthening of the positions of socialism in the struggle against capitalism. Socialism is becoming the decisive factor in the development of mankind.

Imperialism is not strong enough to regain the historical initiative it has lost and to reverse the development of the modern world. It is the world socialist system, the international working class and all the other revolutionary forces that determine the high road of mankind's development.

Bourgeois scientists deny that capitalism is in the grip of a general crisis. They depict the Great October Socialist Revolution as a "historical accident". In actual fact, its victory was prepared by the exacerbation of the internal contradictions of capitalism and by the class struggle.

Some bourgeois economists claim that the collapse of the colonial system of imperialism was caused by the "hand of Moscow", while others insist that it was a gift to the oppressed peoples on the part of the "civilised free world". The fact is that the collapse resulted from the contradictions of imperialist domination, peoples' struggle for their national liberation, and the advances made by socialist countries. In order to cover up the disintegration of the bourgeois system, which is characteristic of the general crisis of capitalism, diverse theories of "transformation" of capitalism, its conversion into a "people's", "humane" capitalism, are being spread about, with assertions about some "renewal of capitalism", about its adoption of planning, "incomes equalisation", "a revolution in ownership", etc. It is also said that the scientific and technical revolution and the development of technology will automatically eliminate the contradictions of capitalism, although the crucial factor is the property in the means of production within whose framework the scientific and technical revolution develops.

These theories have an obvious social purpose, and it is to convince the masses that capitalism, however modified, will continue to exist for a long time, while socialism will degenerate, that there is no general crisis of capitalism, and that the socialist revolution has no prospects before it.

The Objective Imperative of Peaceful Coexistence

There are two opposite trends in the capitalist world with respect to socialism. One of these springs from the very nature of capitalism and is an urge to destroy the socialist system. The other is to establish and develop economic relations with the socialist world. Back in 1921, Lenin pointed to the existence of this objective trend towards a development of "world general economic relations", a trend which has been making headway across every obstacle.

From the outset, the socialist state has pursued a *policy of peaceful coexistence with the capitalist world*, relying on that objective economic trend. In our day, the policy of peaceful coexistence has become even more important. As a result of the development of the scientific and technical revolution, the further growth of the international division of labour, and the development of the public, international character of production, mankind is now faced with a whole series of global problems requiring international cooperation for their solution: the problems of hunger in the world, illiteracy, environmental protection, pollution of the atmosphere and the seas, the development and use of new sources of energy, the prevention of natural calamities, prevention and treatment of the most dangerous diseases. One essential condition for such international cooperation is consolidation of the principles of peaceful coexistence in international relations. In asserting the principles of peaceful coexistence a tremendous role was played by the struggle of the socialist community, headed by the USSR, to implement the Peace Programme drawn up by the 24th CPSU Congress. This struggle has been actively supported by all progressive forces in the world. Noting the successful implementation of the Peace Programme, the 26th CPSU Congress put forward new tasks and defined its further organic development. "At present nothing is more essential and more important for any nation than to preserve peace and ensure the paramount right of every human being—the right to life."¹

Reactionary bourgeois leaders assert that the socialist countries alone stand to gain from the international detente. But the whole of mankind benefits from the detente.

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 8.

The mutually advantageous economic, scientific, technical and cultural ties developing on that basis between the socialist and the capitalist countries help to lay the material foundation for lasting peace.

It is absurd to claim that the socialist world has pursued its policy of peaceful coexistence as an instrument for giving an impetus to the revolution, for exporting revolution to the capitalist countries. In this context, Lenin says: "Such a 'theory' would be completely at variance with Marxism, for Marxism has always been opposed to 'pushing' revolutions, which develop with the growing acuteness of the class antagonisms that engender revolutions."¹

It is also wrong to claim that peaceful coexistence allegedly amounts to assistance to capitalism and preservation of the political status quo in the capitalist countries. Peaceful coexistence does not imply any relaxation of the ideological struggle against imperialism. The principle of peaceful coexistence has become a real force for international development, and is being increasingly accepted as the norm in relations between capitalist and socialist countries. This is a result of the changed correlation of forces in the world—above all, of the growth of the strength and international authority of the Soviet Union and of the entire socialist community. It is also a result of the successes of the international working-class movement and the forces of national liberation. And finally, it is a result of the acceptance of the new realities by a certain section of the ruling circles in the capitalist world.

Bourgeois ideologists, who are being more or less frankly echoed by the reformists and revisionists, distort the objective uniformities of social progress in our epoch in an effort to prove that the future is with capitalism, and not with socialism.

The 26th Congress of the CPSU noted that the policy of peaceful coexistence, which was outlined initially by Lenin himself, is exerting a growing and decisive influence on contemporary international relations.

¹ V. I. Lenin, "Strange and Monstrous", *Collected Works*, Vol. 27, pp. 71-72.

Chapter fifteen

DEVELOPMENT OF STATE-MONOPOLY CAPITALISM

1. GROWTH OF MONOPOLY CAPITALISM INTO STATE-MONOPOLY CAPITALISM

*Substance of State-Monopoly Capitalism
and Factors Behind Its Development*

The theory of state-monopoly capitalism was formulated by Lenin, who established that the development of bourgeois society proceeded from free competition capitalism to imperialism, from monopoly to state-monopoly capitalism. Lenin first used the term "state-monopoly capitalism". State-monopoly capitalism is monopoly capitalism characterised by the coalescence of the power of the capitalist monopolies with the power of the bourgeois state.

Lenin's idea of the coalescence of the power of the monopolies with that of the state in a single mechanism characterises the political and economic meaning of this merger. In present-day conditions, expanded capitalist reproduction, for ever growing monopoly profits cannot be effected without the active intervention in the economy by the bourgeois state. It is a powerful economic force concentrating tremendous economic resources and organs of economic administration. The biggest monopolies, whose economic operations range across the national markets and even go beyond them, use the state for intervention in the process of capitalist reproduction for the purpose of increasing their economic and political power. The bourgeois state, as an organisation of the ruling capitalist class, stands in defence of the common interests of the monopoly bourgeoisie.

Today, the state and the monopolies coalesce in new forms: representatives of monopoly associations are appointed to government bodies, private and state monopolies are ever more closely interlaced; both become elements of the economic mechanism of state-monopoly capitalism, creating an intricate and ramified system of state economic regulation, etc. The emergence of these new forms characterises

the steadily continuing process in which monopoly capitalism grows into state-monopoly capitalism.

The first thing the bourgeois advocates of state-monopoly capitalism claim, is that the old capitalism has given way to "neocapitalism, which is dynamic and socially harmonious", and that the influence of the state on the economy allegedly results in an "eradication of the abuses and shortcomings of passive capitalism". The reformists say virtually the same thing. They claim that the bourgeois state stands over and above the monopolies. The left revisionists deny the very existence and development of state-monopoly capitalism, claiming that capitalism today is just what it was at the beginning of this century.

The *economic basis of the development of state-monopoly capitalism* is provided by the steadily rising level of capitalist socialisation, monopolisation of the economy, and the exacerbation of the basic contradiction of capitalism, that between social production and private capitalist appropriation of its results. This is largely promoted by the scientific and technical revolution, which necessitates a constant enlargement of the scale of the capital applied and of the scale of production. This makes the further centralisation of capital for the functioning of modern enterprises inevitable. In the past, the joint-stock form of enterprise provided greater opportunities for concentrating capital for expanded reproduction, and it still does so today, but nowadays, the scale of private monopoly capital, even that of the biggest firms and corporations, turns out to be inadequate for expanding production on the basis of new technology. Even they find it impossible to carry on expanded reproduction and engage in research without the participation of the state.

The monopolies increasingly transfer to the state the function of building up and expanding the so-called infrastructure: the complex of enterprises catering for the various sectors of the economy (construction of highways, bridges, power plants, communication lines, etc.), without which modern production cannot function. The state also covers the cost of maintaining unprofitable but necessary industries and transport (shipping, railway transport, etc.). The state buys up from the private monopolies enterprises and even whole industries which are unprofitable or which make a loss. The costs of remodelling and running these enterprises are covered at the expense of the tax payers.

The sharpening competition between the monopolies on the world market makes it necessary for the bourgeois state to support the monopolies' external economic expansion. To make them more competitive on external markets, the state seeks to improve the sectoral structure of the economy, stimulating in every way the development of the most modern and high-technology lines of production.

The growth of state-monopoly processes is accelerated by the deepening of the general crisis of capitalism. The imperialist countries' ruling circles seek to join the power of the monopolies and the power of the state in an effort to muster all the resources to stem the change in the balance of world forces in favour of socialism. With the help of the state, the monopolies put through measures aimed to keep the working people under their ideological and political control and to maintain their economic and political power in new forms in the less developed countries.

Those are the main causes for the accelerated growth of monopoly capitalism into state-monopoly capitalism at the present stage.

State-monopoly capitalism is the coalescence of the power of the bourgeois state with the power of the monopolies in a single mechanism for the purpose of assuring monopoly capital of ever growing profits, suppressing the working-class and democratic movements, and the national liberation struggle of the oppressed peoples, for the purposes of carrying on economic, political and ideological struggle against the world socialist system and conducting an aggressive foreign policy. Nowadays, the main centres of the world capitalism are characterised by a highly developed state-monopoly economy.

2. MAIN FORMS OF STATE-MONOPOLY CAPITALISM

The conjunction of the power of the monopolies with that of the bourgeois state in a single mechanism is realised through the use of the bourgeois state by monopoly capital for intervention in the reproduction of social capital in all its phases: production, distribution, exchange and consumption.

Accordingly, the following main lines or forms in which state-monopoly capitalism now develops may be brought out:

1. In all the developed capitalist countries the state has a growing role to play as entrepreneur. It controls a sizable part of the means of production and the national wealth.

2. The state exerts an influence on the relations of distribution not only through the direct programming of economic development at the enterprises it owns, but also through indirect influence on the whole of the economy by distributing and redistributing the national income through the state budget, credit and monetary policy, and the regulation of prices and wages.

3. The state provides a privileged market for the monopolies, acting as the consumer of a sizable part of the social product and services produced in the country. This consumption is mainly militaristic.

4. The bourgeois state makes extensive use of monopoly capital to finance and support its external economic expansion, including its policy of neocolonialism.

5. Together with the representatives of monopoly capital in their countries, the governments of capitalist countries are involved in the establishment of diverse international alliances and accords and in the development of capitalist integration as an instrument in the economic and territorial redivision of the world.

6. The further development of the personal union between the representatives of the monopolies and the governments of the capitalist countries is the most general organisational form in which the coalescence of the power of monopoly capital and the power of the bourgeois state in a single mechanism is effected.

Let us briefly consider the forms of state-monopoly capitalism.

State-Monopoly Property

The state-monopoly form of capitalist property in the means of production emerged in two basic ways. First, through the construction of enterprises funded from the state budget, mainly for military purposes; the share of state investments in the gross accumulation of fixed capital tends steadily to grow. Second, through the nationalisation (etatisation) of individual enterprises and whole sectors of the economy, and also the acquisition by the state of a part of the stock of monopoly enterprises.

Enterprises are, as a rule, nationalised through their purchase on terms which are advantageous to the owners of the property. Only in some cases, under pressure from the working people, is property confiscated, mostly by way of reprisal. Thus, in France, the Renault Works were converted into the property of the state in punishment for the owners' collaboration with the Nazi invaders. As a rule, the bourgeois state nationalises enterprises on the verge of bankruptcy, so inducing the transfer of the capital of private monopolies from loss-making or low-profit sectors into profitable ones.

To the extent that the state converts the means of production into its own property, it operates as an aggregate monopolist capitalist.

In the capitalist countries, the nationalisation of individual enterprises and some sectors of the economy, the construction of new, notably military enterprises by the state, and the purchase of goods, including military and strategic materials, have given state property a large share of the national wealth.

In the early 1970s, the state in the developed capitalist countries accounted for between 25 per cent and 50 per cent of total investments. In the United States, it came to 29.2 per cent, in the FRG 16.2 per cent, in France 24.8 per cent, in Japan over 22.7 per cent, in Italy 36.1 per cent, and in Britain, 45.8 per cent. State property is estimated to amount to the following percentages of the joint-stock capital in industry and transport: the FRG 18 per cent, Britain 24 per cent, Italy 28 per cent, and France 34 per cent. In the United States, the monopolies induce the state to fund the construction of enterprises which are then made available to them for exploitation, and this is known as "partnership" between the state and the monopolies. Thus, enterprises in the nuclear industry and space communications built up at the government's expense have been handed over for management and operation by private corporations.

State-monopoly property is closely interwoven with the property of private monopolies, and this is promoted by the joint-stock form of enterprises. The state purchases the shares of private enterprises, while private monopolies are offered portfolios of shares in government corporations. This converts the enterprises belonging to the state and the private monopolies into mixed enterprises. The state stimulates the private monopolies' investment activity by means of

subsidies, easy credits and lower taxes on new investments.

The state is a major seller of goods and services. Its enterprises in the country supply private corporations with coal and electric power, carry their freight by rail, market accumulated stocks of food, mineral raw materials, etc. The goods and services are offered to the private monopolies at cut prices. But there is a limit to the growth of state property, and it is concentrated mainly in the infrastructure and provides the private monopolies with additional sources of enrichment.

Under capitalism, state property cannot become the dominant form of property because this is not in the interests of the financial oligarchy. The state is kept out of the profitable industries.

Alongside private monopoly and state-monopoly property there is also non-monopoly private property, whose status and importance has substantially changed: although the number of small and middle enterprises is still large, there is an accelerated process of their erosion, and a greater part of them are controlled by monopoly capital.

The existence of state property in the monopoly-capital countries does not signify the emergence of elements of socialism within the framework of the capitalist mode of production. State-monopoly property does not cease to be capitalist. The two classes of proletarians and capitalists continue to exist in that society. In his *Anti-Dühring*, Engels wrote that the more the bourgeois state "proceeds to the taking over of productive forces, the more citizens does it exploit. The workers remain wage-workers—proletarians. The capitalist relation is not done away with. It is rather brought to a head."

As he anticipated, the emergence of state-monopoly property has sharpened the contradictions of capitalism. The worker is now confronted not only with the individual capitalist, and not even with the corporation, but with monopoly capital as a whole, organised as a state and exploiting the working class and all the other working people through the whole system of state-monopoly capitalism. Economic struggle tends directly to interweave with the political struggle, a struggle against the economic policy of the bourgeois state. The forms of economic struggle tend to change, as it acquires a sectoral or national character.

State-Monopoly Regulation of the Economy

The regulation of the economy is one of the key manifestations of state-monopoly capitalism. The state exerts an influence on the economy through its budgetary, credit and fiscal policies, through its subsidies to some monopolies and sectors, its influence on the interest rate, its policy of accelerated depreciation allowances, lower taxes on profits, etc.

With the growing instability of the capitalist economy, extensive use is made of *anti-cyclical regulation*. This consists in putting constraints on investments in periods of cyclical boom so as to prevent the looming overproduction, and in stepping up investments in periods of crisis and depression so as to limit the decline in production and speed up the pull-out of the crisis.

In periods of industrial upswing, which usually culminates in a new economic crisis, the state seeks to ease its consequences by means of measures aimed to contain the growth of production. Among such measures are higher taxes, and higher interest rates for credit, all of which tends to reduce the incentives for new investment and, consequently, to lower the demand for the means of production.

In periods of crisis and recession, the state policy is to increase government procurement of goods and services, to hold out additional inducements to monopoly activities, to stimulate private investments through budget policies, and to lower interest rates to provide the big corporations with greater incentives for expanding investment.

Economic programming, a form of government intervention in the process of capitalist production, is now being widely practised. The government formulates long-term programmes for investment, export, import, training of skilled labour, research, and regulation of proportions between sectors. For all practical purposes, these programmes ultimately go to create the most favourable conditions for operation by the monopolies.

Economic development programmes have become a mechanism for concerting the interests of the private monopolies and the state. The organisational form here is government contracts under which the monopolies undertake, in exchange for government credits and subsidies, to perform certain obligations which are proposed by government agencies and which spring from the common interests of monopoly capital.

Whereas government programmes are binding on the state sector, they are no more than indicative for the monopolies, and this enables them to obtain information on the size and structure of government spending and investment and on the movement of market demand, and so take the decisions that will bring in the largest profits. While recommending some general goals to the monopolies, the government programmes give the private monopoly enterprises a free hand.

Economic development programmes enable the most powerful monopolies to derive even greater benefits with the aid of the state: to make more effective use of investment and state statistical and prognostication services, while preventing the working class from having a say in the solution of vital economic problems. Now and again, the press carries reports of the bribery of officials working for the benefit of the monopolies.

The clash of interests between the individual monopolies intensifies the haphazard development and the overall instability of the capitalist economy. The socio-economic contradictions of the capitalist economy put constraints on state regulation and programming on the scale of the society as a whole. Programming may have an effect on the economic outlook and cause structural changes in production, but it does not save the capitalist economy from crises, recessions, and sharp drops in the rate of growth. Visual evidence of this came from the economic crises of 1974-1975, and 1980 which spread to all the main centres of the world capitalist economy. They had the severest effect on the highly developed state-monopoly economy. Capitalism has tried in every possible way to keep in stride with the times and to apply various methods of economic regulation. This has stimulated economic growth but, as the Communists predicted, it has not eliminated the contradictions of capitalism.

The spread in the developed capitalist countries in the postwar period of the "welfare state" theory has been one of the ideological means for camouflaging state-monopoly capitalism. This theory claims that the state has undertaken the responsibility to provide all citizens with healthy and fitting living standards, that it redistributes incomes in favour of the poor through the budget, so turning a "middle" class into the dominant one in society, but this theory has been blasted by the capitalist reality. The claim is that the bourgeois state stands over and above classes and acts in

the interests of the whole of society, of all its classes, strata and groups. In actual fact, it is an organ of the class domination of the bourgeoisie, above all of the monopoly bourgeoisie. That is precisely why its policy has a class character.

Under pressure from the working people's class struggle, the bourgeois state is now and again forced to make some concessions, but this does nothing to change the main lines, content and role of its policies. A sizable part of the money which the state extracts from the population in the form of taxes goes into the coffers of the monopolies through the payment of arms contracts, subsidies, etc.

This point is driven home by the structure of the imperialist countries' state budgets. Taxes levied on the population make up at least two-thirds of their revenues. An average of 34 per cent of the wages of industrial and office workers go to pay various taxes. Meanwhile, expenditures from the state budget, as in the United States, for instance, go first of all to pay for arms contracts, the maintenance of the army, the police, and the state apparatus.

The gap between the rich capitalists and the poor working people has tended to widen, instead of narrowing down. It is hard to conceal the striking contrast between the incomes of the millionaires and those of the working people.

Considering that the state (slave-holding, feudal, bourgeois) has always variously intervened in economic life, the left revisionists declare that there is nothing new in economic regulation by the contemporary bourgeois state. This unhistorical approach ignores the domination of monopoly capital and its growing coalescence with the state, the novel element introduced by the development of state-monopoly capitalism into the working-class struggle in the developed capitalist countries against the power of the monopoly bourgeoisie.

State Redistribution of the National Income

A key factor ensuring capitalist reproduction today is the redistribution by the bourgeois state of a sizable part of the national income and the etatisation of financial resources. Before the Second World War, the state budget in the developed capitalist countries came to between 20 and 25 per cent of the national income, today it comes to between 26 and 55 per cent.

The state musters monetary resources by means of taxes, obtains money on credit through the floating of state loans and banknotes through the banks of issue which it owns or which are under its control, and concentrates in its hands the savings of the population and the social insurance fund.

Government subsidies and credits made available to the monopolies markedly increase their financial resources. The same purposes are served by inflation, which is, in fact, stimulated by the state, for it helps to transfer money from the working people, and the small and middle bourgeoisie into the hands of the monopoly capitalists.

Self-financing, which comes to 70-80 per cent of all capital investments, is also at a fairly high level. The bulk of the investments comes from the profits of monopoly enterprises, but the possibility of having such a high level of self-financing is also largely the result of the economic policy of the bourgeois state. The monopolies derive their own resources not only through the exploitation of the working people, but also through the redistribution by the state of the national income in their favour, the levying of high taxes on the working people, and the extraction of part of the profits of the small and middle enterprises through the tax system. The monopolies derive additional income from tax privileges offered by the state to encourage investments, and the abolition of taxes on superprofits. Here, the government's depreciation policy has an especially important role to play.¹

Militarisation of the Economy

The militarisation of the economy and the arms race which have now assumed tremendous proportions, are a characteristic feature of state-monopoly capitalism.

The existence in peace time of a constantly growing war economy, the huge government arms contracts connected with it, the outlays on the maintenance of the armed forces and the stockpiling of strategic materials have become typical phenomena of present-day imperialism. It is the milita-

¹ The big corporations are allowed to write off the whole value of their fixed capital within four or five years. The depreciation write-off rates, which are very much shorter than the periods of wear and tear and obsolescence of fixed capital, help to dodge taxes and retain profits, because depreciation write-offs are exempt from taxes.

risation of the economy that has converted the bourgeois state into a major consumer of goods and services.

A *military-industrial complex*, an alliance of the biggest monopolies and the elite of the military apparatus, has taken shape in the leading capitalist countries. The state provides the monopolies with a new sphere of investment, finances monopoly corporations, supplies them with scarce raw materials, procures their goods at higher prices, etc. This is especially manifest in periods of armed conflict which imperialism keeps starting.

Government arms contracts are, first, contracts for enormous amounts of money concluded by government agencies chiefly with the leading military-industrial corporations. In contrast to the period before the Second World War, the award of arms contracts is no longer sporadic: they are being constantly awarded to the monopolies. Second, the government undertakes to bear most of the risk of a possible downturn in the market outlook. Third, arms contracts are concluded by the government with the large concerns, mainly without open bidding, but through secret deals, so creating the best possible conditions for the enrichment of a handful of arms monopolies. During 1980 and 1981 military expenditures in the NATO countries rose from \$ 240.9 billion to \$ 282 billion, or 17 per cent.

The growing militarisation results in a lopsided development of the economy. Military spending entails increases in the tax burden on the population, and diverts for military purposes a large mass of manpower and sizable economic resources, which, under a different social system, could be used for the people's benefit.

They could be used right away, for instance, to meet the working people's social needs, to help the less developed countries to overcome their economic backwardness and to protect the environment.

Other Forms of State-Monopoly Capitalism

State-monopoly capitalism also develops along other lines, like subsidies and support of neocolonialism and the external economic expansion of monopoly capital.

State-monopoly capital makes extensive use of the government to finance and support its external economic expansion. These purposes are served by customs tariffs policies, tax

privileges to corporations working for export, export bonuses, government guarantees for investments in other countries, government export of capital to step up commodity exports by corporations, etc.

Under state-monopoly capitalism, the monopolies of each country operate in the international arena with the help of the state. Efforts are also made to carry on international state-monopoly integration, that is, the establishment of interstate monopoly economic blocs.

The growth of state-monopoly capitalism tends to enhance the role of the monopolies' entrepreneurial alliances in the solution of economic and political problems for the self-seeking purposes of monopoly capital. The personal union is intensified. This is effected in various forms: government officials are appointed to key posts in the corporations, while corporation executives fill leading posts in the state apparatus. As a rule, government decisions are taken only after their consideration and approval by organisations of monopolists.

3. MONOPOLY PROFIT AND GROWING OPPRESSION BY MONOPOLY CAPITAL OF ALL STRATA OF THE WORKING PEOPLE

Monopoly Profit and Its Sources

The production and appropriation of surplus value by the capitalists is the basic economic law of capitalism at every stage of its development. This law acquires some peculiarities in the epoch of imperialism as the monopolies are converted into the dominant power.

The profit which is appropriated by the monopolies includes not only the surplus value produced directly at the monopoly enterprises. It also includes:

the excess surplus value created at the enterprises of the monopolies because labour productivity—and consequently the degree of exploitation—there is higher than it is at non-monopoly enterprises;

a part of the value of the labour power which the monopolies extract from the workers by paying them for their labour at a price that is below the value of labour power and by selling them consumer goods at prices that are over and above the value and the price of production of these items;

a part of the surplus value which is produced at non-monopoly enterprises but which is appropriated by the monopolies through the sphere of circulation when they sell their goods to these enterprises at high prices and buy their products at artificially depressed prices;

the value of the surplus and a part of the necessary product of the small producers in town and country, which the monopolies take over through the sphere of circulation by means of selling goods to these producers at high prices and buying their products at depressed prices; this applies especially to the value of the commodities produced by the bulk of the peasants;

the surplus value created in the countries in which the capital exported by the monopolies is invested, namely, its following types:

a) the surplus value created at the enterprises set up by the monopolies in the countries where the capital is invested. The monopolies make extensive use of the fact that wages in these countries are lower. They are especially low in the economically less developed countries;

b) a part of the surplus value created at enterprises belonging to local capital. Foreign monopolies frequently invest their capital in these enterprises, so appropriating a part of the surplus value created there;

c) the value of the surplus and of a part of the necessary product of small producers in the country in which the capitalists have invested taken over by the foreign monopolies through the sphere of circulation by means of non-equivalent exchange.

Consequently, monopoly-high profit accumulates every form of income extracted by the monopoly bourgeoisie on the strength of its domination of the economy and exploitation of the bulk of the population in the imperialist and economically dependent countries.

Apart from the superprofit obtained from industry and other branches of production, the monopoly bourgeoisie obtains it from various financial operations with fictitious capital. This includes floating and promotional profit appropriated by the monopolies from the issue of securities and also from speculative operations on the stock exchange. The monopoly bourgeoisie is enriched both through the exploitation of the working class and of the non-proletarian strata of the working people in its own country. This gen-

erates an antagonism not only between the monopoly bourgeoisie and the working class, but also between the former and all the other working people. All of this provides the objective basis for the establishment of a broad anti-monopoly front.

*Monopoly Prices and Their Role
in the Formation of Monopoly Profit*

In the epoch of premonopoly capitalism, the law of surplus value was expressed in the form of the law of average rate of profit. Under monopoly capitalism, this law operates above all as the law of monopoly superprofit. This is due to the establishment of the monopoly price system under present-day capitalism.

Under premonopoly capitalism, the market prices of commodities, fluctuating round the prices of production, take shape depending on supply and demand under the impact of unlimited competition.

On the contemporary capitalist market, there are *non-monopoly* and *monopoly prices*. Non-monopoly prices are those at which commodities are sold by non-monopoly enterprises. These are usually commodities which are produced in industries where the degree of monopolisation is relatively low.

Monopoly prices within the system of market prices under contemporary capitalism are predominant. They consist of monopoly-high and monopoly-low prices. Monopoly-high prices are those at which the monopolies sell their commodities. These prices are always higher than the prices of production and the value of the commodities. Monopoly-low prices are the prices at which the monopolies buy commodities, usually from small commodity producers. These are lower than the social value of the commodities involved. The price of labour power, is, as a rule, also a monopoly-low price, because the capitalists seek to keep wages at a level below the value of labour power. In their competitive fight against each other, the monopolies frequently resort to the manipulation of prices within the framework of the differential between monopoly-high and monopoly-low prices.

Monopoly price, being the concrete form of market price in the sphere of monopoly domination, differs substantially from the non-monopoly market price. Changes in the

movement of non-monopoly prices continue largely to depend on supply and demand, although they are influenced by the monopolies. Supply and demand also have an effect on monopoly prices, but the monopolies are able, even though with some difficulty, to maintain high prices for their commodities in face of falling demand; moreover, with growing demand, the corporations are able to impose low prices on non-monopoly enterprises, especially on the small commodity producers, for their goods. Whatever the conditions, *monopoly price is a monetary expression of value characterised by a protracted and stable deviation of the price of a commodity from its value.*

The State and Monopoly Prices

The economic policy of the state which exerts an influence on prices for the benefit of the monopolies by means of extra-market methods has become a new and important factor in price formation.

First, the state fixes the prices of many goods and services by means of legislation with the participation of the monopolies concerned.

Second, the award of government contracts is an important factor in the establishment of monopoly-high prices. In that event, prices are not shaped through market competition but by agreement between the monopoly corporations and the government agencies concerned. Here, the highest costs of production at enterprises in the given industry are, as a rule, taken as the basis for the calculation of prices. Among these are enterprises in the non-monopoly sector and enterprises which, while belonging to monopoly corporations, are relatively backward in terms of technical equipment. Because the monopolies have the lowest costs of production, this method of price fixing assures them of monopoly high profits.

In the sphere of prices, the monopolies have the crucial role to play in the relations between the monopolies and the state. Monopoly prices are etatised. Where the market sets definite limits to monopoly prices, the state takes steps to enlarge these limits by fixing and reinforcing the high price level which is advantageous for the monopolies. The state usually concludes contracts for the delivery of goods with the major corporations, and the latter award subcon-

tracts at their own prices to firms which depend on them and which are involved in the fulfilment of government contracts.

Third, the establishment of high prices for the goods of the monopolies is promoted by the policy of the state in the export and import of goods. The export of goods is one way of limiting their supply on the internal market. The state stimulates the export of goods by means of export bonuses, and also by paying special subsidies whenever the goods are exported to external markets at prices which are lower than those on the internal markets. At the same time, the state resorts to protectionist tariff policies in order to prevent any excessive growth in the supply of goods through their influx from abroad. All of this enables the monopolies in the industries concerned to maintain high prices on the internal market.

The state promotes the establishment and maintenance not only of monopoly-high but also of monopoly-low prices. Thus, the goods produced at government enterprises (for instance, coal, electric power) are sold to private corporations at artificially depressed prices, while the losses made by these enterprises are covered by the state from the budget. This is a special, state form of monopoly-low price.

Although it is typical for the state under present-day capitalism to engage in a regulation of prices that is aimed to ensure high prices for the goods of the monopolies, now and again (and for not a long time) regulation of prices tends to limit their growth. This occurs in the periods when inflation acquires proportions that are especially dangerous for the economy. But even under such regulations of prices, the monopolies are assured of superprofits.

The establishment of monopoly-high and monopoly-low prices tends to modify the forms in which the law of value is expressed. Because the monopolies are to some extent capable of dictating prices, there is no free play of prices on the market. While competition is sharpened, it does not proceed in equal conditions for the monopolies, for the non-monopolised firms and for the small producers. The monopolies' power hampers the intrasectoral migration of capital and prevents the influx of new capital into industries where their influence is predominant.

The power of the monopolies may undermine but does not eliminate the system of commodity-production relations,

which continues to function in a modified form; consequently, the law of value continues to operate as well. Thus, when there is a substantial increase in productivity and intensity of labour in an industry, the costs of the capitalist's production are reduced, and this results in a growth of monopoly profit.

In the process of intrasectoral competition, there is a transfusion of capital into the more profitable industries. Resistance on the part of the monopolies which are dominant in these industries tends to hamper but cannot prevent the influx of capital from outside.

Monopoly prices do not mean that the law of value has stopped to operate. The law of average profit also continues to work in a substantially modified form. But the class substance of all these processes boils down to the fact that monopoly prices are the monopolies' instrument for a redistribution in their own favour of the value created in the society.

4. STATE-MONOPOLY CAPITALISM AND CREATION OF THE PREREQUISITES FOR SOCIALISM

Preparation of the Material Prerequisites for Socialism

Under state-monopoly capitalism, the socialisation of production reaches the highest point that is possible to attain on the basis of capitalism. This is evidence of the fact that within the capitalist society the material prerequisites for socialism have already matured, and that a historical imperative has arisen for replacing capitalist relations of production with socialist relations of production.

The development of state-monopoly capitalism is a contradictory process. On the one hand, it is designed to mobilise all the economic, political and ideological factors to prolong the life of the historically doomed capitalist society, and on the other, it objectively prepares the material prerequisites for the future socialist society.

Lenin gave the following definition of the substance of state-monopoly capitalism and its historical place with respect to socialism. He wrote: "State-monopoly capitalism is a complete *material* preparation for socialism, the *threshold* of socialism, a rung on the ladder of history between

which and the rung called socialism *there are no intermediate rungs.*"¹

Life has fully borne out these words of Lenin's. The revisionists, who distort Lenin's ideas, claim that elements of socialism, like state property, state programming and economic regulation, are created within the framework of capitalism. But Lenin emphasised that the transition to socialism can only take place as a result of a socialist revolution, and that capitalism can never automatically grow into socialism. He says: "The erroneous bourgeois reformist assertion that monopoly capitalism or state-monopoly capitalism is *no longer* capitalism, but can now be called 'state socialism' and so on, is very common."² He regarded state-monopoly capitalism as the most complete material preparation for socialism, meaning that it had exceptionally accelerated the socialisation of production, bringing the process to its highest point that can be reached on a capitalist basis. Socialism is the direct socialisation of production which can occur only as the result of a socialist revolution.

State-monopoly capitalism has brought mankind closer to socialism, because "socialism is merely state-capitalist monopoly *which is made to serve the interests of the whole people* and has to that extent *ceased* to be capitalist monopoly."³

Modern productive forces have already outgrown the narrow framework of the private capitalist form of production relations. They need social management and control on a national and even an international scale, and that is feasible only under socialism, when the means of production become the property of the whole people.

The emergence and development of state-monopoly property and the fact that the overwhelming majority of the major owners of the means of production are not directly involved in the management of production, and the growing economic role of the state in regulating the economy show that the owners of monopoly capital are superfluous for the management of production and indicate a growth of their

¹ V. I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, Progress Publishers, Moscow, 1974, p. 363.

² V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, pp. 442-443.

³ V. I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, p. 358.

parasitism. The incompatibility between the powerful development of the productive forces caused by the scientific and technical revolution, with capitalist property, with the urge of monopoly capital to adapt science and technology to its self-seeking interests is ever more pronounced.

State-monopoly capitalism, which seeks to adapt itself to the productive forces that have a social character, creates an apparatus of state control and regulation of the economy. The state apparatus of coercion and oppression of the working people is destroyed by the socialist revolution, but the apparatus of social management of economic life is used by the proletarian dictatorship to organise socialist construction. In this context, Lenin says: "The mechanism of social management is here already to hand. Once we have overthrown the capitalists, crushed the resistance of these exploiters with the iron hand of the armed workers, and smashed the bureaucratic machine of the modern state we shall have a splendidly-equipped mechanism, freed from the 'parasite', a mechanism which can very well be set going by the united workers themselves."¹

Exacerbation of the Contradictions between Labour and Capital

The development of state-monopoly capitalism tends to sharpen all the social contradictions of capitalism. There is growth in the numerical strength and role of the working class in production and non-production spheres, but the insecurity of its existence increases, while the peasantry and the petty urban bourgeoisie are ever more stratified, and the share of the middle strata of the bourgeoisie declines. At the same time, there is a further polarisation of the capitalist society into two opposite classes. This is expressed in the growing number of those working for a wage, while the share of capitalist owners is reduced. Wage workers—workers, employees, intellectuals—now constitute the largest part of the economically active population in the capitalist society.

Broad masses of the proletariat are in confrontation not just with individual capitalist entrepreneurs, but with

¹ V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 426.

the whole system of state-monopoly capitalism. Alongside the growth of the contradictions between the bourgeoisie and the proletariat, there emerges and develops a contradiction between monopoly capital and all the non-monopoly strata of the nation. That is the economic basis for a united anti-monopoly front of struggle against state-monopoly capitalism. The economic, social and political prerequisites for transition to socialism have attained the highest degree of maturity. In the capitalist countries, there is a growing mass urge for radical change. The proletariat is the chief motive force of the anti-monopoly, general democratic struggle. The working class rallies together a sizable section of the peasantry, the urban petty bourgeoisie, and the intelligentsia, all of whom objectively stand to gain from the elimination of the power of the monopolies.

During the last decade, the number of working people involved in the strike movement increased by a third and, according to official data alone, reached 250 million people.

The strike struggle, which involves the most diverse strata of the labouring population, has reached a high point.

The exacerbation of the contradictions of the general crisis of capitalism at the present stage, the 1974-1975 economic crisis, the continuing crisis phenomena in every sphere of economic and political life of the society, and the sharpening of all its social contradictions provide visual evidence of the bankruptcy of all the bourgeois, reformist and revisionist theories of state-monopoly capitalism.

Chapter sixteen

**THE COLLAPSE OF THE COLONIAL SYSTEM
OF IMPERIALISM.
SPECIFIC FEATURES OF THE NEWLY-FREE
COUNTRIES' ECONOMY**

**1. THE COLLAPSE OF THE COLONIAL SYSTEM
AS A MANIFESTATION OF THE GENERAL CRISIS
OF CAPITALISM**

The Collapse of the Colonial System of Imperialism

The crisis of the colonial system of imperialism stemmed from a sharp aggravation of the antagonistic contradictions between the imperialist bourgeoisie of the metropolitan countries and the peoples of the colonial and dependent countries. The Great October Socialist Revolution led to the establishment of the first socialist state and was a most important factor behind the powerful upswing of the national liberation movement, which ushered in the crisis of the colonial system of imperialism.

Following the victory over the Hitlerite coalition and the end of the Second World War, the crisis of the colonial system of imperialism developed into its disintegration, and then into its wholesale collapse.

Over two billion people threw off the colonialist yoke and rose to state independence. The colonial system of imperialism in its classical form may, on the whole, be regarded as having been eliminated.

The British, French, Dutch, and Portuguese colonial empires, which it took decades and centuries to build up, were dismantled in a historically brief period. In 1945, the colonies of the imperialist powers sprawled on a territory of 38.6 million sq km with a population of over 670 million, that is, about 30 per cent of the world's land area and population. After the collapse of the last great colonial empire, the Portuguese, only about 0.3 per cent of the world's population on a territory equal to 0.7 per cent of the world still remains under colonial oppression.

On the ruins of the colonies emerged 114 new states. Before them lay the prospect of converting their nominal political independence into real independence.

The disintegration of the colonial system of imperialism and the emergence of independent states in Asia, Africa and Latin America resulted from the national liberation revolution, which assumed worldwide sweep in the second half of the 1950s and the early 1960s. For its part, the national liberation revolution, stemming from the socio-economic and political conditions of the general crisis of capitalism, tends to deepen that crisis. The disintegration of the colonial system has brought about substantial changes in the political structure of the world. The young national states have been acting ever more vigorously in the world arena, and in objective terms they are, at root, a progressive, revolutionary and anti-imperialist force.

At the present stage in the general crisis of capitalism, the national liberation movement has entered upon a new stage, that of the struggle to do away with economic backwardness and dependence on the imperialist powers, a struggle against every form of neocolonialism.

Neocolonialism and Its Forms

The liquidation of colonial empires and the winning of state independence by the former colonies do not as yet signify the complete elimination of colonialism. It continues to exist in the form of neocolonialism.

A majority of developing countries still have to break down the economic pillars of the power of imperialism, to overcome its political and ideological influence, and to fulfil the important national liberation tasks objectively set before these countries by historical development.

The economic dependence of most developing countries on the imperialist powers is due, on the one hand, to their economic backwardness, and on the other, mainly to the dominant positions held by imperialism in the world capitalist economy: the chief imperialist powers' monopoly of the market of goods, services, capital, modern means of production, scientific and technical experience and know-how, without the use of which it is impossible to overcome economic backwardness and achieve economic independence. The developing countries account for over 70 per cent of the capitalist world's population, and for 75 per cent of its raw material resources. Meanwhile, they had only 15.5

per cent of the industrial production, 26 per cent of the exports and 53 per cent of the agricultural production.

The backwardness of the developing countries which have yet to break the chains of economic dependence on the imperialist powers is expressed in the low level of development of their productive forces, the lopsided economic structure, the multiplicity of economic sectors, a large share of subsistence production, and archaic forms of exploitation of the working people (usury and merchants' capital, and semi-feudal forms of rent). All of this predetermines their extremely low level of labour productivity. In the industrialised capitalist countries, labour productivity is 5-7 times higher in industry and 20-25 times higher in agriculture than it is in the developing countries.

The imperialists are switching to new forms and methods of exploitation based mainly on the economic positions of imperialism in these countries and in the world economy as a whole while also continuing to apply various forms of extra-economic coercion. The goals the neocolonialists set themselves do not at all boil down to the extraction of high profits on capital invested in the former colonies and dependent countries, and uncontrolled disposal of this capital. One of their goals is to keep these countries within the world capitalist economic system.

Neocolonialism, which emerged as a result of objective development in the world's economy and politics, is a whole system of economic, political, military and other relations in which imperialism exploits the young national states by capitalising on their economic backwardness and their unequal and dependent status in the world capitalist economy.

Foreign monopoly capital is the key instrument by means of which many developing countries are being subjected to imperialist exploitation. On the whole, the imperialist countries have not only maintained but have even markedly expanded the volume of capital exported to the former colonial and dependent countries since the latter won political independence. The export of capital to the developing countries is effected in two main forms: state and private capital. State capital has become a major element of the export of capital from the imperialist countries to the developing countries. Its export has been markedly increased both in scale and in the role assigned to it.

"Aid" and loans are the main forms in which state-monop-

oly capital is exported. The strategic role of "aid" in the imperialist powers' global policy is to keep the developing countries within the world capitalist economy, to encourage their development along the capitalist road, and to give them, as far as possible, a pro-imperialist orientation. "Aid" has repeatedly been used as a powerful instrument of pressure by imperialism in its efforts to make up in some way for its loss of direct colonial control.

The loans, which are made available directly or through international institutions, are frequently tied and are earmarked for the purchase of food, machinery, and military equipment in the creditor country. As a rule, these loans have various political strings attached. The developing countries' indebtedness to the imperialist powers has been growing. By the beginning of the 1980s, it came to about \$350 billion, of which \$300 billion fell to the no-oil countries. Between 30 and 50 per cent of these countries' export earnings go into the payment of their debts and interest.

Until the beginning of the 1970s, less private monopoly capital than state-monopoly capital was exported to the developing countries, but it has a great part to play in the economy of most of these countries. In terms of its share and concentration, it is frequently stronger than their national capital.

The imperialist state coordinates the activity of state-monopoly and private monopoly capital, providing financial guarantees for the big capital-exporting monopolies, and makes use of its economic, political and frequently also military instruments as a weapon of neocolonialism.

The establishment of subsidiaries by the major multinational corporations, with the participation of the national and bureaucratic bourgeoisie, is a relatively new form of expansion by private monopoly capital in developing countries. With their huge resources and operating in numerous sectors of production and many countries, the multinationals have great economic power and mobility. In many instances, they represent in the developing countries the latest form of collective neocolonialism.

The multinationals flexibly adapt themselves to the conditions being shaped in the various developing countries. While losing direct control of the extractive industry (oil in the first place), the multinationals intensively penetrate into their manufacturing industry. On the pretext of pro-

moting the developing countries' industrialisation, they are, in effect, engaged in "industrial neocolonialism".

The *world capitalist market and the monopoly prices prevailing on it are a key instrument of imperialism* by means of which the relations of dependence and exploitation of many developing countries are reproduced. For most developing countries, changes in world trade since the Second World War have been unfavourable. Their share of the world capitalist trade fell from 31 per cent in 1948 to 25.5 per cent in 1978. This was largely caused by a worsening of the terms of trade with the developed capitalist countries.

The negative impact of foreign monopoly capital in the *economic sphere* is manifested, first, in the extraction of a large share of the national income in favour of the imperialist monopolies and states, and that in a volume which in some developing countries is larger than the new influx of capital from abroad. Second, foreign monopoly capital, especially that coming in as direct investment (where the national state cannot control its application) frequently deepens the structure of the economy remaining from the colonial past and leads to a disproportionate development of the various industries. Third, on the strength of its positions, foreign capital resists the development of progressive trends in the economy of the developing countries, and the nationalisation of the sectors of the economy in which it has a stake, and tries to slow down the growth of socialisation.

In the *social sphere*, monopoly capital supports the conservative groups of the national bourgeoisie and the government bureaucracy and impedes radical socio-economic transformations.

In the *political sphere*, it is oriented in many countries towards reactionary, undemocratic regimes capable of assuring it of sufficient stability and pursuing anti-communist policies, and seeks to spread corruption and fan ethnic conflicts. In recent times, collective forms of struggle by the developing countries against imperialist exploitation and neocolonialism have become widespread. Among these is the non-aligned movement, which is clearly directed against imperialism and colonialism, against wars and aggression. One such collective form of struggle against neocolonialism is the demand for a restructuring of international economic relations on a democratic basis, on principles of equality.

But in contemporary historical conditions, the socio-economic and political development of countries in Asia, Africa and Latin America is determined not only by the uniformities and requirements of the world capitalist economy and the policies of imperialism. They can now opt for the non-capitalist way of development. A number of developing countries have chosen the socialist orientation.

2. TWO WAYS FOR THE DEVELOPMENT OF YOUNG NATIONAL STATES. SOCIO-ECONOMIC STRUCTURES IN THE NEWLY-FREE COUNTRIES

Socio-Economic Sectors in Newly Liberated Countries

The socio-economic structure of the newly-free countries is characterised by the presence of many sectors. Almost everywhere important positions are held by the *communal sector*. In some countries, especially in Africa, it appears in the tribal form. This sector, based on communal property and a subsistence economy, has been subjected to the influence of commodity-money relations and social stratification, and is being gradually modified, developing in some instances into a *petty commodity sector*, consisting of peasant farms and handicraft enterprises, and being based on private property and personal labour, and in other cases, into a *feudal* or *semi-feudal sector*, based on feudal property and various forms of precapitalist rent.

The *state sector* has a place apart in most newly-free countries. It is a specific socio-economic sector based on state property and subject to various trends of development; in the countries moving along the capitalist road it increasingly develops into state capitalism, and in the socialist-oriented countries it gradually tends to acquire a new socio-economic content and an anti-capitalist orientation.

In most newly-free countries, precapitalist sectors predominate in quantitative terms. There is a growth of the capitalist sector. Foreign monopoly capital stands to gain from capitalist economic forms, and also from a conservation of the traditional and backward socio-economic sectors, which it simply adapts to its needs.

The social structure of a society based on a multi-sectoral

economy is exceptionally complicated: it consists of classes which have long since disappeared in the developed capitalist countries and, in addition, the bourgeoisie and the proletariat differ somewhat from classes of the same name in the countries of Western Europe and the United States. As it was noted at the 26th Congress of the CPSU, the countries that have liberated themselves from the colonial oppression are very different. "After liberation, some of them have been following the revolutionary-democratic path. In others capitalist relations have taken root."¹

A number of countries which have risen to political independence are developing along the capitalist way. There, the capitalist sector has become the leading one. Features of bourgeois progress are evident in the development of these countries to the extent to which large-scale national production and a domestic market take shape. But at the same time, social contradictions organic to capitalism tend to accumulate. There is an inevitable pauperisation of the peasantry and the petty bourgeoisie, savage exploitation of the working class, concentration and centralisation of national capital, and the growth of social contrasts. All of this occurs under continuing exploitation by the imperialist monopolies, and this leaves a deep imprint on all the forms of capitalist development.

Along the capitalist way, most newly-free countries are, for all practical purposes, incapable of overcoming economic backwardness and dependence on the imperialist countries, because they continue to lose a large part of their national income, and are limited in their right to dispose of a sizable part of their resources for the benefit of their own economy. The condition of these countries is gravely influenced by the upheavals in the world capitalist economy. All manner of crisis phenomena and a sharpening of socio-economic contradictions are characteristic of these countries.

Revolutionary-Democratic Way of Development of Newly Liberated Countries

The winning of political independence means that the national liberation revolution has taken an important step, but only the first one. This revolution is designed to effect

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 16.

a number of deep-going democratic transformations, among them:

the surmounting of the colonial economic structure, elimination of the dominant positions of foreign monopoly capital, and of various camouflaged forms of political control by imperialism;

the denial of economic positions to local reactionary forces, which continue to be a social basis for imperialist domination (feudal lords, tribal chiefs, pro-imperialist bureaucratic elite, etc.), eradication of precapitalist forms of exploitation and survivals of archaic relations (caste system, tribal strife);

the democratisation of socio-political life, increase of control by the working people over the organs of state power, and introduction of democratic freedoms and strengthening of their guarantees.

This helps to bring about rapid economic growth, a rise of labour productivity to modern levels, and a sharp increase in per capita national income.

Each of the former colonies that has taken a socialist course has its own development specifics. Yet, as the 26th Congress noted, "the main lines of their development coincide: gradual elimination of the positions of imperialist monopolies, the local big bourgeoisie and feudal elements; the securing by the people's state of the commanding heights in the economy and a transition to planned development of the productive forces; encouragement of the cooperative movement in the countryside; an increased role for the working masses in social life and a gradual reinforcing of the state apparatus with national personnel faithful to the people; the anti-imperialist character of the foreign policies of these countries. Revolutionary parties expressing the interests of the broad mass of the working people are growing stronger there."¹

The development of the national liberation revolution along the revolutionary-democratic path creates the prerequisites for the subsequent transition to socialism, as the necessary material and technical basis is built up and the class structure of the society is transformed.

The experience of the non-Russian republics in the USSR and the Mongolian People's Republic shows that it is, in

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, pp. 16-17.

principle, possible for once backward countries and peoples to advance along the road of socialist orientation, as the Marxist-Leninist classics said in their works. Summing up the results of the early years of socialist construction in the USSR, Lenin established that these peoples' advance towards socialism, bypassing the capitalist stage of development, is an objective uniformity of social development in the epoch of imperialism and proletarian revolution.

The growing influence of the world socialist system, the weakening of the positions of imperialism, and the collapse of the colonial system have made it possible for many countries and peoples to take the revolutionary-democratic way. In the countries liberated from colonialism where capitalist development has reached an initial or medium level it is possible to cut short the process and take the socialist orientation, and this helps to eliminate dependence on the world capitalist economy.

The revolutionary-democratic way of development is not identical with immediate transition to socialism. It is specific in that the transformation of a multi-sectoral economy needs to be consciously guided in such a way as gradually to create the conditions for transition to socialist construction. Consequently, the *revolutionary-democratic way is a socialist orientation by progressive social forces in domestic development and the sphere of international ties*. In order to put through these transformations, countries taking the revolutionary-democratic way of development seek to consolidate their relations with the countries of the world socialist system.

It is along the revolutionary-democratic way that the anti-colonial revolution can be carried to an end, so providing a sound basis for subsequent socio-economic progress in the economically backward countries.

3. SOCIO-ECONOMIC TRANSFORMATIONS IN THE NEWLY-FREE COUNTRIES

The Problem of Eliminating Foreign Monopoly Power

The system of economic and political measures aimed to limit, oust and eliminate the positions of foreign capital is one of the pivotal lines of socio-economic transformations, because it is most immediately connected both with the struggle for economic independence from imperialism, with

the demarcation of the socio-political forces in the country, and with its foreign policy orientation. Depending on the depth, consistency and effectiveness of the measures taken for that purpose, it is possible to judge of the extent to which the anti-imperialist tendency, inherent in the first stage of the national liberation revolution, is growing into an anti-capitalist tendency, which is the specific feature of the revolutionary-democratic way of development.

Nationalisation of foreign monopoly property is the most radical means for attaining this goal. It eradicates the economic basis of the influence of foreign capital within the country and strengthens the positions of the state sector in the economy of the developing countries. By nationalising the basic means of production and taking over the commanding heights of the economy—large-scale industry, electric power stations, transportation and communications, and also the banks—the state obtains important instruments for exerting an influence on the whole of economic development. The forms and pace of nationalisation of foreign monopoly property depend on the concrete historical conditions of development and the balance of class forces in the country. Foreign capital resists this in every way and carries on a sharp struggle against nationalisation of the means of production.

Prolonged activity by foreign monopoly capital even within strictly defined limits for the purposes of national development has caused acute class struggle in various countries.

The governments of the newly-free countries have considerable *means* at their disposal for *curbing and controlling the activity of foreign monopoly capital*. There are the tax, tariff and foreign exchange policies, the issue (or cancellation) of licences for the establishment of enterprises, the terms of concession agreements, including mandatory training of national personnel, limitations on the repatriation of profits, etc. Foreign monopoly capital tends to resist all these measures.

Effective control over foreign monopoly capital depends on the socio-political orientation of the government concerned, on the legislation and administrative activity of the state apparatus, and ultimately on the balance of class forces. It is quite natural that the positions of foreign monopoly capital have been most eroded in the socialist-oriented countries.

*The Role of the State Sector
in the Newly-Free Countries' Economy*

In the countries liberated from colonial oppression, the state actively and systematically participates in the process of expanded reproduction of the national productive forces. National private capital is much too weak to build up a modern industry on its own, and this is evidenced by the experience of various developing countries.

The formation and growth of the state sector depending on the social nature of the state occurs in various ways: confiscation of the property of the former colonial administration, nationalisation of foreign and local capital, expanded reproduction within the framework of the state sector itself, and accumulation of resources through the state budget.

The share of the state sector in the economy differs from one newly-free country to another. Its share in the production of the national income ranges from a few per cent in the most backward countries to 10-20 per cent in most capitalist-oriented countries, and to 30-50 per cent in the socialist-oriented countries. The state sector has an especially big part to play in forming the sources of accumulation. On it crucially depend the rate of growth and the modernisation of production: in some countries it accounts for 50-75 per cent. A common trend in the development of the state sector is a gradual growth of its share in production, employment and capital investment, especially in the leading sectors of the economy.

The progressive role of the state sector lies in the fact that it represents a relatively high level of socialisation of production and makes it possible to put through various measures to control the economy as a counter-weight to the private enterprise elements. In the socialist-oriented countries, the state relies on the state and cooperative sectors and the corresponding forms of social (national) property: banks, large-scale infrastructural installations, land, enterprises in the extractive and manufacturing industries, foreign trade companies, etc. As a result of this, in countries where power is in the hands of a bloc of revolutionary forces, the state sector has an important role to play in developing the economy along the revolutionary-democratic way. Here, the state sector is used not only for national liberation but also for social emancipation, and is invested with an anti-impe-

rialist and an anti-capitalist character. In these conditions, the expansion of this sector signifies a strengthening of the economic and social basis for the non-capitalist way of development. But even in the socialist-oriented countries, the class struggle over the direction of their development goes on and is sharpened.

Industrialisation

Industrialisation, that is, a growing role for industry in the national economy, modernisation of the existing industrial enterprises and construction of new ones, and a switch of all the other sectors (agriculture, in the first place) to a modern technical basis add up to one of the central elements in the transformation of the backward economy.

In the newly-free countries, there is a growing interest in socialist industrialisation, which makes it possible, through the use of new methods, to mobilise resources and to plan, so as to build up a highly developed industry in a relatively short time. Experience shows that there is no need for each country to develop a universal production complex. At the first stage of industrialisation, there is usually an effort to build up individual enterprises and industries which help to raise the existing economy to a new technical level.

In the postwar period, most newly-free countries have scored some successes in industrialisation. The share of the capitalist world's industrial output amounted to 10.1 per cent in 1950 and exceeded 15 per cent in the beginning of the 1980s. There was a high rate of growth not only in the extractive industry (especially oil), which had been developed in these countries in the colonial period, but also in manufacturing. The output of the light and heavy industries has also markedly increased.

In the socialist-oriented countries, the main emphasis is on the development of the state sector in industry, within whose framework the governments of these countries seek to concentrate the key enterprises that are of the utmost importance for the national economy.

In most developing countries, industrialisation comes up against grave difficulties which spring not only from the limited accumulation fund but also from the narrowness of the internal market, and the low standards in culture and occupational training. All of this is largely predetermined

by the impact of the precapitalist sectors, mainly in agriculture, and also by the extraction of huge amounts of the national wealth by foreign monopoly capital.

Agrarian Reforms

There is an urgent need for radical agrarian transformations for the benefit of the peasantry in order to solve many socio-economic problems. Neither industrialisation nor a rational solution of the accumulation problem are feasible without an in-depth transformation of agrarian relations. One of the paradoxes of economic development in many newly liberated states is that these countries, while being agrarian and mainly peasant, are unable to provide themselves with foodstuffs. According to the FAO, from 1970 to 1977, food imports by the developing countries increased by an average of \$ 3.3 billion a year. In the African countries, the annual average increase in food output came to no more than 1.3 per cent, as compared with 2.7 per cent in the 1961-1970 period, while the population grew at 2.6 per cent a year. Food shortages are expected to be among the most serious problems facing these countries over the next few decades.

The need for agrarian transformations springs from the relations of production which are predominant in agriculture and which fetter the development of the productive forces not only in the countryside but on the scale of the society as a whole. A solution of the agrarian problem helps most fully to fulfil the objective tasks of the national liberation revolution and to meet the immediate requirements of the majority of the population in the developing countries.

Anti-feudal agrarian reforms have been most consistently put through in countries taking the non-capitalist road, and this has already undermined feudal landholdings, while foreign agrarian companies have been nationalised or placed under control, and cooperation, which the state supports economically and organisationally, has been markedly developed.

The establishment of a network of state farms (on the basis of large-scale nationalised estates of foreign colonists and local landowners) and the development of cooperatives provide a real alternative to capitalist concentration in agriculture and a means for going on to large-scale production in the countryside in countries taking the non-capi-

talist way. Because of its two-fold nature, the communal economy, unless its disintegration has reached a high level, could become a transitional form (with revolutionary transformations in the whole of the economy) towards social, socialist property. Some developing countries have already accumulated useful experience in the building of cooperatives in the countryside.

*The Economic Role
of the State in the Newly-Free Countries*

Among the key tasks objectively set before the developing countries by the course of history are: efforts to ensure a high rate of economic growth, to change the sectoral structure, to effect industrialisation, to put through radical agrarian reforms, to find the resources for accumulation, to limit and eliminate exploitation by foreign capital, to overcome the unfavourable trends in the world capitalist economy, and to raise the people's material and cultural standards. All these problems have to be tackled comprehensively, in a complicated and contradictory socio-economic situation. Here, the state has a crucial role to play in fulfilling these tasks.

With the rapid formation of new classes, on the one hand, and the growing struggle against imperialist exploitation, on the other, the society in the developing countries tends politically to mature much faster, and in many of them there is a shift of the social basis of the state power towards the social forces which represent social progress. The broadest prospects are opened before the peoples of the countries where the state takes a socialist orientation. It emerges as a result of the anti-imperialist, anti-feudal, democratic revolution. Its economic basis consists of relations of production which could develop into socialist relations of production. Its social basis consists of a democratic bloc which includes strata of the population looking to profound social transformations and a consolidation of national independence. Revolutionary-democratic forces have the leading role to play within the political system of the socialist-oriented states.

The more fully the state expresses the interests of the working majority of the nation, the fuller and more effective

is its influence on economic processes. In these countries, independent economic development cannot proceed spontaneously; the state, consistently pursuing an anti-imperialist policy and putting through progressive socio-economic transformations, has the crucial role to play in building up such an economy.

National private capital is incapable of transforming a backward economy, carrying on a resolute offensive against the foreign monopolies and the imperialist powers, and creating a modern industry.

In many developing countries, the governments formulate programmes for state investment, and in the socialist-oriented countries, the consolidation of the plans of individual departments and the plans for the revenues and expenditures of the state budget amount to the beginnings of planning, which gradually becomes nationwide: it sets a definite goal on the scale of the economy as a whole.

How effective these programmes and planning are depends on many circumstances: the social nature of the state, the positions of the state sector in the economy, the overall level of economic development, external conditions, the quality of planning, the availability of the necessary personnel, etc. As a rule far from all the indicators set by the programmes and plans are attained within the established deadline. Nevertheless, in some countries the measures taken to implement such programmes and plans have had an effect on the development of key sectors of the economy, in bringing about some favourable changes in the old economic proportions, and in promoting the mobilisation of resources. The use of the socialist countries' great experience in economic planning is of much importance for organising economic planning in the developing countries taking the revolutionary-democratic road.

Bourgeois scientists have written a great deal about the development programmes facing the young national states and have proposed diverse recipes for overcoming their economic backwardness. But, experience shows, these recipes do not help these countries to escape from exploitation by monopoly capital. The most effective way to solve the problem of eliminating dependence on imperialism and boosting the economy in the developing countries is to put through deep-going socio-economic transformations: nationalisation of the property of foreign monopolies, radical agrarian

reforms, and industrialisation. These pave the way for the development of the productive forces and create the conditions for ensuring high and stable rates of economic growth.

*Cooperation Between Socialist Community Countries
and Newly-Free Countries*

Economic ties between socialist and developing countries are a new type of international economic relations based on equitable and mutually advantageous cooperation and assistance in overcoming historical backwardness. Especially close relations have been established between socialist states and developing countries taking the non-capitalist road. Their dependence on the world capitalist economy has been markedly reduced.

The newly-free countries' urge to attain economic independence from imperialism, to bring about social reconstruction objectively meets the mutual interests of the socialist and developing countries. This means that economic cooperation between the two groups of countries has a sound basis and broad prospects before it. The development of economic ties between them is also promoted by the fact that the industrial facilities built up in the socialist countries help them to export a broad range of manufactured goods, especially the means of production, and also to render all-round economic assistance. The expanding world socialist market presents a growing demand for the newly-free countries' traditional exports. Finally, the deepening and expansion of ties between these countries is promoted by the planned economic development in the socialist countries, so that economic relations and obligations are stable and assured. This enables them to alter their economic proportions and to restructure their economy with an eye to the long term and in the presence of guaranteed marketing outlets.

Economic and technical assistance and help in personnel training extended by the socialist to the developing countries are of much importance in their cooperation.

By the beginning of 1982, with the help for Mutual Economic Assistance (CMEA) 4,500 projects had been built or were under construction in the developing countries. The CMEA countries have helped the developing countries to train more than 1 million specialists. Trade between the two

groups of countries has been growing at a high rate: from 1965 to 1977 it multiplied over sixfold. In their trade ties with socialist countries, the developing countries enjoy a number of advantages.

Settlements between socialist and developing countries are, as a rule, effected in the national currency, and there are never any political or any other strings attached. In payment for outstanding credits, the socialist countries buy manufactured and semi-manufactured products turned out at the enterprises they help to build, as well as their traditional exports. The USSR has unilaterally waived customs tariffs on goods imported from developing countries.

The economic cooperation between the socialist and developing countries tends to undermine the imperialist countries' monopoly on the supply of industrial equipment and the extension of scientific and technical aid. That is why the developing countries' gain from the socialist countries' assistance also includes strengthening their economic positions vis-à-vis the imperialist powers.

Cooperation between the USSR and other socialist countries, on the one hand, and the developing countries, on the other, tends to acquire the nature of a stable division of labour contrasting with the system of imperialist exploitation in the sphere of international economic relations. The USSR and other socialist countries resolutely support the newly liberated countries' struggle for the establishment of a new international economic order on the principles of equality and non-interference in the internal affairs of all states.

In the Central Committee Report to the 26th CPSU Congress, Leonid Brezhnev stressed that the USSR would continue consistently to pursue the policy of promoting cooperation with the newly-free countries and consolidating the alliance of world socialism and the national liberation movement.

Under the present balance of class forces in the world, the newly-free countries are quite capable of withstanding imperialist *diktat* and carrying on a struggle for the establishment of fair, that is, equitable economic relations, increasing the pace of their economic development and achieving all-round economic progress.

Chapter seventeen

AGRARIAN RELATIONS
AND THE CONDITION OF THE PEASANTRY
IN THE CAPITALIST COUNTRIES AT THE PRESENT STAGE¹

The most characteristic feature of agrarian relations of the epoch of imperialism is that the monopolies also seek to dominate agriculture. In the developed capitalist countries, there is a rapid expulsion of toiling peasants and farmers by the big capitalist entrepreneurs, agricultural monopolies and banks. In the countries which have risen from colonialism but which remain within the capitalist system, the peasantry is oppressed by the landowners and the monopoly bourgeoisie. In some of these countries, foreign capital operates in alliance with the local landowners.

Monopoly capital, which has coalesced with large-scale landed property, seeks everywhere to put through, with the help of the bourgeois state, a "clearing of the lands" on monopoly lines. Millions of farmers and peasants are being driven off the land and ruined.

1. AGRARIAN RELATIONS
AND THE WORKING PEOPLE'S CONDITION
IN THE AGRICULTURE OF IMPERIALIST COUNTRIES

Agrarian Relations in Imperialist Countries

The shift in the productive forces of capitalist agriculture in the epoch of imperialism also leaves a deep imprint on the state of agrarian relations. This is especially pronounced in the industrialised countries where there is intensive capitalist development in agriculture and mounting

¹ For details about agrarian relations in the newly-free countries see Chapter Sixteen.

concentration and centralisation of capital. At a definite stage of development, the concentration of agricultural production creates objective prerequisites for the emergence of agricultural monopolies.

The monopolies appropriate a sizable portion of the surplus product of the producers: agricultural labourers working for a wage, toiling peasants and small farmers.

Rent relations are changed. Monopoly capital modifies the nature of large-scale landed property. Individual large-scale landed property gives way to the landed property of the monopolies, banks and joint-stock companies. Via agricultural joint-stock companies, mortgage banks and in other ways, finance capital coalesces with landed property. The monopoly bourgeoisie buys up farm lands and leases them out to farmers or sets up monopoly-type agricultural enterprises. As a result, *ground rent merges with monopoly profit*. This also occurs when the big landowners invest their earnings in the shares of industrial, banking and other monopolies. The biggest landed proprietors become the owners or co-owners of joint-stock companies engaged in the purchase, processing, transportation and marketing of farm produce.

The conversion of individual large-scale landed property of the hereditary landowner type into landed property of the monopolies purchased for money does not eliminate the contradictions between the agricultural entrepreneurs and landowners. Under imperialism, rent is an expression of the relations of exploitation of the working people in the countryside by agricultural entrepreneurs and landowners, who share out among themselves the surplus value created by the labour of the actual producers. There is a change in the social face of those who are the vehicles of the exploitation relations, but even under imperialism these relations continue to provide the basis for capitalist agriculture.

Methods of Exploitation of Peasants by Monopoly Capital

The gap of prices between the products bought and sold by the peasants, the prices for manufactured goods and farm produce, is the most widespread method used by monopoly capital in exploiting the toiling peasantry. Industrial and commercial monopolies sell their goods to the

peasants at high-monopoly prices, and buy up the peasants' produce at artificially depressed prices.

The gap in the prices of manufactured goods and farm produce tends to widen with the growing monopolisation of sectors of the economy connected with agriculture: agricultural engineering, chemical, mixed-fodder, food and other industries, and also the wholesale and retail trade in farm produce and foodstuffs. A dense network of capitalist predators making money on the working people of town and country lies between the actual producers of farm produce and the ultimate consumers. That is why the share of the final price of farm produce going to the peasant and the farmer has been steadily shrinking.

Vertical integration, which is effected both on a private monopoly and state-monopoly basis, helps to intensify the exploitation of the actual producers. Under vertical integration, the agricultural producer not only becomes economically dependent on the integrator monopoly but also, technologically, a link in the production process. For all practical purposes, peasants and farmers are turned into the wage workers of the integrator monopoly and have to fulfil the terms dictated by their contracts.

Agricultural wage workers, among whom there are many ruined peasants and farmers, and also members of their families, are in a much more difficult condition than industrial workers. Their wages are lower and their working conditions are in many cases harder than those in industry. For the most part, workers in agriculture are not unionised, which is why it is more difficult for them to fight against the arbitrary acts of the entrepreneurs. As a rule, they are not covered by social and labour legislation, they have no unemployment benefits, no compensation in the event of occupational injuries, etc. Here, competition on the labour market is also much stronger.

The industrialisation of production results in an absolute reduction in the demand for manpower. Migration from country to town does not help to eliminate the latent overpopulation in agriculture. The small peasants are incapable of providing themselves with the means of subsistence by working on their scraps of land and are forced to seek additional incomes. The ruined peasants are turned into agricultural labourers holding allotments from big landowners, and some of them—into landless labourers.

Agrarian crises are among the most important causes of the mass ruin of peasants and farmers. For the big commodity producers, agrarian crises provide fresh opportunities for acquiring the lands of ruined peasants for a song.

State-Monopoly Regulation of Agriculture

The bourgeois state makes use of various measures to regulate agricultural production and the farm produce market (subsidies, credits, taxes, etc.), so promoting the utmost penetration by private monopoly capital of the sphere of agricultural production, which with its system of state procurement turns into a highly lucrative sector. This is also promoted by state-monopoly measures aimed to increase or reduce the production of various items and expand foreign trade in agricultural produce.

The government system of guaranteed prices for farm produce does not save small producers from ruin. State-monopoly regulation advances the capitalist socialisation of production. The concentration of agricultural production inevitably leads to the elimination of small and medium peasant farms. The industrial monopolies ruin the peasants by means of high prices for manufactured goods, and the banks, by their hard terms of credit. The monopolies buy up farm produce at artificially understated prices, while the state levies high taxes on the peasantry. In addition, the chronic inflation deprives the peasants of some of their savings.

A policy of "improving the agrarian structure" is pursued in the Common Market countries of Western Europe and other capitalist countries, as a result of which millions of peasants and farmers are ousted from agriculture. Large-scale industry and trade are placed in a privileged position at the expense of the peasants. The bourgeois governments seek to justify this anti-peasant policy by pointing to the need to replace the "uneconomical" small-scale peasant production with the highly profitable production of agricultural capitalists and monopolies.

The peasantry's growing resistance to the policies of the monopoly state and its mass action, which has the support of the urban working people, force the capitalist governments to manoeuvre. In some countries, this takes the form of legislative regulation of lease-hold and labour relations in agriculture, aid to agricultural cooperatives, etc. In practice,

these measures have little effect. The financial aid given in some countries to agriculture goes almost entirely to the large-scale commodity producers, because subsidies are, as a rule, determined by the volume of sales or area under crop. That is why, together with the growing scale of ruin and elimination of the small and medium peasant farms, the number of big and giant capitalist farms and the concentration of agricultural production on these farms tend to increase.

Bourgeois economic writers frequently assert that in present-day capitalist agriculture, enterprises based on wage labour are allegedly being ousted by "family farms", and that the "family farms" are due to replace the traditional peasant forms of agricultural production. The "family farms" theory is one version of the "stability of small-scale peasant farming" theory, whose advocates seek to prove that small-scale peasant farming is not being ousted by large-scale capitalist production, but is being merely "transformed" into more progressive farming involving the use of modern agricultural machines and agrotechnical methods. That is why the development of capitalist farms in the form of "family farms" allegedly goes to improve the condition of the peasantry. Bourgeois economists ignore the fundamental distinction between capitalist farms and the farms run by working farmers. The "family farms" do not, in effect, cease to be exploitive. As in the past, the capital of the farm owner is accumulated surplus value, while the income he appropriates is the surplus value created by wage workers. Far from ruling out, the existence of "family farms", in effect, entails the ruin of the labouring strata in agriculture.

2. THE RURAL WORKING PEOPLE'S STRUGGLE AGAINST OPPRESSION BY MONOPOLIES AND BIG LANDOWNERS IN THE CAPITALIST COUNTRIES

Agrarian Programmes of Communist and Workers' Parties

The development of agriculture under capitalism is characterised by a sharpening of the antagonistic contradictions of the capitalist mode of production and the peasantry's growing struggle for its vital interests. From 1950 to 1970, 22 million peasants and farmers—over one-half of the agricultural population—were ruined in the developed capitalist

countries. The stratification of the peasantry and the consequent conversion of a sizable part of it into proletarians and semi-proletarians have dispelled the illusion that most of them could farm independently on their own land. This helps to develop class consciousness among the working people in the countryside.

The working class is the leader and ally of the peasantry in its struggle against exploitation. Despite the shrinking of the share of the rural population and the progressive urbanisation in the developed capitalist countries, the alliance of the working class and the peasantry continues to be a key condition of success in the working people's struggle. Lenin repeatedly stressed the importance of this alliance, the difficulties connected with its organisation, and the need to overcome these so as to unite the working class and the peasantry.¹

Partial agrarian reforms fall short of bringing about a radical improvement in the life of the working people in agriculture, and the way out of the capitalist contradictions in this sector runs through radical anti-monopoly reforms in the whole of society.

"Land to those who till it" is the common slogan in the struggle carried on by the Communist and Workers' parties for uniting the working people in agriculture. The agrarian programmes of the Communist and Workers' parties demand that the peasants and agricultural labourers should have the right to buy the land they lease or wasteland, that there should be legislative protection of the rights of tenants, that rent payments, taxes and interest on credits made available to small farmers should be reduced, that the state should provide assistance to peasants and their cooperatives, that operations by the monopolies should be curbed and the price scissors eliminated, that legislative regulation of wages, working conditions and the length of the working day should also apply to agriculture, that there should be no expulsion of peasants and tenants from the land they hold and no arbitrary dismissals of agricultural labourers, etc.

The Communist and Workers' parties believe that there is a need consistently to implement agrarian reforms and

¹ See V. I. Lenin, "Preliminary Draft Theses on the Agrarian Question", *Collected Works*, Vol. 31, Progress Publishers, Moscow, 1972, p. 162.

anti-monopoly measures throughout the economy for the benefit of the toiling peasants, under the control of democratically formed working people's bodies, with the most active participation by broad masses of people.

The struggle for land is among the most important component parts of the general democratic movement in the course of which the working people in the countryside, led by the working class, come to realise the need for radical socio-economic transformations ridding the peasants of poverty, the threat of ruin, and capitalist exploitation. Lenin says: "The class-conscious proletariat fully supports the peasant struggle for all the land and for complete freedom; but it warns the peasants against all false hopes. The peasants can, with the aid of the proletariat, completely throw off the tyranny of the landlords, they can completely put an end to landlordism and to the landlord and bureaucratic state. The peasants may even abolish all private ownership of land. All such measures will greatly benefit the peasants, the working class, and the whole people. It is in the interests of the working class to render the utmost assistance to the peasants' struggle. But the overthrow of the power of the landlords and the bureaucrats, however complete, will not in itself undermine the power of capital. And only in a society freed from the rule of the landlords and bureaucrats will the last great struggle between the proletariat and the bourgeoisie, the fight for a socialist system, be fought out."¹

Lenin drove home the point that it is impossible to solve the problem of poverty in the countryside within the framework of a general democratic agrarian revolution which solves the land problem through a distribution among the peasants of the land expropriated from the big landowners. He said that no amount of laws can do away with exploitation in the countryside, so long as small-scale peasant farming continues to produce for the market, while the power of money remains in the hands of capital. There is a need for radical anti-monopoly measures. Only large-scale social balanced economic activity, with the property in all the means of production handed over to the working people in town and country, can put an end to all exploitation and,

¹ V. I. Lenin, "The Land Question and the Fight for Freedom" *Collected Works*, Vol. 10, Progress Publishers, Moscow, 1978, p. 438.

consequently, solve the problem of wiping out poverty and inequality in the countryside.

The intensified oppression by the monopoly capital of all the strata of the population in the capitalist countries tends to deepen the contradictions between the handful of monopolists and all other strata of the people. The growing community of interests of the peasantry, the urban middle strata and the intelligentsia, and those of the working class, and their growing cooperation tend to narrow down the social basis of the power of the monopolies, to sharpen its internal contradictions and help to mobilise broad masses of people for the fight against monopolies and imperialism. Potentialities are created for uniting an overwhelming majority of the people on an anti-monopoly basis under the slogans of the struggle for nationalisation and democratisation of management of the key sectors of the economy, and for radical agrarian reforms.

Chapter eighteen

**PECULIARITIES OF THE REPRODUCTION
OF CAPITAL TODAY.**

**GROWING UNEVENNESS IN THE DEVELOPMENT OF CAPITALISM
AND EXACERBATION OF ITS CONTRADICTIONS**

**1. THE SCIENTIFIC AND TECHNICAL REVOLUTION (STR)
AND ITS IMPACT ON CAPITALIST REPRODUCTION**

The STR and Structural Changes in the Capitalist Economy

The development of the STR in the capitalist society has gone hand in hand with a further aggravation of the basic contradiction of capitalism, that between social production and private capitalist appropriation of its results.

The STR has brought about important structural changes in the capitalist economy. While the share of industry in the sphere of material production has continued to grow, its most modern sectors have developed more rapidly. Agriculture is being fast industrialised (but its share in the economy continues to shrink). The share of the non-productive sphere in the economy as a whole has been growing.

New and progressive sectors in industry, power generation, transportation and communications have grown tempestuously. The generation of electric power, notably at nuclear power stations, has grown at a fast pace, and the electronics and chemical industries have developed.

There can be no full use of production capacities because of the ever more acute problem of sales, a problem which springs from the deepening contradiction between production and consumption, the heightening competition on the world capitalist market, and the worsening positions of capitalism in the economic competition with socialism. Even when capitalist production is on the rise, the loading of capacities averages 75-85 per cent, and in some industries comes to as little as 40-50 per cent in some periods.

The STR accelerates the growth of labour productivity, with the result that there is a relative—and in some, frequently protracted, periods an absolute—drop in the demand for labour power in the sectors of material production.

The leap-frogging and uneven development of the various sectors of the economy has produced a peculiar form of mass chronic unemployment which is connected with a declining demand for some trades. It is not only the less skilled workers but also sizable strata of engineers, technicians and employees that fall victim to such unemployment. Thus, for example, in the USA automation deprives about a million workers of their jobs every year and leads to the elimination of many types of profession.

The tendency towards a constant underloading of production capacities and chronic unemployment, which emerged in the general crisis of capitalism, shows that the process of capitalist reproduction is profoundly disrupted and that the decay and parasitism of present-day capitalism are increasing.

The STR has resulted in a reduction in the number of persons employed in agriculture and has altered the balance between the production and the non-production sphere. The absolute size and share of the latter in the economy have tended to grow. This is due, first, to the sharp rise in labour productivity in the sectors of material production, where more men are ousted by machines in a trend that is organic to capitalism; second, to the considerable expansion of trade and every-day services in consequence of the growth of consumer durables market (cars, household electrical appliances, etc.), and also the consequent growth of the role of the advertising business; third, to the growth of education and public health, both of which are required for expanded reproduction of the higher-skilled labour power; and fourth, the expansion of scientific research.

The STR and the Deepening of the Contradictions of Capitalist Reproduction

The STR has a contradictory impact on capitalist production. On the one hand, it tends to stimulate the growth of production and to generate demand for new equipment and new technology. This is also promoted by the rapid obsolescence of fixed capital and the growing competition, which requires its frequent renewal. On the other hand, the same processes result in an excessive built-up of production facilities, and an overaccumulation of fixed capital, so reducing the incentives for new investments.

The sharpening of the contradiction between production and consumption and the growing difficulties in marketing

have boosted the sale of consumer durables on instalment. This helps to create additional effective demand among the population, and so to accelerate the sale of goods and reduce the periods for renewing the range of consumer products. Without consumer credit, a sizable part of the social product would now have been unmarketable.

Under capitalism, consumer credit is used as a means for the additional exploitation of the working people. It is made available at usury rates of interest. In the United States, annual interest on instalment buying averaged 12 per cent at a time when industrial loans carried 5-6 per cent interest.

With the growth of consumer credit a huge debt is run up by the population. When payments to meet this debt run in excess of a definite part of personal incomes, there is a fall in the working people's effective demand. Consequently, there are definite limits to the growth of consumer credit and its influence on increasing demand for consumer goods. At the same time, it falls as an additional burden on the shoulders of the working people, and in time of unemployment completely undermines their living conditions (they are deprived of their homes and household necessities).

Monopoly capital also seeks to solve the market problem by means of government procurement and contracts mainly for the manufacture of weapons. The growth of state consumption does help temporarily to increase the size of the market. But a step-up in the arms race entails a growth of the tax burden on the working people. The militarisation of the economy is a major factor of inflation. Arms contracts produce a heightened demand which cannot, as a rule, be met with the existing resources of production. The monopolies use the tightness of the market to spiral prices.

This activity on the part of the state ultimately leads to a relative—and frequently to an absolute—reduction in effective demand and results in a contraction of the market. The growth of unemployment tends to act in the same direction.

The Sharpening of the Basic Contradiction of Capitalism

The STR tends to deepen the social division of labour and the attendant specialisation in individual countries and on international scale. The social division of labour and

specialisation enhance the interconnection and interdependence not only between individual sectors of production within a country, but also between countries and continents. All of this requires coordination of production activity on a national and international scale. This is hampered by private capitalist appropriation, by private capitalist property in the means of production and, consequently, in the results of social production.

The contradiction between social production and the private capitalist appropriation of its results has long since grown beyond the national framework and has become international. The development of the social nature of production has produced global problems like mankind's use of energy resources, the resources of the World Ocean and outer space, and the problem of protecting the environment. All of these show very well that capitalist relations of production are incompatible with modern productive forces. This is expressed not only in the frequent and deep-going economic crises of overproduction but also in the development of the energy, monetary, food and ecological crises, which keep rocking the capitalist world.

2. PRESENT-DAY CYCLE AND CRISES

Specifics of Postwar Capitalist Crises

After the war, some changes occurred in the cyclical character of capitalist reproduction. Industrial production and capital investments did not fall to the same extent as they did in the crises of the 1920s and the 1930s. The decline of production period was shortened. But the crises and recessions in the United States, the leading capitalist country, were more frequent than they had been before the Second World War. In the credit and financial sphere, crisis phenomena were most pronounced in international settlements. There were also stock-market crises, but these did not always coincide with the crises in industry. Crises in the capitalist countries were clearly unsynchronised. Such was the characteristic capitalist cycle in the postwar period, up until the world economic crisis of 1974-1975.

The boom of the early postwar period was shortlived. The first postwar economic crisis broke out in the United States in the autumn of 1948. The industrial crisis went hand in

hand with an acute overproduction of farm produce and a drop in farmers' incomes. The 1948-1949 crisis did not resolve the contradictions of capitalist reproduction.

The arms race was the key stimulator of industrial production in the United States in the early 1950s, but it did not save the US economy from another recession either.

In 1953-1954, the United States had an intermediate economic crisis. It was not preceded by industrial boom but emerged in the recovery phase, that is, before the onset of the boom phase.

The 1957-1958 crisis in the United States was especially profound, for then industrial output dropped by 14 per cent. In that period, industrial production also contracted in Canada, Japan and Britain. Somewhat later, production declined in France. A partial crisis hit the FRG and Italy.

In February 1960, a new crisis contraction of production occurred in the United States. This continued until January 1961. Industrial output fell by 8.1 per cent. March 1961 saw the start of the longest US postwar industrial boom, but in the mid-1960s a number of capitalist countries, which had escaped partial cyclical fluctuations, were in the grip of a crisis of overproduction.

The crisis first spread to Italy, France and Japan. But because of the favourable economic situation on the world markets, these countries managed to avoid major economic upheavals. From mid-1965, West German industry entered a period of stagnation, and this developed into an economic crisis at the end of 1966. The absolute drop in production came to 7-8 per cent. In the course of 1967, the number of fully unemployed in the FRG exceeded 600,000-700,000. The economic crisis of 1966-1967 in the FRG not only dealt a heavy blow at the West German economy, but also had a tremendous political and psychological effect. It blasted the myth of the FRG's "economic miracle" and its alleged escape from the cyclical character of development.

US economic expansion in the 1960s was not stable. In 1967, there were signs of a new economic crisis coming to a head, but it was stemmed through the war in Vietnam. However, with its arms contracts, the war merely gave a temporary impetus to production, but could not avert the onset of another economic crisis, which broke with full force in the United States in the autumn of 1969.

The escalation of the imperialist war in Vietnam, together with the difficulties of cyclical development, caused a sharp worsening of the US balance of payments. The outflow of gold from the country assumed catastrophic proportions. The US government was forced to stop the convertibility of the dollar into gold for the central banks of other countries, and was eventually forced to devalue the dollar. That was the most important monetary upheaval in the capitalist world in recent decades.

The 1969-1971 economic crisis also hit other capitalist countries—Italy, Canada, Sweden, Finland and Austria—although it did not do so simultaneously. In some countries there was evidence either of stagnation or a slowdown, as in the FRG and Japan. The economic situation was sharply worsened in some developing countries, especially in Africa and Latin America. Throughout the capitalist world, the growth rate of industrial production dropped from 8 per cent in 1969 to 2 per cent in 1971.

Specifics of the 1974-1975 Economic Crisis

In late 1971 and early 1972, the United States had a protracted depression, which gave way to a recovery and—in the autumn of 1972—to a boom. At the same time, most other developed capitalist countries entered into the boom phase. But this did not last long. From the end of 1973, the economy of all the developed capitalist countries was faced with serious economic difficulties, and a crisis broke out in all these countries in 1974. That was the first time the crisis was synchronic in the postwar period, and this was due to some new phenomena in the economy of capitalism.

First of all, there is an alignment in the developed capitalist countries' technical and economic levels, resulting from the further internationalisation of economic life, the international division of labour, specialisation and the attendant interdependence of the individual capitalist countries. In Europe, it was largely promoted by the processes of integration. This alignment predetermined the simultaneous onset of the phase of the cycle in the leading capitalist countries and made the crisis itself run a heavier course, because it made it impossible to make up for the decline

in production in one country through the use of a favourable situation elsewhere.

It was the highly developed state-monopoly economy, which had taken shape in the postwar period, that was hardest hit by the 1974-1975 crisis. The overall drop in industrial production for the developed capitalist countries was 10.7 per cent and the crisis lasted 6 months, whereas the depth of the crisis was 15.3 per cent in the USA, 13.1 per cent in Italy, 14.8 per cent in France and 20.2 per cent in Japan. The drop in production lasted an average of 12 months in Western Europe, as in Britain and the FRG, while in Japan it lasted 15 months. It interwove with a number of other crises in other spheres of the world capitalist economy: in energy, in the ecology, and in food. The structural crises, for their part, deepened the cyclical economic crisis of overproduction and made it harder to break out of it.

Another specific feature of the 1974-1975 crisis to note is that it preceded under the continued world monetary crisis, which had complicated trade and economic ties between individual components of the capitalist economic system.

The extreme disruption of the monetary and credit system in the capitalist countries, with inflationary processes becoming ungovernable and hampering the usual ending of the crisis, also had an impact on the 1974-1975 crisis.

That economic crisis fell as a heavy burden on the shoulders of masses of working people and exacerbated all the social contradictions of the capitalist world.

In 1975, industrial output in the developed capitalist countries dropped by 8.5 per cent, and the aggregate national product by 2.3 per cent. Gross capital investments into the expansion and modernisation of fixed capital fell by 10.5 per cent, and in housing construction, by 16.1 per cent. Production capacities in these countries were used to only 70-72 per cent, and in the United States, this figure dropped to 64 per cent. The decline in production and the underloading of capacities led to a disastrous growth in unemployment.

By the beginning of 1976, even according to official UN data, the developed capitalist countries had over 15 million jobless who, together with their families, were living off unemployment benefits. In addition, millions of men and women were forced to work less than a full day or only two

or three days a week. These data do not include the unregistered unemployed, or persons working a short day or short week. The most to suffer from unemployment were foreign workers, members of ethnic minorities, old people and the young. In the United States, for instance, 40 per cent of young Blacks were jobless.

The economic crises of 1974-1975 and 1980-1982 provided convincing evidence that the bourgeois theories about it being possible to eliminate crises under capitalism were untenable, and that the anti-cyclical measures of state-monopoly capitalism had failed. The crisis phenomena, which hit many spheres of life in the capitalist society, testified to the impotence of state-monopoly regulation in face of the spontaneously operating laws of the capitalist mode of production, which is based on capitalist property in the means of production. In this sense, one could say that the *crisis of state-monopoly regulation of the capitalist economy* was a manifestation of the further deepening of the general crisis of capitalism. Life provides ever more evidence that Lenin was right when he said that capitalist firms would never be able to ensure completely proportional development.¹

3. DEVELOPMENT OF CRISIS PHENOMENA IN THE WORLD CAPITALIST ECONOMIC SYSTEM

The world capitalist economy, as a system of international economic relations in which the developed capitalist states exploit the economically underdeveloped countries and which is governed by anarchy in production and competition, is constantly rent by antagonistic contradictions. These phenomena were intensified when capitalism entered upon the period of its general crisis as a socio-economic formation.

In the present period, the tremendous proportions of *inflation* in the capitalist world have made the crisis processes especially acute. In the past, it developed mainly in the period of wars and postwar dislocation, but now it tends to develop in every phase of the capitalist cycle, including the crisis phase. Inflation has become an international phenomenon.

¹ See V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 448.

The inflationary process is now fuelled from two sources. One of these is the growing government spending, chiefly for military purposes, which feeds paper money into circulation, so enabling the monopolies to raise prices with relative ease. The other source of inflation is the world monetary crisis and the flows from one country to another of "hot money", the uncommitted monetary resources being used to make fortunes through speculation on exchange rate differentials.

The 26th CPSU Congress noted that, as a result of inflation and the artificial raising of prices by the monopolies, over the last ten years alone prices in the developed capitalist countries had risen by 150 per cent, while since 1975 they had risen by 50 per cent.

From 1965 to 1970, the aggregate gross product of the developed capitalist countries increased by an average of 4.8 per cent a year, and the money supply by 9.6 per cent, but from 1971 to 1973, the respective figures were 5.2 per cent and 13.7 per cent. This process has continued. In 1979, money supply in the United States grew twice as fast as its gross domestic product, and in the EEC countries, 3-4 times as fast. The result was a further growth in consumer and wholesale prices, and another twist in the cost of living spiral.

The *crisis of the monetary system of imperialism* broke out in the late 1960s.

After the Second World War, the United States used its hegemony in the capitalist world to impose a paper dollar on the capitalist countries as the currency for international settlements on a par with gold. The United States had a large gold stock (at the end of 1949, over 70 per cent of the gold stock of the capitalist world) and this made it possible to convert into gold the dollars presented by foreign banks. The United States made use of the special status of its currency in the capitalist world to pay in dollars its investment in other countries and its expenditures arising out of its aggressive policy. This ultimately led to the flooding of the capitalist world with paper dollars and a sharp drop in the gold security for them.

Then came the inflation of the dollar. A huge mass of depreciated dollars had accumulated beyond the boundaries of the United States. In these conditions, the major capitalist banks stopped converting paper dollars into gold. The

United States was forced officially to devalue the dollar and to increase the dollar price of gold. The dollar was devalued and the official price of gold was raised from \$35 to \$ 42.2 per ounce. Since then it has continued to grow. The unofficial price of gold on world markets, however, was ten times higher than this. In January 1981, the price of gold on the Zurich exchanges rose to 855 dollars an ounce, and in London to 838. This caused the holders of dollars to suffer heavy losses, but it was the mass of working people who had to shoulder the brunt of the monetary crisis because of the spiralling prices for consumer goods and services. The monetary crisis, for its part, is having a reciprocal effect on reproduction, depressing its growth rate, creating an atmosphere of uncertainty in the future, and disrupting international trade.

The *energy crisis* has produced great complications in the capitalist economy. Its root cause lies in the impossibility of balancing production purposefully and on an international scale, and using energy and other raw material resources for the benefit of the society as a whole. The energy crisis first broke out in the oil industry, then dominated by the seven major international monopolies, which were making huge profits on the low cost of oil extraction in the former colonial and semi-colonial countries. While the demand for oil continued to grow, they artificially created a shortage of oil products, so inflating the price of oil and obtaining fabulous profits.

Thus, in 1973 alone, the extraction of a ton of oil in the Middle East cost the monopolies \$ 0.75, while the selling price came to \$ 20-22. That year, the profits of the international oil cartel went up by 74 per cent and amounted to \$ 8.7 billion.

This tactic of monopoly capital is not a new one in the history of capitalism. The monopolies transfer their losses due to the rising oil prices on to the working people by raising the prices of petroleum products out of all proportion. But a totally new element here was that the oil-exporting countries, which had been liberated from colonial oppression, set up a kind of anti-imperialist cartel and, having nationalised the property of the oil monopolies, seek to slice their fabulous profits. The United States, Western Europe and Japan are now trying to restructure their energy industry so as to reduce their dependence on oil imports.

The haphazard and plunderous use of natural resources by capitalism, the pollution of the environment, above all of air and water, have jeopardised the renewal of the natural factors of economic development. Mankind was faced with the problem of an *ecological crisis*. Monopoly capital seeks to resolve this problem by capitalist methods. Attempts are being made to locate in the developing countries lines of production which are most hazardous to human health, and to convert environmental protection measures into a new business.

The interlacing of diverse crisis phenomena which hit the capitalist economy over the past several years testifies to its growing instability and also to the fact that qualitative changes indicative of a further deepening of the general crisis of capitalism have occurred in the economy of present-day capitalism.

Analysis of the crisis processes under capitalism shows that the economic and social structure of the capitalist society tends to run increasingly into contradiction with the requirements of the masses of the working people and also with the requirements of social progress and democratic political development.

4. GROWING UNEVENNESS OF THE DEVELOPMENT OF CAPITALISM AND INTERIMPERIALIST CONTRADICTIONS

Specifics of the Uneven Development of Capitalism Today

The uneven economic and political development of the capitalist countries is a key manifestation of the economic instability of present-day capitalism and a factor which tends to erode it. This unevenness is determined by the STR and the deepening of and change in the forms in which the contradictions of capitalism are manifested. The advances in science and technology tend to run on an uneven course from one country to another. That is why, while some capitalist countries have periods of growth and leap-frogging advance, others are in a state of more or less protracted stagnation. This explains the sudden forging ahead of individual countries and the just as rapid falling behind of others. In the past, such processes continued for a long time, but the balance of economic forces between the imperialist countries today tends to change rapidly, as pe-

riods of growth and decline follow each other in succession within one or two decades.

The growing monopolisation of production and the mounting intervention by the state in the economy of the leading capitalist countries are an important factor behind the growing unevenness of capitalist development. The state-monopoly structure of the economy makes it possible to concentrate enormous economic and financial resources for the purposes of increasing production and creating favourable conditions for the struggle for world markets. In the past, it took private capital decades to accumulate its strength before a rapid spurt forward, but now state-monopoly capitalism takes a relatively short time to achieve this aim through the use of the fruits of the STR.

In the course of the two decades between the First and the Second World wars, US imperialism built up its strength, while German and Japanese imperialism rapidly forged ahead.

From 1929 to 1948, the US share of the capitalist world's industrial output went up from 44 per cent to 55.8 per cent, that of Britain remained roughly the same, at 12 per cent; that of France declined from 6 per cent to 4.5 per cent, of West Germany (within the boundaries of the FRG) from 8 to 4.2 per cent, while Japan's came to only 1.3 per cent.

The early postwar years were the summit of US domination, but this was soon followed by a period in which its share of world capitalist production began to contract, while those of the FRG and Japan grew.

In 1981, the US share of the capitalist world's industrial output dropped to 36.8 per cent (that is, below the 1929 level). That of the FRG went up to 8.9 per cent, as compared to 4.2 per cent in 1948, while Japan's expanded to 9.4 per cent, as compared to 1.3 per cent in 1948. By the beginning of the 1970s, Japan ranked second in world capitalist industrial output. The share of Britain which ranked sixth dropped to 4.4 per cent in 1981.

Economic Rivalry among the Imperialist Powers

The constant changes in the balance of economic forces tend to increase the rivalry among the imperialist powers for external markets, sources of raw materials, and spheres of investment.

In the recent decades, the West European and the Japanese monopolies have been, and continue to be, the chief rivals of the US monopolies on the world market. As it was noted at the 26th CPSU Congress, "Japanese and West European monopolies compete ever more successfully with US capital, and in the US domestic market too."¹ Before the Second World War, the West European countries' export was roughly 150 per cent greater than that of the United States. After the war, the US monopolies, capitalising on the contraction of industrial output in the FRG and Japan, and also on the weakening of the monopolies of Britain and France, established dominant positions on the external markets. In 1947, the United States exported more goods than the West European countries.

In the subsequent period, the economic positions of the United States weakened, and its share of world capitalist export went down even more sharply than its share of world capitalist production. In the 1970s the US share in world export shrank by almost 20 per cent.

By the beginning of 1982, the US share of world capitalist export had dropped from 33 per cent in 1948 to 13 per cent, while that of the Common Market countries had gone up from 11 per cent to 34 per cent. In the late 1960s, the FRG caught up with the United States in the export of manufactures, in the early 1970s forged ahead to first place but lost it to the United States in the beginning of the 1980s. In this field, Japan has edged up on the United States.

The monopolies of Western Europe and Japan have managed to occupy important positions on the US domestic market. Since the second half of the 1950s, deliveries of manufactured goods from these countries have been the main item of US import.

The struggle for marketing outlets is closely interwoven with the struggle for spheres of capital investment. Despite the substantial growth in the recent period of capital export from Britain, France, the FRG, Japan and other countries, the United States is still ahead. In 1973, it accounted for over 46 per cent of foreign investments by all the developed capitalist countries.

In the recent period, the US share of world export has shrunk, while the volume of goods made by US subsidiaries

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 27.

abroad has sharply increased. Manufacturing subsidiaries abroad owned by US monopolies turn out three times the volume of manufactured goods exported from the United States. The export of capital from the United States has continued rapidly to grow. This takes the form both of enterprise capital and of loan capital, which is now exported mainly by the state for economic, political and military purposes.

The exacerbation of interimperialist rivalries is manifested by the sharp changes in the balance of forces in the monetary sphere.

*New Forms of Struggle for the Economic Redivision
of the World. Imperialist Integration*

Until the Second World War, the economic partition of the capitalist world was effected on the basis of international monopoly agreements, mainly cartels. The struggle for the economic redivision of the world was expressed in the changing terms of cartel agreements and new international monopoly deals.

The strengthening and development of the world socialist system have brought about a marked reduction in the sphere of the economic division of the world by the imperialists. The growing influence of socialism has also weakened the positions of the international monopolies in that part of the world where the capitalist system continues to exist. Anti-imperialist trade and economic alliances ranged against the cartels of the monopolists are being set up in some developing countries. The developing oil-exporting countries, banded together in the Organisation of the Petroleum Exporting Countries (OPEC) are engaged in a struggle against the plundering policies of the imperialist monopolies in the Middle East. In some of these countries, the state sector is used as a weapon of defence against imperialist expansion and for liberation from economic dependence.

In the recent period, the imperialist states have assigned an important role to multinational corporations in effecting their external economic expansion. The establishment and strengthening of the multinationals have largely resulted from their support by the state. They control entire industries in the countries they dominate and so intensify the contradictions of state-monopoly regulation.

A new form of state-monopoly association of capitalist countries—*imperialist integration*—began to develop in the second half of the 1950s. This trend made itself felt most distinctly in the establishment in 1957 of the European Economic Community (Common Market) by six West European countries: France, the FRG, Italy, Belgium, the Netherlands and Luxembourg. Britain, Denmark and Ireland joined the Common Market in January 1973. The European Free Trade Association (EFTA) was set up in January 1960 by seven countries: Britain, Sweden, Norway, Denmark, Austria, Switzerland and Portugal. These associations are not conventional customs unions like those of the past. Together with a lifting of customs tariffs in trade among their members, the Common Market countries have concerted their fiscal policies, introduced regulation of agricultural production, created conditions for the free movement of capital and manpower, and coordinated state economic programming, as well as foreign policy with respect to third countries.

The Common Market is an international state-monopoly association set up for the benefit of the financial oligarchy of its member-countries and designed to bolster its positions in the competition with world socialism and in face of the break-up of the colonial empires. For the purpose of maintaining their economic and political positions in the newly liberated countries, the Common Market countries have set up a system of association agreements with 54 developing countries, but the existing system of relations does not create equal conditions for them. Another aim of the association is to consolidate the positions of West European monopolies in the competition against US and Japanese monopolies.

The theorists of the Second International saw such associations of West European countries as a trend leading to the formation of a single worldwide trust and the emergence of "ultra-imperialism". Having analysed the operation of the law of the uneven development of capitalism and the sharpening of interimperialist contradictions, Lenin said that monopoly capital was able to unite on an international scale for the economic division of the world not only in the form of private international monopolies, but also in the form of agreements among several capitalist countries.

Historical experience shows that there is no ground for

the theory of "ultra-imperialism" or a worldwide trust. Economic integration under capitalism cannot eliminate competition and rivalry among the imperialist powers or invalidate the operation of the law of uneven development.

In place of the single centre which had existed up until the mid-1950s in the capitalist world, three centres took shape by the beginning of the 1970s: 1) the United States; 2) Western Europe, which, despite its internal contradictions, as a whole confronts the United States; and 3) Japan, which is trying to rally the capitalist countries in the Pacific and is also objectively ranged against the United States.

The economic and political rivalry between these three groups cannot be eliminated. Imperialism has not changed its spots, which means that it still yearns for territorial expansion. But the forces of peace relying on the system of socialist states have now tremendously grown in strength, and the possibility of averting another imperialist war has appeared for the first time in the history of mankind. Of tremendous importance here is the Soviet Union's consistent implementation of the Peace Programme worked out at the 24th Congress and elaborated at the 25th and 26th congresses of the CPSU. The USSR wages a tireless struggle to reduce the threat of nuclear war and to curb the arms race. The 26th CPSU Congress came forward with a number of new initiatives for strengthening international security. They include such ones as: confidence-building measures in the military sphere in Europe and the spread of these measures to the Far East; the formation of a zone of peace in the Persian Gulf, and then the World Ocean as a whole; SALT agreements; limitation of a new expansion and modernisation of submarine fleets; a moratorium (prohibition) on the deployment of new nuclear missile weapons; the creation of a new committee to study the vital need to avert a nuclear catastrophe and widely inform the world about this; a meeting of the Security Council at the highest level to seek measures to improve the international situation. "*Not war preparations that doom the peoples to a senseless squandering of their material and spiritual wealth, but consolidation of peace—that is the clue to the future,*" says the Report of the Central Committee to the 26th Congress of the CPSU.¹

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 40.

PART TWO
**SOCIALISM, THE FIRST PHASE OF THE
COMMUNIST MODE OF PRODUCTION**

Section 3

**THE FORMATION AND DEVELOPMENT OF THE
ECONOMY OF THE SOCIALIST SOCIETY**

Chapter nineteen

**THE ECONOMIC UNIFORMITIES UNDERLYING
THE FORMATION OF SOCIALISM AND THE STAGES
OF ITS DEVELOPMENT**

The Great October Socialist Revolution inaugurated the revolutionary transformation of the capitalist society into a socialist society. This transformation is being effected in the course of a special period of transition from capitalism to socialism, which ends with the building of socialism.

The most important socio-economic uniformities governing the emergence and formation of socialism were discovered by the founders of Marxism-Leninism and summed up most concisely in Marx's *Critique of the Gotha Programme* (Chapter Four), Lenin's *The State and Revolution* (Chapter Five), "The Immediate Tasks of the Soviet Government", "Economics and Politics in the Era of the Dictatorship of the Proletariat", "The Tax in Kind", "On Co-operation", and a number of other works. The experience in building the new society in the USSR and subsequently in the other countries of the world socialist system is summed up in the documents of the CPSU and other Communist and Workers' parties.

1. THE NECESSITY OF A PERIOD OF TRANSITION FROM
CAPITALISM TO SOCIALISM AND ITS SUBSTANCE

*The Objective Prerequisites and Substance
of the Socialist Revolution*

The objective necessity for transition from capitalism to socialism is rooted in the fact that, as the capitalist system develops, the material and social prerequisites for socialism, a more progressive social system, tend to mature. Among these prerequisites are: a high level of the productive

forces, the social character of large-scale machine production, and a revolutionary working class led by a Marxist-Leninist party. The conditions for the victory of a socialist revolution on a world scale took shape with the formation of the world capitalist economy, and this enabled Lenin to draw the conclusion—back at the beginning of the 20th century—that the world capitalist system had as a whole matured for transformation on socialist lines.

The working class, acting in alliance with all the other working people, is the social force which has a historical role to play in abolishing capitalist relations and creating a new, communist mode of production. The Communist Party is the vanguard of the working class, for it links up scientific socialism with the mass working-class movement, helps the proletariat to develop a socialist consciousness, to become aware of its great historical mission and the tasks facing it, together with the ways of fulfilling them, and inspires and organises the working people for revolutionary struggle.

The transition to socialism implies the creation of new social relations which differ fundamentally from capitalist relations and cannot be created within capitalism. That is why socialism, as a social system, cannot emerge within the entrails of capitalism. Lenin says: "The difference between a socialist revolution and a bourgeois revolution is that in the latter case there are ready-made forms of capitalist relationships; the Soviet power ... does not inherit such ready-made relationships."¹

Under imperialism, the operation of the law of the uneven economic and political development of capitalism markedly sharpens the contradictions of capitalism and creates the possibility of revolutionary situations in various countries arising at different times. So, as Lenin predicted, the socialist revolution does not triumph in all the leading capitalist countries simultaneously, but initially in one or several countries, in the weakest link of the imperialist system. In virtue of historically rooted conditions, the first socialist state emerged in Russia.

The basic economic content of the socialist revolution is abolition of capitalist and assertion of socialist relations of pro-

¹ V. I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B.)", *Collected Works*, Vol. 27, p. 90.

duction, which are based on social property in the means of production and labour free from exploitation. This helps to resolve the conflict existing under capitalism between social production and private capitalist appropriation of the products of labour.

The socialist restructuring of the society in Soviet Russia began with the revolutionary establishment of the dictatorship of the proletariat. This is a new type of state operating as the main weapon in the defence of revolutionary gains and socialist construction. The working class, in alliance with the peasantry and other strata of the working people, makes use of the state it creates for completely eliminating the economic, political and ideological power of the bourgeoisie and for fulfilling the main task, that of building a new society.

Right-wing revisionists claim that socialism can emerge within the entrails of capitalism. "Left" revisionists are of the opinion that a socialist revolution can be carried out only with the use of arms. They reject the peaceful way of development for the socialist revolution, and replace Marxism-Leninism with a voluntarist "theory of force", a militaristic interpretation of the historical transition to socialism. In actual fact, as the historical experience of the countries within the world socialist system shows, socialism can be established only in a revolutionary way. The political power won by the working class can be effected in different ways, including peaceful ways, depending on the balance of forces between the proletariat and the bourgeoisie, which are in contest with each other. A country's concrete historical conditions, the political experience of the working class and the other revolutionary forces, and the acerbity of the class struggle determine the form of the proletarian dictatorship. In the USSR it was the Soviet power, and in other socialist countries, the power of people's democracy.

Necessity of a Period of Transition from Capitalism to Socialism

Feudalism and capitalism have a similar basis—private property—which is why the new, capitalist mode of production tended to emerge and develop spontaneously and to evolve already within the feudal society. By contrast, the capitalist and the socialist economy have a diametrically

opposite basis: the former rests on private property in the means of production, and the latter on social property in the means of production; the capitalist system is a system involving the exploitation of man by man, whereas socialism has released man from exploitation for good. That is why the socialist economic order emerges and is established together with the abolition of the capitalist relations of production.

The capitalist economy cannot be eliminated and the socialist economy created overnight, as the proletariat wins political power. There is a need to expropriate the big bourgeoisie, to convert the means of production into the property of all the working people, and to organise work at the enterprises on new, socialist principles. This endeavour—extremely difficult in itself—is made more difficult by the fact that the working class does not yet have any experience in the administration and management of the economy. The socialist transformation of the petty commodity peasant farms, which are numerous in almost all the capitalist states, and the development of the productive forces to the level required for boosting the well-being and culture of the working people call for a long period. As the new society is being built, there is a need to overcome the resistance of the overthrown exploiter classes.

A special historical period, a period of the revolutionary transformation of the capitalist society into a socialist society, is required for the fulfilment of these tasks. It begins with the winning of power by the proletariat and the establishment of its dictatorship, and ends with the full triumph of socialism. *The economic substance of this period consists in the elimination of the capitalist basis and the creation of a new, socialist basis, and of a new, socialist economic system.* Lenin says that socialism “cannot be achieved at one stroke”. The transition from capitalism to socialism requires a fairly long period “because radical changes in all spheres of life need time, and because the enormous force of habit of running things in a petty-bourgeois and bourgeois way can only be overcome by a long and stubborn struggle.”¹

The duration of the transition period for countries entering upon the socialist road of development is determined

¹ V. I. Lenin, “Greetings to the Hungarian Workers”, *Collected Works*, Vol. 29, p. 388.

by the concrete historical conditions, including the level of their productive forces, the degree to which the various types of property are developed, the balance of class forces, historical and national traditions, the extent to which the old ideology is entrenched in the minds of the population, etc. The external situation also has an important role to play. In contemporary conditions, the existence of the world socialist system, the steady growth of its strength and might, and the consolidation of cooperation and mutual assistance among the socialist states are of crucial importance in reducing the duration of the transition period.

Basic Uniformities of the Transition Period

All the countries taking the road of socialist construction are governed by common uniformities. This is due, first, to the common content of the proletarian revolution, second, to the fact that the countries entering upon the transition period have the same goal in their revolutionary transformations, which is the building of socialism, and third, in all the countries the working class, led by the Marxist-Leninist party, is the leading social force of the revolutionary transformations. Lenin says that "the unity of the international tactics of the communist working-class movement in all countries demands not the elimination of variety or the suppression of national distinctions (which is a pipe dream at present), but an application of the *fundamental* principles of communism (Soviet power] and the dictatorship of the proletariat), which will *correctly modify* these principles in certain *particulars*, correctly adapt and apply them to national and national-state distinctions".¹

The following are among the basic uniformities for all countries in the revolutionary transformation of the capitalist society into a socialist society:

leadership of the working masses by the working class, whose nucleus is the Marxist-Leninist party, in carrying out the proletarian revolution in this or that form and the establishment of a proletarian dictatorship in this or that form;

¹ V. I. Lenin, "Left-Wing Communism—An Infantile Disorder", *Collected Works*, Vol. 31, p. 92.

alliance of the working class with the bulk of the peasantry and other strata of the working people;

abolition of capitalist property and establishment of social property in the basic means of production;

gradual socialist transformation of agriculture;

balanced development of the economy designed to build socialism and communism and raise the working people's living standards;

a socialist revolution in ideology and culture and the development of a numerous intelligentsia, which is loyal to the working class, to the working people, to the cause of socialism;

elimination of national oppression and establishment of equality and fraternal friendship among nations;

defence of the gains of socialism against encroachments by external and internal enemies;

solidarity of the working class of the given country with the working class of other countries, that is, proletarian internationalism.

Life has borne out Lenin's prediction concerning the diversity of forms and methods of socialist construction in various countries on the basis of common uniformities in the formation and development of socialism. In each country entering upon the socialist road, the transition to socialism is effected in the light of national specifics and level of development. "All nations," Lenin noted, "will arrive at socialism—this is inevitable, but all will do so in not exactly the same way, each will contribute something of its own to some form of democracy, to some variety of the dictatorship of the proletariat, to the varying rate of socialist transformations in the different aspects of social life."¹

But life shows that the general basic uniformities of the socialist revolution and socialist construction continue to operate and remain in full force.

As for the right and "left" revisionists, they deny that general uniformities of socialist construction apply to all countries, although these were discovered by the classics of scientific communism and have been tested in the practice of socialist construction in the USSR and other socialist countries. Experience shows that an exaggeration of the

¹ V. I. Lenin, "A Caricature of Marxism and Imperialist Economism", *Collected Works*, Vol. 23, pp. 69-70.

specifics in the development of individual countries on the way to socialism provides the theoretical basis for nationalism.

*Importance of Lenin's Work
"Economics and Politics
in the Era of the Dictatorship of the Proletariat"*

The article entitled "Economics and Politics in the Era of the Dictatorship of the Proletariat" was written by Lenin to mark the second anniversary of the Soviet power, that is, in a period when the country was passing through the ordeal of the Civil War and the foreign intervention. Although the article has remained unfinished, the problems Lenin formulated and analysed in it amount to a major contribution to the theory of the socialist revolution and socialist construction.

It analyses the question—one which is crucial for the theory and practice of socialist construction—concerning the objective necessity and substance of the period of transition from capitalism to socialism as a whole historical era of the revolutionary transformation of society. At the start of this era, the economy of Russia was "the struggle of labour, united on communist principles on the scale of a vast state and taking its first steps—the struggle against petty commodity production and against the capitalism which still persists and against that which is newly arising on the basis of petty commodity production".¹

Summing up the experience of the first two years of socialist construction, Lenin defined the basic types of social economy, the corresponding chief class forces, the forms of class struggle, and the consequent policy of the dictatorship of the proletariat in the transition period, all of which are common for all countries. The proletariat, the dominant class, concentrates state power in its hands, controls the already socialised means of production and puts down the resistance of the exploiter classes.

Lenin's elaboration of the question concerning the correlation of economics and politics, concerning the role of the state in socialist construction, was further developed

¹ V. I. Lenin, "Economics and Politics in the Era of the Dictatorship of the Proletariat", *Collected Works*, Vol. 30, Progress Publishers, Moscow, 1965, p. 108.

in a number of his subsequent works, and his conclusions are still very much relevant today. The economic strategy of the CPSU proceeds from the immediate economic requirements of a developed socialist society. The Communist parties of countries taking the socialist road also rely on Lenin's ideas when formulating their economic policy.

Lenin's critique of the leaders of the Second International is also highly meaningful today, for those leaders "either avoid recognising any necessity for a whole historical period of transition from capitalism to communism or regard it as their duty to concoct schemes for reconciling the two contending forces instead of leading the struggle of one of these forces".¹ Lenin's work "Economics and Politics in the Era of the Dictatorship of the Proletariat" helps to expose the flimsy views of the "left" revisionists, who substitute economic adventurism for the scientific guidance of socialist construction.

2. BASIC ECONOMIC SECTORS IN THE PERIOD OF TRANSITION FROM CAPITALISM TO SOCIALISM

The economy of each country in the period of transition from capitalism to socialism is characterised by the existence of many sectors, that is, the existence of several different types of social economy with their own relations of production and specific economic laws. The number of sectors and their weight in the economy may differ depending on the concrete historical conditions in each country. In the transition period in the USSR there were five sectors: the socialist sector, the petty commodity sector, the private capitalist sector, the state capitalist sector and the patriarchal sector.

Emergence of the Socialist Sector and Its Leading Role in the Economy

The emergence and growth of the socialist sector and its eventual transformation into the one and only dominant economic sector result from the consistent socialisation of production on socialist lines. This consists in the revolu-

¹ V. I. Lenin, "Economics and Politics in the Era of the Dictatorship of the Proletariat", *Collected Works*, Vol. 30, p. 108.

tionary transformation of capitalist property and the voluntary conversion of the private property of small producers into socialist social property, and in the organisation of a new, socialist type of social production.

The conversion of the means of production owned by the capitalist monopolies or individual capitalists into socialist property is effected mainly through socialist nationalisation: the revolutionary withdrawal of the means of production from the exploiter classes and their conversion into the property of all the working people as personified by the proletarian state.

Socialist nationalisation differs radically from capitalist nationalisation, which converts private capitalist property into state capitalist property for the benefit of the whole class of capitalists, without abolishing the capitalist nature of the property and, consequently, without abolishing the capitalist relations of production.

Socialist nationalisation does away with the basis of the capitalist exploitation of the working people. The conversion of the means of production into the people's property creates the necessary conditions for the shaping of new, socialist relations of production, which are free from exploitation, and helps to gear the economic activity of enterprises to the interests of the society as a whole. In virtue of this, the socialist nationalisation of the basic means of production and the banks is one of the main planks in the programme of Marxist-Leninist parties.

The dictatorship of the proletariat carries out nationalisation mainly in the form of total and uncompensated confiscation of property of the big bourgeoisie. In some conditions, nationalisation may also involve a partial redemption of the capitalist-owned enterprises and banks. In this context Lenin says: "Marx was profoundly right when he taught the workers the importance of preserving the organisation of large-scale production, precisely for the purpose of facilitating the transition to socialism. Marx taught that... the idea was conceivable of *paying the capitalists well*, of buying them off, *if* the circumstances were such as to compel the capitalists to submit peacefully and to come over to socialism in a cultured and organised fashion, provided they were paid."¹

¹ V. I. Lenin, "Left-Wing Childishness and the Petty-Bourgeois Mentality", *Collected Works*, Vol. 27, p. 345.

In the USSR, nationalisation was effected in the form of coercive and total confiscation of the basic means of production and the banks belonging to big capital. This was made imperative by the bourgeoisie's fierce struggle against the Soviet power, which began with counter-revolutionary sabotage and developed into a civil war and foreign military intervention.

The Soviet power also confiscated the landlords' property in the means of production and nationalised all the land, which became the property of the whole people. A part of the nationalised farm land was used to set up state enterprises (state farms), and a large part of it was made available for use by the peasants free of charge. The nationalisation of land is of tremendous importance because it creates the best condition for a gradual transition to socialist forms of production in agriculture.

In other socialist countries, the nationalisation of enterprises and banks took a longer time. The main specific feature of the process was that socialist nationalisation was preceded by democratic transformations in the economy carried out in a period when the people's democratic system exercised the functions of the revolutionary-democratic dictatorship of the working class and the peasantry.

The proletarian revolution was carried out in the people's democracies after socialism had triumphed in the USSR, and as the international working-class movement and the alliance of the proletariat with all the labouring masses was being strengthened and the positions of capitalism weakened. This made it possible to nationalise the enterprises and banks not only through uncompensated confiscation but also through their partial redemption from the bourgeoisie.

Despite its tremendous importance, socialist nationalisation of the crucial means of production is only the beginning of the socialist transformation of the economy. Lenin stressed that once the capitalist enterprises have been confiscated it is highly important to socialise production in fact, to ensure nationwide accounting and control of the production and distribution of products, and to master the art and science of management.

The socialist sector is also enlarged through the transformation, on a voluntary basis, of the small-scale private property of the peasants and artisans into socialist cooperative property.

The socialist sector has the leading role to play in the economy of the transition period. This is due above all to the fact that it is based on social property in the means of production and involves relations of comradesly cooperation and mutual assistance among workers who are free from exploitation. The socialist sector has key positions in the economy, involving above all the large-scale enterprises with a higher technical and economic level than the enterprises in the private capitalist sector, and especially in the petty commodity sector.

In 1924, the socialist sector in the USSR accounted for 76.3 per cent of gross industrial output, for 47.3 per cent of retail trade, and for 1.5 per cent of gross agricultural output. In 1950, the figures for industrial output in the European people's democracies were: Bulgaria, 97.5 per cent, Hungary, 91.9 per cent, the GDR, 70.4 per cent, Poland, 92.1 per cent, Romania, 92.4 per cent, and Czechoslovakia, 96.1 per cent.

Non-Socialist Sectors

The *petty commodity sector* is an important one in the economy of the transition period. It consists of small peasant farms and handicraft workshops. It is based on private property in the means of production, but its origins differ from those of the property of the big bourgeoisie: it is the producers' own accumulated personal labour. The proletariat's policy takes full account of the labour origins of the property of the petty commodity producers and of the fact that the toiling peasants and handicraftsmen are its allies in the fight against the bourgeoisie.

However, petty commodity production continues to provide a basis for the origination of capitalism, for even in the transition period there is a continued differentiation of the peasants into kulaks (prosperous peasants farming on capitalist lines) and the poor. The proletarian state seeks to counteract the stratification of the peasantry, provides material assistance to the toiling peasantry and curbs the kulaks, with the result that the property status of the countryside is averaged out.

In prerevolutionary Russia, poor households came to 65 per cent of total peasant households, middle peasant households, to 20 per cent, and kulak households, to 15 per cent. In 1929, by the beginning of the mass cooperation drive in

the USSR, poor households came to 35 per cent, middle households to 60 per cent, and kulak households to about 5 per cent. In 1923-1924, the petty commodity sector in the USSR yielded about 51 per cent of gross output.

The *private capitalist sector* includes enterprises owned by small and middle capitalists in industry and trade, and the kulak farms in the countryside. It continues to exist because the proletarian state is unable, all at once, to nationalise all the enterprises, especially the small fragmented ones. It makes use of its economic, administrative and legal instruments to regulate the size of private capital and the lines of its activity.

In the economy of the transition period, the share of the private capitalist sector is relatively small.

In 1923-1924, the share of the private capitalist sector in the USSR's gross output came to 8.9 per cent. At the beginning of the transition period, private capital had a larger share in agriculture and in retail trade compared with the other economic sectors.

The *state capitalist sector* has a part to play in the economy of the transition period in some socialist countries. In this period, state capitalism differs markedly from state capitalism under the power of the bourgeoisie. It consists of capitalists who have entered into contractual relations with the socialist state and who have undertaken to work in this or that sphere of the national economy on the terms and within the limits laid down by the contract.

The importance and forms of state capitalism in the countries building socialism depend on the concrete historical conditions of each country.

In 1923-1924, the share of the state capitalist sector (concessions and lease) in the USSR's gross industrial output came to just over 3 per cent.

In some socialist countries (like the GDR), mixed state capitalist enterprises were set up in the transition period.

In countries where partial small-scale subsistence farming had existed before the socialist revolution, a *patriarchal sector* exists at the beginning of the transition period, and this includes peasant farms not connected with the market and engaged in subsistence farming on the basis of old-time techniques.

In 1923-1924, peasant subsistence farms in the USSR yielded 0.5 per cent of gross output. In the economy of the

Mongolian People's Republic, which built socialism without going through the capitalist stage, the patriarchal sector quantitatively prevailed in the early period. This sector also had a large share in the economy of the Socialist Republic of Vietnam at the beginning of the transition period.

The socialist state helps to develop the productive forces of the peasant subsistence farms and to switch them to the socialist road by means of various forms of cooperation. The experience gained in this sphere in the USSR and other socialist countries is of great interest to the countries who liberated themselves from the colonial oppression.

Contradictions of the Transition Period

The existence of different socio-economic sectors in the transition period does not mean that each of these develops in isolation from the others. There is mutual exchange of economic activity among all the sectors, with the leading and progressive socialist sector exerting the crucial influence on the whole of the economy.

The main classes of the society are: the *working class*, once an exploited and oppressed class, which becomes the ruling class exercising leadership of socialist construction, and the *working peasantry*, the chief ally of the working class. The *capitalist class* is still there: the capitalists have experience in managing large-scale economic enterprises, they have ties with foreign capital, the means of production and money at their disposal, and some of the bourgeois specialists working for them.

The multi-sectoral nature of the economy and the presence of different social classes tend to produce contradictions and class struggle. The main contradiction of the economy of the transition period is that between burgeoning socialism and capitalism, which is leaving the historical stage. This antagonistic contradiction is resolved in acute struggle to decide "who beats whom". Lenin says: "This transition period has to be a period of struggle between dying capitalism and nascent communism—or, in other words, between capitalism which has been defeated but not destroyed and communism which has been born but is still very feeble."¹

¹ V. I. Lenin, "Economics and Politics in the Era of the Dictatorship of the Proletariat", *Collected Works*, Vol. 30, Progress Publishers, Moscow, 1965, p. 107.

The contradiction between the socialist and the petty commodity sectors is an essential contradiction of the transition period economy. In the struggle against the bourgeoisie, the proletarian state seeks to win over the peasants, for they are working people. At the same time, it consistently curbs the private property and anarchic tendencies which are characteristic of the peasantry.

The contradictions of the multi-sectoral economy are resolved through the economic expulsion and elimination of the private capitalist sector and the voluntary association of petty private producers in producer cooperatives on socialist principles.

Economic Laws in the Transition Period

The objective economic laws expressive of the substance of the socialist relations of production begin to operate in the transition period. These are the basic economic law, the law of balanced and proportionate development of the economy, the law of distribution according to work, the law of socialist accumulation, and others. These laws, operating mainly within the framework of the leading socialist sector, exert a crucial influence on the development of the economy as a whole.

Because the economic laws of socialism in the transition period operate within the framework of the antagonistic contradiction between socialism and capitalism, the state has to use them in an atmosphere of struggle against the bourgeoisie. The socialist state directs the economy and plans the development of the socialised sector. But because the socialist socialised sector does not cover the whole of the country's economy, the state does not exercise direct regulation of production in the private capitalist and petty commodity sectors.

The private capitalist sector is ruled by the economic laws of capitalism (the law of surplus value, the law of capitalist accumulation, the law of competition and anarchy of production). But their operation is limited by the leading role of the socialist sector and the economic laws organic to it. The sphere in which these economic laws of capitalism operate is steadily narrowed down, and they are abolished altogether with the establishment of the undivided sway of the socialist relations of production.

Commodity-money relations exist in the transition period. Their existence, together with the laws of value, determines the existence of related economic forms and categories: money, price, trade, credit, and profit. But the substance and role of these have changed. In the hands of the socialist state, value instruments are important in regulating petty commodity production and curbing, expelling and subsequently eliminating the capitalist elements altogether.

In content, the economic laws of socialism are laws governing relations between producers who are free from exploitation and do not have antagonistic interests. They differ radically from the laws of the capitalist mode of production, which are laws governing the exploitation of wage labour, and the antagonistic relations between the bourgeoisie and the working class.

A key feature of socialism is that the social property in the means of production, the absence of antagonistic classes, the integration of production on the scale of the country as a whole, and the working people's stake in economic advance make the balanced use of economic laws for the benefit of the whole of society imperative and possible.

3. TRANSFORMATION OF THE MULTI-SECTORAL ECONOMY INTO A SOCIALIST ECONOMY

The Substance of the Economic Policy of the Socialist State

The transition to the new social system takes place as a result of tremendous efforts by the socialist state to organise the economy. The economic policy pursued by the state of the proletarian dictatorship in the transition period is determined by the fact that the state controls the commanding heights of the economy, holds the crucial means of production, takes into account the multi-sectoral nature of the economy, and relies on the knowledge and use of the objective economic laws with the ultimate aim of bringing about the triumph of the socialist sector.

The scientific principles of this policy were formulated by Lenin in the spring of 1918. However, in the exceptionally difficult situation of the Civil War and the foreign intervention, and the consequent economic dislocation, it

proved to be impossible fully to implement that policy. The Soviet power was forced temporarily to pursue a policy of "war communism". The conditions for the consistent implementation of the policy for socialist construction took shape only after the end of the Civil War and the rout of the foreign armed military intervention. In contrast to the policy of "war communism", the economic policy, Lenin formulated with the transition to peaceful economic construction and introduced in 1921, was designated as the New Economic Policy (NEP).

The NEP proceeds from the fact that the commanding heights of the economy are controlled by the state, it implies the balanced regulation of the socialist sector of the economy directly by society, active influence by the state on market ties between socialist industry and the peasant petty commodity economy, the use of state capitalism for the benefits of socialism, temporary acceptance and definite limitation of private capital, a persevering struggle between the socialist and the capitalist elements, and the triumph of socialism over capitalism.

With the introduction of the NEP, food requisitioning in agriculture gave way to a tax in kind, with the peasants being entitled to sell their surplus produce on the market. This gave the peasants material incentives for developing agricultural production. The rise of agriculture, for its part, helped to rehabilitate and develop industry which had been ruined by the Civil War and the intervention. The state was able to regulate trade, the circulation of money and operations by private capital because it controlled the commanding heights of the economy.

The transition to peaceful construction was attended with a restructuring of economic administration and management on the basis of the principles formulated by Lenin even before the introduction of "war communism", in the spring of 1918. The state planning apparatus was strengthened. Extensive use was made of economic calculus (*khozraschiot*),¹ material incentives for work, credit, and profit.

Lenin emphasised that the NEP, which was based on the economic alliance of the working class and the toiling peasantry, was of tremendous international importance: "This task which we are working on now, for the time being on

■ See Chapter Twenty-Seven.

our own, seems to be a purely Russian one, but in reality it is a task which all socialists will face."¹

The Soviet Union's existence helped to avert a destructive civil war and direct armed intervention by international imperialism in the countries which took the socialist road. This helped them to avoid the consequent hardships and privations and to get down, upon the establishment of the socialist state, to peaceful socialist construction, using the rich experience of the USSR and taking account of the specific in each country.

The Importance of Lenin's Work "The Tax in Kind"

Lenin set forth the substance of the economic policy of the proletarian dictatorship in a number of articles, reports and speeches. Of especial importance in this respect is his pamphlet "The Tax in Kind", which he wrote in April 1921. It contains a theoretical substantiation of the decisions of the Party's Tenth Congress, which marked the transition from the "war communism", forced upon the country by the Civil War and the foreign intervention, to the New Economic Policy.

Lenin says that at the time political conditions existed in Russia for a transition to socialism in the form of the proletarian dictatorship, but what it lacked was the material and production conditions of large-scale machine production based on the latest techniques, and its balanced statewide organisation. The country had been ruined by the war, and small-scale peasant production prevailed in the economy. The peasants were given an incentive to boost agriculture with the substitution of a tax in kind for the food requisitioning, with the consequent permission of private trade, and this helped to rehabilitate industry. At the same time, the alliance of the working class and the peasantry, the basis of the proletarian dictatorship, was strengthened.

Capitalism was a natural product of small-scale commodity production, and its development was also promoted by private enterprise in industry, which had been allowed for the purpose of helping to supply the peasantry with manufac-

¹ V. I. Lenin, "Ninth All-Russia Congress of Soviets, December 23-28, 1921", *Collected Works*, Vol. 33, Progress Publishers, Moscow, 1977, p. 177.

tured goods. In order to control capitalist production, the proletarian state directed its development along the line of state capitalism.

The implementation of Lenin's plan led to the rapid rehabilitation of the USSR's economy. The capitalist sector was subsequently wound up, while the small-scale peasant economy was transformed into large-scale socialist production through the cooperation of the peasants.

The theoretical and practical importance of Lenin's "The Tax in Kind" lies in the fact that it shows the need for pursuing in the multi-sectoral economy of the transition period an economic policy aimed to fulfil the chief strategic task, that of building socialism through the joint efforts of the working class and the peasantry.

Lenin's critique of the distortions of the substance of the New Economic Policy likewise holds good today. Bourgeois economists and reformists now seek to present the NEP as a way for integrating socialism with capitalism, as an economic policy of transition to a "mixed economy", in which the elements of planning are allegedly subordinated to the market methods of the capitalist economy. In actual fact, the NEP was designed for the total elimination of capitalist elements, for the triumph of socialism, and the establishment of the undivided domination of the socialist relations of production in the country.

Socialist Industrialisation

In countries where there are highly developed productive forces, the task after the triumph of the socialist revolution is to gear large-scale machine production to the interests of society as a whole, to spread it to every segment of the economy and the country's economic regions, and to modify the structure of production in conformity with its new purpose. In countries where large-scale industry is embryonic, the task after the triumph of the socialist revolution is to build up such an industry. These tasks are fulfilled in the process of socialist industrialisation.

Socialist industrialisation means growth of large-scale machine industry which helps to ensure its leading role in the economy, industrial development in other sectors of the economy, above all, agriculture, and the triumph of the socialist forms of production. The build-up of a highly developed industry,

heavy industry in the first place, consolidates the positions of socialism in the struggle against capitalism at home and in the international arena.

In contrast to capitalist industrialisation, which helps to entrench and extend the capitalist relations of production and exacerbate the antagonistic contradictions of capitalism, socialist industrialisation provides the necessary material basis for the steady raising of the people's well-being and for eliminating unemployment.

Socialist industrialisation is not haphazard, but *balanced*. Lenin's ideas of converting the USSR, once a technically and economically backward country, into an advanced industrial power, were embodied in the first comprehensive state plan for economic development, which was designated as the GOELRO plan, an acronym which stands for "State Plan for the Electrification of Russia". The basic provisions of the plan were developed in the long-term five-year plans, above all in the first one (1929-1934), which has gone down in the history of the USSR as an impressive programme of the country's socialist industrialisation, as the plan for laying the foundations of socialism.

Industrialisation in the capitalist countries involved the use of resources obtained through the exploitation of the peoples at home and abroad. Socialist industrialisation is effected mainly with the use of the *internal resources* of the socialist state. The countries now building socialism are also able to use various forms of external loans for their industrialisation. That was a source closed to the USSR, because the imperialist powers either refused to grant it any loans, or offered them on harsh terms.

In the socialist countries, industrialisation proceeds at a high rate. It took Britain, Germany and the United States decades to build up their large-scale machine production, whereas the USSR did the same thing in roughly 13 years—from 1929 to 1941. The need for especially rapid industrialisation was also due to the fact that the Soviet Union was building socialism in a capitalist encirclement, with the imperialist powers, possessing a powerful industrial base, repeatedly trying to destroy the socialist system by force of arms.

The Soviet Union's experience and its technical and economic assistance have created favourable conditions for industrialisation in other countries taking the socialist road.

The international socialist division of labour relieves the socialist countries of the need to develop all the industries and allows them to concentrate their efforts on those for which they have the most favourable natural and socio-historical prerequisites.

The Socialist Transformation of Agriculture

In agriculture, the socialist revolution finds two different forms of economic activity: one based on the private property of the big landowners and capitalist leaseholders, and small-scale, fragmented peasant farming. Accordingly, the socialist transformation of agriculture is effected along two lines: the organisation of state agricultural enterprises on the basis of the confiscated large landed estates, and the voluntary cooperation of peasant households.

In the USSR, large-scale *state (Soviet) farms* were set up on the basis of the former landed estates just after the triumph of the revolution. But because of the extremely limited resources available to the state and the existence of a tremendous mass of small peasant farms, this line of reconstruction in agriculture was not markedly developed at the time.

The socialist transformation of agriculture in the USSR and in most other countries took place mainly through *cooperation*. The replacement of the petty commodity economy with large-scale highly productive mechanised farming helped to overcome the lag in agriculture, to boost its output and to create a sound basis for raising the well-being and cultural standards of the peasantry. One should also reckon with the fact that petty commodity production creates the threat of a growth of capitalist elements, because it constantly generates a bourgeoisie in the process of its differentiation.

The question of the concrete ways of transforming the petty commodity agriculture on socialist lines was analysed comprehensively and in great depth by Lenin, who emphasised that under the state of proletarian dictatorship, the alliance of the working class and the peasantry, and the domination of social property in the means of production, the basic socio-economic form of transformation of the small-scale private property agriculture into a socialist agriculture is *production cooperation*, that is, *the socialisation of private property in the means of production based on*

personal labour through a gradual and voluntary association of peasants in producer cooperatives. Lenin says that with social property in the means of production and the class victory of the proletariat over the bourgeoisie, "the system of civilised co-operators is the system of socialism".¹

Lenin's plan for the cooperation of agriculture envisaged a gradual advance of the peasantry from the simplest forms of cooperation, ranging from consumer cooperation, cooperation in supply, marketing, credit, processing of farm produce, joint fulfilment of some production operations, etc., to more complex and permanent forms of cooperation in production. Voluntary association was one of the basic propositions of the cooperative plan. Lenin also emphasised that if a socialist system is to be set up in the countryside, the socialist state has to supply the agricultural cooperatives with machinery on easy terms, and with credits and other forms of financial assistance.

At the beginning of the transition period, there were three forms of collective farms in the USSR: associations for the joint cultivation of land, agricultural communes, and agricultural artels (cooperatives). The *agricultural cooperative*, in which the basic means of production are socialised and the interests of the common farm are harmonised with the personal interests of the peasants, was brought to the fore as the chief form of cooperation in the practice of socialist construction.

In the USSR, agriculture was cooperated in a relatively short historical period. On July 1, 1929, 3.9 per cent of peasant households were involved in agricultural cooperatives, on July 1, 1931, 52.7 per cent, and on July 1, 1937, 93 per cent.

The success of the socialist transformation of the countryside was promoted by the nationalisation of land. The mechanisation of agricultural production on an ever growing scale also had an important role to play. The state farms exemplified the advantages of large-scale socialist farming and provided support for the peasants' newly established cooperative farms.

The advance in the Soviet countryside to large-scale socialist farming signified a *great revolution in economic relations and in peasantry's whole way of life.* Collectivisation rid

¹ V. I. Lenin, "On Co-operation", *Collected Works*, Vol. 33, p. 471.

the countryside of exploitation by the kulaks, of the class stratification, ruin and poverty for good. The reconstruction of the countryside on the basis of Lenin's cooperative plan led to the accelerated growth of the productive forces in agriculture, which is a necessary condition for the balanced development of the economy as a whole. It was impossible to build a socialist society in the USSR without collectivising agriculture.

Some of the specific features in the cooperation of peasant farms spring from the concrete historical and socio-economic conditions in which a country building socialism finds itself. In some countries, cooperation proceeded while the peasants held the land as their private property. There, the land was a part of the share contributions made by the cooperative members, and for a definite period their incomes were determined not only according to the quantity and quality of their labour inputs, but also to the size of their land contribution.

The Marxist theory and the experience of the socialist countries show how dangerous it is for socialism artificially to step up the pace of cooperation.

4. THE TRIUMPH OF SOCIALISM

The transition period ends with the building of socialism, the first phase of the communist formation. This means that the material and technical basis of socialism has been created in the country, that the multi-sectoral character of the economy has been overcome, and that the socialist relations of production are fully established and the exploiter classes eliminated in town and country. This leads to the establishment of a *society of existing socialism*.

The Material and Technical Basis of Socialism

In the process of socialist industrialisation and the socialist transformation of agriculture there is a restructuring of all the sectors of the national economy on the basis of large-scale machine production. *The material and technical basis of socialism consists of socialised large-scale machine production in every sector of the national economy based on*

electrification and the extensive use of the latest scientific and technical achievements, organised under a plan on the scale of the whole country for the purpose of providing ever fuller satisfaction of the working people's material and cultural requirements.

Lenin says: "A large-scale machine industry capable of reorganising agriculture is the only material basis that is possible for socialism. But we cannot confine ourselves to this general thesis. It must be made more concrete. Large-scale industry based on the latest achievements of technology and capable of reorganising agriculture implies the electrification of the whole country."¹

Under socialism, machine production is developed on the basis of a nationwide economic plan in a comprehensive manner and on the scale of social production as a whole. In the USSR, primary importance attached to the development of a heavy industry based on the latest scientific and technical achievements, concentration of production at the large and giant enterprises, elimination of the unevenness of its technical development, and the location of production across the country in such a way as to do away with the economic backwardness of the non-Russian areas inherited from capitalism.

By the start of the socialist construction, industry in the economically developed centres of Russia was, in the main, equipped with machinery involving the use of steam. This suggested the idea that industry, transport, and other sectors of the national economy should be rehabilitated on a new technical basis, on the basis of electrification.

In the course of a *cultural revolution*, engineers, technicians and high-skilled workers were trained to carry on large-scale machine production. In the USSR, illiteracy was wiped out within the lifetime of a single generation. The working people became active participants in the country's cultural life and in the creation of spiritual values.

In the USSR, the material and technical basis of socialism was built as a result of the successful fulfilment of the GOELRO plan and the first two five-year plans for economic development. In 1937 (the last year of the second five-year-plan period) the volume of industrial production in the

¹ V. I. Lenin, "Third Congress of the Communist International, June 22-July 12, 1921", *Collected Works*, Vol. 32, p. 459.

country was eight times higher than the 1913 level, with over 80 per cent of the industrial output coming from new or entirely remodelled enterprises. The total number of industrial and office workers in the USSR's economy increased by 150 per cent. Together with the development of the technical facilities for the economy, major successes were achieved in raising the working people's cultural and technical standards. By the end of the second five-year period, labour productivity in industry was 220 per cent upon 1913.

Other socialist countries built the material and technical basis of socialism with an eye to the international socialist division of labour and with all-round economic cooperation and mutual assistance. These countries develop their large-scale machine production on the basis of modern scientific and technical achievements, and this subsequently facilitates the building of the material and technical basis of communism.

Undivided Domination of the Socialist Relations of Production

As a result of the transition period, the multi-sectoral character of the economy is eliminated and *social, socialist property is established in all the branches of the economy*. In industry, socialist property in the means of production is established mainly in the form of the whole people's (state) property, and, in agriculture, in the form of the property of the whole people and collective farm and cooperative property. Social production is geared to the ever fuller satisfaction of the requirements of all the members of society.

In the USSR, the socialist economic system was established as the dominant one in the mid-1930s. In 1975, the socialist sector of the economy accounted for 99.9 per cent of fixed assets (means of labour) in Bulgaria, 99.1 per cent in Hungary, 99.0 per cent in the GDR, 99.9 per cent in Mongolia, 82.4 per cent in Poland, 99.2 per cent in Romania, and 98.8 per cent in Czechoslovakia.

The establishment of the socialist economic system leads to the elimination of the exploiter classes and produces a *new class structure of the society*. The socialist society consists

of two friendly classes—workers and peasants—and the intelligentsia, which is closely allied with them.

Socialist construction in the USSR changed the social make-up of the society. It eliminated the social basis for the existence of exploiter classes in town and country, which in 1913 made up 16.3 per cent of the population. The share of industrial and office workers went up from 17 per cent in 1913 to 50.2 per cent in 1939. A basically new class of collective farm peasants and cooperative handicraftsmen (the latter subsequently merged with the working class) was created in place of the individual peasants and non-cooperative handicraftsmen which in 1913 made up a majority of the population in Russia—66.7 per cent. In 1939, this new class accounted for 47.2 per cent of the population.

According to the national censuses, industrial and office workers in Bulgaria (1965) made up 58.8 per cent of the total population, and cooperative peasants and handicraftsmen, 39.7 per cent; in Hungary (1970), 75.5 per cent and 21.4 per cent; in the GDR (1971), 82.3 per cent and 11.7 per cent; in Romania (1966), 52.2 per cent and 40.9 per cent; in Czechoslovakia (1970), 87.5 per cent and 11.1 per cent.

The working class, which together with the other members of society, has become the owner of the crucial means of production, is the leading force of the socialist society. The alliance between the working class and the cooperative peasantry is developed and strengthened, and the antithesis of the vital interests of town and country is eliminated. The abolition of private property means that there is no longer any basis for the antagonism between workers by hand and by brain. The vital interests of the new intellectuals coming from working-class and peasant families are identical with the interests of the working class and the collective farm peasantry.

Socialist construction does away with the economic, political and cultural inequality between the country's various nations, as the relations of exploitation and oppression give way to relations of equality, comradely cooperation and mutual assistance between all the free nations and nationalities.

In the transition period, there is a substantial growth in the working people's living standards. Unemployment is wiped out and the problem of jobs solved.

In 1940, the real incomes of workers in industry and construction were 170 per cent up of 1913, and the real incomes of peasants (per working person) 130 per cent up. From 1950 to 1975, the real wages of industrial and office workers went up: in Bulgaria by 230 per cent, in Hungary by 130 per cent, in the GDR by 410 per cent, and in Romania by 230 per cent.

The triumph of socialism in the USSR is of historic importance for the whole world. A socialist society in which production is geared to the satisfaction of the whole people's requirements was set up for the first time in mankind's history. Exploitation was wiped out, the anarchy, competition and crises of overproduction were eliminated, and the possibility opened for unfolding the creative initiatives of the masses and making rational use of manpower and material resources. The triumph of socialism in the USSR and a number of other countries led to the emergence of the world socialist system, the most important of the international consequences of the October Revolution, which have determined the face of the present epoch.

Specifics of the Non-Capitalist Road to Socialism

Lenin says that if the victorious revolutionary proletariat carries on the propaganda of socialism among the peoples of the backward countries, while the socialist governments come to their aid with all the means at their disposal—in that event it will be wrong to assume that the backward peoples must inevitably go through the capitalist stage of development. This has been borne out by history and shows that the historical road of peoples which advance to socialism bypassing capitalism is indissolubly linked with the world revolutionary movement of the working class, and the victory of socialism in one or more other countries.

In the USSR, the socialist revolution helped rapidly to overcome the historical backwardness of some non-Russian areas in Central Asia, some parts of the Transcaucasus and, especially, the Far North. With the utmost support of the triumphant proletariat of Russia, they advanced from feudal—and some nationalities in the Far North, from prefeudal—relations to socialism, bypassing capitalism.

The Mongolian People's Republic took the road of socialist construction with the Soviet Union's assistance. The char-

acteristic thing about its development was the formation of socialist relations of production with a relatively low level of the productive forces and the virtual absence of the working class.

Nowadays, the presence of the world socialist system creates favourable potentialities for progressive socio-economic transformations in countries escaping from colonial dependence.

Progressive development of these countries takes place in different ways, but the basic features coincide. These are the elimination of the positions of the imperialist monopolies, of the big local bourgeoisie and the feudal lords; restriction of foreign capital; the taking over of the commanding heights in the economy by a people's state and transition to the productive forces' planned development, as well as the encouragement of the cooperative movement in the countryside; a rise in the role of the working masses in the life of society, and the gradual reinforcement of the machinery of state with national personnel dedicated to the people; the anti-imperialist role of the revolutionary parties, reflecting the interests of the broad masses of the working people.

5. THE STAGES OF THE ECONOMIC MATURITY OF SOCIALISM

The construction, in the main, of a socialist society by the end of the transition period marks the start of the first phase of communism. The society's subsequent development runs towards mature socialism, which, for its part, gradually grows into full communism.

At the stage in which the developed, mature socialist society is created, socialism already develops on its own basis, ever more fully unfolding the creative forces of the new system, displaying the advantages of the socialist way of life, and allowing the working people ever more fully to enjoy the great socialist gains. There is a substantial change in the international conditions for the USSR's economic development: the capitalist encirclement has been broken, a community of socialist countries has taken shape, and the positions of world capitalism markedly weakened.

The 26th CPSU Congress noted that the "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."¹

*The Development of the Material and Technical
Basis of Socialism*

The building of highly developed productive forces through the use of the latest scientific and technical achievements is the basic economic prerequisite for the transition by triumphant socialism to the stage of a mature socialist society. In the process of the socialist reconstruction of the economy in the USSR, the technical level of production assets, above all of the newly built enterprises and industries, already reached the level of the developed capitalist countries. In the subsequent period, together with the acceleration of technical progress, a qualitatively new technical level was achieved along some lines. This resulted from the growing role of science in the development of the society, the rising general educational and skill standards among the working people, the development of a network of higher and secondary schools and the training of millions of highly skilled workers, specialists and researchers.

As a result, a powerful and *integrated economic complex* covering all the elements of social production, distribution and exchange took shape on the whole territory of the USSR. In the sphere of material production, this complex is based on a modern multi-sectoral industry (heavy industry: metallurgy, power generation, engineering and instrument-making, electrical engineering, chemistry and petrochemistry; and light and food industries) and a large-scale highly mechanised agriculture based on collective principles. The growth and the qualitative renewal of the production potential provided the material basis for enhancing the efficiency of social production and the ever fuller satisfaction of the diverse requirements of the members of the society.

The development of the social division of labour under socialist property in the means of production led to the growing concentration of production and enhanced its social character. The economy of the constituent republics of the

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 101.

USSR became an organic part of the country's economic complex.

Compared with 1940, the gross national product in 1960 increased 4.2 times and in 1981, 14 times. During the same period fixed productive assets increased 3.2 and 17 times respectively. Power-to-worker ratio in industry in 1981 was 7.3 times greater than in 1940, and power capacities in agriculture grew nearly 16 times over. According to the 1939 census, there were 87 industrial workers with a higher or secondary (complete and incomplete) education per 1,000 population, in 1959 the figure was 401 and in 1982, 800. The figures for collective farmers were 18, 226 and 655 respectively. The living standards of the Soviet people rose considerably. The real per capita incomes of the population increased 2.5 times in 1960 and 6 times in 1981.

An important thing to note is that the USSR had to tackle the task of creating a material and technical basis adequate to developed socialism only after the foundations of the new system had been laid, which seems to be the common way for all the countries starting on socialist transformations with a low or medium level of economic development. The situation will be different in countries which have highly developed productive forces at the time of the socialist revolution.

Development of Socialist Relations of Production

The growth of the productive forces provided the material basis for an in-depth restructuring of the whole range of social relations on the collective principles which are inherent in socialism. Developed socialism paves the way for the further improvement of socialist relations of production and a marked raising of the level of socialisation in the economy. The subsequent development of socialist property in its two forms—state (the whole people's), and collective farm and cooperative property—is expressed in their *steady alignment, in the rising socialisation of the means of production and labour*, in the establishment of all-round ties based on comradesly cooperation and mutual assistance between production collectives, and the unfolding of socialist emulation.

The development and consolidation of the leading role of the whole people's property is the chief factor in the assertion of mature socialist property relations. The whole people's sector of the economy is transformed into an integrated economic system resting on advanced science and technology.

The collective farm system is consolidated. Just after the triumph of socialism, most collective farms were relatively small and technically ill-equipped enterprises. The marked growth of the material and technical basis of agriculture led to the concentration of production and this, together with the consolidation of the collective farms in organisational and economic terms, made it possible to sell them, on easy terms, the farming machines and implements earlier concentrated at state machine-and-tractor stations (MTS). The collective farms were converted into large-scale highly mechanised enterprises. The supply of industrial means of production to them expanded the economic ties between town and country and enhanced the leading role of industry with respect to agriculture.

Full scope was given for the operation of the economic laws of socialism, producing a mechanism for their conscious use by the society within the individual countries and within the framework of the world socialist economy.

The economy was organised under a long-term plan, and balanced development acquired greater importance. There was an improvement of forms of consumer goods distribution depending on the quantity and quality of work. The role of social consumption funds in meeting the working people's requirements increased.

Important changes occurred in the social structure of the society. The leading role of the working class was enhanced. In social status, the collective farm peasantry moved closer to the working class and its educational standards and way of life now frequently differ very little from those in the town. The social basis of the socialist system was expanded. The alliance of the working class and the collective farm peasantry was developed in sound political and ideological unity of these classes with the people's intelligentsia. This led to the emergence of the Soviet people, a historically new social and international entity. This means that crucial importance gradually attaches to the common features of behaviour, character and world outlook among Soviet people, which do not depend on social and national distinctions.

In the political sphere, the stage of developed socialism is characterised by the *growth of the proletarian dictatorship into a state of the whole people and the all-round development of democracy.* The Communist Party's leading role has grown in every sphere of social life.

Developed Socialism and the STR

A characteristic feature of mature socialism is the conjunction of the achievements of the STR with the advantages of the socialist economic system.

The latest discoveries in science and technology bring about qualitative changes in the productive forces, exert an influence on every aspect of material production and substantially extend the potentialities for its growth. Thus, discoveries in the atomic and molecular structure of matter laid the foundations for the development of new materials; advances in chemistry made it possible to process oil and gas into plastics and fibres; the study of electrical phenomena in solids and gasses led to the development of electronics; the probing of the structure of the atomic nucleus paved the way for the practical use of nuclear energy; the development of mathematics provided the basis for developing the means of automation and control of production. All of this testifies to the emergence of a new system of knowledge about nature, a radical transformation of hardware and technology in production, lesser dependence of its growth on the constraints which stem from man's physiological limitations and natural conditions.

Under capitalism, the tremendous potentialities created by the STR are used by the monopolies to bolster their power and boost their profits. Capitalism develops science and technology in a lopsided, distorted way. Under socialism, the objective conditions are created for directing the STR along lines meeting the interests of man and society as a whole. "The Communist Party," Leonid Brezhnev noted, "proceeds from the premise that building up a new society without science is simply inconceivable."¹

— The advantages of socialism over capitalism in the STR are based on social property in the means of production. They consist, first, in the fact that under socialism the STR proceeds for the benefit of the whole of society, instead of the dominant monopoly groups of capital, as the practice is in the capitalist countries. Second, socialist relations of production create the possibilities for the free and all-round development of society's chief productive force—the produc-

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 55.

ers themselves—and give them a great stake in scientific and technical progress. Third, scientific and technical development under socialism can be predicted and used in a balanced manner on the scale of social production as a whole. Fourth, socialism paves the way for the full use of the latest hardware and technology in social production for the attainment of high rates of growth in the productivity of social labour.

The leap in the development of society's productive forces and the much greater maturity of social relations make for a qualitatively new level in the administration of social production by society, higher demands on personnel, and on the work and organisation of all the working people.

Developed Socialism in History

The stage of developed socialism signifies the attainment by the new society of a stage of maturity in which the restructuring of the whole range of social relations on the collective principles inherent in socialism is completed. *The creation of the material and social prerequisites for transition to full communism* is set as the immediate task. This is an objective and necessary stage on the way to communism. The restructuring embraces both the material and the intellectual spheres, the whole way of life of Soviet society.

For developed socialism to grow into communism there is a need to bring out and use the increased advantages of the socialist economic system, full scope for the operation of the economic laws of socialism, and its advantages in every sphere of social life. The socialist economy is based on social property in the means of production, it is planned on the scale of the whole country, and is geared to ensuring the well-being and all-round development of all the members of the society. The specific feature of the present stage is that these advantages and the attendant potentialities inherent in socialism as an economic system have been multiplied many times over. The USSR has tremendous production assets based on advanced hardware and technology, a powerful scientific and technical potential, millions upon millions of highly skilled specialists and workers, and a wealth of experience in economic planning and the socialist organisation of production. The rising material well-being and cultural

and technical standards of the working people promote the development of their creative activity. Much importance attaches to close cooperation among the socialist countries and to their economic integration. The international detente creates the conditions for using the worldwide division of labour.

The task is to make fuller use of the potentialities at the disposal of the socialist society. This predetermines the strategy and tactics of communist construction at the present stage.

"During the 1980s the Communist Party will continue 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."¹

The eleventh Five-Year-Plan period (1981-1985) is an important stage in the implementation of the long-term tasks. It is called on to ensure consistency in the country's socio-economic development and the strategic instructions of the Party for the 1980s, considering the specifics of the next five-year period.

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 163.

Section 4

SOCIALIST PRODUCTION

This section of the book sets forth the socio-economic content of socialist production in the most general terms.

On the basis of an analysis of the relations of production and the whole people's property in the means of production, there is a consideration of the basic economic law, which determines the main line of the economic activity of the members of the society, the law of planned and proportionate development of the economy, and other laws of socialism. A study of the scientific principles of planning helps to understand the mechanism by means of which the society makes use of economic laws. Furthermore, the operation of the laws is shown directly in the process of production, in the distribution of the product, and in the process of accumulation and consumption.

A knowledge of the economic laws and main trends in the movement of the socialist society provides a scientific basis for the economic policies of the Communist and Workers' parties of the socialist states.

Socialist production is characterised in the works of the classics of Marxism-Leninism. The actual processes leading to the formation of the socialist economy in the USSR were summed up by Lenin for an analysis of the substance of socialist production. Of especial importance here are his works: "The Immediate Tasks of the Soviet Government", "Economics and Politics in the Era of the Dictatorship of the Proletariat", "A Great Beginning", "The State and Revolution". The features of the economic system of socialism at the various stages of its development are described in detail in the documents of the Communist parties of the socialist countries.

Chapter twenty

**SOCIAL PROPERTY IN THE MEANS OF PRODUCTION.
THE BASIC ECONOMIC LAW OF SOCIALISM**

The nature of the socialist relations of production is determined by the domination of social property in the means of production. This property invests production with a direct social character, and determines the content of relations in production and other spheres of the economy. Article 10 of the Constitution of the USSR says: "The foundation of the economic system of the USSR is socialist ownership of the means of production in the form of state property (belonging to all the people), and collective farm-and-co-operative property." That is why any analysis of the relations of production under socialism has to start with the relations of social property to show the functioning of the society as an integral whole.

1. SOCIALIST PROPERTY IN THE MEANS OF PRODUCTION

*Socialist Property in the Means
of Production as an Economic Category*

Socialist property in the means of production as an economic category expresses the relations between the members of the socialist society in their joint appropriation of the material conditions of social production. In content, social property differs radically from all the earlier types of property in the means of production.

Crucial to the socialist property relations is the fact that members of the society are not ranged against each other as private proprietors. Each working man and woman is a co-owner of the means of production and participates with all the other working people of the society in their common

labour, which is concerted on the scale of the society as a whole. Together with the others, each also enjoys the fruits of the collective labour.

Since the means of production belong to all the working people, they cannot operate as capital. Under socialism, there are no antagonistic classes and this makes it impossible for man to exploit man. The means of production constitute the material conditions for the free labour of the producers, and a means for raising labour productivity and well-being, and for the free and all-round individual development of all the members of the society. That is why one of the most important principles of the CPSU's economic strategy is the fostering of a responsible attitude towards socialist property.

Socialist property in the means of production determines the new mode of conjoining labour power and the means of production. This is not effected through the labour market, but directly, because in the socialist society producers are simultaneously joint owners of the means of production and workers. In these conditions, labour power ceases to be a commodity, and relations of comradely cooperation and mutual assistance are established among the working people.

Socialist property in the means of production engenders new relations of exchange through the conscious and concerted distribution by members of the society of their collective labour, and also new relations in the distribution of material values, when the whole product belongs to the working people themselves. Accordingly, there is a change in the socio-economic substance of the aggregate (gross) product and the wealth of the society.

The aggregate (gross) product of the socialist society consists of the material values produced by the society over a given period (usually a year). It is created by exploitation-free labour with the aid of the means of production belonging to all the producers, which is why it is their common asset and is used for the benefit of all the members of the society. Whereas the social nature of the capitalist relations of production is covert and is only expressed in haphazard market relations, the product of labour socialised on socialist lines is a direct social product, and its production and distribution are regulated by the society under a plan.

Socialist property in the means of production also determines the nature of the relations taking shape in the consumption of material values. The instruments and objects of

labour are jointly consumed by the members of the socialist society in the process of production. The goods and services which go to satisfy the citizens' personal requirements are consumed both, through social consumption funds and in proportion to each citizen's labour contribution to the development of production.

The means of production and the articles of consumption accumulated by the socialist society constitute *the national wealth of the socialist society*. The national wealth being an asset of the working people themselves, it serves as the basis for raising the material and cultural standards of all the members of the society.

Consequently, the complete domination of socialist property in the means of production signifies the establishment of a fundamentally new system of relations of production, distribution, exchange and consumption of material values, a system which differs radically from the capitalist system of production relations.

All the transformations aimed to assure every citizen of fitting living conditions are connected with social property. The concepts of freedom, human rights, democracy and social justice are filled with a real content. Socialism has developed among its citizens a sense of being the true masters of their country. It has made it possible, for the first time, to spread the principles of democracy to every sphere of life in the society, including its basis, the relations of production.

The domination of social property in the means of production is the main characteristic feature of socialism. However, bourgeois economists claim that social property is not essential to a definition of socialism.

The Economic Role of the Socialist State

Engels says that in a socialist society "the laws of his own social action, hitherto standing face to face with man as laws of nature foreign to, and dominating him, will then be used with full understanding, and so mastered by him". Engels characterised the new state of society as "the humanity's leap from the kingdom of necessity to the kingdom of freedom".¹

¹ Frederick Engels, *Anti-Dühring*, pp. 343-344.

The socialist state, resting on social, above all, the whole people's property in the means of production administers social production on the basis of cognised economic laws, and this gives it a *special economic role* to play.

The lines of the state's activity and its economic, internal and foreign policy are determined by the Communist Party.

If the socialist society is to develop, the state's economic policy must proceed from the interests of the whole people and harmonise the interests of all classes and social groups. The state's political and economic activity are inter-related. "Politics," says Lenin, "is a concentrated expression of economics."¹

The influence exerted by the socialist state's policy on the economy is progressive because it proceeds from the objective requirements of the development of the productive forces and the relations of production, meets the interests of the producers, and ensures the further strengthening of the relations of comradesly cooperation and mutual assistance among all the working people: workers, peasants and intellectuals. The absence of antagonistic classes and social groups with a stake in preserving the obsolete economic relations makes it possible to bring out and overcome the non-antagonistic contradictions which exist in the economy and to put through planned measures helping to improve the relations of production in accordance with the development of the productive forces.

Social Property and the Management of Socialist Production

The dominant relations of property in the means of production determine the substance and nature of the administration and management of social production. Under socialism, social production is administered directly by the society on the basis of scientific prognostication.

In the socialist society, the producers effect such administration and management through a system of organs of state power. In the USSR, they are known as Soviets of People's Deputies. Article 93 of the USSR Constitution says: "Soviets of People's Deputies shall direct all sectors of

¹ V. I. Lenin, "Once Again on the Trade Unions, the Current Situation and the Mistakes of Trotsky and Bukharin", *Collected Works*, Vol. 32, p. 83.

state, economic, and social and cultural development, either directly or through bodies instituted by them, take decisions and ensure their execution, and verify their implementation."

Management presupposes the planned creation of the economy's organisational structure, national economic planning, material and moral incentives to labour, socialist accountability and control, and the training of the working people in management methods. The system of interlinked economic units (organs and levers) constitutes the economic mechanism of the socialist society. With the development of production relations, the society introduces into this system the changes necessary for ensuring the successful advance of the entire national economy.

The relations between associated producers in the coordinated management of the economy and, consequently, the improvement of the *economic mechanism*, are reflected in the *principle of democratic centralism*. Lenin said that in the sphere of the economy, democratic centralism must "ensure absolute harmony and unity in the functioning of such economic undertakings as the railways, the postal and telegraphs services, other means of transportation, and so forth". He added: "At the same time, centralism, understood in a truly democratic sense, presupposes the possibility, created for the first time in history, of a full and unhampered development not only of specific local features, but also of local inventiveness, local initiative, of diverse ways, methods and means of progress to the common goal."¹

Centralism is required in administration because large-scale production is social; enterprises, all the elements of the integrated economy, have intricate economic ties with each other, so that their activity needs to be concerted and regulated from a single centre. At the same time, thorough consideration of the diversity of the conditions in economic development implies promotion of initiatives among collectives at enterprises and all the working people, that is, the broadest democracy.

The conjunction, on the basis of social property in the means of production, of planned centralised direction and

¹ V. I. Lenin, "Original Version of the Article 'The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 27, p. 208.

economic autonomy and initiative at the enterprises is an important principle of the socialist economy. In the socialist countries, the economy develops under a single plan, and their citizens have a say in the administration of state and social affairs.

Participation by broad masses of working people in administration and management is the main criterion of the development of socialist democracy. It allows the greatest scope for the political, economic and spiritual activity of citizens, their representatives and organisations, and directs this activity to the attainment of goals in which the whole people has an interest. At the same time, the specific interests of various population groups are realised and their integration and coordination with those of the society as a whole are ensured.

The main economic function in the administration and management of socialist production is the effort to ensure the rational use of the social means of production for the benefit of all the members of the society through the utmost boosting of the social product with the lowest possible inputs of labour and material resources.

In the developed socialist society, there is a marked growth in the importance of the administrative activity of the state. As the scale of social production increases, growing demands are made on the technical improvement of the production apparatus, the organisation of labour and production, and the rational use of labour power, equipment and raw and other materials. It is ever more essential for work collectives to operate in a smooth and concerted manner. At the same time, the economic and political system of developed socialism has to ensure efficient administration of social production. The solution to the problems facing the country and utilisation of the opportunities at its disposal largely depend on the standard of national economic management. The resolution entitled "On Improving Planning and Strengthening the Impact of the Economic Mechanism on Raising the Efficiency of Production and the Quality of Work", adopted in July 1979, envisages measures for improving the standard of planning and management, for bringing them into accord with the USSR's requirements at the stage of developed socialism, increasing the efficiency of social production, speeding up scientific and technical progress and

the rise in labour productivity, improving the quality of output and, on this basis, ensuring, a constant rise in the country's economy and the well-being of the Soviet people.

*Two Forms of Social Property
and Two Types of Socialist Enterprises*

Under socialism, property in the means of production assumes the forms of state (the whole people's) property, and collective farm and cooperative property.

The substance of *state (the whole people's) property* is that all the members of the society are related to each other as joint owners of the key means of production. These are the whole people's common asset and the basic form of socialist property.

In the USSR, state property accounts for roughly 90 per cent of all the means of production. The land, the subsoil, the waters and forests are the exclusive property of the state. The state also owns the basic means of production in industry, construction and agriculture, the means of transport and communications, the banks, the property of commercial, communal and other enterprises set up by the state, the basic housing facilities in the cities, and other property required by the state to fulfil its tasks.

The whole people's means of production and other objects of state property are jointly owned by all the members of the society and not by each individual collective. Lenin gave a crushing critique of the anarcho-syndicalist idea of converting socialist industrial enterprises into the property of individual groups of workers: "Any direct or indirect legalisation of the rights of ownership of the workers of any given factory or any given trade on their particular production, or of their right to weaken or impede the orders of the state authority, is a flagrant distortion of the basic principles of Soviet power and a complete rejection of socialism."¹

Under socialism, state property in the means of production differs radically from state capitalist property. The latter is the collective property of the class of capitalists, that is, a species of capitalist property. The socialist state is the

¹ V. I. Lenin, "The Democratism and Socialist Nature of Soviet Power", *Collected Works*, Vol. 42, Progress Publishers, Moscow, 1971, pp. 100-101.

state of the whole people, which is why its property is the property of all the working people, of the society as a whole.

The property of collective farms and other cooperative organisations and their associations consists of the means of production and other property required by them for the fulfilment of their tasks. The land held by the collective farms is secured to them for their free use in perpetuity.

In the USSR, collective farm and cooperative property accounts for 9 per cent of the fixed production assets. The collective farms cultivate 44 per cent of all the area under crop and account for 47.9 per cent of the cattle population, including 37 per cent of the cows, 38 per cent of the pigs and 31 per cent of the sheep and goats.

The property of trade union and other social organisations which they require for the fulfilment of their statutory tasks is also socialist property.

In socio-economic terms, the various forms of socialist property, are of the same type. They express the social character of the appropriation of material values, the absence of exploitation, and the fact that production is geared to the interests of the working people.

The distinction between the whole people's property and the collective farm and cooperative property lies in the level of socialisation in the means of production. The whole people's property implies the socialisation of the means of production on the scale of the whole economy, and collective farm and cooperative property, mainly within the framework of the given cooperative or a number of cooperatives. Also, the members of producer cooperatives, together with the other members of the society, are proprietors of the whole people's means of production. The existence of the whole people's and the collective farm and cooperative forms of socialist property determines the division of the society into two friendly classes: the working class, the leading class of the society, and the class of peasants.

In accordance with the forms of socialist property there are different types of enterprises in the socialist society, above all, *state (the whole people's) and collective farm and cooperative enterprises.*

The products turned out by state enterprises are the property of the whole people and are marketed according to a plan at fixed state prices. The produce turned out by collec-

tive farms belongs to the farms. It is mainly procured by the state and is partially sold on the collective farm market.

The source of the workers' income is their work at the enterprises. The main source of income for the collective farmers is their work on the social estate of the collective farm, and a source of additional income, their work on their personal subsidiary farms.

State (the whole people's) property has the leading role to play in the socialist society. Under its influence the level of socialist socialisation on the collective farms is raised, while the distinctions between these different forms of socialist property are gradually obliterated.

Importance of Lenin's Work "On Cooperation"

The basis of the theory and practice of collective farm and cooperative construction in the socialist transformation of small-scale private production was set forth by Lenin in his article "On Cooperation", one of his last works, which he wrote in 1923. The ideas expressed in that article are the basis for the policy of the CPSU and the Soviet state on socialist construction in the countryside.

Under capitalism, cooperatives are collective capitalist enterprises. But under socialism, when the state power is in the hands of the working people, and the whole people's property in the means of production is predominant in the economy, cooperatives are socialist enterprises and the simple growth of cooperation is identical with the growth of socialism. Lenin showed the advantages the small peasant households could derive from advancing towards socialism via cooperatives, and defined the tasks of the state in rural cooperation.

The USSR's large-scale socialist agriculture was built up on the basis of Lenin's cooperative plan. It has now entered upon a new stage in which his ideas relating to the specialisation and concentration of agricultural production are being realised on the basis of interfarm cooperation on a modern industrial basis. The process of collectivisation entailed the amalgamation of small individual peasant farms with their primitive means of production, but today collective and state farms pool their efforts to set up large-scale industrial-type enterprises turning out a high percentage of

marketable produce. This helps to extend the scale of production, to raise the level of socialisation of collective farm production and improve social relations.

Lenin's critique of the bourgeois view of cooperation is still valid. Bourgeois economists claim that with respect to the peasants, collectivisation amounted to a return to the policy of surplus food appropriation, which was practised during the civil war period.

In the USSR, collectivisation helped to bring about a radical improvement in the well-being of the peasantry, to develop the productive forces much faster, and to set up socialist farming in the countryside with a high percentage of marketable produce.

Personal Property under Socialism

Personal property is an expression of the relations inherent in socialism between the society or the producer cooperative (collective farm) and individual workers in the appropriation and distribution of consumer goods and springs from work in the social economy.

According to the Constitution of the USSR, earned income is the basis of the citizens' personal property. It may include articles of everyday use, personal consumption and convenience, a subsidiary household farm, a dwelling house, and earned savings. This property may not be used to derive unearned income or employed to the detriment of the interests of the society. The chief and crucial means of production may not be converted to personal property. With a socialist society in mind, Marx wrote: "No one can give anything except his labour, and ... on the other hand, nothing can pass to the ownership of individuals except individual means of consumption."¹

There is no truth in the bourgeois claim that with the transition to socialism personal property in the articles of consumption is eliminated, while individual interests, preferences and requirements are suppressed. What communism, in fact, does is eliminate private property in the means of production. The predominance of social property

¹ Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, p. 18.

in the means of production and the steadily growing efficiency of the economy create a sound basis for satisfying the growing individual requirements of the working people.

The personal subsidiary farm of the collective farmer (collective farm household) is a species of personal property under socialism. On this subsidiary farm, the collective farmer and members of his family work in their spare time, when they are not engaged in work on the social estate, for the purpose of obtaining additional income (additional produce for personal consumption or sale on the collective farm market).

In 1981 personal subsidiary farms in the USSR accounted for 14 per cent of the marketable farm produce.

Development of the Forms of Socialist Property

The development of socialist property in the means of production is connected with the growing socialisation of production. State property develops with the growth of large-scale machine industry, ever greater concentration of production, the deepening of its specialisation and cooperation, and consolidation of the bonds between the production units of the economy. That is the basis for the strengthening of relations of collectivism, cooperation and mutual assistance between the members of the society and the growing influence of state property on collective farm and cooperative property.

The development of collective farm and cooperative property is connected with the consolidation of the material and technical basis of agriculture. The state provides the collective farms with a growing volume of modern means of production, helps the collective farms to train specialists, extends credits, carries out large-scale irrigation and land-improvement works, and promotes the development of agricultural science and the improvement of organisation of production on the collective farms. Specialisation and concentration of agricultural production on the basis of broad cooperation, with its transfer on to a modern industrial basis, constitutes a new stage in the implementation of Lenin's cooperative plan under the conditions of developed socialism.

The process in which collective farm and cooperative property moves closer to the whole people's property is intensified, so helping gradually to obliterate the essential distinctions between town and country. That is the basis for the alignment of the forms for the distribution of material

goods, provision of social security and the level of incomes among workers and peasants. The implementation of Lenin's cooperative plan has turned agricultural production into a highly developed sector of the socialist economy.

2. THE NATURE OF LABOUR AND ECONOMIC INTERESTS UNDER SOCIALISM

Free Labour for Oneself, for the Society

The predominance of socialist property in the means of production determines the nature of labour under socialism. Lenin says that "for the first time after centuries of working for others, of forced labour for the exploiter, it has become possible to *work for oneself*, and moreover to employ all the achievements of modern technology and culture in one's work".¹

Work for oneself, for one's society is the content of the economic freedom of every working man and woman, determining the all-round development of the working people's physical and spiritual powers and enhancing the creative content of their work. Avoidance of socially useful work is incompatible with the principles of a socialist society.

The socialist state attaches tremendous importance to its citizens' conscious and creative attitude to their work, fostering in them a sense of being masters of their production and a sense of responsibility for the overall state of the socialist economy.

Direct Social Labour

In substance, labour is always social. But under the domination of private property in the means of production it operates as the private labour of separated producers. The private nature of labour is eliminated by the socialist socialisation of the means of production, and the labour of each worker is converted into an organic component part of the whole labour of the producers consciously united on the scale of the society as a whole. The socialist society organises the distribution of labour among the spheres of the economy and their subdivisions, regulates the regime and

¹ V. I. Lenin, "How to Organise Competition", *Collected Works*, Vol. 26, Progress Publishers, Moscow, 1972, p. 407.

norms of labour, ensuring normal working conditions and the process of production on the level of the latest scientific and technical achievements.

The level of direct social labour at state and collective farm and cooperative enterprises differs substantially. This is due to the fact that the means of production at state enterprises belong to the society as a whole, with the regime and norms of labour being laid down directly by the state. At collective farm and cooperative enterprises, a sizable part of the means of production belong to them, with the regime and norms of labour directly regulated by the enterprises themselves under the guiding influence of the state.

Labour on the personal subsidiary farms of the collective farmers (collective farm household) is not direct social labour, and it is regulated through the development of the social economy.

The development of socialist property tends steadily to obliterate the distinctions between state and the collective farm and cooperative enterprises in terms of the level of direct social labour.

Universality of Labour

Under socialism, socially useful labour in accordance with the capabilities of each is an objective imperative for every able-bodied member of the society, which means that labour is universal. The universality of labour is expressed in the right of citizens to work. Article 40 of the Constitution of the USSR says: "Citizens of the USSR have the right to work (that is, to guaranteed employment and pay in accordance with the quantity and quality of their work, and not below the state-established minimum), including the right to choose their trade or profession, type of job and work in accordance with their inclinations, abilities, training and education, with due account of the needs of society." This right is ensured by the socialist economic system, the growth of the productive forces, free vocational and professional training, improvement of skills, training in new trades or professions, and development of the systems of vocational guidance and provision of jobs.

The universality of labour creates the conditions for doing away with the no-work, parasitic way of life and appropriation of the fruits of the labour of others, so prevent-

ing anyone from getting others to shoulder his part in productive labour, a necessary condition for human existence.

Bourgeois ideologists claim that universal labour is forced labour. In actual fact, it is the key condition for the freedom of the producers. Only by taking part in the common labour can they express themselves as the co-owners of the means of production and use these for the common interest.

Economic Interests under Socialism

Under socialism, economic, that is, material interests are objective interests which are determined by the relations of social property, providing inducements and incentives for the labour activity of the members of the society.

Bourgeois economists insist that private property alone provides incentives for work. The right-wing revisionists identify material incentives for work under socialism with the incentives of capitalist enterprise. The "left" revisionists underestimate the importance of material incentives and assert that the growth of material well-being and cultural standards amounts to the people's bourgeois degeneration.

In actual fact, socialism has specific incentives for work and these differ radically from those under capitalism. The citizen's status in the socialist society is determined by his personal social useful labour and its results, a high sense of civic responsibility and ideological and moral qualities. That is the source of the individual's creative initiative and spiritual growth, and the most convincing manifestation of social justice and social equality.

Socialism eliminates the antagonism between production and consumption and establishes their unity on the scale of the society as a whole. Production is carried on not for the sake of profit but for the satisfaction of the requirements of all the members of the society. Socially useful labour is the source for the growing well-being both of the whole people and of every individual. Consequently, the working people have a material interest in developing production. That is the *substance of material incentives for work* under socialism. The awareness by the members of the society of their status as the co-owners of the means of production and of the results of their joint labour, of the social importance of labour constitutes the basis of the *moral incentives for work*.

Material and moral incentives for work operate as a unity, and it would be wrong to contrast them. The tremendous economic growth of the socialist countries is the result of the labour of their citizens, who are aware that they work for themselves and for the common good. As socialism develops, the influence on production of the incentives for work proper to socialism tends to grow.

Socialism ensures the unity of the fundamental interests of all the members of the society, with the whole people's interests playing the leading role and consisting in the best satisfaction of the aggregate social requirements. In the developed socialist society, as the various forms of socialist property are increasingly aligned, and the essential distinctions between town and country, and mental and manual labour obliterated, there is an ever closer connection between the interests of all the sections of the population.

In the presence of the whole people's property, there can be no contrast between the interests of individual members of the society and work collectives, and the interests of the society as a whole. Lenin says: "We had to fight a lack of understanding of the common interests among the workers, to fight various manifestations of syndicalism when the workers of some factories or some branches of industry tended to place their own interests, the interests of their factory or industry, above the interests of society."¹

The growth of the working people's well-being ultimately depends on the development of the whole of social production. Society can only distribute what is produced, so the greater the results of labour, the better people's personal and social requirements will be satisfied. The USSR Constitution says that "concern of all for the good of each and concern of each for the good of all" is the law of life in the socialist society.

3. THE BASIC ECONOMIC LAW OF SOCIALISM

The Requirements of a Socialist Society

The establishment of social property in the means of production makes it not merely possible but, in fact, neces-

¹ V. I. Lenin, "Speech Delivered at the First All-Russia Conference on Party Work in the Countryside, November 18, 1919", *Collected Works*, Vol. 30, p. 143.

sary to ensure the well-being and the free all-round development of all the members of the society by boosting production.

The domination of social property in the means of production makes it possible organically to integrate the development of production and of the requirements and consumption of all the members of the society. In accordance with the communist ideal—"The free development of each is the condition for the free development of all"—the socialist state sets itself the task of expanding the real potentialities for every citizen's applying his creative powers, capabilities and talents, and for the all-round development of the individual. Ever more favourable conditions for the steady growth of the people's well-being are shaped in the mature socialist society, where economic development is oriented towards the fulfilment of multi-faceted tasks aimed directly to improve the Soviet people's living and working conditions, so that the Party's practical policy is directly centred on the supreme goal of socialist production.

The aggregate social requirements of the members of a socialist society include *personal and production requirements*.

Personal requirements are satisfied by means of consumer goods and services. Production requirements are an expression of the society's requirements in the means of production.

A rapid growth of personal and production requirements is characteristic of socialism. Lenin says: "When we are showered with new demands from all sides, we say: that is as it should be, that is just what socialism means, when each wants to improve his condition and all want to enjoy the benefits of life."¹ The implication here is that such requirements are rational and accord with the socialist way of life.

Changes in requirements and their rising level are connected with production. There is especially intensive growth and renewal of these requirements under the STR, which engenders requirements in many totally new consumer and producer goods. On the other hand, the development of requirements is an intrinsic motivation for production, a prerequisite of it. The requirements generated by produc-

¹ V. I. Lenin, "Fifth All-Russia Congress of Soviets of Workers', Peasants', Soldiers' and Red Army Deputies, July 4-10, 1918", *Collected Works*, Vol. 27, p. 516.

tion and satisfied by the society constantly stimulate production, set new tasks before it and determine the emergence of new hardware and technology.

Content of the Basic Economic Law of Socialism

An analysis of the substance of economic relations warrants the conclusion that there is a causal nexus between socialist property, above all the whole people's property, in the means of production, and the orientation in the development of social production. The domination of the whole people's property in the means of production necessarily and naturally subordinates production to the effort to ensure full well-being and free and all-round development for all the members of the society.

This connection is expressed by the basic economic law of socialism, which can be formulated as follows: *ensuring the fullest well-being and free and all-round development of all the members of the society through a steady boosting and improvement of social production.*

In accordance with the basic economic law of socialism, Article 15 of the USSR Constitution says: "The supreme goal of social production under socialism is the fullest possible satisfaction of the people's growing material, and cultural and intellectual requirements.

"Relying on the creative initiative of the working people, socialist emulation, and scientific and technological progress, and by improving the forms and methods of economic management, the state ensures growth in the productivity of labour, raising of the efficiency of production and of the quality of work, and dynamic, planned, proportionate development of the economy."

The operation of the basic economic law of socialism is quantitatively expressed in the balance between the quantity of products required for the full satisfaction of personal and production requirements, and the quantity of products created under the given level of the development of social production. A distinction should be drawn between two levels of social requirements: *absolute, maximum* requirements which accord with the latest advances in science and technology and which are due to be satisfied in a more or less distant future, and *actual* requirements which have taken shape on the basis of the level of production achieved and which are

socially normal for the given period. The former are a general reference point in economic development for the socialist society, and the latter are those which may be satisfied on the basis of technologically mastered scientific achievements.

The balance between absolute and actual social requirements shows to what extent a society is capable of satisfying its requirements at the given level of its development and efficiency of production.

Designating absolute requirements as *AbsRm*, and actual requirements as *ActRm*, and comparing the corresponding volumes of the social product, the society's satisfaction of absolute requirements (*SabsRm*) may be expressed by means of the following formula:

$$SActRm = \frac{ActRm}{AbsRm} .$$

The movement of actual requirements is influenced by the growth of absolute requirements and the rising technical level of social production. The development of production resulting from the application of new scientific and technical advances reduces the gap between actual and absolute requirements.¹ But scientific and technical development simultaneously makes for the growth of absolute requirements, and the latter provide the inducements for the constant growth and improvement of production and, consequently, for the growth of actual requirements.

The balance between actual social requirements and the level of popular consumption is of much importance in showing the quantitative definitiveness of the basic economic law. Designating the level of popular consumption as *PCm*, the degree of satisfaction of actual social requirements (*SActRm*) may be expressed by means of the following formula:

$$SActRm = \frac{PCm}{ActRm} .$$

The well-being of all the members of the socialist society is raised in such a way that popular consumption moves closer to actual social requirements, and the latter—to absolute

¹ Let us note in this connection that in the second half of the 20th century, the period for the practical realisation of key scientific discoveries was shortened to roughly a quarter of that at the beginning of the century.

requirements. This implies a *steady growth in the efficiency of production on the basis of the latest scientific and technical achievements*.

Bourgeois economists deny that there is any basic economic law of socialism, but they seek to prove that the development of capitalist production proceeds towards the creation of an "affluent society". This is belied by the facts.

The right revisionists usually reduce the substance of the basic economic law of socialism to a distribution of the enterprise profit in proportion to the labour of the producers, so obscuring the actual and objective purpose of socialist production. The "left" revisionists ignore the basic economic law of socialism and insist that the state has no concern for the people's well-being.

Production Efficiency as an Economic Category

The basic economic law of socialism determines the need for a rise in the people's well-being both now and in the future. This goal will be achieved more fully and more rapidly, the higher the rise in production efficiency.

The efficiency of socialist production is expressed as the ratio of planned aggregate inputs of living and materialised labour to their results—the mass of products produced for satisfying society's requirements.

One major result of production is *economies of labour time*, which make it possible to increase the quantity of goods produced by the same labour inputs. The less time society spends on manufacturing some goods, the more time is left over, under the same conditions, for manufacturing other necessary items.

The efficiency of production should not be confused with the *efficiency of the national economy*, which reflects the result of society's activities not only in the sphere of production, but also in those of distribution, exchange, and, in the final analysis, consumption, and is characterised by the growth in production and national consumption. It requires a growth and rational use not only of labour time, but also people's leisure time.

In all, the total inputs of labour and leisure time constitute the chief form of social outlays, a drop in which determines the content of the *law of savings of time*. "Like for the individual," Marx wrote, "the comprehensiveness of socie-

ty's development, consumption and activities depends on savings of time."¹

There also exists the concept of *socio-economic efficiency*, which characterises the efficiency of production and the national economy, taking into account the results of improved working conditions, the enrichment of the creative content of labour, and overcoming of the substantial differences between mental and manual labour, between town and village.

At the stage of developed socialism, a need and opportunity arise for a significant rise in the efficiency of production compared with previous stages. The Guidelines for the Economic and Social Development of the USSR for 1981-1985 and the Period up to 1990, adopted by the 26th CPSU Congress, point out the need to "enhance persistently the effectiveness of social production through its all-round intensification and improve the quality of goods and services in all branches".²

*The Basic Economic Law as the Law of the Movement
of the Communist Mode of Production*

The motive force behind the development of socialist production is the dialectical non-antagonistic contradiction between growing social requirements and the level attained in the development of social production at each given period. To the extent to which production satisfies the existing requirements and modifies their structure, the working people's consumption in the socialist society tends to grow. This, for its part, stimulates the further growth of requirements and sets new tasks before production. Engels foresaw that, with the elimination of antithetical interests, it is the peculiar contest between the producer and the consumer power of a society that will provide the motive force and incentive for its boundless development.³ The socialist state seeks to ensure

¹ Karl Marx, *Grundrisse der Kritik der politischen Ökonomie (Rohentwurf)*, 1857-1858, p. 90.

² *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 169.

³ Frederick Engels, "Outlines of a Critique of Political Economy", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 3, Progress Publishers, Moscow, 1975, pp. 434-35.

a rapid growth of social production and improvement of the relations of production.

In the 1980s, the rise in the economy and efficiency of social production will ensure a further growth of the people's well-being, a development of the socialist way of life and the entire system of social relations. The operation of the basic economic law of socialism is aimed to achieve an abundance of material and spiritual values and to create the prerequisites for their distribution in accordance with the requirements of all the members of the society.

Chapter twenty-one

PLANNED AND BALANCED DEVELOPMENT
OF THE SOCIALIST ECONOMY

Planned and balanced development is the universal form of economic relations between producers in the socialist economy. It ensures rational use of social resources and helps to avoid the vast waste of labour which is inherent in capitalist production because it is anarchic and haphazard.

This chapter considers the objective basis for the planned and balanced development of the socialist economy, the content of balanced development as an economic category of socialism, and the law of planned and proportionate development of the economy.

1. THE OBJECTIVE BASIS AND SUBSTANCE
OF THE PLANNED AND BALANCED DEVELOPMENT OF THE
ECONOMY

*The Objective Necessity for Planned and Balanced
Development of Production*

In any society with a social division of labour, production implies the distribution, in definite proportions, of the labour power and the means of production between the various branches of the economy. In a letter to Ludwig Kugelmann, Marx wrote: "The volume of products corresponding to the different needs requires different and quantitatively determined amounts of the total labour of society. 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*, is self-evident."¹

¹ "Marx to Ludwig Kugelmann in Hanover, July 11, 1868" in: Karl Marx and Frederick Engels, *Selected Correspondence*, p. 196.

The form in which the social labour is distributed among the spheres of production is determined by the nature of the property in the means of production. Under capitalist property, haphazardly developing commodity-money relations are the universal form of economic connections between producers. There, the regulation of social production is effected by the spontaneously operating law of value through the market mechanism of supply and demand.

Socialist property in the means of production produces a fundamentally different form of economic connection between producers, namely, planned development. Socialist production is regulated directly by the society through the establishment of a balance between its aggregate requirements, the structure of the aggregate social product, and the availability of labour and material resources. Socialism, as a system of balanced and directly regulated social production, is the antithesis of capitalism, a system of the haphazardly operating market economy.

The prerequisites for the planned organisation of social production are created on the basis of large-scale machine industry, which invests production with a social character. This is expressed, first, in the fact that the social division of labour is developed and deepened, and the interdependence between specialised branches of production is increased accordingly; second, the fragmentation of the individual economic units is done away with through cooperation and centralisation of production; third, production is increasingly concentrated at the large enterprises; and fourth, economic ties and exchange of activity between the various economic regions are intensified.

Because production is social, there is a need for its planned and balanced regulation. In contrast to the earlier stages of economic development, large-scale machine industry makes the systematic regulation of production and social control over it imperative.

Large-scale machine production takes shape under capitalism. However, capitalist property and the attendant haphazard and anarchic economic development make the balanced development of production impossible. Nor does state-monopoly capitalism today do away with the haphazard development of production. So long as capitalist property continues to be the economic basis of production, the antagonism between labour and capital remains, economic activ-

ity continues to be uncoordinated and piece-meal, with capitals locked in competition with each other in anarchic production on the scale of the society as a whole.

The planned development of social production becomes an objective imperative only with the elimination of capitalist property and the establishment of socialist property in the means of production. The socialist socialisation of the means of production does away with the contradiction between social production and private appropriation of its results, a contradiction which is organic to capitalism. The appropriation of the material values produced by collective labour is brought into conformity with the social character of production. Because the working people have at root common vital economic interests, there is a need to coordinate the economic activity of all the members of the society, and this calls for the planned and balanced organisation of labour on the scale of the economy as a whole.

Under socialism, social production is coordinated. The society, as represented by the socialist state, being the owner of the crucial means of production, it takes account of the aggregate requirements and the availability of labour resources and the material conditions of production. This enables it directly to distribute resources by branches, economic regions and enterprises and ensure the proportions of the social product, needed for the best satisfaction of requirements.

Workers' control is the initial historical form in which production is regulated for the benefit of the working people. It paves the way for the socialist nationalisation of the basic means of production. Subsequently, when the working people take possession of the commanding heights of the economy, they begin to regulate production socialised on socialist lines from a single economic centre in accordance with an *integral state plan*. The balanced regulation of the socialist sector, because of its definitive role in the economy, exerts an influence on the other sectors of the economy in the transition period.

In this way, the working people are able for the first time to put an end to exploitation and to escape from the grip of economic anarchy: this gives way to scientific, planned administration of the economy.

The existence of *two forms of property* in the means of production leaves an imprint on the content of the planned

development of social production. The socialist society organises the whole of production under a plan, but the degree and forms of planned organisation of the whole people's sector of the economy are higher in level than those of the collective farm and cooperative sector, for in the former, material resources belong to the society as a whole, and balanced development is designed to boost and improve the productive forces in the crucial spheres of production. As a result, the whole people's sector comes to play the leading role in the planned organisation of the economy.

Collective farm and cooperative property cannot, of itself, ensure planned and balanced development either in the economy or at the collective farm and cooperative enterprises. The balanced development of collective farm and cooperative production occurs under the crucial influence of the whole people's sector. The collective farms are meshed with the whole economy via the state plan which establishes their share in the output of the gross social product in accordance with the society's requirements. Under such a plan, the collective farms enter into connections with the whole people's sector of production as an organic part of the integrated economy.

The advance of the STR enhances the social character of production: the social division of labour is deepened, new industries and lines of production appear, specialisation of production enterprises develops, the scale of production is enlarged, and its concentration grows. All of this substantially promotes the socialisation of the economy, and multiplies and complexifies the ties between production units and economic regions.

The USSR having risen to the stage of developed socialism, it now has a powerful integrated economic complex resting on a modern and highly developed heavy industry and covering every unit of social production, distribution and exchange on the territory of the country. The face of the country's individual regions is largely determined by territorial production complexes. Social property in the means of production knits the numerous units of the economy into an integral whole.

The development of economic complexes is determined by the acceleration of scientific and technical progress and the priority development of the high-technology branches of production. Much attention goes to the agrarian sector

of the economy and the transformation of the material and technical basis of agricultural production to bring about a radical solution of the food problem.

In the future, as noted in the Documents of the 26th CPSU Congress, it is also intended to "promote the dynamic and balanced development of the economy of the USSR as a single economic complex and the proportionate growth of all its branches, and the economies of the Union republics".¹

Planned and Balanced Development of the Economy as an Economic Category

Planned and balanced development is an objective economic form for the functioning of production under which the working people's society, as represented by the socialist state, is the direct organiser of human activity. Balanced development characterises the relations between the working people—the joint owners of the means of production—for their coordinated conduct of social production for the benefit of the whole of the society.

The socialist society regulates production in accordance with its requirements. Lenin says that once the working class has won power and nationalised the means of production, it gets down to "the positive or constructive work of setting up an extremely intricate and delicate system of new organisational relationships extending to the planned production and distribution of the goods required for the existence of tens of millions of people".²

The content of balanced development, as a specific economic category of socialism, consists, first, in the direct social regulation of the relations between the producers of a single association of the whole people, including the ties between the society and each working person and work collective; second, the direct social distribution of collective labour and its results, the aggregate product of socialised production; and third, the establishment and maintenance, directly by the society, of constant proportionality between the mass and structure of socialised labour and its aggregate

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 164.

² V. I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, p. 241.

product, on the one hand, and the mass and structure of social requirements, on the other. As a result, *planned and balanced development is an expression of regulation by the whole people, or, which is the same thing, the coordination of social production by the joint owners of the means of production through the distribution of labour and its products by the society for the benefit of all its members.*

Whereas the relations of the whole people's property in the means of production, as expressed in the basic economic law of socialism, determine the development of social production for the benefit of all the members of the society, in balanced development these relations are an expression of the objective necessity for coordinated economic management on the scale of the society as a whole, and the consequent necessity for the proportional distribution of aggregate labour and other resources between the spheres of social production and the centralised planning of the economy.

Planned development of production implies prognostication of its results. Even before the process of production is started, the socialist society takes account of its requirements and potentialities and distributes labour and material resources in the proportions necessary for the best satisfaction of personal and production requirements over the immediate period ahead and the long term.

Under state-monopoly capitalism, the capitalist states' regulation boils down mainly to the use of the feed-back economic effect of the relations of distribution and exchange (via the budget and financial and credit institutions) on the process of production. These measures do not affect the dominant relations of private property appropriation of the means of production and, consequently, are effected for the benefit of the capitalists, which means that they do not make economic development any less haphazard. It would be wrong to regard such measures as direct social regulation of the economy as a whole or to identify them with national economic planning stemming from the objective imperative of balanced development, which is organic to socialism alone.

In accordance with the socialisation of production, balanced development runs through two stages of maturity: *the socialist and the communist stages of maturity of direct social regulation of production.* The first stage is connected

with the level of development of the whole people's property and with the existence of essential distinctions between the property in the means of production at state enterprises and on collective farms, and the consequent distinctions in the character of labour. Under socialism, alongside the labour socialised on the scale of the economy as a whole, there is labour which is largely socialised on the scale of collective farm and cooperative enterprises and the directly unsocialised labour on personal subsidiary farms.

The specifics of the socialist stage in balanced development are also connected with the existence of commodity-money relations, which are a special form of direct social ties under socialism.

These specifics of balanced development tend to disappear as the material and technical basis of communism is built up and the social character of production is enhanced. This raises the socialisation of the economy and its planned organisation to the highest stage.

Some economic writers tend to contrast planned and balanced regulation, as being no more than an administrative method, with management by economic methods which are frequently connected only with the use of commodity money instruments. In fact, the economic content of direct social, planned regulation of production follows from the very substance of the socialist relations of production.

There is no scientific substance at all to the bourgeois economists' attempts to deny the organic connection between the planned, direct social organisation of the economy and the nature of the socialist system as the social—above all, the whole people's—property in the means of production. They seek to substitute for scientific socialism all kinds of "models" which exclude the centralised regulation of production and which identify socialist and capitalist methods of economic management. The right-wing revisionists seek to replace the planned state regulation of the economy with the play of market forces and a free expression of economic interests. Lenin once remarked that the denial of the whole people's character of socialist state enterprises and the special economic role of the socialist state is an expression of the petty-bourgeois ideology, which seeks to copy notions of justice and equality from the principles of the "freedom" of commodity owners. The "left" revisionist views

of planned and balanced development of socialist production are also incompatible with Marxism-Leninism: these tend to substitute simple administration by fiat for direct social regulation of production and underestimate the importance of material incentives for producers in the balanced management of social production.

With the development of socialism, the sphere of balanced relations is expanded, the degree of economic maturity of planned and balanced development increases, there is a need ever more closely to tie in the development of science, technology and social processes, and intersectoral and territorial production complexes.

2. THE LAW OF PLANNED AND PROPORTIONATE DEVELOPMENT OF THE ECONOMY

The Content of the Law of Planned and Proportionate Development of the Economy

The law of the planned and proportionate development of the economy is an expression of the causal nexus that is proper to the relations of the balanced development: *the domination of socialist, notably of the whole people's, property in the means of production determines the coordinated operation of the economy as a single whole on the basis of conscious maintenance of proportionality between the production and consumption of the aggregate social product and the various types of production in accordance with social requirements.*

Socialist socialisation of production makes it possible and necessary for the society constantly and consciously to maintain national economic proportions. This means, above all, that the structure of the aggregate labour power, the means of production and the social product must correspond to the structure of the society's requirements. At every given period, the socialist society takes account of its production requirements and the personal requirements of its citizens, determines the possible extent of their satisfaction with an eye to the available production resources, consciously and constantly maintains proportionality in the distribution of the means of production and aggregate labour between the sectors, regions and enterprises in ac-

cordance with the volume and structure of the aggregate requirements.

The society, as represented by the state, also determines the connection between the quantity of social labour time expended on the production of a given product and the volume of the social requirements in it. That is why labour time also appears in a direct social form. "Its apportionment in accordance with a definite social plan," wrote Marx, "maintains the proper proportion between the different kinds of work to be done and the various wants of the community."¹

The law of planned and proportionate development expresses an essential feature of the whole system of economic relations under socialism, which consists in the intrinsic coherence of the economy. Otherwise, the associated producers cannot make coordinated use of the means of production for the benefit of all the members of the society. Under socialism, there is an objective necessity for the balanced development of the sphere of production proper, of the relations of distribution and exchange, the necessity for maintaining a constant correspondence between the forms of the social organisation of labour and production and the level and character of the productive forces.

The balanced development of the productive forces and the relations of production runs in accordance with the basic economic law of socialism. The elimination of anarchy and the crises of overproduction and the attendant waste of society's productive forces, the creation of the conditions for the conscious establishment of national economic proportions in accordance with the latest scientific and technical achievements make for the rational expenditure of living and materialised labour and help systematically to enhance the efficiency of production on that basis.

Planning and proportionality in the economy are organically inter-related. Planning is an economic relation ensuring interconnections within the social economy under which the various units in the overall cooperation of labour are consciously organised for the production of the aggregate social product and, consequently, imply constant proportionality, balance of all the main economic proportions on the scale of the society as a whole. Lenin says: "Constant,

¹ Karl Marx, *Capital*, Vol. I, p. 83.

deliberately maintained proportion would, indeed, signify the existence of planning."¹

The proportions taking shape in the national economy under the impact of economic laws are diverse, and include general economic, intersectoral, intrasectoral, intraproduction, territorial and interstate proportions. The new type of international division of labour, the economic integration of the countries which are members of the Council for Mutual Economic Assistance (CMEA) create the conditions for the operation of the law of planned and proportionate development of the economy on an international scale.

The conscious maintenance of national economic proportionality should not be regarded as a freezing of economic proportions, for this would hamper the development and technical improvement of social production, and the steady enhancement of its efficiency, and would ultimately conflict with the basic economic law of socialism. Constant proportionality means the maintenance of a dynamic equilibrium and balance in the economy, the interconnection and coordination of the distribution of social labour with an eye to technical progress, on the one hand, and the magnitude and structure of aggregate social requirements, on the other.

The proportions of the socialist economy tend to change under the influence of a number of factors. The chief of these is scientific and technical progress, rising labour productivity and greater efficiency of production, the growing level of the material and cultural requirements of the members of the society, and foreign policy conditions. The STR brings about substantial changes in the proportions within the economy, for it transforms the traditional means of production and labour power and generates new production and personal requirements. High technology industries emerge and rapidly develop, agricultural production is transformed through the use of industrial methods, production becomes ever more dynamic, with a capacity for rapid restructuring in view of the shortening of periods within which the means of production are renewed, rising labour productivity and a growth of new social requirements.

¹ V. I. Lenin, "Uncritical Criticism", *Collected Works*, Vol. 3, p. 617.

The changing proportions in the economy of the USSR will be seen from the following table.

Production ties in the developed socialist society are exceptionally complexified by the large scale of production and high level of its specialisation and cooperation. But the balanced social regulation of production opens up great

**Employment of Population in the Economy
(without students, per cent)**

	1940	1965	1980
Total employed in the economy . . .	100	100	100
In material production	88.3	79.8	73.7
Including:			
Industry and construction	23	36	39
Agriculture and forestry (including personal subsidiary farms)	54	31	20
In non-productive fields	11.7	20.2	26.3

scope for further enhancing the efficiency of production and for ever more fully satisfying the requirements of the members of the society.

As the socialist society advances to communism, planned and proportionate development of the economy tends to gain in importance. Marx says: "Economy of time, like the balanced distribution of labour time by the various sectors of production, remains the prime economic law on the basis of collective production."¹

Systematic Regulation of Production

The socialist state, says Lenin, acts "in the capacity of regulator (determining factor) in the distribution of products and the allotment of labour among the members of society".²

The activity of the state in regulating production is based on a knowledge and use of the *whole system of economic laws*.

¹ Karl Marx, *Grundrisse der Kritik der politischen Ökonomie (Rohentwurf)*, 1857-1858, p. 89.

² V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 472.

The main role in maintaining proportions belongs to the basic economic law, which is an expression of the interconnection between production and consumption as a whole and of the general line in the development of production. As a law governing the movement of the communist mode of production, the basic economic law determines the general line in the development of the economy as a whole. Individual aspects of production are determined by economic laws like the law of socialist accumulation, the law of priority growth of production of the means of production, and so on, laws which variously have the function of regulating production.

Besides, the whole people's property dictates the need to form economic proportions in interconnection with the structure of aggregate social requirements, to which they must conform. This is effected by the law of planned and proportionate development of the economy, which determines the overall proportionality. Relying on the law of planned and proportionate development of the economy, the state organises the joint activity of the members of the society, ensures the balanced development of the economy as a whole, and coordinates the economic interests of classes and social groups—the working people—in the light of the interests of the whole people.

The substance, forms and methods of state regulation of the economy are also predetermined by the historical conditions of socialist construction. In the developed socialist society, social production is brought into conformity with mature socialist relations and the level of the productive forces. The purpose of management is to enhance the efficiency of social production and improve the final national economic results.

Conscious use of economic laws enables the society to regulate every aspect of social life. Socialism is a historical epoch in which, Engels says, "conscious organisation of social production, in which production and distribution are carried on in a planned way"¹ enables men to dominate their social relations, so that for the first time they become conscious architects of their own history.

¹ Frederick Engels, *Dialectics of Nature*, p. 35.

*Lenin's Work "The Immediate
Tasks of the Soviet Government"*

The role of the socialist state in the balanced organisation of production and distribution of the social product for the benefit of the working people was demonstrated by Lenin in his work "The Immediate Tasks of the Soviet Government". This was written in March and April 1918, when the problem of shaping socialist relations of production became a primary one in the revolution.

Lenin believed that the creation of a large-scale machine industry and a new labour organisation was a vital task in strengthening and developing the socialist social order. He proved the importance of democratic centralism in the organisation of the socialist economy and set forth, as one of the main tasks, the effort to organise mass emulation among the working people and the creation of a new, conscious and comradely labour discipline.

These ideas were further elaborated by Lenin in the subsequent period. Thus, Lenin developed the theory of the balanced organisation and planned management of the economy in the light of the conditions which had taken shape as a result of the New Economic Policy and the use of commodity-money relations.

His work "The Immediate Tasks of the Soviet Government" shows the scientific groundlessness of the bourgeois and reformist theories of planning and voluntarism in planning. Lenin gave a meaningful critique of the anarcho-syndicalist approach to management under socialism. The principles of economic management elaborated by Lenin are still valid in our day.

In a planned economy production grows at a high rate, without crises or recessions. That is the greatest advantage of socialism.

3. OPTIMAL PROPORTIONALITY OF THE ECONOMY

*Changing Social Requirements
and the Structure of Production*

Proportions in the distribution of social labour and the means of production among the various spheres and sectors of socialist production are directly interconnected with the structure of the society's requirements. Under the

given level of labour productivity, it is requirements that determine the share of the social time that goes to the various spheres and sectors of production.

The balanced maintenance of economic proportions implies above all an effort to harmonise personal and production requirements. Here, personal requirements are the direct basis of production requirements which are satisfied by the means of production. Once the social requirements of the goods and services of personal and production consumption have been determined, the socialist society goes on to determine the resources required to satisfy these, to set the corresponding volume of production, and to determine its structure and rate of growth. This helps to strike the necessary balance between the structure of social requirements and the development of material production and non-productive fields.

In the course of systematic regulation of production, the society adopts it to the continuously changing demands. The higher the level of production, the sooner it goes beyond the framework of existing requirements. The social measures taken by the state to obliterate the existing distinctions between town and country and between mental and manual labour, measures which are designed for the all-round development of the individual, exert a substantial effect on the acceleration of the growth of requirements.

Social property in the means of production does away with the antagonism between production and requirements, an antagonism that is organic to the capitalist society. In contrast to production under capitalism, the development of socialist production is not determined by a drive for profit but by the need to satisfy the actual requirements in consumer goods and services, and the means of production necessary to produce these. While requirements are generated by production, they are relatively independent of it and constantly stimulate it and pose new tasks before it.

The development of requirements goes hand in hand with a change in their *structure*. As the people's living standards go up, there is a relatively greater growth of personal requirements for products of higher quality. In the recent period, scientific and technical progress has brought about the emergence of a large quantity of new requirements and means to satisfy them. This has brought to the fore the task of raising the quality and reliability of products to meet these

new requirements. Accordingly, the need for boosting the technical level and efficiency of production has become more imperative. The non-antagonistic contradictions between the changing requirements and the existing proportions in the distribution of labour power and the means of production by the various sectors of the national economy are resolved through the improvement of plan management.

Social Utility of Products

The socialist society allocates the labour time necessary for the production of various products with an eye to their importance for satisfying the social requirements. In other words, account is taken of their useful effects from the standpoint of the interests of the society as a whole, of their social utility. Guided by these criteria, the society decides which personal and production requirements are subject to priority satisfaction at the given time.

The need to enhance product quality is directly connected with the need to attain the goal of social production: to satisfy the material and cultural requirements of the members of the society. Ever greater efficiency of production helps to turn out products that are up to the latest scientific and technical standards.

The magnitude of the inputs of labour time also has an effect on the extent to which the requirements of the society are satisfied. As the inputs of labour time for the production of each product are reduced, society is enabled to expand the range of its requirements and to enhance the degree of their satisfaction.

Consequently, the allocation of labour between the various spheres of production in the socialist society is effected with an eye to the useful effect of the products and the quantity of the labour time expended on the manufacture of these products.

Optimisation of Economic Proportions

Optimal economic proportionality means that the structure of social production corresponds to the task of providing the fullest satisfaction of social requirements with the lowest inputs of living and materialised labour.

There is a close interconnection between optimal economic proportionality and the reduction of inputs of social labour into the manufacture of products. The reduction of labour

inputs is the crucial means for ensuring optimal economic proportionality; for its part, balanced optimisation of proportions is a key source of labour economies. Under socialism, there is a possibility not only of doing away with losses in the use of labour caused by the haphazard, anarchic and cyclical character of capitalist production, parasitic consumption by the exploiter classes, militarisation and other defects of the capitalist system of production relations, but also of ensuring the conditions for the rational distribution of resources by the spheres of social production.

The shaping of optimal proportions implies a study of the trends in the development of requirements over a fairly long term. Contemporary scientific knowledge helps to anticipate the main lines in the development of science and technology, the rate of population growth, and the changes of the key social requirements. The organisation of new lines of production stemming from the scientific and technical revolution, the creation of large territorial production complexes, measures to improve the environment and other major undertakings can be successful only if the long-term prospects for economic development are taken into account.

An important material condition for the creation of optimal proportions in the economy is the setting aside for these purposes of definite quantities of means of production and articles of personal consumption, that is, *reserves* (raw and other materials, fuels, production capacities, and consumer goods). The reserves are used to solve long-term economic problems arising from major structural changes in the economy. They make it possible to avert, in due time, any partial disproportions that could spring from the discrepancy between the growth rates in the various sectors, the structure of requirements and the structure of production under the acceleration of scientific and technical progress, and also from the impact on production, especially agricultural production, of the elements, plan miscalculations, etc.

Optimal proportionality of the economy is indissolubly connected with relations of production under socialism which give full scope for the improvement of the productive forces, by the advantages of the socialist system in effecting the STR, and in enhancing the efficiency of production. The Guidelines for the Economic and Social Development of the USSR for 1981-1985 and the Period up to 1990 envisage essential measures to ensure balanced social production.

Chapter twenty-two

COMMODITY-MONEY RELATIONS UNDER SOCIALISM

The production of goods as commodities is a specific feature of direct social production at the socialist stage, which is why there is circulation of commodities and operation of the law of value. The planned organisation of production includes the use by the society of commodity-money relations, which have a new socio-economic content.

This chapter examines the necessity, substance and role of commodity-money relations in the socialist economy.

1. THE NECESSITY AND SUBSTANCE OF COMMODITY RELATIONS UNDER SOCIALISM

Why Commodity Relations Exist under Socialism

The social division of labour, the general prerequisite for commodity relations, continues to exist under socialism. But the social division of labour does not in itself explain the necessity for products being turned out as commodity. The reason for which commodity relations exist lies in the specific features of the socialist stage in the socialisation of production.

Alongside the whole people's property in the means of production in the socialist society there is also collective farm and cooperative property. The domination of the whole people's property determines the direct social nature of economic ties between the society as a whole and the collective farms. There is a need to reckon with the interests both of the collective farms and of the society as a whole, and to determine to what extent the quantity, quality and orientation of the labour of the collective farmers accord with the interests of the whole people. It is the exchange of com-

modities that is the form of connection corresponding to these requirements.

The labour of individual workers and collectives of enterprises in the whole people's sector is organised directly by the society. Because there are still essential distinctions in labour, and work for the society has not yet become a prime necessity, material incentives in the results of labour operate as an important means for involving every member of the society in the system of social labour. Economic management is coordinated through the direct social regulation of production, which includes the provision of material incentives for labour and constant control of the extent to which labour inputs by collectives of enterprises are socially necessary. This system of balanced relations involves an exchange of products between collectives with an eye to the quantity of labour expended on their production, that is, equivalent exchange of commodities.

Commodity relations are also necessary in external economic ties. Economic relations between socialist countries involve socially homogeneous but different owners. Here, commodity exchange stimulates effective economic activity for the benefit of each socialist country and of the world socialist community as a whole. The exchange of products between socialist and capitalist countries inevitably assumes the form of commodity exchange, because it involves socially antithetical owners.

Consequently, the production of commodities, commodity-money relations exist in the socialist economy—considering the internal and external conditions—because of *the specific conditions of the relations of social socialist property and the character of labour*. The latter, for their part, are ultimately determined by the given stage in the development of social production and the level of the productive forces. Commodity-money relations are an essential feature of the relations of production under socialism.

Fundamental Distinctions between Commodity-Money Relations under Socialism and under Capitalism

Commodity-money relations under socialism express economic ties between men which are fundamentally new in content and form, which is why they differ radically from commodity-money relations at the preceding stages of so-

ciety's history. Their chief feature is that they are based on socialist social property and are a form of balanced and direct social ties between producers associated on the scale of the society as a whole.

Under capitalism, commodity production develops haphazardly, results in the ruin of commodity producers and is fraught with the possibility and inevitability of economic crises. Under socialism, commodity relations are included in the integral system of coordinated economic activity. Here, there are no crises of overproduction or ruin of producers.

Under socialism, the sphere of commodity-money relations is limited. In contrast to capitalism, labour power under socialism is not a commodity, because the means of production belong to the producers themselves. Nor are socialist enterprises objects of commodity relations.

Under capitalism, commodity production is developed to enable the capitalists to maximise their profits. By contrast, the socialised production of commodities under socialism is geared to the satisfaction of the requirements of the society as a whole and to every individual's all-round development.

Commodity relations under capitalism are the universal and predominant form of economic relations by means of which the unity of social production and exchange is realised haphazardly and through antagonistic contradictions. Capitalism is a system of haphazard commodity production. This system is eliminated together with capitalism, which means that socialist production is not a system or a species of commodity production. Socialism is direct social production which is not regulated by the play of market forces but is planned and balanced by the society, and which is geared to the interests of the whole of the society and of each of its members.

The existence of commodity relations with a new, socialist content means the existence of a socialised market and commodity circulation organised under a plan. The effective demand of socialist enterprises and working people is shaped in a balanced manner and, on the whole, reflects the volume of actually satisfied requirements (together with the requirements satisfied free of charge). Relations between the society and socialist enterprises are based on economic calculus.

In the presence of commodity-money relations, the socie-

ty's material resources and those of each individual enterprise assume the money form and appear as the finances of enterprises and the state, constituting the financial system of the socialist society. Alongside of it, there is also a state credit system. Through the financial and credit system, the state exerts an active economic influence on the operation of enterprises, and promotes the improvement of the balanced establishment of economic proportions.

Commodity relations and the economic categories (money, price, finance, credit, etc.) proper to them operate under socialism as an important instrument of social control over the production and distribution of products.

The Commodity and Its Properties under Socialism

The definition of commodity which applies under private property commodity production is irrelevant to socialism. Lenin says: "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."¹

The product of the socialist enterprise which is exchanged under a plan radically differs from the commodity as a product of private labour intended for haphazard exchange. The direct social product of socialist production which retains the properties of a commodity is not the product of capital, not a form of connection between private producers. *Under socialism, the commodity is a product which is produced under a plan by socialist enterprises to satisfy the requirements of the society and which is made available for consumption through planned and balanced commodity exchange. Consequently, under socialism, the commodity is a special type of commodity which is the product of direct social labour.*

In the socialist society, both the articles of personal consumption and the means of production are commodities. Both move from the producer to the consumer through bal-

¹ V. I. Lenin, "Instructions of the Council of Labour and Defence to Local Soviet Bodies", *Collected Works*, Vol. 32, p. 384.

anced operation of purchase and sale. Commodities, which are distributed in a planned manner through wholesale trade between state enterprises, express the relations within the whole people's sector, while those which are sold by state enterprises to collective farms or are purchased from the collective farms express the relations between the society as a whole and the collective farms. In both instances, commodity exchange is a special form of planned distribution of the aggregate product by the socialist state and, consequently, expresses the essential features of the system of socialist relations of production.

The commodities of socialist enterprises, like all commodities, have two properties: use value and value, but under socialism these have fundamental distinctions.

The *use value of commodities* under socialism is a direct social use value. The production of socially useful goods is ensured by the balanced organisation of the production of the social product, of all its concrete types.

The capitalist is interested in use value only to the extent that it is a vehicle of value and of surplus value. Socialist production is organised for the benefit of the society as a whole, so that here social use value as such acquires an importance of its own.

The socially useful labour expended on the production of a commodity constitutes its *value*.

Under socialism, value expresses socialist relations of production and is an embodiment of the labour inputs by the producers in the socialist society. A reduction in the value of a commodity unit as a result of the growth of labour productivity makes it possible more fully to satisfy requirements and so promotes the expansion and development of production.

The absolute magnitude of the value of a given product is usually compared with the quality which is expressed in the useful effect (for instance, in the physical or chemical properties, in the time in which the given product may be used, etc.). With technical progress and the growing diversity in which the same product can be used, ever greater importance attaches to the reference of the value of the given commodity to the unit of useful effect obtained in its use. The magnitude of the value of a useful effect unit is considered in choosing the lines of technical development and improving national-economic proportions.

2. DUAL CHARACTER OF LABOUR

New Content of Abstract and Concrete Labour

Commodities have value and use value because the labour expended on their production is simultaneously abstract and concrete.

There is no private labour in the socialist society, and the dual character of labour is not an expression of the contradictions between private and social labour. Under socialism, abstract and concrete labour are the two aspects of direct social labour.

Under capitalism, abstract labour is an expression of the social character of private labour. Under socialism, abstract labour is an expression of socialised labour, the general element of the various concrete forms and socially different types of direct social labour (mental and manual, industrial and agricultural).

The need to express social labour in the form of abstract labour is connected with the socialist stage of direct social labour and with the essential distinctions in labour, together with the fact that work for the society has yet to become a prime necessity in the lives of men. In these conditions, the labour of each member of the society, as a portion of the aggregate direct social labour, is expressed in the value form, being subject to balanced accounting and control by the society through the process of exchange.

Contradictions between Concrete and Abstract Labour

The contradictions between concrete and abstract labour are expressed in the contradictions between use value and value. These are non-antagonistic contradictions of direct social labour. This means, on the one hand, that direct social labour implies the necessity for coordinated economic management for the benefit of the society as a whole, and on the other, that work for the benefit of the society has yet to become a prime vital necessity. The balanced development of production implies a harmonisation of personal and collective interests, and the whole people's interests, with the latter having the leading role to play.

Under certain circumstances, the correspondence between production and requirements may be upset. For instance, this results from the occasional contrasting of personal or

local interests with the whole people's interests, when the planned assortment of goods required by the society is ignored for the personal benefit of individual workers or non-planned incomes for this or that enterprise. However, this does not lead to a general overproduction of commodities, or anarchy of production on the scale of the society as a whole, as they do under capitalism.

In some conditions, commodity-money relations may provide the soil for speculation, the stealing of social property, etc. This is overcome mainly through statewide socialist accounting and control, and educational work aimed to attain an honest and creative attitude to work and to the increase in social wealth.

The socialist society, developing social production and improving the system of balanced sales through wholesale and retail trade, resolves these contradictions and succeeds in correctly combining the interests of individual working people and of the society as a whole. For these purposes, the activity of enterprises is assessed both on the strength of indicators characterising the use value of products and direct outlays of labour time, and of value indicators.

Social property in the means of production does away with commodity and money fetishism. The movement of the products of socialist labour results from the planned ties established in advance between the members of the society.

The Value of a Commodity

The value of a product unit, or the social costs of its production, is determined by the *socially necessary expenditure of labour*. These are average actual expenditures, with average costs under which the bulk of the given type of product required by the society is produced. They are objective and depend on the social labour productivity actually attained.

These costs are a magnitude which imply a definite useful effect. That is why the socially necessary costs may be calculated per unit of useful effect (for instance, per calorie of heat obtained in the burning of coal) and this makes it possible to compare the cost of products which are interchangeable in the process of production. Because each product has diverse uses, the question of its most appropriate use

is decided in the light of the socially necessary costs per product unit.

The socialist society establishes in a centralised manner the economic proportions which promote the reduction of the costs of production, the balanced introduction of new hardware and technology, and economies in every type of resources. This has a direct or indirect effect on the magnitude of the socially necessary costs.

The individual costs of enterprises in fulfilling planned assignments and the extent to which these correspond to the established norms are also of importance for the society which strives to overcome the contradiction between the individual and the socially necessary costs. Plan norms are usually set below those actually attained, in order to induce enterprises to cut their costs of production. But the planning of the costs of production by the socialist state does not mean that any planned labour inputs are socially necessary. Only labour inputs under average conditions of production are regarded as such costs.¹

Under capitalism, enterprises turning out low-value products find themselves in an advantageous position and grow rich, while enterprises turning out products of higher individual value are ruined. The formation of socially necessary costs involves the ruin of a mass of producers and unproductive outlays of labour and material resources.

Under socialism, there is no competition or commercial secrets. The society helps to use the achievements of individual enterprises for the common interest. Normal functioning of enterprises must ensure the satisfaction of social requirements. The attainment by each enterprise of the level of socially necessary costs and their reduction express the thrifty attitude to labour and help to consolidate social property relations.

Technical progress, the introduction and the best use of new hardware and technology, and the scientific organisation of labour have the definitive role to play in cutting production costs. The raising of skill standards is of increasing importance. Let us bear in mind that more complex labour produces a larger value per unit of time. At the same time,

¹ The formation of socially necessary costs in view of differing natural conditions of production are considered in Chapter Twenty-Nine.

skilled labour creates a larger quantity of use values and helps to raise the quality of products.

Under socialism, it is possible to calculate the expenditure of socially necessary labour and to reduce labour of varying complexity to a definite quantity of simple labour, and diverse types of concrete labour, to labour generally. An intersectoral balance has helped to structure an econometric model of full labour inputs in labour time, which reproduces the inter-relations of producers directly or indirectly participating in the making of a given product. This model helps to calculate the indicators of full social labour consumption, which includes the labour time expended by the production personnel making a given product, and also the labour inputs materialised in raw materials, fuels, equipment and other used-up means of production.

3. MONEY IN THE SOCIALIST SOCIETY

The Necessity and Substance of Money under Socialism

Developed commodity relations imply the existence of money. The expression of the value of commodities through their equation to one of the commodities, and the exchange of commodities for money mean the existence of circulation. Money is the universal equivalent form of value, the universal equivalent. The new social content of money consists in the fact that it embodies social labour determined by the domination of socialist property, which is why money cannot be converted into capital, into a means of exploitation.

Through the exchange of commodities for money the various types of labour are equated to a definite quantity of social labour. That is why money helps to take account of the labour inputs into the production of commodities. The process of circulation appears as a system of individual acts of exchange interconnected through the medium of money. In this system, money operates as an instrument of control over the activity of enterprises, regardless of the type of product they turn out, as a means of stimulating labour, as a necessary element of accounting and control on the scale of the national economy as a whole. The ultimate consumer exerts an effect on the commercial organisation which exerts an influence on the maker of the product, the latter on its suppliers, etc.

The currency of money is an important element in the balanced organisation of the process of reproduction. Enterprises receive money for their current operations depending on their sales. Depending on these, they purchase raw and other materials, replace expended fixed and circulating assets, make accumulations, and give their workers their share of the social product.

Money functions between the two sectors of socialist production, within each sector, and to some extent also between the members of the society. The specifics of economic relations in each sphere is also reflected in the circuit of money. At the same time, the mechanism of the currency of money helps to ensure the unity of the process of reproduction on the scale of the society as a whole. Money also services foreign trade ties with other countries.

The fundamental distinction between money under socialism and money under capitalism does not mean that it has ceased to be money and has become a receipt or a labour coupon. In contrast to labour coupons, money circulates and expresses labour costs not in hours but in materialised labour time, in commodities, which have value.

The domination of social property in the means of production and planned economic development limit the property of the universal exchangeability of money. Let us recall that under socialism labour power is not a commodity, and that enterprises cannot be bought or sold. The basis for money fetishism has been eliminated, money does not rule men and does not operate as an elemental social force.

The Function of Money

Under socialism, money performs the function of *standard of value*, that is, it provides the measure for the direct social labour embodied in commodities. The value of commodities is expressed in money mainly through the establishment of plan prices, which are the money form of the commodity value.

In the process of economic activity, money helps to effect a balanced social accounting of the inputs of living and materialised labour, the production and distribution of goods, and control over the measure of labour and consumption. Stock is taken of labour in money terms and also directly in terms of labour time.

In the socialist countries, *gold* functions as a money commodity. There are several reasons for this, notably the fact that the new social system has inherited the currency of money from the earlier system, under which the prices of commodities had a gold content. The socialist countries are not only connected with each other, but also with the world capitalist market, on which gold functions as money.

The function of money as a measure of value is effected by means of the *standard of prices*, that is, a monetary unit through which the prices of commodities are expressed. The socialist state not only determines the standard of prices but in planning prices and currency of money also exerts an influence on the real purchasing power of the currency unit, that is, on the real magnitude of the standard of prices.

The law of the currency of money requires the maintenance of a correspondence between the gold content of the currency unit and the level of prices established in a balanced manner. However, in the socialist society, changes in the value of gold do not automatically entail price changes. There can be long periods in which the two are wide apart, because gold is mined by the whole people's enterprises and has no free access to the market. From time to time, the state systematically reviews the correlation between the content of the monetary standard and the level of prices. On January 1, 1961, the gold content of the Soviet ruble was fixed at 0.987412 grammes of fine gold.

In the socialist society, money performs the function of *medium of circulation*. The *C—M—C* process is a peculiar form of social control and accounting, by means of which the balanced ties between the various units of the economy and stages of reproduction are realised, and the correlation between production, distribution and consumption in the society as established by the plan is verified. There is a peculiar verification of the state of commerce and its correspondence to paid-up demand as a whole and for the individual types of commodities.

Money as a medium of circulation caters mainly for retail trade. Wholesale trade is effected mainly by means of book-keeping entries.

Under socialism, there can be no crises of overproduction stemming from the function of money as the medium of exchange. So-called gluts, that is, the overstocking of some

goods for a long time in retail trade outlets in some areas, result from inadequate studies of consumer demand, disregard by some enterprises of their planned product mix, and influx of low-quality goods into the marketing network.

In order to reduce the costs of circulation, the money commodity is replaced by *tokens*. This is determined not only by the nature of this function of money, but also by the planned regulation of the money supply. The society determines the sphere of the circulation of cash and is in possession of the necessary plan instruments which enable it to keep the money supply corresponding to the actual requirements of money.

Under socialism, money has the function of *saving and the formation of monetary reserves*. To provide for their current needs, the enterprises, establishments and collective farms create money reserves which are deposited in banks. Planned economic management, the absence of fluctuations in market outlook or of stock-market speculations makes it possible to reduce money reserves to a rational magnitude. The working people have the opportunity of making savings from their labour earnings which they can deposit in savings banks or invest in government loans.

In the presence of commodity-money relations, the process of real accumulation is preceded by its money form. With an eye to the balanced development of the economy, a sizable part of the monetary accumulations of socialist enterprises is redistributed through the state budget. This redistribution results in the formation of state monetary reserves.

A certain part of the socialist state's monetary reserves is kept as gold stock. Together with the mass of commodities at the disposal of the state, which it directs into the marketing network at planned prices, the gold stock is a means for ensuring the stability of money. Regardless of the volume of export, the gold stock helps to import commodities and so increase the commodity back-up of money.

Under socialism, money performs the function of *medium of payment* in the repayment of credits and fulfilment by enterprises and other organisations of various obligations to the state budget and in other types of payments. As a medium of payment, money is closely connected with the financial and credit system, with the distribution and redistribution of the national income, and with the credit

and settlement functions of the banks, and so has an important role to play in the control exercised by means of the ruble over the course of production and circulation of commodities.

Under socialism, the exercise by money of the function of medium of payment is not fraught with the possibility of economic crises. Delayed payments usually result from non-fulfilment of production plans and shortcomings in the arrangement of settlements between enterprises. The socialist state takes steps to eliminate such phenomena.

Money has the function of *world money*, when it operates in the world socialist market and the world capitalist market.

Gold, currencies convertible into gold and other currencies circulating on a par with it are used by the socialist countries in their settlements with capitalist countries.

In settlements between socialist countries, gold has the function of standard of value. Their accounts with each other are settled by means of clearing. To settle their accounts with each other, the CMEA countries make use of the transferable ruble, which is a special international currency.

The quantity of money necessary for the circulation of commodities (money supply) in the socialist economy is determined by an objective economic law. According to Marx's well-known formula, it equals the sum-total of the prices of commodities, divided by the velocity of money (the circuit of currency units of the same name).

Under socialism as well, the sum-total of the prices of commodities depends not only on the value of the commodities but also on the value of the money commodity. Because the paper tokens of money have no intrinsic value of their own, their relative value is equal to the quantity of the money commodity they represent. By establishing the quantity of goods earmarked for sale, by fixing the prices of commodities, the volume and deadlines for various payments to the population, by planning the issue of money, the state budget and finance as a whole, the state determines in a balanced manner the key factors which influence the quantity of money necessary for circulation.

Considering that in retail trade in the socialist countries some use is made of sales on credit, the sum-total of the prices of the commodities sold on credit is subtracted

from the money supply, and the amount of credit due for repayment is added.

The objective conditions of the socialist economy make it possible to ensure the *stability of money*. This is achieved above all by means of the mass of commodities which are at the disposal of the state and which are sold at stable prices. The consolidation of the currency and the stability of the purchasing power of money are ensured through the planned and balanced development of the economy, the increase of trade, and the stability of prices.

4. THE LAW OF VALUE UNDER SOCIALISM

The Content of the Law of Value

The production of commodities under socialism means that the *law of value, which determines the production and exchange of commodities in accordance with their social value*, also operates under socialism.

Within the system of the economic laws of socialism, the law of value does not operate as an elemental regulator of production, but is used for its balanced management.

The operation of the law of value is expressed above all in the value form in which labour inputs are accounted. The approximation of exchange proportions to those dictated by the social value of commodities stimulates the production of the goods required by the society.

Orientation towards socially necessary costs induces enterprises to cut the individual costs of commodities and to accelerate technical progress. Socialism has great advantages in lowering the social costs of production.

Operation of the Law of Value and Price

Whereas under private property price formation is spontaneous, under socialism prices are established in a planned manner. Prices are used to determine the proportion in the balanced exchange of goods between socialist enterprises and to sell goods to individual consumers.

The price recoups the expenditures of past and living labour embodied in the commodity, including the necessary and the surplus labour of the producers. This helps to form

monetary resources for funding expanded reproduction and covering other social needs.

The use of price for accounting the social costs of production induces enterprises to reduce their individual costs by boosting the productivity of social labour, that is, to make production more efficient. Protracted and unwarranted discrepancies between the price and the social value of a commodity deprive the enterprise of its objective guidelines in its work, reduce its stake in the continued technical improvement of production and the raising of product quality.

But far from excluding, the balanced use of the law of value, in effect, implies departures of prices from value. Prices are shaped under the impact of the law of value, and of other economic laws, with the basic economic law having the crucial role to play.

The development of this or that sector of the economy is stimulated by means of higher prices for finished products or lower prices for some means of production. Relatively high prices are used to encourage the substitution of cheaper products or those in greater supply for high-cost products or those in short supply (for instance, substitution of plastics for metals). The introduction of new hardware and technology stimulates prices which make it advantageous for the consumer to use and for the producer to make them.

Price policy is oriented towards rational departure of prices from value in the light of the concrete conditions of production, exchange, distribution and consumption of commodities. The state's starting point is the labour value of a commodity, that is, it regards the socially necessary inputs of labour as the basis of price. However the prices of some commodities may depart from value, the sum-total value of all the commodities produced in the society is equal to the sum-total of their prices.

Changes in the magnitude of the value of the commodities caused by changes in the productivity of social labour do have an effect on national economic proportions, but are not their chief regulating factor.

The balance between supply and demand also has an effect on the magnitude of prices. A discrepancy between supply and demand may affect prices, and cause them to rise. But prices do not rise because of the expansion of the market. Whenever supply tends to fall short of demand, the

prices of goods do not, as a rule, go up, but production is expanded to meet the greater demand. As the Documents of the 26th CPSU Congress note, a fuller satisfaction of the population's effective demand is, under contemporary conditions, of special significance among the measures geared to raising the working people's standard of living.

The prices of consumer goods are fixed in such a way as to make the most important goods and services available to all the working people. Technical progress tends to reduce the social value of products, and this creates the objective prerequisites for lowering prices. The main line of the state's pricing policy is a steady and economically justified lowering of prices through the boosting of labour productivity and the lowering of the cost of commodity.

Under socialism, the law of value does not clash with balanced development, but is one of its elements, because the value of the commodity takes shape under the regulating influence of the society.

The fact that a commodity has two properties presupposes the planned use of commodity-money relations, connected with the value form in unity with use value. Natural and value indicators are used in the planning of socialist production.

Under socialism, the aggregate (gross) product, the national income and the national wealth assume the value form. The growth of production, of intersectoral ties and balances is calculated by means of the gross product indicator. In order to determine the volume of production in a set of industries, use is made of marketable (construction) and marketed commodity production taking account of the nomenclature of the products turned out (industry). *Normative net product* is an indicator which in value form expresses the socially necessary inputs of living labour at a given enterprise, and which has a special part to play in the measures to improve planning and enhance the effect of the economic mechanism in boosting the efficiency of production.

Analysis of the substance of commodity relations and the law of value under socialism explodes the theories which deny the objective necessity for commodity-money relations in the socialist economy. These theories assert that socialism is incompatible with commodity-money relations. Hence the absurd "plan or market" alternative, which is widely

used in "centrally directed economy" or "command economy" theories. There is just as little substance to the "market socialism" theory which presents socialist property as the group property of individual enterprises, and ungoverned commodity relations as the universal and predominant form of economic ties between them. These theories regard balanced development as an element of the overall system of commodity production. As a result, socialism is made to appear as a species of commodity production. The "left" revisionists identify commodity relations with capitalist commodity production. In actual fact, the production of commodities under socialism is objectively necessary and is an element of the system of direct social production.

The Future of Commodity Relations

With the advance towards communism, commodities and money will tend increasingly to lose their specific content and will wither away with the construction of the communist society. The law of value will cease to operate when there is no longer any need to produce goods as commodities and to carry on commodity exchange, that is, when the prerequisites take shape for the accounting of social labour in terms of labour time.

The general prerequisite for the ultimate conversion of the direct social product with the properties of commodities into the direct social product of communist production will be created by the tremendous development of the productive forces, the establishment of communist property relations, the elimination of the essential distinctions between various types of labour, and the conversion of work for the society into a prime vital necessity. At the stage of developed socialism, there is a need to provide material incentives for work, to carry on the accounting and control of production, distribution and exchange of goods with the consistent use of commodity-money relations.

THE PLANNING OF THE SOCIALIST ECONOMY

The objective necessity for the balanced development of the economy is realised through economic planning. Centralised planning is the main form for the use of the system of economic laws for the benefit of the society as a whole, and is the core of the state-wide regulation of socialist production.

This chapter clarifies the politico-economic principles and content of planning.

1. THE SCIENTIFIC PRINCIPLES OF PLANNING

The Necessity and Substance of Economic Planning

The objective necessity of economic planning springs from the domination of social, above all the whole people's, property in the means of production. In the socialist countries, the economy is managed on the basis of state plans for economic and social development, with a consideration of the sectoral and territorial principles, and with efforts to harmonise centralised administration with the economic autonomy and initiative of enterprises, associations and other bodies.

Plans for economic and social development constitute a complex of indicators and measures for developing social production as a whole and its individual component parts, so as to coordinate the working people's activity and to fulfil the set tasks with the smallest possible labour inputs. The use of

the objective economic laws of socialism provides the scientific basis for planning.

Planning helps to solve the fundamental tasks of economic and social development. It implies the organisation and coordination of society's overall economic activity in the light of the general tasks of communist construction; elaboration of concrete measures in socio-economic development for the given plan period; orientation of economic units towards the adoption of decisions that would best help to realise the interests of the society as a whole; and constant control over the fulfilment of these decisions.

The level and scale of planning depends on the degree of socialisation of production, and the use of the law of planned and proportionate development of the economy. With the victory of socialism, and the socialisation of every sector of the economy, balanced development becomes the universal form of connection between producers, with planning covering the economy as a whole. In the developed socialist society, prerequisites are created for further consolidating balanced economic development, and this raises the scientific level of planning, makes for the balanced development of production, and realisation of STR achievements. The fulfilment of practical tasks arising from the growth of socialism into communism becomes the main content of planning.

For its part, the improvement of planning helps to consolidate the balanced development and promotes the ever fuller translation into life of the advantages of the socialist economic system. Developed socialism requires that planning, like management as a whole, should be increasingly oriented towards the attainment of final results: satisfaction of the society's requirements, and enhancement of the quality of products and the efficiency of production. This makes for the need to improve the whole of planning work, choose the most effective way of achieving the final national economic results, rationally combine sectoral and territorial development, and long-term and current plans, improve intersectoral and intrasectoral proportions, and ensure the balanced growth of the economy.

The preponderance of the whole people's property in the means of production enables the socialist state to determine, with adequate precision, the time required to effect pending socio-economic transformations.

The main objectives of planning are: production, labour

and social development, finance, capital construction, introduction of new hardware and technology, and material and technical supply.

The activity of associated producers at various levels of social production (national economy, sector, industry, enterprise) is directly guided by the system of inter-related plan indicators. In the developed socialist society, efforts to enhance the efficiency of production and raise product quality have become of the utmost importance alongside the efforts to boost the growth of production. Accordingly, the role of indicators expressing final national economic results, such as a rise in production efficiency and product quality and the ensuing fuller satisfaction of the society's requirements, tends to increase in planning. This means, above all, the output of products by natural indicators and the technical and economic indicators which characterise the use value of products, their quality and technical standards. Hence the role of gross indicators is limited. The net (normative) product indicator, which most adequately reflects the contribution made by individual production associations and industries to the development of production is broadly used in planning the volume of production and labour productivity. The forms and methods of economic activity and the organisation of production in the primary production units are shaped in accordance with the general tasks set forth in national economic plans.

The use of objective economic laws in economic and social development plans is expressed in the fact that the lines and rates of development of the economy, and the interconnection and changes of the key proportions and plan indicators are determined in accordance with them. The operation of the basic economic law of socialism is reflected in the interconnection between the development of social production and the satisfaction of aggregate social requirements. A study of aggregate requirements in the society at a given period is the main condition for scientific planning. Plans contain a system of comprehensive measures ensuring uninterrupted growth and improvement of social production. The planning of scientific and technical development is the starting point in the elaboration of the whole national economic plan.

The application of the law of balanced and proportionate development of the economy is expressed in the constant

maintenance of proportionality in the development of social production on the basis of a balance between output targets and labour, material and monetary resources, and also in the mutual coordination of sectoral, territorial and other plans. All the plans of individual sectors of production must be scrupulously coordinated and tied in with each other so as to constitute a consolidated economic plan.

Specific features of planning under socialism are the holding out of material incentives to work collectives to induce them to fulfil plans and the application of the law of value. Plans are drawn up in terms of assortment (basic nomenclature) and value, the volume of production, and the volume of sales. Wholesale prices for the means of production, and retail prices for consumer goods are planned.

The plan indicators are worked out in the light of the operation of economic laws as an integrated whole. Underestimation or neglect of any law has a negative effect on the rate of economic development and on the efficiency of social production. There is ever greater emphasis on the social aspect of the plans as the tasks of advancing the society at the stage of developed socialism are tackled. Together with boosting material production, they are increasingly aimed at bettering social conditions of life, including measures for improving working conditions, raising skill standards, general education and cultural standards, and improving everyday amenities and housing conditions.

The formation of the world socialist system has extended planning to economic relations between the national economies. This means that it now takes into account the specifics of the operation of economic laws within the socialist world economic system. Plans for cooperation are now jointly drawn up by the socialist states.

Planned economic management enables the socialist countries to attain stable and high rates of economic development, to fulfil major tasks in scientific, technical, social and economic progress in a short historical period, to secure proportional and effective development of the economy, steadily to raise working people's living standards and develop socialist culture in every way. All the successes of the socialist economy spring from economic planning.

Bourgeois economists claim that under socialism planning boils down to administration by fiat. The right revisionists want centralised planning to be whittled down. The "left"

revisionists substitute subjectivism in economic management for scientific planning. Theoretical analysis and experience of planning in the USSR and other socialist countries show that these approaches are unscientific.

Basic Principles of Planning

Democratic centralism is the key principle of national-economic planning. It calls for an organic blend of the leading centralised principle in planning and initiatives and active efforts by republican and local organs of power, by all the working people in drawing up and implementing plans.

The agencies engaged in centralised planning formulate the basic proportions of the national economy, make sure that the plan is balanced, draw up comprehensive programmes, solve the problems of economic zoning and location of the productive forces, and determine ways for enhancing the efficiency of social production.

Basing themselves on the resources available and guided by the control figures of central planning bodies, the collectives of enterprises (production associations), elaborate draft five-year plans which are generalised in local bodies, departments, and branch ministries and provide the basis for compiling the five-year plans for the industry and the republic. Then these plans are presented to the central planning body, which draws up a draft single plan for the economic and social development of the country. Once this plan is confirmed by the highest state bodies, enterprises are informed of the basic indicators for their production and financial activities, corresponding to what is required to ensure the necessary national economic proportionality. The compilation of annual plans begins from below. On the basis of the development of socialist emulation and use of internal reserves, production associations (enterprises) draw up their own so-called counter plans, which exceed the tasks set in the five-year plan for the given year. Counter plans, coordinated with material resources, are included in the annual plan.

Planning makes it possible to bring together into an integral system the interests of the state, of the collectives at the enterprises, and individual working people, thereby enhancing the incentives for work which are proper to socialism.

Plan targets are directive, which means that they must be fulfilled. *The principle of directiveness* is a radical advantage of socialist planning over the state regulation of the economy in the capitalist countries and so-called indicative planning, which is no more than a recommendation. "The plan is law because only its observance assures the harmonious functioning of the national economy."¹

State plans cover the economy as a whole. But whereas the whole people's enterprises are given directives concerning the basic indicators of production, collective farms are only set targets for sales of their produce to the state, so as to ensure the key national economic proportions, including proportions in the development of agriculture.

State economic plans being the key instrument of the economic policy of the Communist and Workers' parties, they are based on the *principle of the party approach*.

Planning is closely bound up with the whole activity of the state in the construction of a communist society. That is the light in which Lenin regarded the COELRO Plan, which he described as a plan for socialist construction in Soviet Russia, as the Party's second programme.

The Party spirit of planning is organically connected with its *scientific nature*. The plan which contains a complex of measures for communist construction over a given long-term period and which is based on the knowledge of the system of laws of the socialist economy and the concrete conditions of social development is a scientific plan.

Planning implies *nationwide accounting and control of plan fulfilment*, and the observance of state planning discipline. Any breach of plan obligations by any unit results in partial disproportions in the development of the national economic complex and leads to waste of labour time and material resources.

Harmonisation of national and international interests is an important principle of planning within the framework of the socialist world economic system. Realisation of this principle helps to make the world socialist economy more efficient, steadily to boost production, and raise living standards in each individual country.

¹ *Documents and Resolutions, The 26th Congress of the Communist Party of the Soviet Union*, p. 64.

The specifics of planning in individual socialist countries depend on the stage of socialist construction at which that country finds itself, on the technical and economic level and scale of the national economy, and on the specific features of the existing system of administration.

2. ORGANISATION AND METHODS OF PLANNING

The System of Plans

The requirements of the economy of the developed socialist society are met by the system of national economic plans, a system developed on the basis of many years of practice and envisaging the elaboration of a comprehensive programme for scientific and technical progress for twenty years ahead, the guidelines for the economic and social development of the USSR for ten years, a five-year plan for the economic and social development of the USSR, and an annual plan.

The *comprehensive programme for scientific and technical progress* generalises scientific forecasts of the main trends in the development of science and technology, production and the social development of the society for the relatively long-term future. The guidelines for economic and social development for ten years and the five-year plan are *long-term plans*; they are elaborated on the basis of the socio-economic tasks set by the Party for the long term and the comprehensive programme for scientific and technical progress. The *five-year plan* is the chief form of planning economic and social development, five years being the time necessary, given the current level of scientific and technical progress, for building and commissioning large-scale industrial enterprises. For the day-to-day running of the economy, *current (annual) plans* are drawn up.

The 26th CPSU Congress confirmed the Guidelines for the Economic and Social Development of the USSR for 1981-1985 and the Period up to 1990. Over ten years, the national income used for consumption and accumulation is to increase by at least 40 per cent.

This decade is a major new stage in the creation of the material and technical base for communism, the development of social relations and the moulding of the new man. Better use must be made of the opportunities and advan-

tages of the society of developed socialism; its material and intellectual wealth, economic and scientific and technological potential must be increased substantially.

The central task of the eleventh five-year plan period consists in providing for a further growth of the Soviet people's well-being on the basis of the stable, progressive development of the national economy, an acceleration of scientific and technical progress and the transfer of the economy on to intensive development lines, more rational use of the country's production potential, all-out economies of all types of resources and improvement in the quality of work.

Because the long-term, five-year and annual plans are organically tied in with each other, planning is continuous and uninterrupted, and this helps to ensure the normal course of the reproduction process on the scale of the society as a whole, and consistency in fulfilling scientific, technical, social and economic tasks. This purpose is also served by the procedures governing the correction of the complex programme for scientific and technical progress every five years, and the introduction of the necessary corrections in the Guidelines and their drafting for the next five-year period.

Scientific Prognostication

Anticipation of the long-term consequences of major scientific discoveries and inventions is highly important in deciding on the strategic lines of economic development entailing tremendous capital investments and important structural changes in the economy. Modern science makes it possible not only to discover new laws but also to gain a better understanding of the immediate and the more remote consequences of human intervention in the environment. The key lines and results in the development of science and technology can now be prognosticated for a period of two or three decades.

Under capitalism, the use of scientific and technical achievements is aimed above all to boost profits and this frequently entails the plunderous use of human and natural resources. In the capitalist countries, prognostication is limited by private property relations which breed commercial and production secrets, raise insuperable obstacles to the establishment of a system of comprehensive information and

concentration of funds, manpower and material resources. Indeed, prognostication boils down to extrapolation and expert evaluations, which reduces the precision of prognoses.

The whole people's property and the balanced development of the economy make prognostications increasingly reliable and authentic. In the socialist society, it is a form of prevision which precedes planning. Prognostication helps to identify the possible socio-economic trends, to work out alternative solutions for pending problems, and to obtain the necessary scientific data to back up the choice of this or that plan conception.

Prognostication of scientific and technical development is the starting point within the system of prognosis because it helps to analyse the possible changes in the field of energy and fuel, the instruments and objects of labour, and the system of transport and communications. The effects of new discoveries and the technical projects worked out on their basis are studied in terms of the various alternatives of their realisation. That is why the fulfilment of national economic tasks is also worked out in a number of versions, each of which constitutes a possible line for the advance of society over a relatively long period.

The Marxist-Leninist theory is used as the basis for bringing out the objective uniformities underlying the connections between scientific and technical progress, the productive forces, the economic basis and superstructural relations.¹ Here, extrapolation and expert evaluations are merely used as supplemental to the Marxist-Leninist analysis of the society's development as a natural historical process.

The Complex, Systemic Approach

The objective necessity for the complex approach to planning is determined by the integral nature of the socialist economy. This approach becomes increasingly important because of the STR's profound effect on every aspect of social life, major structural changes in the economy, and

¹ Basis and superstructure are concepts showing the interconnection between economic and all other social relations. The basis is the economic structure of a society. The superstructure consists of the political, juridical, moral, aesthetic, philosophical and religious ideas and institutions. Each socio-economic formation has a distinct type of basis and superstructure.—*Ed.*

also the country's powerful production, scientific and technical potential, which makes it possible scientifically to tackle many inter-related tasks.

The complex approach consists in ensuring the proportionate and balanced development of the economy and its component parts as an integral whole. It implies that the various aspects of centralised planning—national economic, sectoral, regional and external economic—are intrinsically interconnected and integrated. The socialist economy is regarded as an organic socio-economic system all of whose parts are internally connected with each other and consist of various subsystems: sectors of production; science, technology and economic regions. Each of these is organically connected and interacts with other subsystems within the framework of the integrated economic complex.

Complex planning is based on a programme of scientific and technical progress envisaging a system of measures to develop the main scientific and technical lines and making practical use of their achievements in the economy. Its implementation will help to create the necessary conditions for putting through the social programmes.

For the purpose of concentrating forces and resources on fulfilling the key national economic tasks, the 26th CPSU Congress pointed out the need to elaborate and implement, in stages, special comprehensive programmes for the main socio-economic problems, especially the foodstuffs problem, those of the development of the production of consumer goods and services, a cut in the use of manual labour, a development of the engineering and power industries, and all types of transport, the introduction of chemicals into the national economy, as well as other large-scale programmes.

Improvement of Planning Techniques

The balanced regulation of production is achieved by means of appropriate methods in elaborating and analysing the fulfilment of economic plans.

The *balance method* of planning is used to coordinate and balance out the various component parts of the national economic plan. This is a way of tying in requirements and resources on the scale of social production as a whole, and of coordinating allied industries and lines of production. The plan-balance system reflects the multiplicity of forms

in which the various spheres of social production and sectors of the economy are connected with each other; it includes material, labour and value (financial) balances. An intersectoral balance of production and distribution of the social product is drawn up to determine the national economic requirements of the various types of raw and other materials, fuels and machinery. The national economic balance and the balance of the administrative and economic regions are also of great importance.

The level of planning largely depends on the quality of the *technical and economic norms* used in drafting national economic plans. Progressive norms provide scientific grounding for plan assignments, help to spread advanced experience, make fuller use of labour and material resources, and stimulate scientific and technical progress, higher labour productivity and improvement of product quality.

The constant change of production proportions under the impact of the STR causes the need to improve the plan balances and technico-economic norms. One of the main lines here is the modelling of structural changes in the national economy on the basis of *mathematical and economic methods* with the use of computers.

The state of science today makes it possible to present the national economic plan as a system of extremum problems (to determine the maximum and minimum value of a function), which, given clear-cut economic criteria, lend themselves to mathematical formalisation and solution. Consequently, it is possible to work out *mathematical optimal-plan models* constituting an aggregation of mathematical operations (algorithms) performed in a given order. Such models express the quantitative interconnections and interrelations in the economy. Considerable experience in optimising plans for the development of individual sectors and regions is already available. The problem now is being tackled to work out a plan for the development of the whole national economy with the use of new methods.

Chapter twenty-four

**THE FACTORS OF SOCIALIST PRODUCTION.
THE GROWING EFFICIENCY OF PRODUCTION.
THE ECONOMIC LAW OF STEADY GROWTH
OF SOCIAL LABOUR PRODUCTIVITY**

This chapter analyses the factors of production, the structure and the social content of the aggregate product. This provides the basis for bringing out the new nature of necessary and surplus labour, necessary and surplus product, the new sources of growth of socialist production, its rising efficiency, the substance and ways of boosting the productivity of social labour, and the advantages of scientific and technical progress offered by the socialist economic system.

**1. THE CONJUNCTION OF THE FACTORS
OF PRODUCTION**

In any production, the material factor consists of the means of production, and the personal factor, of labour power. This gives bourgeois economists the pretext for ignoring the social aspects of production and for reducing it to relations between man and nature. But the fact is that the factors of production and the mode of their conjunction with each other have a different social character in different social formations, and the process of production itself runs in a form that is specific to each social system.

Production Assets

In the socialist society, the means of production cease to be an instrument for the appropriation of the unpaid labour of others, that is, they cease to be capital. The means of production being the property of the whole people, they operate in the process of production directly in their natural capacity as instruments and objects of labour, thereby ac-

quiring a new form which is proper only to socialism, the form of *society's production assets*.

As an economic category, *production assets express the relations between producers in the use of the means of production in the process of their joint labour in turning out diverse material values satisfying the requirements of the society and all its members*. They are a means for creating and increasing the social wealth. The joint labour of the producers is the source from which production assets are formed. From 1971 to 1980 productive assets in the USSR increased by 120 per cent and accounted for 1,149 billion rubles by 1981. In contrast to capital, production assets operate as a single whole, although they function in the subdivisions and sectors of social production to which they are allocated. Their movement is effected in a balanced manner.

Rational Use of Natural Resources

Natural resources provide a natural source for the growth of production. Socialist production implies the rational use of society's natural resources, and so also the protection of nature.

Some natural resources, above all, mineral deposits, are non-renewable. As they are extracted from the subsoil, they are depleted. Other natural resources—soil, water, flora and fauna—require considerable labour inputs for their renewal (thus, the soil needs fertilisers, bodies of water require sewage disposal, forests—new plantings). The protection of nature under socialism is a social endeavour, and careless treatment of it, above all of the soil, is regarded as destruction of an asset of the whole people.

The socialist society plans the preservation of the natural environment. The Soviet Union has the largest and frequently unique deposits of valuable minerals, and is provided with all the energy and raw material resources it needs. But dynamic economic development causes a rapid growth of requirements in various types of mineral raw materials. That is why, alongside the growth of extraction, there is a growing need to make better use of raw materials.

For the benefit of present and future generations, the necessary measures are being taken in the USSR and other socialist countries for protecting and making rational and scientifically grounded use of the land and its subsoil, water

resources, flora and fauna, for maintaining the purity of air and water, and ensuring the reproduction of natural resources and improving the environment.

Collective Labour Power

Working people in the socialist society constitute its basic wealth; producers are co-owners of the means of production. That is why they cannot buy their own capacity for labour. Labour power ceases to be a commodity and operates in its natural form, as a complex of physical and spiritual human capabilities which are set in motion when man produces some use value.

Under capitalism, the labour power of the society is fragmented by private property, but the domination of social property predetermines its existence as integrated, collective social labour power capable of joint labour in the interests of all the members of the society. Under socialism, the conscious and free choice by men and women of the work which best accords with their knowledge and capabilities goes hand in hand with the balanced distribution of labour power by spheres of production.

On the whole, socialist production is effected as the functioning of collective labour power, united by the common property in the means of production and the results of labour, and a common purpose which also makes for the coherence of the activity of the members of the society.

The reproduction of labour power in the socialist society is connected with the development of the individual and cannot be limited to the narrow framework of compensation of expenditures of labour power, as is the practice under capitalism. Because the development of production is designed to ensure full well-being and all-round development of all the members of the society, conditions are created for the steady growth of the population and of manpower resources. Because there is no unemployment and labour power is distributed in a balanced manner, the use of labour resources is rational. The socialist state organises the systematic training of personnel and ensures a steady growth of their cultural, technical and skill standards.

The population of the USSR increased from 194.1 million in 1940 to 268.8 million in 1982. In 1939, 123 per 1,000 employed persons had a higher or secondary (complete or

incomplete) education, in 1959—433, in 1970—653, in 1979—805, and in 1982—846. In the tenth five-year plan period (1976 to 1980) 12.5 million persons graduated from vocational schools, i.e., 66 per cent of the newly-involved in production.

The growing efficiency in the use of labour resources today is connected with the distribution of labour power in accordance with the location of production by economic regions throughout the country, accelerated complex mechanisation and automation of production processes, and full and rational use of labour time.

The Socialist Mode of Conjoining Labour Power and the Means of Production

In the process of socialist production, labour power is conjoined with the means of production on the basis of comradesly cooperation and mutual assistance. Productive assets do not hold sway over the producers but serve them as efficient working organs.

The product made in the process of production is the property of the producers themselves and is designed for the satisfaction of individual and social requirements. That is why *work for the society under socialism is work for oneself*, for by increasing the social wealth, the worker in the socialist society creates the conditions for enhancing his own well-being.

There is no class antagonism in socialist production. Both classes of the socialist society—workers and peasants—are labouring classes, that is, producers, who do not exploit the labour of others, and who exchange the results of their activity in a national economy that is organised and developed under a plan.

Cooperation of Labour under Socialism

Production is a process involving the cooperation of labour, that is, *joint activity by producers who are free from exploitation and who are associated in a balanced manner on the scale of the society as a whole*. Under socialism, the social productive force generated by the cooperation of labour tends to increase many times and belongs to the working people themselves.

The cooperation of labour involves a new, *free and conscious labour discipline*, which replaces the coercive capitalist discipline. Social property in the means of production releases men from exploitation and makes for their *conscious and creative attitude to work*. Every citizen's responsible approach to his duties is the condition for the fullest embodiment of the principles of socialist democracy and freedom of the individual.

In the developed socialist society, the working people are highly organised and ideologically conscious. However, the further strengthening of labour discipline is also of much importance in the socialist society. A reinforcement of labour discipline is one of the chief directions in implementing the economic and social policy of the Party and government, in raising the efficiency of production and fostering a Communist attitude to labour. The main method for strengthening discipline is persuasion and the formation of communist consciousness. Here, the system of material incentives offered to producers for achievements in labour activity has an important role to play.

The joint labour of the participants in the process of production is directed through *one-man management resting on the support and direct participation in management of all the members of work collectives*. One-man management means that in the process of production every member of the collective subordinates his labour activity to the will of the senior executive authorised by the society and personally responsible to it for the business entrusted to him. But under socialism, the will of the management personnel does not conflict with the actual producers as an alien power, but should correspond to the interests of the whole collective. All managerial staff, Lenin says, act as "national instructors, ... organisers, assistants in the business of establishing *everywhere* the strictest order, the greatest economy in human labour, the strictest comradely discipline".¹

The Constitution of the USSR establishes diverse forms of *actual participation by broad masses of people in management*. With the participation of broad masses, their representatives on the higher organs of power formulate the economic policy of the socialist state, which has to express the vital

¹ V. I. Lenin, "Inevitable Catastrophe and Extravagant Promises", *Collected Works*, Vol. 24, p. 430.

interests of the whole people. It is firmly established practice in the socialist countries that state plans for the development of the economy and other major acts are discussed by the whole people. Participation in such discussions helps the working people to gain a clearer understanding of the close connection between their everyday affairs and the perspectives of social development, the link between their own interests and the overall tasks of communist construction. The working people exercise control over the fulfilment of plans and take part in economic management through primary Party organisations, which bring together the most forward-looking workers, collective farmers and employees and which enjoy the right of control over the economic activity of enterprises through the trade unions, standing production conferences, and general meetings of workers and collective farmers. One of the key tasks in perfecting management is the ever more extensive involvement of the working people in the management of production.

The growing scale of production and the qualitative changes in the economy make ever greater demands on executive personnel in the economy. The 26th CPSU Congress noted that today's economic manager must be well versed in the scientific and technological fundamentals of production, its organisation and economics, in the methods of struggling for high labour productivity and quality output; must combine professional competence with a broad ideological and political outlook and an ability to work with people. It is more important than ever for him to be businesslike and capable of seeing into the future, to be energetic and persistent, and possess a socialist initiative.

The creative activity of the participants in production is expressed in *socialist emulation*. Bourgeois ideologists claim that because socialism has eliminated competition it has also thrown out emulation. Actually, far from extinguishing emulation, socialism, on the contrary, for the first time creates the opportunity for employing it on a really *wide* and on a really *mass* scale, for actually drawing the majority of working people into a field of labour in which they can display their abilities, develop their capacities, and reveal those talents which are so abundant among the people.

Socialist emulation is a mighty motive force in the socialist economy, and a method for boosting labour productiv-

ity and improving production through the ever more creative activity of the working people. The development of emulation promotes the communist education of the working people, and helps to raise and improve their skills, and educational and cultural standards.

Socialist emulation is organised on the following principles: publicity, comparability of results, the possibility of introduction of advanced methods of work, and their application on a large scale. At the stage of developed socialism, socialist emulation acquires qualitatively new features. It is connected with the realisation of the STR, is increasingly concentrated on tackling the problems of efficiency and quality, and is aimed to achieve the best final national economic results. Today, over a hundred million Soviet people have been drawn into socialist emulation. The 26th Congress pointed out the need to improve the organisation and effectiveness of socialist emulation, and to gear it to fulfilling and overfulfilling plans, and to ensuring high-quality work, a rise in labour productivity and a regime of economy. One major task in organising emulation is to create the conditions for highly productive labour in all enterprises.

New Type of Social Labour Organisation

The socialist organisation of social labour combines the means of production which are up to the modern standard in the development of science and technology and exploitation-free labour power, is based on relations of comradesly cooperation among men and the balanced regulation of labour on the scale of the society as a whole, and is geared to the fullest satisfaction of the working people's material and cultural requirements.

Once the socialist revolution has been carried out, the chief task of the state is to arrange a higher standard of labour organisation. Lenin says: "The dictatorship of the proletariat is not only the use of force against the exploiters, and not even mainly the use of force. The economic foundation of this use of revolutionary force, the guarantee of its effectiveness and success is the fact that the proletariat represents and creates a higher type of social organisation of labour compared with capitalism. This is what is important,

this is the source of the strength and the guarantee that the final triumph of communism is inevitable."¹

The state provides the process of production with modern means of production, advanced hardware and technology, exercises the function of involving men and women in labour, provides the organisers of labour, those who head the various units of the national economy, ensures active and creative participation by broad masses of the working people in the development of production, and regulates the main aspects of relations between the society as a whole and the individual participants in the process of production. Since work for the society has yet to become a prime necessity, the state exercises control over the measure of labour.

2. COLLECTIVE LABOUR UNDER SOCIALISM

Under socialism, the process of production is effected as the collective labour of the society. Economically, the socialist society is, Marx says, "a community of free individuals, carrying on their work with the means of production in common, in which the labour-power of all the different individuals is consciously applied as the combined labour-power of the community".²

Productive Labour

The *sphere of material production* is the crucial sphere in the life of the society. That is where the material wealth is created to ensure the growing well-being of all the members of the society and the all-round individual development of each. On the sphere of material production ultimately depends the development of the activity of those who work in the non-productive spheres.

In 1981, the sectors of material production in the USSR accounted for 73.7 per cent, and of non-productive industries for 26.3 per cent of the employed population. Thus, the bulk of the labour resources are concentrated in the sphere of material production.

¹ V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 419.

² Karl Marx, *Capital*, Vol. I, pp. 82-83.

In contrast to capitalism, where many non-productive sectors cater for the parasitic requirements of the exploiter classes, in the socialist society, all the labour organised in a balanced manner is socially useful.

Labour expended in the sphere of material production, as labour creating products, operates as productive labour. Labour which is not involved in the creation of material goods is not productive labour. However, like productive labour, it is socially useful labour required for the development of the socialist society and helping to enhance the efficiency of the collective social labour. The result of productive labour is the aggregate social product.

Necessary and Surplus Labour

Labour going into the satisfaction of common requirements and ensuring the expansion of production and the functioning of the non-productive sphere is just as necessary under socialism as the labour which goes to cover the requirements of those who work in the sphere of material production and members of their families. From this standpoint the whole labour of the producers is necessary labour. Marx says: "Only by suppressing the capitalist form of production could the length of the working-day be reduced to the necessary labour-time. But even in that case, the latter would extend its limits. On the one hand, because the notion of 'means of subsistence' would considerably expand, and the labourer would lay claim to an altogether different standard of life. On the other hand, because a part of what is now surplus-labour, would then count as necessary labour; I mean the labour of forming a fund for reserve and accumulation."¹

The division of productive labour under socialism into necessary and surplus labour reflects the specific features in the distribution of the aggregate product in the interests of all the members of the society. *Necessary labour* satisfies the vital requirements of the producers engaged in productive labour, and *surplus labour* of that part of the workers who are employed in non-productive labour, and the general requirements of the society, for expanding production above all.

¹ Karl Marx, *Capital*, Vol. I, p. 496.

Accordingly, under socialism there exist *the categories of necessary product and surplus product*. The fundamentally new content of necessary product consists in the fact that it ensures both the recreation of the vital forces expanded in the process of labour and the all-round development of the producer's personality. Under socialism, there are no social boundaries to the growth of the necessary product.

The main form of necessary product is the personal consumption fund of workers in material production, which is distributed according to work and which is used mainly for the individual satisfaction of requirements. A part of the necessary product is used through the medium of social consumption funds. Alongside social production under socialism, the personal subsidiary farms of collective farmers, which have an ancillary role to play, are also a source of the necessary product.

The surplus product under socialism goes mainly into ensuring the steady expansion of production and building up insurance and reserve funds.

Balanced Process of Creation of Use Value and Formation of Value

Under socialism, the production of goods is the production of commodities. But while assuming the commodity form, the product of labour does not cease to belong to the associated producers and is distributed for their benefit, while labour itself does not cease to be labour that is free from exploitation. That is why socialist production is designed to ensure the full well-being and all-round development of the individual. The commodity form of product is a specific direct social form of production.

Use value is created and the value of the commodity is formed simultaneously in the process of labour. The value of the commodity assumes the formula:

$$V = Vtr + Vnl + Vsl,$$

where V is the value of the commodity, Vtr , the transferred value, Vnl , the value created by necessary labour, and Vsl , the value created by surplus labour.

The part of the value corresponding to the value of the means of production transferred to the product is used to replace the means of production consumed in the process of

labour. The other part, embodied in the newly created value, ensures the reproduction of labour power and serves as the source for expanding production and satisfying other social requirements. Accordingly, the aggregate social product is divided into the replacement fund and the net product, which includes the necessary and the surplus product.

The *replacement fund* ensures the replacement of the used-up means of production and the systematic resumption and continuation of the process of production. In natural (material) form, it consists of instruments and objects of labour.

The *net product* of the society in natural (material) form consists of the mass of the means of production which goes to expanding production, and of the whole mass of the articles of personal consumption. In value, it is equivalent to the whole of the newly created value and constitutes *the national income of the society*.

The correlation between necessary and surplus labour is qualitatively characterised in the *surplus product rate*, which is the ratio of surplus product to necessary product. The surplus product rate characterises the relations between the working people as joint owners of the means of production concerning the distribution of the social product for the purpose of creating the sources for expanding production and satisfying other social and also individual requirements. As the productivity of social labour rises, the labour time required for the production of a given volume of the social product is reduced. This creates the conditions for increasing both the necessary and the surplus product.

The Working Day

The working day under socialism is the *time in which the producers work for themselves and for their society*. In determining the limits of the working day, the socialist society reckons with the need to develop production and with other social needs, the working people's requirements in material goods and cultural development, and the external and internal situation.

Socialism makes it possible to increase the free time available to citizens, and this is highly important for the all-round development of their capabilities, for their pursuits in science and technology, literature and the arts, for their rest and leisure, and the education of their children. Since

the productive power of labour depends on the extent of a person's all-round development, an increase in free time has an active influence on production.

The inputs of labour within the limits of the given labour time characterise the *intensity* of labour. In the socialist society, the intensity of labour is determined by scientific and technical progress and the need to make better use of production assets while providing socially normal conditions for the producers' life and development. The surplus and the necessary product are increased mainly by rising efficiency of production.

3. RISING EFFICIENCY OF PRODUCTION: THE CHIEF SOURCE OF THE SOCIETY'S GROWING AGGREGATE PRODUCT

The Economic Law of the Steady Growth of Social Labour Productivity

In the socialist society, the labour of men free from exploitation is the source for the growth of social wealth and of the well-being of the whole people and of each individual. The growth of social production depends on the mass of labour applied in material production and on the saving of labour. Economies in labour, i.e., the saving of labour time, is the definitive source of production growth. The use of new technology entails a cut in the share of living labour while the share of past labour is increased, but in such a way that the total quantity of labour incorporated in the commodity declines; this means, consequently, that living labour decreases more than past labour increases. This implies the increase in labour productivity through the saving of living labour. The rising productivity of social labour also involves the saving of past labour—raw and other materials, fuel and energy—and is consequently manifested in the saving of aggregate labour time. *The saving of aggregate labour time, considered in relation to production inputs and resources, characterises the efficiency of social production.*¹

¹ In practice, one national economic criterion has been broadly accepted for assessing the economic efficiency of social production, namely, the maximisation of the national income (net product) with respect to the inputs and the resources used in production.

Thus, the rise both in production efficiency and in the productivity of social labour comes down to economies in labour and working time. The efficiency of production, as Leonid Brezhnev said at the 26th CPSU Congress, "consists above all in having the production output grow faster than the input, in achieving more while employing relatively fewer resources in production. The planning, the scientific and technological and the structural policy have to be subordinated to solving this problem. Economic methods and management policy likewise have to contribute to efficiency."¹

The rise in the productivity of social labour and the efficiency of production constitutes an *intensive* growth of production.

Bourgeois economists assert that production based on social property in the means of production cannot be efficient, while the right and "left" revisionists do not believe in the advantages of socialism. The former want the principles of the capitalist organisation of labour to be used under socialism, while the latter want production to be run through the enthusiasm of the working people and military, barrack-room methods in organising production. A scientific analysis of socialist production and the experience of existing socialism show that such views are at odds with the reality.

Socialism provides an opportunity of eliminating all the obstacles which, under capitalism, block the way towards making economies in labour. By economising on labour in any form and boosting the efficiency of production, the society is enabled to expand the production of goods and to satisfy spiritual requirements, while the actual producers have material incentives in raising labour productivity. The socialist society has a stake in economising on all labour, and not only on paid labour. The planned development of the economy makes it possible rationally to organise production and to do away with unproductive losses of social labour. The pace of technical progress is accelerated.

Lenin says: "In the last analysis, productivity of labour is the most important, the principal thing for the victory of the new social system. Capitalism created a productivity of labour unknown under serfdom. Capitalism can be utterly

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 52.

vanquished, and will be utterly vanquished by socialism creating a new and much higher productivity of labour."¹

Consequently, *socialist property in the means of production makes for the steady growth of the productivity of social labour; the higher the productivity of social labour, the larger the aggregate social product, and the more fully the well-being and all-round development of the members of the society are ensured.* This objective causal nexus constitutes the economic law of the steady growth of the productivity of social labour in the socialist society.

During the tenth five-year-plan period, the efficiency of production rose on the basis of scientific and technical progress and improvements in management. The productivity of social labour increased by 17 per cent. The rise in labour productivity accounted for 75 per cent of the increment in output in industry, 100 per cent of that in agriculture and 95 per cent of the increase in construction and installation work in the building industry. During the eleventh five-year-plan period (1981-1985), the productivity of social labour will rise by 17 to 20 per cent and will be responsible for not less than 85 to 90 per cent of the increase in the national income.

At the stage of developed socialism, the society's need to enhance the efficiency of production tends markedly to increase. There is a growing need to accelerate the growth of production to ensure the fulfilment of major social tasks in communist construction, to strengthen the world socialist system and to ensure the triumph of socialism in the peaceful competition with capitalism. A number of other factors also make the task of raising the efficiency of production especially acute: the reduction in the increment in labour resources, the increase in expenditures in connection with the development of the East and North, the increasing outlays on environmental protection, the existence of a considerable number of old enterprises requiring fundamental modernisation, and the lag in transport, communications and road building behind the growing needs of the national economy. At the same time, the country's great production, scientific and technical potential, the use of the STR and the rising cultural and technical standards of the working

¹ V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 427.

people create real prerequisites for markedly reducing labour inputs into production.

The further enhancement of the efficiency of production is the fundamental problem of the internal economic policy of the socialist state.

The relations of production based on social property in the means of production help to do away with the waste of living labour which is characteristic of capitalism with its excessive intensification of labour and unemployment, to eliminate the predatory use of nature caused by the drive for profit, and to accelerate scientific and technical progress. The economic policy of the socialist state is a reflection of the requirements of economic laws and ensures the choice of the most rational ways of developing production and advancing scientific and technical progress, and making the best use of the society's labour, natural and production resources. Consequently, socialist production contains within itself immensely greater potentialities for enhancing its efficiency than does production under capitalism.

Lenin said that the attainment of a high level of labour productivity is directly connected with the establishment of a new organisation and discipline of labour. He emphasised that one of the important tasks of the socialist state is to study new beginnings and to support and help to spread them.

The new, socialist type of social organisation of labour is based on the working people's conscious discipline. The new attitude to work, in which Lenin saw the beginnings of communism, results in the all-round development of human capabilities, the assertion of the incentives for work appropriate to socialism, and the conversion of socialist emulation into a movement involving the whole people. The reality shows that within the system of socialist relations of production man has a new status.

Ways of Enhancing the Efficiency of Production

The productive power of labour is determined by diverse factors, among them, by the average skill of the worker, the level of scientific development and the extent of its technological application, the social combination of the production process, the scale and efficiency of the means of production and natural conditions.

Under socialist relations of production, the social content of these factors tends to change and the extent of their influence on the efficiency of production to increase. Socialism creates broad potentialities for raising the workers' craftsmanship. The social combination of the production process connected with specialisation and cooperation is rationally developed. Social property creates conditions for the advance of science, the introduction of more efficient techniques, and better use of the means of production. The predatory attitude to the natural resources practised under the system of private enterprise is eliminated.

All these ways of enhancing the efficiency of production are connected with scientific and technical progress. The introduction of new hardware and technology into production enables living labour to set in motion an ever greater mass of the means of labour and to act on an ever larger quantity of the objects of labour, so becoming more productive.

Scientific and technical progress has a direct bearing on the development of progressive industries, electrification of the economy, the use of chemicals, rational location of the productive forces with respect to the availability of natural resources and the rational use of labour resources, a greater degree of specialisation and cooperation in production, and its ever greater concentration. In agriculture, scientific and technical progress is the basis of specialisation and concentration of production through interfarm cooperation and agro-industrial integration and its industrialisation.

Technical development helps to raise the workers' skill standards, so intensifying their creative activity. The hardware available and the level of skill standards among the workers determine the level of organisation of labour and production.

Technical progress ensures ever higher product quality. All other conditions being equal, higher product quality is equivalent to an increase in the volume of output and a rise in the efficiency of production, and lower product quality, to a reduction in the volume of output and a decline in efficiency.

As the STR unfolds, production is released from a number of constraints imposed on it by the limited potentialities of man and nature. The automation of production and new technology help to introduce continuous processes in production on a larger scale and to raise product quality and

precision. The use of new materials and sources of electric power opens up tremendous potentialities for economising on labour. The introduction of the latest systems of farming increases the fertility of the soil. New and efficient methods in working mineral deposits and progressive technologies in extracting, concentrating and processing minerals help to extract more minerals from the subsoil and to process mineral raw materials more fully and comprehensively. The STR-induced qualitative shifts in the skill standards and general culture of the workers help to economise on every type of materialised labour.

The radical transformations in hardware, technology and objects of labour, and the substantial changes in the labour force rest on the latest scientific advances, providing material production with new implements and instruments of labour and new experience; science becomes a direct productive force. The growing efficiency of production is increasingly connected with the transformation of production into a scientific process.

In contrast to the capitalist society, where private property and the drive for profit lay emphasis on efficiency at individual enterprises, the socialist society systematically controls the input of labour at every stage in the making of the product, ensuring the use of the latest scientific and technical advances and progressive forms of organisation in production on the scale of the whole national economy, and regulates ties between enterprises and industries. Because it is guided by the criteria of national economic efficiency, the society enhances the efficiency of social production as a whole.

An important reserve in boosting the efficiency of production is elimination of diverse losses of labour, which usually result from mismanagement, poor planning and organisation of material and technical supply, lax labour discipline and departures from technical standards. The socialist state is waging a struggle for a strict regime of economy. Many aspects of economic activity, the 26th CPSU Congress noted, are considered from the viewpoint of "a concern for saving, for the fuller and more rational utilisation of what the country possesses."¹

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 54.

The need to enhance the efficiency of production and the dynamic development of the economy determine the line of accelerating scientific and technical progress, perfecting planning and management, tightening up organisation and order at each work place and in each management unit.

4. TECHNICAL PROGRESS UNDER SOCIALISM

The Economic Criteria for the Use of Machines under Socialism

Under socialism, the machine ceases to be an instrument for intensifying the exploitation of the worker and increasing surplus value for the capitalist, and becomes a *means for raising the well-being of the working people and easing labour*.

The growing well-being of the members of the socialist society is ensured through the steady development of production. With the available labour resources, it depends on a reduction in the expenditure of labour time on the making of a product. That is why the economic efficiency in the use of machines under socialism is determined by their effects in reducing labour inputs and the value of products.

The labour time which corresponds to the wear and tear of machines, the inputs of fuel, electric power, raw and other materials used in the making of the product, and the labour time of those turning out the product with the use of machines take part in forming the value of the products of machine production. The use of machines reduces labour inputs in the consumption of products in the process of production. Economies in aggregate labour time serve as the synthetic criterion of the economic efficiency of machines. The absolute magnitude of the economic effect is determined as the differential between the aggregate labour inputs into the products turned out in the period in which the new machine functions, and the labour inputs under the old conditions of production (manual labour, the use of obsolete machines).

To simplify matters, one may assume that the use of the new machine does not change the existing norms of raw and other materials inputs, or the quality of the product. This frequently happens in practice, so that the above assumption is fully warranted. Inputs of past labour connected with the functioning of the machine can be added, for the sake of

convenience, to the inputs of labour into the making of the machine itself. Then, the efficiency of the machine appears as the difference between the past labour embodied in the machine and the living labour of the redundant worker. *The use of the machine will help to increase social production if the labour materialised in it is less than the living labour saved through its use.* As a result, labour inputs into production are reduced, so making available labour time for the expanded production of the given product or of new products required by the society.¹

Consequently, the effect of a machine on the growth of production depends on the extent to which it replaces labour. Marx says that "the use of machinery for the exclusive purpose of cheapening the product is limited in this way, that less labour must be expended in producing the machinery than is displaced by the employment of that machinery".²

The more labour time the use of a machine saves for the society, the greater the potentialities for boosting production and, consequently, the higher the efficiency in the use of the machine for the society as a whole. Conversely, when the production of a machine requires the same quantity of labour that is saved through its use, the sum-total of labour required for the production of a given product is not reduced. The socialist society has a stake in the use of the most efficient machines.

Let us express the inputs of social labour for the production of a product in this formula:

$$V = PL + (NL + SL),$$

where V is the aggregate input of social labour, the value of the product; PL is the inputs of past labour; $(NL + SL)$ is the inputs of living labour, or newly created value, including NL , the value created by necessary labour; SL , the value created by surplus labour.

Let us assume that the aggregate labour inputs into the production of a given quantity of product before the use of

¹ When defining economic efficiency in the use of new hardware the latter's impact on the magnitude of the inputs of past labour and product's quality is calculated by increasing the result, obtained by the magnitude of the economies in raw and other materials and the economies obtained in the use of the higher-quality product.

² Karl Marx, *Capital*, Vol. I, p. 370.

the machine constitute:

$$40 PL + (30 NL + 30 SL) = 100,$$

while the machine requires for its manufacture 20 *PL* and saves 30 (15 *NL* + 15 *SL*). In that case, the total inputs of labour and the value of the products will change as follows:

	<i>PL</i>	<i>NL</i>	<i>SL</i>	Total
Inputs of labour before the use of the machine	40	30	30	100
Changes in labour inputs resulting from the use of the machine	+20	-15	-15	-10
Labour inputs with the use of the machine	60	15	15	90

As a result of the use of the machine, the aggregate labour inputs into the making of the product are reduced from 100 to 90.¹

The economic law governing the use of machines in the socialist society may be expressed as follows:

$$PL < (NL + SL),$$

where *PL* is the inputs of labour into the making of the machine; (*NL* + *SL*) economies of living labour resulting from the functioning of the machine.

The economic efficiency of the machine is expressed as follows:

$$\frac{NL+SL}{PL} .$$

In the capitalist society, whether the use of a machine makes economic sense or not depends on the interests of the

¹ In computing the economies in labour inputs into the production of products obtained as a result of the use of new hardware, no distinction in this example is made between the once-only costs of purchasing the machine and the current costs of production. Without altering the fundamental approach to the economic efficiency of machines, consideration of the nature of these costs has an effect on their quantitative expression. That is why the practice is to reduce capital outlays to an annual figure by means of a normative coefficient of efficiency.

capitalists, the extent to which their profits are increased. The law governing the use of machines under capitalism is expressed in this formula $c' < v'$, and the economic efficiency of a machine is determined by the ratio: $\frac{v'}{c'}$. The costs

of making a machine are compared with the economies not of the whole of living labour obtained from the functioning of the machine, but only with that part of the economies which corresponds to the value of the labour power and which is expressed in the total wages of the redundant workers, that is, with the economies in variable capital.

Let us assume that a capitalist's costs and the surplus value obtained before the use of a machine came to $40c + 30v + 30m$. Does it make economic sense, from the capitalist's standpoint, to use a machine which needs $20c'$ of labour to make and which saves $(15v' + 15m') = 30$ of living labour? No, it does not, because with the price corresponding to the value of the product: $40c + (30v + 30m) = 100$, the capitalist obtains a surplus value of 30 before using the machine, and 25 by using it. He finds the use of such a machine unprofitable, although it means a saving of labour for the society (10) and is, for that reason, advantageous.

The average rate of profit is the criterion for the use of machines under premonopoly capitalism, and monopoly profit—under imperialism. That does nothing to change the inherently capitalist criterion of the use of machines—economies in paid labour—but merely modifies it.

Consequently, *the criterion for the socialist use of machines is provided by economies in social labour and the growth of social production for the satisfaction of the working people's requirements.* Under capitalism, the criterion for the use of machines is provided by economies in capital and the boosting of the capitalist's profit. In the former instance, the economic boundary for the use of machines is determined by the economies in the whole of living labour, and in the latter, only by the economies in paid labour. Consequently, socialism offers much greater scope for the use of machines.

When newly developed machines are designed to replace the existing ones, the criterion for their economic efficiency is provided both by the absolute and relative magnitude of the economies. The fact that the economic boundary for the

use of machines is determined by the economies in the whole of social labour does not in any sense warrant the installation of machines which are not up to the world level in science and technology. The fullest possible satisfaction of the requirements of the socialist society is effected through the use of the up-to-date machines, with the highest productivity, that is, those which ensure the utmost reduction in the inputs of materialised and living labour per product unit. The Guidelines for the Economic and Social Development of the USSR, adopted by the 26th CPSU Congress, point to the need to make stricter demands on the efficiency and rapid payback of new machinery, and draw attention to "the development and manufacture of machines and plant which help to improve working conditions, raise labour productivity and save material resources".¹

The enlargement of the economic boundary for the use of machinery to the economies of the whole social labour does away with the purely capitalist obstacles to the use of machines, namely, the value of the labour power, and makes it possible to start the replacement of old machines with new ones earlier than this is done under capitalism, thereby helping to accelerate technical progress. The use of machinery in practice has the definitive effect on technical progress, because it helps to bring out the potentialities and shortcomings of the machines being used and the lines along which they can be improved. There is more practical experience where the machine has been put to use earlier, and this creates favourable conditions for developing better machine designs in relatively shorter periods. In the time it takes to bring the value of a machine to a magnitude acceptable for the capitalist, under socialism new machines are put on stream, their design is improved, and their economic parameters bettered. Consequently, socialism makes it possible to use machines of a high technical level in any branch of production.

The extension of the economic boundary for the use of machines helps to accelerate technical progress also because it tends to increase the sources of the funds earmarked for the technical improvement of production. The economies in labour time obtained by the society are used for the expan-

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 171.

sion of research and development, and the use of new hardware on an ever larger scale. Technical progress is also accelerated when only a part of the obtained economies is used for these purposes (as is most frequently done in practice). Delays in the use of new machines deprive the society of additional resources of accumulation and, consequently, slow down technical progress.

Realisation of the advantages of socialism in enlarging the economic boundaries for the use of machines, alongside its other advantages, helps to bypass a number of stages in technical development through which the capitalist countries have had to go, and to create in a short time highly mechanised production in every sector of the economy.

Social Consequences of Technical Development under Socialism

The efficiency of machines is determined by the economies in aggregate social labour because of the need to enhance the efficiency of production. Because the product is appropriated by the producers themselves, this criterion reveals the *material stake of the whole of the society and of each individual worker in the use of machines*, because it leads to an improvement of the workers' well-being.

Because production is geared to the interests of the society as a whole, machines are also used to *ease labour and to create healthy working conditions*. Socialism does not rule out the use of machines which do not raise labour productivity but which markedly improve working conditions.

The socialist organisation of the economy ensures the balanced use of the society's labour resources and a reduction of the working day. As a result, the *use of machines does not lead to unemployment*.

Technical development under socialism leads to the *elimination of the division of labour between producers* which took shape under capitalist machine production and which shackles the worker. Marx says that the new society is faced with the task of replacing "the detail-worker of today, crippled by life-long repetition of one and the same trivial operation, and thus reduced to the mere fragment of a man, by the fully developed individual, fit for a variety of labours, ready to face any change of production, and to whom the different social functions he performs, are but so many modes of

giving free scope to his own natural and acquired powers".¹ Lenin also connected the all-round development of the individual with the elimination of the old division of labour.

Socialism removes the obstacles to raising the skill standards of the workers and creates conditions for improving the standards of their general education and enlarging their special knowledge. With the development of socialism, skilled mechanised labour replaces manual labour and, for its part, gives way to skilled labour in automated production. An ever larger part of the time is spent by workers in performing functions connected with mental work. Manual work acquires new properties: it becomes work of a much higher skill standard and is organically blended with mental work.

All the circumstances promoting the development of the worker as the chief factor of production tend to enhance his influence on the instruments of labour. *Under socialism, the worker has a vital stake in the use of machines* and takes an active and creative part in improving them. Many workers are innovators and inventors.

Balanced Introduction of New Hardware and Technology

The development of hardware and technology under socialism is the business of the whole of the society. Article 26 of the USSR Constitution says: "In accordance with the society's needs, the state provides for the planned development of science and the training of scientific personnel, and organises the introduction of the results of research in the economy and other spheres of life."

Socialist property enables the state to pursue *a coherent technical policy* on the scale of the national economy, to formulate plans for the production and application of new hardware and technology, and makes technical progress run a balanced course.

The technical policy pursued by the socialist state is based on the use of the advantages of socialism and reckons with the latest achievements in world science and technology. It determines the main lines of technical development so as to obtain the maximum economic effect, to ease and improve working conditions and to fulfil social tasks.

¹ Karl Marx, *Capital*, Vol. I, p. 458.

Accordingly, special programmes for the scientific and technical advance are worked out on the scale of the society as a whole. The best designs and models of machines, instruments and equipment are selected for adoption, and the use of inventions and innovations is encouraged.

The society, as the sole owner of the means of production, has a stake in developing the whole of social production and in *having enterprises exchange advanced experience among themselves.*

Balanced technical progress makes it possible *organically to tie in scientific research with the practical use of its results,* thereby accelerating the use of new hardware and technology in production. Technical extension programmes on the scale of the society as a whole are tied in with production, financial and material-and-technical-supply plans.

The concentration of financial and material resources at the disposal of the state does away with the obstacles to the development of hardware and technology, which are erected under capitalism by the boundaries of individual capital.

The socialist economic system makes it possible to *do away with the unevenness of technical progress in various sectors.* Through the accelerated development of engineering the technical standards of enterprises are raised in the whole of industry, agriculture and in other sectors.

The state's technical policy helps to coordinate the development of all the lines of science and technology, to advance basic research, and also to tackle the applied problems directly connected with scientific and technical progress.

Scientific and technical advances are taken into account in every section of the long-term plans. Concrete programmes are drawn up for the solution of the key scientific and technical problems which determine the whole complex of the necessary works and include measures for preparing the industrial mastery of the new hardware and technology. Their targets are backed up with resources and tied in with production, capital construction and material-and-technical-supply plans.

The CPSU organically links the concentration of attention on efficiency and quality with the work on improving production on the basis of modern science and technology. The task has been set of speeding up the retooling of production, of creating and introducing everywhere, as fast as possible, fundamentally new technology and materials, of ap-

plying highly productive energy- and material-saving technology on a wide scale. The 26th CPSU Congress noted: "The conditions in which the national economy will be developing in the eighties make the acceleration of scientific and technological progress ever more pressing."¹

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 55

Chapter twenty-five

**DISTRIBUTION ACCORDING TO WORK.
SOCIAL CONSUMPTION FUNDS**

In the socialist society, the whole product of labour belongs to the whole people. One part of it—the means of production—is distributed among the various sectors, industries and enterprises, and is consumed productively. While the other—the articles of consumption—is distributed between the working people for their personal consumption.

The chapter considers the relations of the associated producers in the distribution of the share of the social product earmarked for their personal consumption and shows the economic laws and categories underlying the process.

**1. THE ECONOMIC LAW OF DISTRIBUTION ACCORDING
TO WORK**

In the socialist society, distribution is designed to ensure the well-being of all the working people and enables all the members of the society to develop as fully as possible, to maintain and display their capabilities.

*The Objective Necessity
of Distribution According to Work*

What is the basic form in which the relations between the members of the socialist society over the distribution of the articles of personal consumption are realised? Egalitarian distribution cannot provide such a form because it springs from an extremely low level of the productive forces and consumption, helping merely to keep people alive.

Under socialism, the productive forces rise to a level which is characteristic of highly developed large-scale machine production, the efficiency of production is markedly increased, and in the distribution of the product the society is enabled to reckon with individual human requirements and preferences. The egalitarian distribution propounded by the "left" revisionists, the distribution according to the Trotskyite principle—"shock work in production, egalitarianism in distribution"—would, in these conditions, slow down the development of social production, because it results in a unification of consumption, puts a constraint on the development of human capabilities, and is, for that reason, also in contradiction with the socialist relations of production.

Socialism creates new incentives and motivations for work and brings about a radical change in the social content of labour and men's attitude to work. But under socialism there is still a distinction between industrial and agricultural labour, between mental and manual work, between skilled and unskilled labour. Not all the members of the society still regard the social wealth as a common labour effort in the light of the principles of the socialist society.

Considering that work for the society in accordance with one's abilities has not yet for the bulk of workers become a prime vital requirement, a habit of working without expectation of recompense, it needs to be materially stimulated. Hence the differentiation in the individual share of the product which goes to each in the distribution, in accordance with the labour input of each into social production.

Article 14 of the USSR Constitution says: "The state exercises control over the measure of labour and of consumption in accordance with the principle of socialism: 'From each according to his ability, to each according to his work.'" Consequently, the distribution of the articles of personal consumption (consumer goods) in accordance with the labour expended by each worker, with an eye to its quantity and quality, corresponds to the level of the productive forces and the relations of production under socialism.

Distribution according to work ensures active participation of all the working people in social production according to their abilities. "It is wrong to think," Lenin noted, "that food distribution is only a matter of fairness. We must

bear in mind that it is a method, an instrument, and a means of increasing output.”¹

Distribution according to work, being an expression of the set of essential causal connections inherent in the socialist relations of production, operates as an economic law of socialism: *because the personal material interest of each in his work for the common good is an objective necessity, it determines the distribution of the consumer goods produced by creative labour in accordance with the quantity and quality of the work.*

Distribution according to work is one of the great gains of socialism. It is aimed to bring about the full well-being of all the members of the society. Socialist property in the means of production does away with the capitalist practice of limiting the remuneration of the labour of workers to the cost of reproduction of labour power and prevents them from obtaining unearned incomes. The quantity of consumer goods going to a worker depends on the volume of the means of subsistence available in society and each worker's labour contribution to social production. Consequently, with the subtraction of the quantity of labour which goes into the social fund, each worker receives from the society as much as he has given it.

Distribution according to work involves all the able-bodied persons in the process of social production, helps to consolidate the universality and mandatory nature of labour, and to tighten up socialist discipline. It enhances the workers' interest in raising their skill standards and expanding their general and special education. These conditions exist at the stage of developed socialism, in consequence of which distribution according to work is maintained over a long period and has an important role to play in boosting production and expanding the society's potentialities to satisfy the requirements of all its members.

Bourgeois theories usually identify distribution relations under socialism and under capitalism. But under socialism, the producers create the product for themselves and for their own society. Under capitalism, they receive only that part of the product which corresponds to the value of their labour power.

¹ V. I. Lenin, "Speech Delivered at the Third All-Russia Food Conference, June 16, 1921", *Collected Works*, Vol. 32, p. 448.

Distribution According to Work and Socio-Economic Equality

The socio-economic equality of the members of the socialist society consists in their similar status with respect to the means of production, in the absence of exploitation, in their equal right to obtain work and in their equal duty to work for the society in accordance with their abilities, and in the receipt by all the working members of the society of their share of the social product for personal consumption depending on the quantity and quality of their labour input into social production.

Socialism does not eliminate the difference in the extent to which requirements are satisfied. The difference in the level of material wealth between citizens arises from the application of the same measure in distribution—the labour contribution to social production—to men and women with different requirements, different capabilities, skills, training and family status. Thus, single workers and workers with families, which may include persons unable to work, receive equal remuneration for equal work, but cannot satisfy their personal requirements to the same extent. In the first phase of communism, the society is not able to do away all at once with inequality which consists in the distribution of consumer goods according to work and not according to requirements.

This inequality is overcome gradually. In present-day conditions, this is connected above all with the acceleration of scientific and technical progress which helps to raise the general educational, cultural and technical standards of the members of the society and reduces the difference in the skill standards of various categories of workers and so in the level of their incomes. The reduction of the difference in incomes and consumption stemming from dissimilar family conditions is promoted by the growth of the resources which the state appropriates for the maintenance of the members of the society who are unable to take part in social production because of age or for other reasons.

Two Forms of Distribution of the Necessary Product

The necessary product is distributed by the socialist state in two forms.

The main part of the necessary product is distributed

directly in accordance with the labour expended by each worker in social production, with an eye to its quantity and quality, for the individual satisfaction of the workers' personal requirements. This is the basic form in which the personal material interest of the workers in the results of their work is ensured. In the presence of commodity-money relations, a part of the necessary product earmarked for distribution according to work assumes the money form of the fund for payment according to work, while the remuneration for labour appears as a definite sum of money which the workers use to pay for the goods and services they require.

Another part of the necessary product constitutes the social consumption funds, from which some requirements of the workers in material production are collectively satisfied. If the condition for the all-round development of the individual is to be ensured, there must be collective satisfaction by workers in the sphere of material production of requirements like education, health care, upbringing of the rising generation, etc.

Consequently, in the socialist society there are two forms of distribution of the goods of life: remuneration for labour, and social consumption funds. The socialist state determines—in the light of the attained level of production and the social requirements which are to be satisfied—the share of the social product constituting the fund of payment for work and the share which goes to shape the social consumption funds.

In the socialist society, the fund of the means of subsistence going to workers in material production consists of wages, incomes from working in cooperatives and that part of the social consumption funds which goes to satisfy the requirements of workers in material production and members of their families. Some importance attaches to the incomes of the collective farmers derived from their personal subsidiary farms.

Distribution policy is formulated on the assumption that growing remuneration of labour is the main way for increasing the money incomes of the population. It is designed to increase the working people's consumption in a balanced manner and to enhance the stimulating role of payment for work, by making it increasingly dependent on the final results of production and its growing efficiency.

2. WAGES UNDER SOCIALISM

The Substance of Wages and the Economic Basis of Their Differentiation

Wages, as an economic category of socialism, express the economic relations between the society as a whole and the workers of state enterprises, and also between the workers and the work collective over the main part of the necessary product. Since labour power is not a commodity, wages cannot be a converted form of value or the price of labour power. Under socialism, *wages are a form of distribution according to work, the monetary expression of the main part of the necessary product created at the whole people's enterprises which goes for the workers' individual consumption in accordance with the quantity and quality of the labour expended by them in social production.*

The distribution of the goods of life with account for the workers' material interest in the results of their labour implies a differentiation of wages depending on the quantity and quality of the labour expended in social production.

The *quantity of labour* is the mass of muscular activity and nervous energy expended by a man in the process of production activity. It is measured in labour time. But the time worked does not yet give a full picture of the quantity of labour, for it is necessary to take account of its intensity. The *quality of labour* characterises the complexity, the arduousness and the economic importance of the work done.

The inter-relation of the qualitative and quantitative characteristics of labour is expressed through *labour norms* (time norms, output norms, service norms, etc.). These are the quantity of labour of a definite quality that a worker needs to give to society. The differentiation of wages depending on the complexity of labour, and the workers' experience and skills is effected on the basis of a *wage-rate system*, which includes skill-rate handbooks, wage-rate scales (for workers) and salary schemes (for engineers, technicians and office workers), basic rates and district wage coefficients. All the elements of the wage-rate system are worked out in a centralised procedure.

By means of the mechanism of the wage-rate system and the district wage coefficients, the various types of concrete labour are reduced to a common denominator, and this

helps to make comparative measurements of labour, to differentiate it in accordance with its complexity, intensity and social importance, and to establish proportions between the efficiency of labour, its complexity and importance, and the amount of its remuneration.

In accordance with the instructions of the 26th CPSU Congress, the improvement of the wage system will follow these lines: an increase in the dependence of wages and bonuses on the personal labour contribution and on the final results of the work of the collective, an increase in their incentive role in raising labour productivity and improving the quality of output and economies of all types of resource; an increase in the quality of the wage-rate system and labour norms; an improvement in the organisation of the wages of different categories of working people, taking account of the complexity and responsibility of the work they do, the conditions and intensity of labour, as well as by branch of the national economy and region of the country.

Forms and Systems of Wages

The basic forms of wages under socialism are time-wages and piece-wages. Under *time-wages*, the earnings depend on the amounts of labour time actually worked and the worker's skill, and under *piece-wages*, on the produced volume of goods of a definite quality. Piece-wages are a modified form of time-wages, and the specific thing about them is that the expenditure of labour—duration and intensity—is taken into account through the volume of the work done.

Time-wages are used in the form of the *simple time* and the *time-and-bonus systems*. Under the former, engineers, technicians and office workers receive the salaries assigned to them for the actual time-work, while workers are paid in accordance with the tariff rate, and under the latter, the payment to workers of a basic rate and to engineers, technicians and office workers of salaries for time-work is combined with bonuses for attaining definite quantitative and qualitative indicators.

Piece-wages are used in the form of *direct piece-wage*, *piece-bonus wage* and *piece-progressive wage* systems. Direct piece-wages are based on a direct and proportional relation between output and earnings. The piece-bonus system envisages the receipt by the worker of a basic piece-wage (pay-

ment by rate with an account of over-fulfilment of output norm), and bonuses for achieving definite quantitative and qualitative indicators. The piece-progressive system implies the receipt of payment for the output of each article within the output norm in accordance with the basic piece-rates and for output of articles over and above the norm, in accordance with the higher rates.

A distinction is drawn between *individual and collective piece-wages*. Under collective piece-wages, the collective earnings are, as a rule, shared out among the members of the team in accordance with the skill category assigned to each and the time worked. A special form of this system is remuneration of labour by arrangement.

The use of various forms and systems of wages is determined by the technical level of production and its organisation. Piece-wages are most widely used where the results of production activity largely depend on the efforts of individual workers. Comprehensive mechanisation and automation of production make for the extensive use of time-wages, with the share of simple time-wages declining and that of time-and-bonus wages increasing. Of the total number of workers on time-wages in the USSR at present, 95 per cent are on time-and-bonus wages. There is a spread of various forms of material incentives for increasing output with a smaller number of workers, team payment for the final results of labour, and payment by arrangement, especially in building and agriculture. Enterprises are entitled to pay increases to basic wage and salary rates out of their payroll funds economies. Measures are being taken to spread further and increase the effectiveness of the team form of labour organisation and payment.

In most sectors of the national economy, wages consist of two parts: a basic and an additional wage.

The *basic part* of wages consists of remuneration for the workers' labour in accordance with basic rates, and for the labour of engineers, technicians and office workers, in accordance with their salary rates.

The *additional part* of wages consists of incentives for additional results as compared with the established norm, a bonus, and also a payment for overfulfilment of output norms and for higher product quality, increments for multiple trades, professional skills, and for work in areas with worse economic or climatic conditions. More efficient labour

creates an additional product, and a part of this is used for providing material incentives to individual workers and collectives. A rise in labour productivity and reduced staff mobility is facilitated by production associations (enterprises) exercising their rights to pay supplements to basic rates and salaries out of economies of the payroll fund received on the basis of the set norm or plan payroll fund.

The specifics of agriculture as a sector of social production has an effect on the organisation of the remuneration of labour at state agricultural enterprises (state farms). Considering that the final results of production in agriculture, especially in cropping, appear at the end of the agricultural year, additional payment for the final result of labour—for the quantity and quality of produce or for gross income—is usually effected at the end of the year.

Remuneration of Labour and Labour Productivity

The socialist society exercises control over the measure of labour and the measure of remuneration, attaching much importance to the correct correlation between the growth of the remuneration of labour and the growth of labour productivity. The growth of the payroll fund on the scale of the economy as a whole, and, consequently, the amount of remuneration going to the individual worker depend on the size of the gross social product and on the necessary product, the component part of it whose chief source is growing efficiency of social production.

Under socialism, the growth of remuneration according to labour with the growth of labour productivity is law-governed, with labour productivity growth, as a rule, outrunning the growth of the remuneration of labour, because a part of the social product increment is used to expand production, ensure scientific and technical progress, develop non-productive sphere, build up reserves, and increase social consumption funds. In accordance with this, the documents of the 26th CPSU Congress indicate the need to provide for labour productivity to grow faster than wages in the branches of the national economy, in associations and enterprises.

The extent to which the growth rate of labour productivity exceeds that of wages depends on the concrete internal and external conditions under which social production takes

place. In 1981, compared with 1940, labour productivity in Soviet industry was 7.89 times higher, while average monthly wages had risen 5.6 times. Thus, there was a 0.72 per cent increase in wages for every 1 per cent rise in labour productivity over this period.

A distinction is drawn between *nominal (money) and real wages*. The amount of real wages depends both on the amount of money wages and on the prices of consumer goods and services. The higher the money wages and the lower the prices, the higher the level of real wages. The *real incomes* of industrial and office workers also include payments and benefits received by them from social consumption funds.

The Soviet state has steadily pursued a policy of raising the level of labour remuneration and the working people's real incomes in accordance with the growth of labour productivity.

3. REMUNERATION OF LABOUR ON COLLECTIVE FARMS

Specifics of Distribution According to Labour in Collective Farm Production

Since production in the state and collective farm sectors of the economy is based on common socio-economic principles, they have the same basic principles of distribution of material and cultural values. Remuneration of labour on collective farms, as at state enterprises, is the basic form of the necessary product and the chief source of the means for the reproduction of labour power. Distribution according to labour objectively determines the collective farmers' material interests in developing the social farm. Considering that the product turned out on the collective farm belongs to the collective of workers, the gross income of the given farm provides the source for the payroll fund. The payroll fund is a part of the incomes in cash and kind obtained by the given collective farm.

The remuneration of the collective farmers' labour is now effected mainly in the form of money.

The collective farmers' payroll fund is, as a rule, formed with an eye to ensuring guaranteed payment on the basis of the rates for the corresponding categories of workers at

state farms (state agricultural enterprises) in the given region. Output norms are also determined by the collective farms in accordance with the output norms for similar operations at state farms in the light of the concrete conditions on the farm. Reserve funds are set up for the purpose of ensuring guaranteed remuneration of labour on each collective farm. Remuneration of labour in the form of money is effected at least once a month, and in kind, as the produce comes in.

The remuneration of a collective farmer's labour depends on his labour contribution to social production and on the volume of the gross income produced on the farm. Considering that natural and climatic conditions exert a great influence on the dynamics of collective farm gross incomes, the same volume of work may be differently remunerated from one year to another. The remuneration of labour also differs from one collective farm to another. These distinctions are being gradually eliminated as the state helps to create equal economic conditions for the collective farms.

Collective farms use piece-bonus, time-and-bonus wages as well as bonus payment by arrangement for work performed or for output. Their payroll fund consists of two parts: one is earmarked for the remuneration of labour in accordance with rates (the basic part of the fund), and the other, for additional material incentives to collective farmers for higher quality of produce, professional skills, length of service and additional output, or for gross income.

The still existing wage differentials between collective farmers and workers on state farms are due to the differences in the technical equipment of labour, skill standards, the extent to which labour is used throughout the year (collective farmers work fewer days a year than do workers at state and agricultural enterprises).

4. SOCIAL CONSUMPTION FUNDS

The Socio-Economic Content of Social Consumption Funds

The necessary product is the material basis of social consumption funds which go to satisfy the personal requirements of workers in the sphere of material production and the non-working members of their families, while those of

the part of the workers in the non-productive sphere are met out of the surplus product. The other part of the workers in non-productive field who realise their services to workers in material production obtain in exchange a part of the latter's necessary product. *Social consumption funds express the relations between the society as a whole, the work collectives and every individual member of the society concerning that part of the national income which goes to personal, notably collective, consumption.*

The main part of the social consumption fund consists of funds from the state budget (roughly 70 per cent). From their profits, state enterprises and organisations set up funds for socio-cultural amenities and housing construction. Collective farms set up funds for cultural and everyday measures, and funds for social security and material assistance to collective farms. These resources are also used to form social consumption funds on the scale of the society as a whole.

In the USSR, social consumption funds are used for the maintenance of general education schools, higher and special secondary schools, vocational schools and other institutions engaged in the training of personnel, hospitals, outpatient clinics and other medical institutions, and libraries. State outlays on general education schools come to about 200 rubles per student a year, and at higher schools, to over 1,000 rubles a year.

Social consumption funds are used for the maintenance of children's preschool and health improvement institutions. The society makes available, at cut prices or free of charge, accommodation at sanatoria, holiday homes, Young Pioneer camps, etc. The maintenance of a child in a creche comes to over 580 rubles a year, and in a kindergarten, to about 500 rubles with 80 per cent of the cost paid by the state.

A sizable portion of the social consumption funds is used for the maintenance of other members of the society who are unable to work, for the payment of pensions, scholarships, aids to mothers with many children and single mothers, etc.

A part of the social consumption funds goes to the working people irrespective of their labour contribution to social production. The distribution of the other part is effected taking into account the labour contribution by workers to social production. The size of pensions and aids, for in-

stance, is differentiated depending on the workers' incomes before they go on pension or before they lose their capacity to work.

The Importance of Social Consumption Funds

The USSR and other socialist countries now have a system of free universal education, a system of free medical services for the whole population, an extensive network of children's preschool institutions, and a social security system that has relieved the working people from uncertainty in the future. As a result, the working people now already enjoy many goods of life which are beyond the reach of working people in the capitalist countries.

Some of the features of distribution via social consumption funds suggest the existence of the *beginnings of communist distribution*: first, a number of important vital benefits are made available to all the members of the society through these social consumption funds; second, this distribution is not directly connected with the quantity and quality of labour and is oriented towards human requirements; third, it helps to reduce the distinctions in the level of incomes and, consequently, in the level of consumption which spring from the number of family members unable to work, and so helps to align the working people's real incomes; and fourth, it develops collectivism in the satisfaction of requirements.

Distribution through the social funds exerts a major impact on production, realising, like distribution according to work, the workers' common interest in its growth and acting as a material incentive. The documents of the 26th CPSU Congress state the need to reinforce the role of payments and subsidies to the population out of these funds in solving production and socio-demographic problems, to increase the effectiveness of the utilisation of sums allocated to the social consumption funds, including money from associations, enterprises, organisations and collective farms.

The socialist state makes sure that there is a correct balance between distribution according to work and through social consumption funds, consistently combining the principle of personal material interest and the creation of the most favourable conditions for the development by each member of the society of his or her physical and mental

capabilities at the expense of social consumption funds. These funds have been growing at a faster rate than the payroll fund.

The relations of distribution proper to socialism, which were discovered by the Marxist-Leninist science and verified in practice, provide a powerful stimulus to production and create the conditions for the growing well-being and all-round development of the working people.

Chapter twenty-six

ACCUMULATION AND CONSUMPTION UNDER SOCIALISM

In order to ensure uninterrupted growth of production, society has to use a part of the aggregate social product for accumulation. As production expands, there is also an increase in that part of the social product which goes into consumption. Socialism ensures the balanced development of accumulation and consumption and harmonises the two, so creating the conditions for high growth rates in production and the ever fuller satisfaction of the steadily growing requirements of its citizens.

This chapter considers socialist accumulation in close connection with the development of social production and the growing well-being of the members of the society.

1. SOCIALIST ACCUMULATION

The Substance of Socialist Accumulation

Expanded reproduction is characteristic of socialism. This means *uninterrupted growth of the aggregate social product, a steady rise in the cultural and technical standards of workers, and the development and perfection of socialist relations of production.*

Socialist reproduction differs fundamentally from reproduction in the capitalist society. It is effected in a situation in which the contradiction between social production and private appropriation of its results had been eliminated for the benefit of the society as a whole, and ensures, with the growing volume of production, a systematic improvement of the people's well-being, being regulated by the society in a planned and balanced manner on the strength of the operation of economic laws.

Accumulation under socialism is also fundamentally different. In contrast to the accumulation of capital, it rules out exploitation of man by man. The whole of the social product, like its accumulated part, belongs to the working people themselves. As the mass of the social product increases, a greater part of the social wealth goes to the working people, its joint owners. With the growth of the society's wealth, the requirements of its members are ever more fully satisfied. At the same time, there is also a steady and rapid growth of the production funds.

Accumulation under socialism is, therefore, not an end in itself, but is a means, the material prerequisite, for the raising of the people's well-being. Socialist accumulation rules out the emergence of private property, consolidates relations of collectivism, cooperation and mutual assistance for the benefit of the society as a whole, and creates the material basis for obliterating essential distinctions between town and country, and between mental and manual labour.

Accumulation is planned and balanced, an important instrument here being the use by the society of commodity-money relations. But because the means and the products of production belong to the society as a whole, the production of commodities under socialism cannot result in the private appropriation of the instruments and means of production.

Bourgeois economists tend to separate the process of accumulation from the relations of production, claiming that the growing well-being of the members of a socialist society is bound to result in the development of private property. In actual fact, socialist accumulation is such that it rules out the emergence or development of private property. Nor is there any ground for the assertions by bourgeois economists that socialist accumulation boils down to building up the defence capability of the state. Like the right-wing revisionists, they also seek to discredit the socialist society's planned and balanced regulation of the process of accumulation.

The Sources of Socialist Accumulation

In contrast to capitalism, under which the capitalist takes an interest in the product only to the extent to which it enables him to extract a profit, the socialist society has an interest in the whole of the product. The aggregate social

product goes to replace the worn-out instruments of labour and the objects of labour used up in the production process. The rest of the social product is the net product of society (in value terms—the national income), which is based on the necessary and surplus product. The necessary product is spent on the reproduction of manpower and its all-round development, and on an increase in the working people's standard of living. *Accumulation is derived from the surplus product.* A part of the surplus labour is used to make additional means of production. Another part goes to recruit additional workers and, consequently, to produce the goods of life over and above the quantity required for the maintenance of production at the attained level.

A sizable part of the surplus product, together with the necessary product, goes to satisfy the needs of society, like education, culture, health care. The surplus product is also used for housing construction, development of science, the maintenance of the administrative apparatus, outlays on defence, and the net costs of circulation. The high rate of growth of social production makes it possible to increase both the part of the surplus product going into accumulation, and that part of it which goes to meet the society's other needs.

As compared with the capitalist countries, the socialist countries have sizable additional sources of accumulation. This is due primarily to the elimination of the exploiter classes, and consequently, of parasitic consumption, on which a substantial share of the national income is expended under capitalism. With the growth of social production, the potentialities for socialist accumulation are expanded. The *volume of capital investments* gives an idea of the growing scale of accumulation with the development of socialism.

In the USSR, capital investments in the economy from 1918 to July 1941 totalled 53.3 billion rubles (in comparable prices), from July 1, 1941 to January 1, 1946—20.5, in the fourth five-year period—47.4, in the fifth—89.8, in the sixth—168.0, in the seventh—243.5, in the eighth—347.9, in the ninth—493.0, and in the tenth—634.0 billion rubles.

From 1918 to 1960—the period of socialist construction and the creation of a developed socialist society—capital investments in the USSR economy, including the cost of making good the destruction caused by the civil war and foreign intervention, and also during the Great Patriotic

War, totalled 379 billion rubles. In the subsequent, relatively brief period (1961 to 1981), capital investments in the economy multiplied nearly by a factor of 5, as compared with the whole of the earlier Soviet period.

2. ACCUMULATION AND THE RISING TECHNICAL LEVEL OF SOCIALIST PRODUCTION

The Growth of the Technical Equipment of Labour

The technical composition of production is characterised by the relation between the mass of the means of production used in production and the number of workers involved. It reflects the means of production available to the workers and is one of the key indicators of the level of a society's productive forces. Because the means of production come in different natural and material forms and have different measurement indicators, the technical composition of production can be expressed in terms of the average assets per worker, the power facilities per worker, the mechanical facilities per worker, and the material stock per worker. The level of the technical composition of production depends on the development of the means of production and labour power:

Scientific and technical progress results in a growth of the mass of the means of production as compared with the number of workers.

At the stage of socialism, the labour materialised in the means of production is expressed in terms of value. This makes it possible to compare the dynamics of the mass of the means of production in value terms with the dynamics in the number of workers, as a basis for quantitatively determining the technical composition of production at the individual enterprises, in the industries, and on the scale of the country as a whole. Sometimes, the technical composition of production is analysed through a comparison of the value of the means of production with the inputs of living labour which are expressed in the payroll fund of the workers in material production. Considering that the payroll fund is only a part of the inputs of living labour and that changes in it do not strictly depend on changes in the technical facilities available per worker, such a comparison is made only for the sake of convenience.

As the socialist society develops, the technical equipment of labour tends sharply to increase.

A comparison of the growth of fixed production assets and material circulating assets, on the one hand, and the increase in the average annual number of workers, on the other, shows that in the USSR between 1940 and 1980, these magnitudes increased, respectively, 5.3-fold and 1.8-fold, and in building, 6.4-fold and 1.6-fold, which means that the former grew much faster than the latter.

The technical composition of production usually differs from one branch to another. In Soviet agriculture it is lower than in industry. Measures to boost agriculture and advance its specialisation and concentration lead to a marked growth in the technical composition of agricultural production.

Concentration of Socialist Production

Socialist accumulation under technical progress provides the economic basis for the concentration of production, which promotes the growth of social production and so helps to increase accumulation.

The concentration of production under socialism differs fundamentally from analogous process under capitalism, for it is effected for the purpose of satisfying the steadily growing requirements of the members of the socialist society, is balanced, and ranges over the whole economy.

The STR induces a switch to comprehensive mechanised and automated production, improvement of the means of automation, growing generation of electric power, and the development and use of new technology. All of this expands the scale of production, increases the dimensions and power of the production apparatus and the size of enterprises.

Concentration is designated by the number of workers at an enterprise. With the rising technical level of production, increasing importance for characterising the concentration of production attaches to the indicator of the volume of output. With respect to individual enterprises, concentration is assessed by means of the indicators of output in terms of value or in kind, the volume of industrial production fixed assets, and the number of workers employed. For industries, the most common indicator is the share of large enterprises in the total product and in the fixed production assets in the industry.

In Soviet industry at the present time the share of enterprises producing a million rubles' worth or more of output each is 70 per cent. The number of collective farms in the USSR dropped from 236,900 in 1940 to 25,900 in 1981 owing to mergers of them. In 1981, the average collective farm consisted of 489 collective farm households, 6,500 hectares of arable land, 3,600 common fields, 1,850 head of cattle, and had 4,238 thousand rubles of non-distributed assets and 755,000 rubles of gross income. At the state farms the concentration is still higher. In 1981, the corresponding figures were 16,900 hectares of arable land, 5,300 sown area and 1,885 head of cattle.

The unit capacity of equipment has increased manyfold. For instance, during the industrialisation years, the country produced steam turbines with a capacity of up to 4,000 kw. Now the main energy units of power stations working on organic fuels have a capacity of 640 and 1,200 thousand kw, while reactors for fast-neutron nuclear power plants and turbo-units for them with a unit capacity of at least 1 million kw are being batch produced.

In the iron and steel industry, furnaces with a volume of 5,000 cubic metres and large converters with a 350-400 ton capacity are being built. The extractive industry is receiving increasing numbers of tip-up trucks and tip-up motor-trains with a capacity of 75 and 120 tons. The unit capacity of equipment in other industries is also growing rapidly.

Combination of industrial production is a major line in its concentration, for it opens up extensive potentialities for the comprehensive use of raw and other materials and energy, helps to reduce waste to a minimum, and to eliminate losses of raw and other materials, fuels and energy.

The *establishment of production associations in industry* is a visual expression of the growing concentration of production. These are large-scale integrated production-economic complexes at which production is organically combined with science, and specialisation and cooperation are extensively developed. Production associations are being set up in industry, and large specialised building and assembly associations in the building industry. In agriculture, there is extensive development of interfarm cooperation and agro-industrial integration, and the establishment of large specialised enterprises and associations on that basis. The estab-

lishment of state, collective farm and interfarm stock-breeding complexes, mechanised farms and poultry farms, is directly connected with the introduction of industrial methods into livestock breeding and poultry farming. In a number of regions of the country *territorial production complexes* are being formed.

The growing concentration and centralisation of the means of production and labour power enlarges the potentialities for the use of scientific and technical achievements, modern techniques in production and labour organisation, specialisation of labour, mass production, increase in the scale of production, and better use of production assets, resulting in sizable economies in living and materialised labour and higher efficiency of production.

But there should be no oversimplification of the idea that large-scale production produces advantages. Concentration at individual enterprises and centralisation of production should be carried only to the point beyond which they cease to make economic sense.

3. BALANCE BETWEEN ACCUMULATION AND CONSUMPTION

Consumption and Accumulation Funds. Rate of Accumulation

In the conditions of expanded reproduction, the national income is divided into a consumption fund and an accumulation fund.

The *consumption fund* is used to satisfy the material and cultural requirements of the working people employed in the sphere of production (the necessary product) and in the non-productive sphere, including administration and defence (part of the necessary product and part of the surplus product). Consequently, the consumption fund consists both of the necessary product and of a part of the surplus product going into non-production needs. It includes the personal consumption of the whole population, material outlays at institutions providing services for the population, and also at scientific institutions and in administration.

The *accumulation fund* consists mainly of that part of the surplus product which goes into the expansion of production and the build-up of reserves. It also includes resources

going into the expansion of non-productive assets and into housing, cultural facilities, and everyday amenities. Consequently, the accumulation fund is used to increase production and non-productive assets and reserves.

Consumption and accumulation funds are an expression of social relations of production, under which accumulation does not conflict with consumption but is used to enhance the people's well-being. For its part, the orientation of consumption towards the individual's all-round development helps to boost the productivity of social labour and so to increase accumulation. The correct balance between the accumulation and the consumption funds within the national income ensures the simultaneous development and improvement of production and the raising of the people's living standards.

The size of accumulation directly depends on the *rate of accumulation*, that is, on the share of the accumulation fund within the whole of the national income expressed as a percentage.

$$R' = \frac{AF}{NI} \times 100,$$

where R' is the rate of accumulation; AF , the accumulation fund; and NI , the national income.

The rate of accumulation, for its part, depends both on the volume of the surplus product and on the concrete tasks being tackled by the society in the given period. In the developed socialist society, accumulation helps to enlarge production and to raise its technical standards through the use of STR achievements.

The existing balance between accumulation and consumption funds in the USSR enables its socialist society to carry on reproduction at a high rate and to raise the working people's living standards.

The Factors Behind Accumulation

The accumulation fund is a part of the national income, and for that reason it depends on factors which determine the growth of the national income, that is, *on the mass of the labour applied and on its productivity*.

The growth of labour productivity depends both on the technical level and on the size of the production assets.

The accumulation of the means of production is an important factor in the growth of the national income. In each process of production, the instruments of labour are used wholly, but are consumed partially. The larger the quantity of the means of production used per worker, the higher the productivity of labour and the larger the volume of production. The size of the production assets predetermine the magnitude of the depreciation fund. Since the worn-out fixed assets are replaced after they are completely worn out, a part of the depreciation fund can be used for expanding production.

In 1981, depreciation allowances in the economy of the USSR totalled 78.42 billion rubles, or 59.6 billion rubles more than in 1965.

In view of technical progress, the production assets installed in place of the worn-out ones are *more efficient* and help to obtain a relatively larger product and, consequently, a larger national income with the same labour inputs.

Accumulation also depends on the *rational and economic use of raw and other materials and energy in production*. With the same amount of material resources, a reduction of these items per unit of output helps to turn out a larger product.

Optimal Balance Between Accumulation and Consumption

Under capitalism, accumulation and consumption are in antagonistic contradiction with each other. Under socialism, the contradiction between them is not antagonistic and is solved through their optimal combination and also through the establishment of priorities—in accordance with the available potentialities—for satisfying the various requirements of the members of the society.

The amount of resources diverted from the national income for a long time also depends on the structure of production and its overall volume. The larger the overall volume of production, the easier it is to set aside resources to increase current consumption of the population and to expand production of the articles of consumption designed for the satisfaction of requirements over the long term. An increase in production accumulation at every given moment does to some extent limit the potentialities for satisfying the citi-

zens' newly arising personal requirements, but it ultimately helps to increase the people's well-being.

An optimal balance between accumulation and consumption implies the use of available resources that guarantees high and stable rates of production growth and rising living standards for the working people, ensuring the greatest possible increase in consumption and non-production accumulation.

The minimum of accumulation is determined by the need to provide full employment for the population. The resultant increase in the absolute scale of accumulation depends on the technical composition of production. Expenditures in the non-productive sphere also tend to increase in accordance with the number of workers involved in production.

But a socialist society cannot rest content with a minimum rate of accumulation. Technical progress calls for capital investments to increase the means of production available to *all* the workers, whereas the minimum norm of accumulation ensures technical progress only in sectors of production with newly recruited workers. In addition, the amount of accumulation is determined taking into account the *requirements of a more distant future*. Capital investments are made every year to ensure the society with the means of production only within a number of years and to create the potentialities for increasing consumption in the future. The maximum accumulation is determined by the need to ensure a larger volume of popular consumption with the given growth rate of accumulation.

The higher the *returns on capital investments*, the more favourable the balance between accumulation and consumption. This implies the need to shorten the periods of construction and of the starting of new enterprises and the remodelling of old ones, and to reduce work in progress.

The 26th CPSU Congress pointed to the need to increase the efficiency of capital construction and consistently industrialise it, to ensure a qualitative improvement of fixed assets, a more rapid commissioning and full utilisation of production capacities, and to speed up the modernisation of existing enterprises.

There is a direct *interconnection between the rate of production growth and the size of accumulation*. The faster the growth of social production and the higher its efficiency, the

larger the sources of accumulation. At the same time, with the growth of socialist production there is also a steady growth in the scale of consumption.

The present stage in the development of the Soviet economy is characterised by an *alignment of the rates of growth of the accumulation fund and the consumption fund*.

Between 1961 and 1965, the accumulation fund in the USSR grew by 41 per cent, the consumption fund by 29 per cent, the respective figures for 1966-1970 being 43 and 41 per cent, and for 1976-1980—12 and 24 per cent.

The share of the consumption fund in the national income is to be raised to 78 per cent in 1985, against 75.3 per cent in 1980.

Bourgeois economists allege that it is natural for the Soviet economy to keep increasing the share of accumulation in the national income while reducing current consumption. But the higher rate of accumulation is an expression of the advantages of the socialist economic system which is free from crises of overproduction and which has constant sources of accumulation.

With the optimal balance between accumulation and consumption is connected the *rate of the surplus product*. In the socialist society, the surplus product rate tends to increase with the development of production. This is due, first, to the growth of the technical composition of production and so also to the relative increase of inputs into the production of the means of production, which ensures stable growth rates in social production and, accordingly, a constant increase in popular consumption; and second, to the faster growth of social consumption funds as compared with the growth of the distribution according to work fund, for the former are largely constituted from the surplus product. The growth of the surplus product ensures stable rates of expanded reproduction and a steady rise in the people's well-being.

The right-wing revisionists object to the society's balanced regulation of accumulation, while the "left" revisionists want the state arbitrarily to establish the scale and rate of accumulation, regardless of the available material resources. In contrast to these kinds of approach, there is the regulation of accumulation on the basis of economic laws which ensures high rates of production growth and a steady rise in the people's well-being.

*The Law of Socialist Accumulation
and the Growth of Well-Being of All the Citizens*

In the socialist society, there is a direct connection between the growth of accumulation, the volume of production and of the social wealth, on the one hand, and the rise in the working people's living standards, on the other. *The larger the social wealth and its rate of growth, the fuller the satisfaction of the requirements of the members of the society, the greater the provision for their all-round development, and the higher the working people's living standards.* Such is the content of the law of socialist accumulation.

The living standard is an aggregation of living and working conditions available to workers in accordance with the level of social production attained. Marx says that the living standard "is not mere physical life, but it is the satisfaction of certain wants springing from the social conditions in which people are placed and reared up".¹

In the socialist countries, the rise in the working people's living standards consists in a steady improvement of working conditions, in the growing creative character of labour, in a reduction of the working day and the removal of arduous manual labour through comprehensive mechanisation and automation of production, and the provision of paid annual holidays.

In the USSR, in comparison with 1913, the length of the working week of industrial workers has been cut by 18 hours. By the end of 1960 all industrial and office workers had been transferred to a seven- or six-hour working day. This did much to increase the opportunities for a further improvement of the qualifications and cultural level of workers. Together with the growth of production there is a growth in the wages of industrial and office workers and in the collective farmers' incomes from the socialised economy farms, as well as in their incomes from the social consumption funds.

In 1981, the real incomes of industrial and office workers in the USSR were six times higher than in 1940, and those of collective farmers—7.2 times higher.

The socialist system ensures a steady improvement of the working people's housing conditions.

¹ Karl Marx, "Wages, Price and Profit", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 2, pp. 71-72.

In the Soviet period, the housing facilities in towns and urban-type settlements multiplied 12.2 times; in 1981 they were 5.4 times larger than in 1940, and 1.9 times larger than in 1965.

The socialist countries have established and are developing state systems of health care, social security, everyday services, public catering and public utilities. The public education system serves the spiritual and physical development of the young and trains them for work and social activity. Almost 10 million persons are enrolled at higher and special secondary schools in the USSR where universal secondary education of the young people is carried out.

Life expectancy in the USSR has more than doubled, as compared with the pre-revolutionary period. The country's growing economic^o might has enabled it to frame a new and ample programme for social development and the raising of the people's living standards.

From 1981 to 1985, the average monthly wages of industrial and office workers will increase by 14.5 per cent, the incomes of collective farmers from the socialised economy, an average of 20 per cent, and payments and benefits going to the population from social consumption funds, by 23 per cent. The following measures are envisaged: the creation of more favourable conditions for highly productive labour and a strengthening of its creative character; an all-round cut in manual, low-skilled and heavy physical labour; improvement of safety precautions and equipment at work; greater control over the measures of labour and of consumption; a higher level and improvement of the structure of the consumption of material benefits and services, improvement of their quality and expansion of the range; improvement of housing and living conditions, especially of the rural population, an easing of housework and a better standard of all sorts of service; creation of the conditions for strengthening families, an expansion of the advantages and subsidies to large families and working mothers; a rise in the educational and cultural level of the population; improvement of the health service and Soviet people's leisure, creation of more favourable conditions for a person's active labour.

The broad socio-economic and political rights and freedoms of USSR citizens and the guarantee of their exercise are written into the USSR Constitution, which envisages a steady

growth of the well-being and culture of the whole people, of all its classes and groups, without exception.

With the construction of a developed socialist society, a new, *socialist way of life* is established. Its content is determined by the goal of socialist production which springs from the basic economic law of socialism, namely, the ever fuller satisfaction of the requirements and the free and all-round development of all the members of the society. Having above all its economic aspects in mind, the fundamental features of the socialist way of life are the following:

the working people's active participation in consolidating and safeguarding socialist property and in running the economy and the whole of social life as the co-owners of production;

free and creative labour for oneself and for the whole of the society, without exploitation;

the approach by every able-bodied citizen to work as a duty and a matter of honour, conscious discipline and a sense of responsibility for each assignment;

comradely mutual assistance and cooperation, socialist emulation, and collectivism in human relations;

the fullest satisfaction of the material and spiritual requirements of the members of the society;

concern for the protection of the natural wealth.

"The Soviet citizen", the 26th CPSU Congress noted, "is a conscientious worker, a person with a high level of political culture, a patriot, and an internationalist. He has been brought up by the Party, by the country's heroic history, by our entire system. He lives the full-blooded life of a builder of a new world."¹

The socialist way of life differs fundamentally from the bourgeois way of life which is based on capitalist property. Under the latter, the working people are deprived of the means of production, the overwhelming majority of the population is exploited in an atmosphere of class antagonism, competition and money-grubbing, unemployment and the consequent uncertainty in the future, with illusory democratic freedoms for the exploited and discrimination against ethnic minorities.

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 82.

The Socialist Law of Population

The steady growth of well-being is expressed in the socialist law of population, which is connected with the social property in the means of production and the gearing of production to the interests of the whole society and its members. The socialist society provides work for every able-bodied citizen in accordance with the level of his educational and occupational training and in the light of social requirements. The sphere in which labour is applied is extended above all through the steady growth of production. The development of the non-productive sphere requires a large quantity of labour, which is why, despite the release of large number of workers as a result of comprehensive mechanisation and automation of production, the overall number of jobs in the socialist countries has been steadily growing and there is no unemployment at all.

In the USSR, the number of industrial and office workers multiplied more than eight times in the Soviet period.

The socialist law of population is connected with socialist ownership of the means of production, with the subordination of production to the interests of all society and of each individual: an increase in the social wealth under socialism engenders a rise in the well-being of all members of society, expands the opportunities for involving the population in socially useful labour, and allows more efficient use to be made of it.

The CPSU has elaborated and is pursuing an effective demographic policy that helps to reinforce the family as the main nucleus of socialist society, to create the best possible conditions for combining motherhood with active participation in labour and social activities; is taking measures to improve the maintenance of children and non-able-bodied people at society's expense; is implementing a system of measures for improving people's life expectancy and working life, and improving their health.

The Historical Tendency of Socialist Accumulation

Socialist accumulation results in the expanded reproduction of the social product and of socialist relations of production, their perfection and gradual development into communist relations of production.

In the process of accumulation, there is a rise in the scientific and technical level of production, a growth of its concentration and centralisation, and a deepening of the social division of labour and of specialisation and cooperation. Within the integrated economy there is an extension of ties between enterprises, industries, sectors and economic regions. As a result, the social character of production is enhanced.

The changes in production entail the development of social property in the means of production. The whole people's property and collective farm and cooperative property are gradually brought closer to each other and develop into communist property. Graphic confirmation of this in the recent period has come from the deepening of specialisation and concentration of agricultural production through interfarm cooperation and agro-industrial integration, all of which elaborate on the ideas of Lenin's cooperative plan in the contemporary context.

The socialist society tends to become socially more homogeneous, as the essential distinctions between town and country, between mental and manual labour are obliterated, as relations of collectivism are established and the communist attitude to work takes shape.

The growth of production and the development of relations of production provide the basis for increasing the aggregate product and the national income, and boosting the social wealth. There is a rise in the cultural, technical and occupational standards of workers and the conditions for the individual's all-round development are improved.

All of this shows that the *development of production for the purpose of satisfying the requirements of all the members of the society amounts to a gradual creation of the material and spiritual prerequisites for the transition to communism.* The historical mission of socialism, the first phase of the communist mode of production, consists in freeing the development of the productive forces from the shackles clamped on them by capitalist property and creating the necessary conditions for perfecting the relations of production, ensuring an abundance of consumer goods so as to start their distribution in accordance with human requirements. The advance from socialism to communism is accomplished through the fullest and all-round use of objective economic laws by the socialist state, which is engaged in multi-fac-

eted activity under this motto: "Everything for the sake of man, everything for the benefit of man."

The building of a developed socialist society in the USSR has made it possible to get down to a practical solution of a broad range of problems arising from the creation of the material and technical basis of communism, the marked rise in the material well-being of all the members of the society, and the development of all social relations along the way to communism. The supreme goal of the socialist state is the construction of a classless communist society.

The bourgeois theory of "convergence" holds no water because it applies to social relations the common natural and technical development of the material elements of the productive forces under the impact of the STR. The capitalist and the socialist economic systems are developing in opposite historical directions, and capitalism is a society which has no future.

Section 5

THE SYSTEM OF ECONOMIC CALCULUS RELATIONS IN THE SOCIALIST ECONOMY

The previous section considered the economic laws of socialism in the most general terms and gave a politico-economic characterisation of socialist production as an integrated whole. A further study of the socialist economy calls for a more concrete approach to the analysis of production and economic ties in the socialist society.

This section considers the relations of production in the form in which they operate between the society as a whole and the individual enterprises (production associations), and also between the enterprises themselves. These relations assume the form of economic calculus which ensures the balanced combination of the economic interests of the society and the work collectives and participation in the management of enterprises by collectives of working people and social organisations. Accordingly, an effort is made to show how economic calculus is determined by the economic laws of socialism.

An economic calculus system implies the existence of specific forms for the movement of the aggregate social product and production assets. The use of the categories of costprice, profit, profitability, wholesale price, credit and certain others helps to gear the activity of the productive collectives with the overall state plan, to bring out the results of the economic activity of enterprises, to effect the distribution of their incomes, to provide material incentives for workers, and to enhance the efficiency of production. There is a need more efficiently to use economic calculus, profit and prices in the management of social production. The main point in economic calculus is to harmonise the interests of the workers with those of the enterprise, and the interests of the enterprise with those of the state. Economic

calculus relations are based on a combination of planned centralised administration with some autonomy and initiative on the part of enterprises and associations.

Economic calculus relations in agriculture have some peculiarities which spring, in particular, from the existence of differential rent. These are also considered below.

The methodological basis for the study of the material elements of production at socialist enterprises is provided by Marx's analysis of reproduction in his *Capital*, especially in Volume II, and also of the costs of production in Volume III. The theoretical principles of economic calculus were elaborated by Lenin in his "The Immediate Tasks of the Soviet Government" and a number of other works. The ways to consolidate economic calculus have been elaborated in depth in documents adopted by the Communist and Workers' parties of the socialist countries.

THE PRINCIPLES OF ECONOMIC CALCULUS

The whole people's property in the means of production converts enterprises (production associations) into the interconnected units of an integrated and well-balanced economic organism. The common interests of enterprises and the society as a whole are expressed in the fact that it is not individual enterprises but balanced social production that is the starting point for the steady advance of social production.

This chapter considers the substance and organisation of economic calculus at the enterprises, the primary units of social production.

1. THE OBJECTIVE NECESSITY AND SUBSTANCE OF ECONOMIC CALCULUS

The Main Economic Calculus Unit of Social Production

Balanced social production consists of various structural units linked with each other through the cooperation of labour on the scale of the society as a whole and having definite production functions to perform. The *production enterprise* is the primary structural unit, the primary unit in the functioning of the productive forces and the relations of production, or, in other words, the economic unit of the socialist society. It is the main economic calculus unit of social production.

The scale and form of the main economic calculus unit depend on the level in the development of the productive forces and the relations of production. Greater specialisation and concentration of production, a strengthening of its social character have produced a situation in which, at

the present stage, the *production association* comes to the fore as the main economic calculus unit of social production. It ensures a level of concentration of production and centralisation of the necessary material and financial resources which is up to the modern requirements of scientific and technical progress.

Bourgeois economists regard the socialist enterprise as a mere aggregation of mechanical instruments of labour and labour power, outside the context of the relations of production, and deny that the forms and methods used in the management of production depend on the nature of the property in the means of production and so distort the nature of relations between the individual economic units and the society as a whole. In the socialist society, there are two fundamentally new types of production enterprises: state enterprises and cooperative enterprises.

The socialist state production enterprise is based on the whole people's property in the means of production and unites exploitation free workers in a work collective which carries on the production of material values in a balanced manner and for the benefit of the society as a whole. The relations between the workers of the enterprise and of the latter with all the other members of the socialist society are those of economic equality, comradesly cooperation and mutual assistance.

The *socialist cooperative production enterprise* (collective farm) is based on the collective property of the members of the given cooperative (collective farm) with the leading role belonging to the whole people's property. In terms of relations, it is of the same type as the state enterprise. In the course of communist construction, collective farm and cooperative property and collective farm enterprises move closer to the whole people's property and state enterprises. Interfarm associations and joint enterprises set up by cooperatives and state farms are one form in which this occurs today.

The essential distinctions between the two types of socialist production enterprises—state and cooperative enterprises—spring from the specific features of the forms of property in the means of production prevalent under socialism. State enterprises are units of the whole people's sector of the economy. The assets of state enterprises and their product belong to the whole people. Cooperative enterprises are based on collective farm and cooperative property in the means of

production and the product. The distribution of the product and incomes of the whole people's enterprises is regulated directly by the state. At cooperative and collective farm enterprises, the state regulates directly the distribution of the part of the product and incomes going to meet the needs of the society as a whole. The managers of the whole people's enterprises are appointed by state agencies, and those of cooperative and collective farm enterprises are elected by their members. The collective farms are given constant assistance in various forms by the state.

State agencies, in the light of the overall tasks in developing production and taking account of the specific features of the two forms of property in the means of production, decide on the establishment of new and the enlargement of existing enterprises, provide them with the necessary production assets, determine the main types of products, and regulate production ties between enterprises.

State enterprises have some autonomy in their economic operations within the framework of the whole people's property in the means of production and the overall economic plan. Collective farm and cooperative enterprises operate with the use of the property they own as collective property. Their material interest in the final results of labour and their autonomy in the production and financial activity are determined by the specific features of the collective farm and cooperative form of property.

The whole people's property in the means of production makes it possible to combine the enterprises' relative autonomy in economic operations with the state's guiding influence on their work. State and collective farm and cooperative enterprises do not operate as economically isolated producers but to some extent autonomously as the primary units of the integrated socialist production which is regulated in a balanced manner. Expanded reproduction in each structural unit of the economy is carried out in close unity with balanced social reproduction as a whole, which is the starting point for the steady advance of the socialist economy.

Joint work at socialist enterprises provides the economic basis for *production work collectives*. The enterprises are the main sphere in which the physical and intellectual capabilities of those taking part in production are expressed and crucially developed. The work collective and the functioning of its social organisations reflect the whole life of the society,

economic in particular. Work collectives play a major role in the management and planning of production, deciding questions involved in the training of personnel, improving the workers' living and working conditions, strengthening discipline and fostering a communist attitude to work. Indeed, they are the primary units of the whole economic and political organism of the Soviet society.

The work collective has extensive rights in discussing and deciding on state and social affairs and in managing enterprises and other establishments. Work collectives take an active part in drawing up the state plan for the country's social and economic development, and its fulfilment and overfulfilment crucially depend on how well they work and how much initiative they display. They decide on various matters in organising socialist emulation, distributing material incentive funds, raising skill standards and appointing personnel, organising rest, recreation and everyday facilities for the working people, satisfying their spiritual requirements, raising the quality of medical services, using the housing facilities, and various other problems.

The new productive force of labour which emerges in the socialist work collective is multiplied by a community of interests, mutual comradesly support, and the conduct of production under an integral statewide economic plan. That is why with equal technical and natural conditions, socialist production enterprises have greater internal potentialities for boosting the efficiency of production than capitalist enterprises.

The direct social product of socialist enterprises, as preceding chapters showed, assumes the form of a commodity. As a result, economic ties between production enterprises, and also between them and supply, marketing and procurement organisations assume the form of commodity exchange organised in a balanced manner on the scale of the society as a whole.

Economic Calculus as an Economic Category of Socialism

The centralised planning of the economy as a whole and of the individual economic units objectively implies a consideration of the material interests of enterprises and their relative autonomy in economic operations. The relations between the enterprises and the society are established over

the whole people's means of production which are assigned to the enterprises, the socially necessary costs, the use value and value of products, and the use of products for the provision of incentives and for reproduction. All of this is expressed in economic calculus.

As an economic category of socialism, economic calculus is a system of relations between the society as a whole and its economic units. The relations help to realise the unity of interests of the work collectives and the society, to ensure the balanced organisation of the economy with the use of commodity-money relations, to provide material incentives for enterprises in fulfilling state plans, and to stimulate the growth of production with the lowest inputs of labour, and socialist accumulation.

Considering the importance of economic calculus, Lenin emphasised the need to carry millions of people to communism "not directly relying on enthusiasm, but aided by the enthusiasm engendered by the great revolution, and on the basis of personal interest, personal incentive and business principles."¹

Economic calculus relations are expressed in the requirement that *enterprises pay their own way* as they fulfil production plans and realise their products. The receipts obtained from the realisation of their product are used by the enterprises to cover their expenditures on raw and other materials, to replace the used-up part of fixed production assets, to pay wages to industrial and office workers and cover other expenses. *The surplus of receipts over expenditures constitutes their profit.*

The funds obtained in the form of receipts constitute the sum-total of the prices of the realised products and are the expression of their value in money terms. That is why exchange proceeds in accordance with the law of value. Enterprises functioning in the sphere of circulation obtain as receipts a part of the value created in material production and in processes which are a continuation of production in the sphere of circulation. The amount of the receipts as a whole is organically connected with the value of the actually turned out and realised product. This means that exchange is based on socially necessary expenditures of labour.

¹ V. I. Lenin, "Fourth Anniversary of the October Revolution", *Collected Works*, Vol. 33, p. 58.

A sizable part of the surplus product is concentrated in centralised social funds, which is why economic calculus enterprises do not receive the whole value of their product, but minus that part which goes directly to the state. Accordingly, enterprises pay their way through a direct relationship between the value of the turned-out and realised product and the total receipts at their disposal.

The receipt of funds depending on the value of the realised products enables the enterprises to cover their costs in accordance with the socially necessary norms of inputs of raw and other materials and labour time, and so orients them towards social input norms. As the latter are reduced, the prerequisites are created for the balanced reduction of prices. The realisation of products at value induces enterprises to cut their costs, to economise on living and past labour, to enhance the efficiency of production, to introduce new hardware and technology and new forms of labour organisation, and to combat diverse losses in the processes of production and circulation. The need to pay their way enables the collectives of enterprises to realise their specific interests in harmony with the interests of the whole people. Consequently, commodity relations here are not merely of formal significance, as the "left" revisionists claim.

The unity of the interests of work collectives and the society on the fundamental points does not rule out the existence of *non-antagonistic contradictions* within the economic calculus system. Lenin says that the switch of state enterprises to economic calculus "in view of the urgent need to increase the productivity of labour and make every state enterprise pay its way and show a profit, and in view of the inevitable rise of narrow departmental interests and excessive departmental zeal ... is bound to create a certain conflict of interests"¹.

Failure to reckon with the objective necessity and to harmonise the whole people's, collective and individual interests, with priority to the interests of the society, tends to sharpen these contradictions. This is manifested in non-fulfilment by some enterprises of their targets on product mix because they find it more profitable to turn out some products and unprofitable to turn out others, in delays in techni-

¹ V. I. Lenin, "The Role and Functions of the Trade Unions Under the New Economic Policy", *Collected Works*, Vol. 33, pp. 185-86.

cal progress in some units of production, in wasteful expenditure of materials, and so on.

Bourgeois economists present economic calculus as an economic form which is allegedly proper both to the capitalist and socialist economy. The "left" revisionists regard economic calculus as a survival of bourgeois law. Actually, economic calculus differs fundamentally from capitalist cost accounting. The difference is that economic calculus is an expression of the relations which arise in the process of socialist reproduction whose main feature is social property in the means of production. Its purpose is to ensure the steady growth of the society's aggregate product as a basis for the all-round satisfaction of the working people's growing material and cultural requirements. Capitalist cost accounting amounts to obtaining the highest profits with the minimum outlays of capital.

Economic calculus is based on the balanced regulation of the activity of enterprises by the society. The socialist state and its economic agencies solve the vital problems in the activity of enterprises in a direct and centralised manner and regulate commodity relations between enterprises, subordinating these to the interests of the society as a whole. The distinctive feature of economic activity at capitalist enterprises is that it is carried on in the midst of economic processes which are haphazard and defy regulation on the scale of the society as a whole.

Improvement of the results of the activity of economic calculus enterprises is achieved above all through higher productivity of labour on the basis of technical progress, rational organisation of production, perfection of the social division of labour, and so on. Capitalist enterprises boost their profit by stepping up the exploitation of the working class, notably by intensifying labour, freezing wages, etc., that is, by means of the methods which increase the rate of surplus value.

Since economic calculus is geared to the interests of the society as a whole, workers at socialist enterprises have an objective interest in perfecting it. In the developed socialist society, economic calculus has a growing role to play. The advance of the STR requires the improvement of centralised direction of the economy together with greater creative activity by the working people, a higher scientific level of state planning and improvement of the material incentives

for work. This is why the documents of the 26th CPSU Congress note the need to strengthen and further develop economic calculus.

2. THE ORGANISATION OF ECONOMIC CALCULUS

The socialist state organises economic calculus by formalising economic calculus relations in juridical and administrative acts and using these in the balanced direction of the activity of enterprises and sectors of the national economy. Accordingly, economic calculus is a *method for the planned conduct of the socialist economy*.

Planning and the Autonomy of Enterprises in Economic Operations

The activity of socialist enterprises is effected on the basis of current and long-term plans, which are an organic part of the overall plan of economic and social development, the tasks of which, together with *long-term stable norms*, lie behind the reinforcement and development of economic calculus. All this helps to make economic ties between enterprises stable and induces them to look for internal production reserves.

The annual plans and the organisation of all economic activities of enterprises are based on the tasks of the five-year plan. The draft five-year plans are elaborated by the enterprises themselves on the basis of control figures given them by the central planning bodies. The tension of the tasks and norms orients enterprises on making more rational use of the resources at their disposal. This is ensured by economic and engineering calculations, and an end to the practice of setting plan indicators on the basis of the existing dynamics alone of the corresponding indicators.

Economic calculus relations are connected with the *system of indicators of enterprise activity*. By means of these indicators, individual production collectives are included in the collective social labour which is organised in a balanced manner, and the activity of enterprises, above all their efficiency and quality of workmanship, are evaluated. Of special importance here are the final indicators: fulfilment of plans for the contracted delivery of products, the starting

of completed projects, better use of material, labour and financial resources, higher quality of products, rise of profits, and reduction of cost-price.

Enterprises have extensive potentialities for improving their hardware and technology, for providing incentives to the collective and its members, and organise labour and remuneration of labour on the basis of the norms established in a centralised manner, solve the problems of material and technical supply and marketing, conduct financial operations, and enter into relations with financial bodies and banks.

Material Incentives and Material Responsibility of Enterprises

The material incentives of enterprises in the results of their economic activity are created as they pay their own way, by *covering their expenditures with their own receipts*. The larger the product an enterprise delivers to society and the better its quality, the greater the funds which it has at its disposal. The proceeds from the marketing of its products are the source for covering its expenditures, including the payroll fund, as well as for the formation of profit and the economic incentive funds.

The size of funds used by industrial enterprises as economic incentives depends above all on fulfilment by them of the plans of manufacture of products designated for industrial use and of consumer goods in the range and within the time limits provided for in agreements (contracts), on the growth of labour productivity, the improvement in quality and the rise in profits (in some industries, it depends on lowering costs). For these purposes material incentive funds, social and cultural amenities and housing construction funds, and production development funds are instituted. The five-year plan figures and longer-term economic norms provide for the growth of these funds at the disposal of industrial enterprises, depending on improvement of their work.

In 1981, industrial enterprises in the USSR paid out 7 billion rubles from the material incentive fund, 2.4 billion rubles from the social and cultural amenities and housing construction fund, and 7.1 billion rubles from the production development fund.

In order to make work collectives more interested in achieving a rise in labour productivity and a reduction in personnel mobility, on the basis of the application of long-term norms for wages per ruble of output, the wages are made more dependent on the rise in labour productivity and improvement of the final results of work. Forms of incentive to collectives are being developed for fulfilment and over-fulfilment of plan tasks with a smaller number of industrial and office workers, the economies on the wage fund being used to encourage a rise in labour productivity and improvement in the quality of work.

Monetary Control

The existence of commodity-money relations makes for a special form of control by the society over the activity of economic calculus enterprises, namely, monetary control. In the USSR, it assumes the form of *control by the ruble*. By establishing a relation between expenditures and receipts, the society controls the inputs of labour and the means of production, fulfilment of the plan in terms of volume and assortment of the realised product and profitability, the relation between the social value of the product and the monetary resources at the disposal of the enterprise, and the extent to which its material and financial state corresponds to its fulfilment of the plan.

Mutual monetary control is effected by means of economic contracts regulating relations between enterprises on the basis of the statewide economic plan. In the event a product falls short of the stipulations of the contract (in quality, assortment or price) it is not paid for. Enterprises which fail to fulfil their contractual obligations have to make good the losses suffered by purchaser enterprises.

The *financial system* has a special role to play in exercising monetary control. Economic calculus enterprises make fixed payments into the budget and obtain from it the funds they require for large capital outlays. In performing these operations, the financial agencies control the extent to which enterprises are provided with resources and how correctly these are used.

Monetary control is also exercised by the institutions of the *credit system*. The differentiated approach to the exten-

sion of credits holds out a number of privileges to efficient enterprises and imposes various sanctions on inefficient ones.

Forms of Economic Calculus

Alongside the economic calculus of enterprises, an important element in economic management is economic calculus within the framework of production and that of economic units which are superior to the enterprises.

Economic calculus within the framework of production, like that of enterprises, is designed for the most efficient economic operations, and its specific character is predetermined by the peculiarities of the economic status of the subdivisions of an enterprise. *It consists in a comparison of the inputs for a given volume of work with the planned norms, and in the provision of material incentives to workers for the economies they obtain in fulfilling the output plan.*

One very widespread form of economic calculus is that of production teams. Their collectives (councils) are entitled to determine, within the limits of the norms and funds assigned to them, the amount of bonuses and wages paid for the results of the work of the whole team, taking into account the real contribution made by each member of the collective; they have the right to nominate team members for the receipt of increments and additional payments for their professional craftsmanship and for multiple trade; to recommend to the management and trade union organisation changes, in the established manner, in the worker's grade considering the quality of his workmanship; to designate the winners of socialist emulation within the team and the amount of their bonuses; to nominate from among the team members candidates for material and moral incentives according to the results of the socialist emulation within the plant.

Experience in the establishment of production associations, especially those where enterprises have been converted to the status of shops and branches, testifies to the effectiveness of economic calculus within the production framework. New forms of its organisation have also been taking shape, involving the extension of economic calculus rights and potentialities for providing incentives.

All-Union (republican) industrial associations, which bear material and financial responsibility for their activity and

the fulfilment of plans and contracts, operate on the basis of economic calculus in the sectors of the USSR economy. They exert an influence on the functioning of the enterprises subordinate to them not only by means of administrative but also economic measures, and have the necessary material and financial resources for so doing.

Economic calculus methods are also introduced at *sectoral ministries*, and this helps to enhance their interest in increasing the efficiency of the production enterprises and all-Union (republican) associations which they administer, and to enhance the material responsibility for the solution of production and technical problems in the development of their sector.

The switch to economic calculus of all-Union (republican) associations and sectoral ministries does not reduce the role of economic calculus at production enterprises (associations). The demarcation of economic calculus functions for each structural unit and the assignment to each of material resources and material responsibility help to harmonise the economic interests of ministries, associations, enterprises, and the society as a whole, and so successfully to tackle the key problems in the development of the economy.

Chapter twenty-eight

**THE CIRCUIT AND TURNOVER OF PRODUCTION ASSETS.
CREDIT IN THE SOCIALIST ECONOMY**

The production assets which are at the disposal of enterprises provide the material basis for economic calculus relations. This chapter considers the substance of production assets, their balanced circuit and turnover, their stages and functional forms, and the essence of their reproduction at the enterprises. On the structure and rational use of production assets largely depend the economic results of the activity of enterprises and the efficiency of social production. In this context, special attention is given to the peculiarities of the movement of fixed and circulating assets, the uniformities governing their formation, their efficient use and mechanism of reproduction.

The existence of credit is connected with the turnover of the assets of economic calculus enterprises, which is why this chapter also considers the substance of credit and its role in the turnover of assets.

1. THE CIRCUIT OF PRODUCTION ASSETS

The Production Assets of Enterprises

The material and monetary resources which are at the disposal of enterprises and which service the process of production and circulation in a balanced manner constitute the production assets of these enterprises. Assets of enterprises are an object of social property and are used in a balanced manner for the benefit of the working people. They express the relations between the society of associated producers and the work collectives, and the comradely cooperation and mutual assistance of men and women free from exploitation. In consequence of this, productive assets are a specific economic

category of the socialist society, antithetical to the category of capitalism which expresses exploitation of man by man.

The assets of state enterprises are on a higher level of socialisation, are formed from the whole people's resources, and are the property of the society as a whole. The assets of collective and cooperative enterprises are constituted from their internal sources, with the assistance of the socialist state, and belong to the collective farms.

Three Stages in the Circuit of Production Assets

Before getting down to production proper, enterprises acquire the necessary quantity of instruments and objects of labour. These are used productively in the process of production. Simultaneously with the creation of the product, there is the formation of value. The product is then realised in the sphere of circulation, and the value of the productive assets is in constant movement and goes through these three successive stages: circulation, production, circulation.

Accordingly, assets assume the money, the productive and the commodity forms, and in each of these have a definite function to perform. The function of productive assets in the money form consists in converting money into the elements of the productive assets. With the aid of the productive assets, the workers make the product which has a use value and value. The function of commodity assets consists in realising the finished product, in converting the commodity form of the assets into their money form.

In their movement, production assets go through three inter-related stages, assume the functional forms corresponding to each stage, returning to their initial form in the final stage, that is, they perform a circuit.

While the initial and the final stages of the assets circuit appear in money form, for the enterprises this process is a circuit of the money form of their assets. It may be expressed in the the following scheme:

$$M - C(MP) \dots \overset{LP}{P}(MP + Vn) \dots C' - M'$$

Stage I
(circulation)
Stage II
(production)
Stage III
(circulation)

where M is monetary resources; C (MP) the value of the purchased means of production; LP the labour power; P (MP) + Vn) production in the process of which the value of the used-up means of production (MP) is transferred to the manufactured product and a new value (Vn) is created; C' the finished product earmarked for realisation; and M' the monetary resources obtained from the realisation of the product and corresponding to the value of the used-up means of production and the newly created value.

The content of the assets circuit at socialist enterprises is a fundamentally different one as compared with the content of the circuit of industrial capital.

The circuit of each given capital is geared to the enrichment of the capitalist through the exploitation of wage labour. It is separated by private property from the circuit of other capitals, proceeds in the haphazard conditions of market competition and contains within itself the possibility and inevitability of a break in the unity of production and circulation.

The circuit of the assets of the socialist enterprise is geared to the interests of the society as a whole and is carried on in a balanced manner, in combination with the circuit of the assets of other enterprises which are connected with it. The socialist society regulates in a balanced manner the production ties which emerge in the process of the assets circuit and makes sure that they correspond to social requirements.

Let us consider the content of the stages of the assets circuit.

At the first stage: $M-C$ (MP), the means of production are acquired. Under socialism, as has been said, labour power is not an object of purchase or sale. Consequently, the money assets are used in such a way that, when they are converted into productive assets, a definite quantitative correlation is established between labour power and the means of production.

The smooth rhythm of production depends on the timely arrival of the means of production at the enterprise. This is the purpose of the organisation and planning of material and technical supply. Wholesale trade in the means of production and the direct economic ties established for a long period between suppliers and consumers enhance the role of economic calculus incentives in organising the circulation of the means of production.

The *second stage* of the assets circuit:

$$\dots \overset{LP}{\downarrow} P (MP + V_n) \dots$$

This stage characterises the production of the social product, which is why it is a crucial one. From the character and goal of socialist production it follows that enterprises are designed to produce use values satisfying social requirements. The formation of value occurs in a simultaneous process. The society as a whole and the individual production collectives have a stake in cutting the costs of production and raising the quality of products.

The *third stage* of the circuit: $C' - M'$. The act of realisation signifies the conversion of the commodity form of the assets into their money form. The payments of the value of the product by the consumer serves as evidence that in terms of value, quality and terms of delivery the commodity has met society's requirements. The resources obtained from the realisation of the product provide the sources from which the costs of the enterprise, including wages, are covered, and from which profit is formed.

Under socialism, there is no antagonism between the growth of production and consumption. The occasional breaches of planned assortment which hamper realisation of the product are eliminated through the improvement of planning, price formation and incentives for turning out products which meet the requirements of the consumer. This is attained, in particular, by making the size of the incentives fund more dependent on the fulfilment of plan for deliveries in accordance with contracts and orders.

The Three Functional Forms of the Assets Circuit

The circuit of the money form of assets exists alongside the productive and the commodity forms. This will be easily seen from a consideration of the circuit as a continuous and constantly renewable process:

$$M - C (MP) \dots \overset{LP}{\downarrow} P \dots C' - M' M - C (MP)' \dots \overset{CP}{P' C''} - M''$$

<p>I</p> <p>Circuit of money form of assets</p>	<p>II</p> <p>Circuit of productive form of assets</p>	<p>III</p> <p>Circuit of com- modity form of assets</p>
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This scheme shows that each functional form of productive assets has its own circuit. In order to give a full characterisation of the circuit there is a need to take into account the specific features of all its three forms, each of which supplements the others.

The *circuit of the money form* reflects the organisation of the resources of socialist enterprises operating on economic calculus. It is used in the formation of the enterprises' own monetary sources and in the provision of incentives for the fulfilment of plan targets.

The *circuit of the productive form* reveals the primary role of production with respect to circulation. It expresses the character of socialist production as a process of free creative labour for oneself, for the satisfaction of the working people's requirements and their individual development.

The *circuit of the commodity form* is the process of circulation. Uninterrupted circulation creates the conditions which ensure uninterrupted production. The commodity form expresses the connection between reproduction at individual enterprise and social reproduction, and shows the growth of resources going to satisfy the requirements of the society as a whole and of all its members.

The circuit of productive assets is the movement of their value and, as such does not directly express the goal of socialist production. This also applies to all the three forms of the assets circuit. But under socialism all of them are ultimately subordinated to the goal of increasing the production of material values for the ever fuller satisfaction of the requirements of the society and its members.

The Assets Circuit as a Whole

The circuit of assets implies a definite correlation between its stages and forms. The structure of money, productive and commodity assets corresponds to the plans of production, material and technical supply, realisation of the product and the finances of the enterprises. Precise fulfilment of these plans makes for the rhythmical coordination of the stages of the circuit.

A key condition for the uninterrupted movement of assets is their simultaneous functioning at every stage and in all the forms of the circuit. Thus, while a part of the assets functioning in the commodity form is converted into the

money form, another part emerges from the process of production and enters into circulation in the commodity form, and the third is converted from the money form into the productive form. The constant maintenance of the uninterrupted movement of assets calls for concerted action by all the subdivisions of the production collective. The regular circuit of assets is ensured by the well-balanced economy which operates under a state plan.

2. THE TURNOVER OF PRODUCTION ASSETS

The movement of production assets continues without interruption. *The circuit, considered not as a separate act but as a periodical process, as a result of which the advanced value is fully returned to its initial form, is known as the turnover of assets.*

Content of Production Assets

Production assets servicing the processes of production and circulation consist of *productive assets* and *assets of circulation*. Productive assets consist of the means of production. The assets of circulation include products which have been turned out but not yet realised, and also monetary resources.

The means of production consist of the instruments of labour and the objects of labour. Both take part in the creation of the products of labour, and under commodity-money relations, in the creation of use value and the formation of value. At the same time, the instruments and objects of labour differ in a number of ways, so that productive assets are divided into *fixed* and *circulating* assets.

The instruments of labour take part in the creation of the use value of a commodity to their full extent, but do not materially form a part of the product, maintaining their natural form in the course of a number of circuits. The objects of labour are fully used up in each circuit as they take part in creating the use value of a commodity and are, as a rule, materially included in the new product, with their natural form modified.

In each circuit, the value of the used-up instruments of labour is partially transferred to the new product, in ac-

cordance with their wear and tear, while the value of the used-up objects of labour is transferred in full.

The value of the instruments of labour undergoes a dichotomy in the process of turnover: the transferred part of the value circulates together with the product of labour and, in the process of the circuit, moves from the commodity form into the money form, being gradually accumulated in the form of the replacement fund; the non-transferred part of the value remains embodied in the instruments of labour within the sphere of production. The value of the used-up objects of labour circulates in full, within the value of the new products. In the time of their turnover, the instruments of labour take part in a number of successive circuits, whereas the time of turnover of the objects of labour corresponds to the period of one circuit.

The conversion of the value of the instruments of labour transferred to the finished product from the money form into a new, natural form occurs after they are eliminated from the process in consequence of wear and tear within a definite period covering a number of circuits. The objects of labour are renewed in the natural form after each circuit.

Because of these peculiarities, the instruments of labour acquire the economic form of fixed assets, and the objects of labour, the form of circulating assets.

Fixed assets are a component of the productive assets whose value is transferred to the manufactured product gradually, in the course of a number of circuits, and is returned to the enterprise in money form in parts. In consequence of this, the advanced value of fixed assets is fully recouped after a number of circuits constituting their turnover.

Circulating assets are a component of the productive assets which in the course of one circuit are, as a rule, fully used up in the process of labour, are therefore fully transferred in value terms to the manufactured product, and returned to the enterprise in money form after each circuit.

The assets of circulation are not divided into fixed and circulating assets, but because the process of production is in a sense continued in the sphere of circulation, *additional productive assets* exist there alongside the circulating assets.

Apart from production assets, enterprises have at their disposal *assets for non-production purposes* which have an indirect influence on the process of reproduction. These

include dwelling houses, buildings and equipment of medical, children's, athletic and other institutions.

The velocity of the turnover of production assets is determined by the number of turnovers (n) performed within a definite period (O), or by the duration of a single turnover (o). This is expressed in the following equation:

$$n = \frac{O}{o}; \quad o = \frac{O}{n}.$$

Assuming that duration of a turnover of assets comes to three months (90 days) we have:

$$n = \frac{12}{3} = \frac{360}{90} = 4; \quad o = \frac{360}{4} = 90 \text{ days.}$$

3. FIXED ASSETS

Fixed assets, constituting the *production apparatus* of the socialist society, have the definitive role to play in the movement of productive assets. The quantitative growth and steady perfection of this apparatus in accordance with the requirements of scientific and technical progress make for a high technical level of production, and so provide the basis for its growing efficiency.

In the USSR, the value of fixed production assets in the national economy at the end of 1980 was 1,149 billion rubles. The assets-to-worker ratio in industry grew by 40 per cent and that in agriculture by 50 per cent during the Tenth Five-Year-Plan period. The Eleventh Five-Year Plan (1981-1985) envisages big investments in expanding and improving fixed assets.

The growth of the economic efficiency of social production largely depends on the *returns of fixed assets*, that is, the output per ruble of operating fixed assets. This depends on various factors, among them most importantly the structure of fixed assets.

According to their part in production, different types of fixed assets have a different role to play. Buildings serve mainly as the material conditions for labour and ensure the normal progress of the production process. They have an indirect and relatively passive effect on the efficiency with which fixed assets are used. The instruments of labour (working machines, equipment, plant, instruments, etc.) have

an active role to play in the process of production and exert a direct influence on the efficiency of production.

The structure of fixed production assets in the economy tends to change under the impact of scientific and technical progress, which increases the share of the active part of the fixed assets.

Wear and Tear and Obsolescence

The economic mechanism of reproduction of fixed assets rests on internal and inter-related processes: the wear and tear of fixed assets, depreciation and the use of the depreciation fund for the replacement of the instruments of labour in kind.

The instruments of labour functioning in the process of production are subjected to *wear and tear*, which means that they gradually lose their technical properties and so also their use value. Simultaneously, there is a reduction in the value of the instruments of labour, which is transferred to the products as they are used up. Wear and tear is fully recouped through the value transferred to the manufactured product under socially normal conditions of the functioning of the instruments of labour. Where these conditions are worse (lesser intensity of use, idling, etc.) wear and tear is not recouped and entails a loss.

Alongside wear and tear, the instruments of labour are subjected to *obsolescence*. Here, a part of the value is lost regardless of the extent to which the technical properties are reduced. There are two forms of obsolescence.

The *first form of obsolescence* is expressed in the loss of value by the instruments of labour as a result of the growth of labour productivity in the industries turning them out. This form does not entail the need to substitute new equipment for the functioning equipment, because the technical level of the operating and the new equipment is the same. But the extensive use of the instruments of labour with a lower value tend to deprive earlier acquired instruments of labour of a part of their value, so that the society incurs a loss because they are not used intensely enough.

The *second form of obsolescence* springs from the spread of more perfect and productive machines and mechanisms. This leads to a loss in the value of earlier installed and less economical instruments of labour. The use of technically obsolete instruments of labour tends to slow down the growth

of labour productivity and the rise of efficiency in production. Under socialism, new machines are substituted for obsolete machines in a balanced manner.

The main way to prevent losses from obsolescence is more intense use of equipment over a greater number of shifts.

Depreciation

Economic calculus provides for the recouping by enterprises of their outlays on the reproduction of fixed assets from the proceeds of their sales. This is done by means of depreciation.

Depreciation is a gradual transfer of the value of the instruments of labour, as these are worn out, to the manufactured product, so as to accumulate monetary resources for the subsequent reproduction of the fixed assets.

Depreciation allowances constitute the money form of the value of the fixed assets functioning in the process of production transferred to the product of labour. They are included in the cost-price. Once the product is realised, the part of the proceeds equal to the depreciation allowances are accumulated in the form of money reserves on the accounts of the enterprises, so constituting their *depreciation fund*.

The *rate of depreciation* is the ratio of the annual amount of depreciation allowances to the annual average value of the fixed assets expressed as a percentage. In accordance with the specifics of the reproduction of fixed assets, it consists of two parts. One is earmarked for the full replacement of the fixed assets (*renovation*) and the other for their partial replacement (*overhaul and modernisation*).

The rates of depreciation must reflect the actual magnitude of the wear and tear and obsolescence of the instruments of labour. Overstated rates mean an artificial exaggeration of the cost price, while an understatement tends to slow down the replacement of the worn-out assets, so acting as a drag on technical progress.

The depreciation rates in the USSR are differentiated by type of fixed assets. In 1981, for industry as a whole depreciation allowances stood at 7.3 per cent of the mean annual value of industrial production fixed assets (including major repairs—3 per cent). The system of depreciation allowances

in enterprises is based on reimbursement of enterprises for the replacement value of instruments of labour, which reflects social reproduction costs more precisely.

The Depreciation Fund and Its Use

The depreciation fund is in constant movement. On the one hand, after each assets circuit it is gradually replenished with monetary resources in the form of depreciation allowances and on the other, it is reduced because it serves as a source for the reproduction of the fixed assets.

In terms of economic purpose, the depreciation fund is a *source of simple reproduction*. But scientific and technical progress creates favourable conditions for its use for the purposes of expanded reproduction. This is due to the fact that there is a sizable time gap between the point at which the instruments of labour are replaced in value and renewed in kind. As a result, the depreciation allowances accumulated over a period of years are temporarily excluded from the assets circuit and can be used for the purchase of new instruments of labour even before the functioning fixed assets have been fully worn out. Besides, the growing productivity of labour in the industries turning out the elements of these assets leads to a reduction in the cost of their reproduction, and this provides an additional source for expanded reproduction.

When the fixed assets are renewed in kind, their former value is usually embodied materially in improved hardware ensuring a higher level of productivity. Consequently, the use of the depreciation fund helps to accelerate technical progress at the enterprises and so also in the economy as a whole. Thus, the use of the depreciation fund helps to speed up technical progress in each enterprise (association) and, consequently, throughout the national economy.

Now up to 16 per cent of depreciation allowances in the USSR, which are earmarked for renovation, are placed at the disposal of enterprises and form part of the production development fund.

The increase in the financial resources of enterprises earmarked for improving production makes them a highly important element in the acceleration of technical progress. At the same time, one should reckon with the fact that technical progress implies a balanced redistribution of resources

both between individual enterprises and between individual industries, and this can be done only when resources are centralised in the hands of the state.

Higher Efficiency in the Use of Fixed Assets

Improvement in the use of fixed assets is expressed above all in a growth in the volume of output without any additional capital inputs.

The ratio between the rate of growth of the gross social product or national income, on the one hand, and of fixed assets, on the other, is a synthetic indicator of the efficiency with which fixed production assets are used on the scale of the economy as a whole. From 1940 to 1981, the gross social product of the USSR multiplied 14 times, the national income, 14.6 times, fixed production assets of all the sectors of national economy, 17.05 times. These data show that the overall tendency in the USSR's economic development has been a growth of returns on fixed assets.

There are two basic ways of improving the use of fixed assets: *extensive* and *intensive*. The former entails an increase of the time in the course of which the instruments of labour function through reduction in the idling of equipment, higher shift ratio, and extension of the mass of the instruments of labour with the same technical level. The latter entails the raising of the technical level of production and better use of the instruments of labour per unit of time. Scientific and technical progress extends the potentialities for the more intensive use of the instruments of labour. The intensive way is the definitive one for the economy of developed socialism.

If intensity in the use of fixed assets is to be increased, labour productivity must grow at a faster pace than the growth in the assets-per-worker ratio. The returns on fixed assets go up when labour productivity grows faster than the assets-per-worker ratio. The faster growth of the efficiency of the new machines, as compared with the growth of their value, helps to reduce the assets-per-worker ratio and to raise the returns on assets. This increases the rate of production growth with the same or lower rate of accumulation.

The definitive role of the intensive use of fixed assets does not rule out their extensive use. Growing efficiency in the use of fixed assets usually results from the interaction of

the two approaches. Socialist enterprises have sizable reserves for increasing the amount of time in which the equipment functions.

Of much importance is the creation of economic conditions stimulating the efficient use of fixed assets. This is induced by assets charges the norms for which are, as a rule, fixed at six per cent of the value.

4. CIRCULATING ASSETS AND ASSETS OF CIRCULATION

The circulation of fixed assets is closely bound up with the movement of circulating assets and the assets of circulation. The assets of circulation perform their turnover parallel to the turnover of the productive assets and help to make it continuous.

Circulating Means

In terms of involvement in the circuit, the assets of circulation have some common features with circulating assets. Thus, like circulating assets, they are renewed after each circuit. There is close interdependence between the elements of the assets of circulation and circulating assets in the course of the circuit. For these reasons, *the monetary resources invested in circulating assets and the assets of circulation are classified together under the head of circulating means.*

At the end of 1980, the circulating means used in the sectors of the USSR economy (without the circulating means of the collective farms) totalled 436 billion rubles, including 143.8 billion in industry. The ratio between circulating means and industrial fixed production assets was roughly 1 to 4.

In the process of reproduction, some elements of the circulating means are simultaneously at different stages and in different forms of the assets circuit. The greater the share of circulating assets involved directly in the process of production, the more efficient the use of circulating means is. Socialist relations of production create the conditions which make it possible to concentrate the bulk of the circulating means in the sphere of production, whereas under capitalism the greater part of the circulating assets are in the sphere of circulation.

According to the source from which circulating means are formed, they are divided into *own* and *borrowed means*. In contrast to own means, which are constantly at the disposal of the enterprise and are intended for stocking up normal inventories and fulfilling plans of production and realisation of products, borrowed means are expended on the enterprises' temporary needs and are subject to repayment.

At the end of 1980, own circulating means made up 24 per cent of the circulating means of the economy, bank credits 46 per cent, and outstanding credits and other sources—30 per cent.

In practice, the efficiency with which circulating means are used is determined by the *turnover coefficient*, which is the ratio of the value of the product realised within a year to the average balance of circulating means. This is an indicator which characterises the number of turnovers, and also the returns on circulating means, that is, the amount of realised products per ruble of circulating means.

The faster turnover of circulating means helps to release resources for additional output of products and has a positive effect on the profitability of enterprises.

General Turnover of Production Assets

When the general turnover of assets is calculated, there is a need to draw a distinction between the advanced and turned-over value. Let us assume that the assets of an enterprise total 107 million rubles, of which 80 million rubles are fixed assets, and 27 million rubles—circulating assets and assets of circulation (circulating means). The calculation of the general turnover of assets in terms of value appears as follows:

Enterprise assets	Advanced value (1,000 rubles)	Depreciation rate (per cent)	Annual number of turn- overs	Annual turned- over value (1,000 rubles)
Fixed assets:				
active part	40,000	12.2	0,122	4,880
passive part	40,000	4.5	0,045	1,800
Sum-total	80,000	8.33	0,835	6,680
Circulating assets and as- sets of circulation . . .	27,000	—	4,000	108,000
Total amount of assets . .	107,000	—	1,070	114,680

This example shows that the annual turned-over value is larger than the advanced value by 7,680,000 rubles (114,680,000 — 107,000,000), while the total number of turnovers equals

$$1.07 \left(\frac{114,680}{107,000} = 1.07 \right).$$

With an annual turnover of fixed assets coming to one-twelfth of their value, the total turnover comes to more than unity, as the circulating assets and the assets of circulation perform four turnovers within the year.

The indicator of the overall turnover of enterprise assets (in value) reflects the production links which emerge in the process of the circuit. A comprehensive analysis of these links is used for the balanced regulation of production. Special attention needs to be given to the change in the relation between fixed and circulating assets under the impact of technical progress. The influence of this factor on the overall turnover is two-fold: an increase in the share of fixed assets, all other conditions being equal, tends to slow down the overall assets turnover; on the other hand, new and more perfect instruments of labour create the conditions for introducing progressive technological processes, and this helps to reduce the working period and, consequently, to accelerate the overall turnover of resources.

The acceleration of the assets turnover being an expression of intensive economic development makes for growth of enterprise profitability and enhances the efficiency of social production.

5. CREDIT AND ITS ROLE IN THE TURNOVER OF PRODUCTION ASSETS. THE CREDIT SYSTEM UNDER SOCIALISM

The Need for Credit under Socialism

In the course of the circuit and turnover of production assets, some economic units develop a temporary need for monetary resources, while others have temporarily uncommitted monetary resources. Thus, the depreciation fund is built up gradually over a period of years, and is expended all at once, as the worn-out fixed assets are renewed in kind. The purchase of raw and other materials and fuel, and the sale of the finished product occur at different periods. The re-

ceipt of monetary resources for the remuneration of labour does not coincide with the periods in which these are expended. Profit and the fund of the enterprise, which it goes to form, are not used at once for the various purposes. All of this results in the formation of temporarily uncommitted monetary resources at the enterprises. Large amounts of monetary resources earmarked for the remuneration of labour, for current production expenditures and capital investments are accumulated after the collective farms have sold their produce.

Temporarily uncommitted funds also appear as the national income is distributed through the state budget. This includes state monetary reserves resulting from the surplus of budget revenues over budget expenditures, and current budget resources which arise because, as the budget is fulfilled, the receipt of revenues does not coincide in time with their expenditure.

A part of the net income of enterprises and money incomes of the population go to form the social insurance, property and personal insurance funds, which are expended gradually. The earned income of the population which is concentrated at savings banks is another source of temporarily uncommitted funds.

The temporary need for additional monetary resources also emerges in the turnover of the fixed assets before the accumulation of the corresponding amounts (depreciation fund and profit) for the needs of overhaul, reconstruction and enlargement of existing enterprises, modernisation of equipment, installation of new hardware and improvement of the technology of production.

The need for additional resources also exists in the movement of circulating assets and the assets of circulation: for the purpose of forming a part of the production reserves to an extent not covered by an enterprise's own circulating means, payment of wages before the receipt of money from the realisation of the product, formation of seasonable production stocks in some industries (light, food, forest, peat, and other industries), for additional seasonal expenditures in agriculture and in industries with seasonal production, and so on.

The rational use of resources in the economy calls for balanced re-distribution of temporarily uncommitted funds, which are subject to repayment. This is effected by means of

bank credit, which comes from the *loan fund* that is constituted through the accumulation of temporarily uncommitted monetary resources of enterprises, the state budget and the population.

Under socialism, credit is a system of balanced economic relations by means of which the socialist society musters temporarily uncommitted monetary resources in the economy and makes use of these to ensure expanded reproduction. Credit is subject to repayment within the stipulated period, and carries an interest charge. It is a form of the balanced movement of the loan fund.

Considering that the movement of credit is connected with the circuit and turnover of the production assets of enterprises, credit relations are an important component element of economic calculus relations in the socialist society.

Credit helps to solve the contradictions between the constant formation of monetary reserves at enterprises and in industries and the need for their full and rational use in order to ensure the continuity of social production and growth. The combination of own and borrowed sources of circulating means helps fully to satisfy the enterprises' requirements in monetary resources in due time at various periods, to reduce the amount of the funds assigned to the enterprises required for the planned volume of production and so to secure more efficient use of monetary resources in the economy.

Credit helps to accelerate the conversion of the productive and commodity forms of assets into the monetary form, and this reduces the time of production and circulation and, consequently, accelerates the turnover of resources. At the same time, credit is a major source of monetary resources for the expansion of production.

The specific features of the balanced redistribution of temporarily uncommitted monetary resources by means of credit—the fact that credit has to be repaid within a specified period and carries an interest charge—make it an important instrument of control over the fulfilment of the qualitative and quantitative indicators of the plan for the production and circulation of products, and of the efficient use of enterprise assets.

Credit helps to substitute credit operations for banknotes, and this makes it possible markedly to economise on the use of cash in circulation, to speed up the turnover of money,

to consolidate the currency and to reduce the costs of circulation.

In contemporary conditions, improvement of the administration of the economy entails a further enhancement of the role and efficiency of credit in the rational use of production resources, extension of credit relations, and the substitution of a system of repayable and fixed period credits for non-repayable financing (grants) in some cases, including capital investments.

Bourgeois economists take the wrong view of credit under socialism. Some of them deny its importance, while others identify it with capitalist credit. Social property in the means of production makes the use of credit serve the interests of the steady growth of production and the raising of the whole people's well-being. Socialist credit is extended in a balanced manner and is directly connected with the process of reproduction. All the credit resources of the socialist economy go to service real economic processes in production and circulation, and may not be used for any kind of speculative operations as credit is used under capitalism. There are no credit crises in the socialist economy. The stability of credit is ensured by the balanced advance of economic development, the stability of planned prices and currency, and deficit free state budgets, which have a fundamentally different socio-economic character as compared with budgets under capitalism.

Socialist Banks

Balanced credit relations and the institutions catering for them make up the credit system of the socialist society. Credit performs its functions by means of banks, which collect and distribute credit resources. In the socialist society, *banks are state institutions which organise the money turnover and credit relations in a balanced manner and which use credit, settlement and cash operations for the purpose of accounting and control of the economic activity of enterprises.*

Right-wing revisionists want the banking system to be "independent" and insist that the banks should take over the economic organisation functions of the socialist state, while the "left" revisionists underestimate the role of credit institutions in the administration of the economy.

Economic theory and practice have borne out the objective need for the balanced use of banks for boosting socialist production.

In their capacity as credit centres, the banks convert temporarily uncommitted monetary resources into functioning resources, provide credits for the economy, and extend loans to the population for their consumer needs. The banks draw on the state budget and special funds to provide non-repayable finances (grants) for capital construction. Through the banks, the state extends credit to other countries, socialist and developing countries in particular.

In 1981, the credits made available by the State Bank of the USSR to the economy came to 314.9 billion rubles, or nearly 80 per cent of the total credits extended by the banking system of the USSR.

The banks redistribute temporarily uncommitted monetary resources by means of credit on the basis of the following principles: direct and goal-oriented credits, fixed-period credits, balanced extension of credits, and differentiated extension of credits to enterprises depending on the level of their economic activity.

Bank credits may be short- or long-term. *Short-term credits* are made available for the formation of circulating means and also for the replacement and enlargement of fixed assets provided the outlays are rapidly recouped (overhaul, installation of new hardware, rationalisation of the production process, organisation of the manufacture of consumer goods). *Long-term credits* are made available mainly for the expansion of fixed assets or their replacement. The longer term of the credit for fixed assets is determined by the fact that the sources for the recouping of outlays on their replacement, enlargement and reconstruction (depreciation fund, accumulation of profit) are built up over a number of years. In order to stimulate technical progress credits made available for the introduction of new hardware and other measures designed to improve production have to be repaid within periods in which the time required for the recouping of the given measures is taken into account.

Loans are made available to enterprises when their economic operations are normal: when they do not make a loss, when the circulating means assigned to them are in safe keeping, and when they meet their delivery obligations to their customers. Enterprises which operate well are given *credit*

privileges. In this way, credit stimulates the raising of the efficiency of production.

The credits made available by the banks carry an *interest charge*, which takes the form of payment for the use of the loan funds. The interest rate is fixed by the state. Its source is the society's net income which is obtained by the individual economic units. The loan interest goes to cover the costs of maintaining the apparatus of credit institutions and to form their profit. Higher interest rates are charged on overdue credits and on credits for material stocks which are over and above the plan. In addition, the higher interest rates are differentiated in accordance with the type and maturity of credits, and this helps to stimulate the rational use and timely repayment of the loans received by the enterprises.

Banks in their capacity as *settlement centres* of the socialist economy, arrange and carry out settlement of accounts between enterprises which do not involve cash transfers for material values and services, settlements between enterprises and the financial and banking system, settlements connected with foreign trade and other economic relations with foreign countries.

Banks in their capacity as *centres of issue and cash operations*, provide these services for the economy and the population and effect the balanced and everyday regulation of currency, and concentrate and use foreign exchange funds.

The *principles on which banking is organised* in the socialist countries are common to them all, namely, state monopoly of banking and an integrated state credit policy for the whole country, democratic centralism in the management of banks, and concentration at the State Central Bank of the country's money turnover with wide use of clearance settlements. At the same time, the structure of the banks, the methods of extending credits, the settlement of accounts, the issue of currency and cash operations for the economy, credit and cash planning, and bank control of the work of enterprises have their specific features in the various socialist countries.

Lenin said that the banking system under socialism is an apparatus for social accounting. The money turnover concentrated at the banks caters for the mutual exchange of activity between the enterprises, industries and economic regions of the country, that is, for the movement of the

aggregate social product. Banking institutions, carrying the accounts of all the economic organisations, settling their accounts, and issuing loans, concentrate the necessary information on reproduction at each individual enterprise and in the economy as a whole. This enables the institutions of the banking system to exercise control over the production, distribution, circulation and use of the aggregate social product.

Chapter twenty-nine

**THE COSTS OF THE ENTERPRISE, THE PRICE SYSTEM.
NET INCOME AND FINANCE**

In the turnover of production assets there is a balanced distribution of the funds obtained by the enterprises from the realisation of their products. From these are covered the outlays on the used-up means of production and the remuneration of the labour of the workers paid. These outlays assume the form of the costs of the enterprise. A surplus of receipts over expenditures constitutes the profit. The level of costs, prices and profit shows how rationally production and circulation are organised.

The incomes of the enterprises constitute the basis of the society's finances, and this chapter gives a general characterisation of the financial system of a socialist society.

1. THE COSTS OF SOCIALIST ENTERPRISES

Under a developed social division of labour, there is a separation of the functions of production and of circulation. The former is effected mainly by production and the latter by commercial enterprises. Accordingly, the expenditures ensuring the production and circulation of commodities are allocated between production and commercial enterprises. *The expenditures of socialist production enterprises are designated as the cost prices of products, and the expenditures of commercial enterprises, as the costs of circulation.*

The Economic Content of the Costs of Enterprises

The society's aggregate expenditures on the production of products constitute the costs of the products. The *cost price* includes the parts of the value corresponding to the

value of the used-up means of production (Mp) and the value of the product created by the necessary labour (Vnl), transferred to the given product. Consequently, the cost price is an inherently socialist form of social costs of production serving mainly for the purpose of ensuring simple reproduction.

An important peculiarity of cost price is that in it the costs of production are not expressed directly in labour time but in money form. Consequently, cost price is the money expression of the costs of production and may depart from the corresponding part of value.

Cost price is shaped directly at the enterprises. Practically, it also includes some elements which are, by nature, a part of the surplus product but are included in the costs of enterprises, and, conversely, does not include any elements of social costs. For instance, in consequence of the fact that the society largely defrays the costs of the reproduction of labour power from social consumption funds only that part of the necessary product of the workers is included in the cost price which corresponds to the wages of industrial and office workers and the remuneration of the labour of collective farmers. Social consumption funds are involved only partially in the formation of cost price, although they constitute an element of the social costs of production.

The following table shows the rough ratio between value and cost price as an average for the USSR economy (per cent).

	Value	Cost price
Material expenditures in production	56	56
Newly created value:		
the value of the necessary product earmarked		
for the payment of labour	22	22
the value of the surplus product	22	—
Total	100	78

Thus, on average for the USSR economy cost price comes to roughly three-quarters of the money form of its value.

The material substance of the costs of circulation of the whole people's and cooperative enterprises and commercial associations consists of the outlays of social labour to convey the products to consumers. The finished product is one that has been transported, stored, sorted, packaged and subjected to a number of other operations which prepare it for consumption. The outlays on these operations constitute *additional costs of production* which are determined by the continuation of the process of production in the sphere of circulation. Circulation merely obscures their productive character. That is why the source from which the material part of the outlays is compensated is provided by the value transferred to the product, and of the part going into the remuneration of the labour of workers, by the value newly created by necessary labour.

Commodity-money relations cause some expenditures for operations connected with the change in the form of value. These expenditures constitute the *net costs of circulation*. The source from which they are recouped is provided by the value of the surplus product created in material production. Net costs are subdivided into the costs of purchase and the sale of products, and accounting. In contrast to the former, which are connected only with the change in the form of value, the latter are determined by the social character of production. The costs of circulation appear in money form and, like cost price, may deviate from the corresponding socially necessary level.

The socialist state regulates in a balanced manner the costs not only at state but also at cooperative producer and commercial enterprises. In contrast to state enterprises, where the inputs of labour are included in cost price in the form of wages calculated at fixed state norms, the remuneration of labour is included in the cost price of the collective farms' produce as regulated by the farms themselves.

In the USSR, wherever it makes economic sense, enterprises are given targets for reducing cost price. Such targets and the planning of costs induce a choice of the most economical versions in the organisation of production and circulation, and, in particular, expand the potentialities for improving product quality. Reduced cost price indicators are increasingly taken into consideration when the activity of an enterprise is being assessed.

Bourgeois economists see no difference between costs at

socialist and capitalist enterprises. The costs at capitalist enterprises are the costs of capital, and are an expression of the relations of exploitation. The costs of socialist enterprises are an expression of socialist relations of production between individual economic units and the society as a whole, and are connected with the manufacture and marketing of products satisfying the working people's requirements. The absence of antagonistic contradictions between the society and individual enterprises signifies that the actual costs of production in the socialist society are measured by the socially necessary expenditures of the whole of social labour, that is, by the value of the products.

A reduction in the costs of socialist enterprises means an increase in net income which belongs to the society as a whole and, consequently, a growth of the national wealth and, on that basis, creates the potentialities for raising the people's well-being. Under socialism, the working people are concerned with cutting the costs of production and circulation.

Capitalist costs of production and circulation take shape haphazardly, as a result of fierce competition between capitalists and the ruin of small and middle entrepreneurs. The costs of socialist enterprises are shaped in a balanced manner, under the guiding influence of the socialist state.

Cost Cutting at Socialist Enterprises

The national economic importance of cost cutting at enterprises consists in the fact that it is an expression in money form of the *reduction of the expenditures of social labour for the production and circulation of products*. Economies in the outlays on production and the marketing of products at the given level of prices goes to increase profit, which the society uses to expand production and provide ever fuller satisfaction of the working people's material and cultural requirements. The same result is ultimately achieved when prices are lowered in accordance with the reduction of costs.

The socialist state exerts a systematic influence on the cost price and costs of circulation and reckons with their *structure*, which is the ratio between monetary expenditures on the means of production and the remuneration of labour. The structure of cost price in the various industries is a re-

lection of the machine-to-worker ratio and the specific features of production.

With the growth of labour productivity and a reduction in the overall quantity of labour going into a product unit, the share of living labour is reduced and that of past labour increased. As a result, the share of material expenditures in cost price tends to increase, and that of the remuneration of labour to decline.

The level of enterprise costs is a basic synthetic indicator of their work. Cost price reflects the quality of economic management, the skill standards of workers, the extent to which scientific and technical achievements are used, and the state of labour organisation. Cost cutting is the result of an improvement of the quantitative and qualitative indicators of work at the enterprise, of the effort to reduce all kinds of losses, unproductive waste of labour time, and material and money resources.

A distinction should be drawn between economies of money resources resulting from a reduction of the inputs of living and past labour, and economies not connected with an improvement of production activity. The latter may result from a decline in the quality of the product, neglect of the planned product mix, and a lower standard of the services provided to the population. Of real importance for the national economy is cost cutting that reflects actual economies of labour and higher efficiency of production.

Growing labour productivity is a crucial factor in reducing the costs of production at the enterprises. But this is so only if the workers' output has been growing at a faster rate than their wages. When expenditures for the remuneration of labour tend to grow at the same pace as output, cost price remains at the old level. The need to boost labour productivity faster than wages increase is due to the need to replace by the savings of living labour the outlays on the development of new hardware and technology and on improving the organisation of production, which ensure the growth of productivity, and to place a definite share of these savings at the disposal of the society in order to enable it to expand production, develop education and enlarge social consumption funds.

With the growth in the mass of the means of production being used, the need to economise on these becomes ever more important. The *depreciation of fixed assets* has a special place

among the material expenditures in turning out the product. Intensive use of equipment and an increase in the time in which it is operated help to reduce the size of depreciation allowances per product unit.

The introduction of new hardware and high-quality objects of labour is a condition for boosting labour productivity and economising on material outlays. The more productive equipment helps to reduce cost price by improving the product-to-assets ratio and reducing the costs of repairs and depreciation allowances per product unit. The use of high-quality raw and other materials helps to improve the use values of the products and to reduce labour outlays per product unit. Besides, the improvement of the quality of all the means of production is an important prerequisite for doing away with rejects in production, non-productive losses, idling, departures from technical standards, and mismanagement.

Economic calculus has an active influence on cost cutting. Economic calculus relations stimulate output and help raise product qualities, improve production and circulation, and economise on the whole of social labour. For its part, a reduction in the costs of production and circulation provides an important indicator of success in fulfilling the main task to which the system of economic calculus is geared, namely, the manufacture of products with the lowest inputs of social labour.

2. PRICES WITHIN THE ECONOMIC CALCULUS SYSTEM

Under socialism, commodities are realised according to planned prices. These reflect an *intricate complex of economic ties over the creation of the product required by the society, and the magnitude of the socially necessary expenditure, and also the distribution of the net income between the sectors of the national economy.*

The USSR has a historically rooted coherent system of planned prices and rates, which takes account of the various stages in the movement of the product from production to consumption.

There are two types of wholesale prices in industry: *the wholesale prices of enterprises*, at which accounts are settled with the producer enterprise, and *the wholesale prices of industry*, at which the finished products are realised

by supply and marketing organisations and consumer enterprises. The wholesale price of the enterprise recoups the costs of a normally operating enterprise and assures it of the necessary profit. The wholesale price of industry also includes the costs and profit of supply and marketing organisations, and also turnover tax on some products. In some industries (engineering, chemistry, etc.) only the wholesale price of the enterprise is now in force. *Purchasing prices* are fixed for the produce sold to state organisations by state farms and collective farms.

All the types of prices are inter-related and interdependent. Thus, the price of the product of the food industry depends, on the one hand, on the purchasing prices of farm produce, and on the other, on the prices of the instruments of labour. The prices of farm produce, for their part, depend on the prices of the means of production created by industry and sold to agriculture. The level of retail prices is determined by the level of wholesale and purchasing prices.

When considering the mechanism of pricing under socialism, bourgeois economists characteristically seek to leave the impression that planned pricing is a passive and less than efficient instrument of administration by fiat. Bourgeois economists advocating marginal utility reject the Marxist theory which says that price is the money expression of value, and assert that the price of a commodity is based on its utility, which is connected with subjective assessments, desires and "saturation" of individual demand. Another school regards price as the form in which capital, land and labour inputs are recouped, which means that it starts from the "three factors of production" theory that Marx criticised in his lifetime.

Wholesale Price—the Main Element of the Price System

The main element of the planned price system is wholesale prices at which more than one-half of the whole social product of the USSR is realised.

All the basic qualitative and quantitative indicators of the state plan are connected with wholesale prices, On their level depend the indicators of product volume, profitability, the size of the profit, and cost price. Wholesale prices are the reference point in determining the most

effective variants of plan, design and operational economic projects.

In view of the fact that the wholesale price level has an effect on the final indicators of the producer enterprise, and, consequently, on the size of its material incentive funds, some enterprises may, regardless of the society's interests, urge to secure more advantageous terms for the sale of their products. These contradictions are eliminated through the planning of prices on the basis of socially necessary costs.

Wholesale prices are based on the costs which take shape in the production of the bulk of products of a given quality. Every normally operating enterprise recoups its costs of production and obtains a profit from the sale of its products. At the same time, costs normatives permissible under the given average conditions of production are fixed for the enterprises.

The main trend in planned price formation consists in the approximation of prices to socially necessary costs. Value is an expression of economic relations in the process of production. But each process of production is a process in which labour time is expended. Consequently, the expenditure of labour is the measure for the exchange ratios. What is more, under socialism, the role and importance of labour inputs as the basis of prices tend to increase, because the distribution of material and cultural values is effected in accordance with the quantity and quality of work, and the society has its stake in the rational use of labour.

Wholesale prices, based on socially necessary expenditures of labour, provide the instrument by means of which individual costs are compared with normative social costs.

In practice, price formation on the basis of the social value of a commodity rests on the average cost price for the industry, which is a reflection of the average for the industry of the transferred value of the used-up means of production and expenditures for the remuneration of labour. These costs now come to over 80 per cent of the wholesale price of commodities in industry.

The value of the surplus product is included in the price in proportion to the value of the production assets in the industry. Consideration of the assets-to-product ratio in the prices stimulates efficient use of production assets and capital investments.

In the planned wholesale price formation account is taken

of the differences between the social and the individual value of the product which spring from natural factors. The fixing of the same prices on the basis of average costs for the industry does not assure a part of the enterprises of a profit adequate to settling accounts with the state and creating incentive funds. That is why wherever the cost price differs sharply within the zone, district or region, profitability is achieved by means of zonal prices. These are calculated in the light of the cost price in relatively worse natural conditions for the given zone, with an introduction, in one form or another, of fixed payments into the budget. Settlement prices for separate groups of enterprises are used for the same purpose.

The Use of Wholesale Price in Economic Management

The preponderance of social socialist property in the means of production implies balanced regulation of prices by state agencies. Wholesale prices are consciously invested with parameters (level, structure, correlation with the prices of other products) which hold out material incentives to the collectives of enterprises in fulfilling the statewide economic plan with the lowest inputs. Improvement of price formation in the various branches of the national economy acts as an instrument of planned management. To this end, the stimulating impact of wholesale prices is reinforced on improving the quality of goods, speeding up the introduction of new, highly efficient technology and replacement of obsolete technique, making more rational use of productive resources and reducing the average cost prices of products; state price discipline is also being strengthened.

Thus, when wholesale prices are fixed for new products, especially machinery and equipment, provision is made for a reduction of their level per unit of useful effect. Ceiling prices, price increment and price reduction are used, depending on the quality of the products.

The stimulating role of prices depends on the extent to which they correspond to the level of socially necessary costs and take into account other price-formation factors. Economically warranted price reductions create conditions for enterprises in which they are induced to carry on their operations with greater economies, constantly improve production and introduce advanced hardware and technology.

By means of the mechanism of plan-oriented pricing, the society exerts an influence on the balance between supply and demand. This applies above all to interchangeable types of product, products in short supply or, conversely, products of which there is a glut. But supply and demand are not the main factor behind the formation of price, although the balance between the two is reckoned with when prices are fixed.

The use of wholesale price as a stimulator of technical progress requires the determination of floor and ceiling prices. *Floor prices* for a new or improved product ensure the interests of normally functioning production collectives turning out the bulk of this type of products. Although the costs relating to the research, development, engineering and production of new products are covered from a special fund, the current costs of enterprises and frequently also the assets-to-product ratio tend to grow at the early stages, and that is why the price for the new product is fixed at a higher level to help recoup the additional outlays and to obtain additional profit. The *ceiling price* provides an important reference point for stimulating the introduction of new hardware and technology in the economy. Planning agencies reckon with the economic efficiency of new or improved products as compared with earlier produced products in order to fix the maximum tolerable wholesale price level so as to give the consumer a chance to use the product advantageously. This price is used to establish a correlation between the use value and the value of the product. If the price does not take into account the use properties of the new product, this correlation is disrupted and enterprises have no incentives to improve its quality.

The wholesale price of a new product is fixed between the ceiling and floor levels in such a way as to stimulate production and induce the introduction of the latest types of product in the economy. It is not only the improvement of the technical and economic parameters of the product that is considered, but also the effect to be got from the use of this product in various sectors of the economy. This is expressed in a reduction of the price per unit of useful effect of the new product. As the new product is established, as labour productivity grows and the value of the new product is reduced accordingly, the price for it is also reduced.

The fixing of the wholesale price entails a definition of the net product normatives for the corresponding product (in some industries, added-value normatives), which operate as a basic indicator of planning and material stimulation.

Retail Prices

In services and the marketing of consumer goods there are state retail prices and basic charge rates for every-day and public-utility services. The retail price includes the wholesale price of industry and a commercial discount (or mark-up) used to cover the costs of circulation and the formation of the profit of commercial organisations.

Consumer goods are sold at retail prices to the population and also to some organisations and institutions. The bulk of the consumer goods is marketed in accordance with state price lists.

In economic content, retail price expresses the relation between the socialist society and its individual members in the process of production, distribution and exchange. On its level and on the level of wages depends the population's real income. Retail prices are an important instrument of the policy pursued by the socialist state with the aim of steadily raising the people's well-being.

A distinctive feature of retail prices, as of the whole system of prices under socialism, is that they are planned. The socialist state directs their movement in the light of the tasks of its economic and social policies at this or that stage, and ensures the stable purchasing power of money and the population's savings.

Retail prices have an effect on the shaping of the population's requirements and help to balance out supply and demand. A reduction of prices results in an increase of demand for goods. The objective basis for price cuts is provided by the growing efficiency of production, a lowering of the cost price and the existence of commodity stocks. The socialist state seeks to ensure the stability of state retail prices for the basic foodstuffs and non-food commodities, reducing the prices of some types of goods as the necessary conditions are created and commodity stocks are built up.¹

¹ The differentials between the wholesale prices of some commodities which are higher than the retail prices are covered from the state budget.

3. PROFIT AND PROFITABILITY

The Net Income of Enterprises and Centralised Net Income

A society's net income is created by surplus labour and partially by necessary labour. In practice, this takes the form of the differential between the sum-total of the prices at which the goods are sold, and the costs of production and marketing. The socialist society's net income results from the exploitation free labour of the producers and is an expression of the relations in the process of both production and distribution.

In the USSR, the society's net income appears in two main forms: *the profits of enterprises* and *turnover tax*. Both these forms have the same socio-economic nature. The difference between the two lies in the mechanism behind their formation and use.

With invariable wholesale prices, the profit of the enterprise depends on the cost price, which is why it is a variable magnitude. Turnover tax is a fixed part of the wholesale price of industry established by the state and, with a given volume of marketed products, is a constant magnitude. Profit is realised in each normally functioning economic calculus unit, while turnover tax is levied on individual groups of commodities. Once the products have been marketed, the profit of the enterprise is distributed through the established channels in accordance with the plan and the normatives. Turnover tax goes directly into the state budget.

The existence of two forms of net income meets the needs of the balanced development of the socialist economy. In order to provide cash resources for the socialist state's economic and organisational activity, it needs to have a stable fund, and this is made up above all from turnover tax. At the same time, the system of economic calculus relations implies a definite autonomy on the part of enterprises in terms of economic operations, and here profit, together with their fixed and circulating assets, provides the financial basis.

The specific mechanism underlying the formation of turnover tax (mandatory payment, stringent deadlines and size of payments) invests it with the outward features of a fiscal method of fund accumulation. But in content it is

not a tax and fundamentally differs from the indirect taxes extensively levied in the capitalist countries.

Turnover tax is not a deduction from wages. It accumulates within itself that part of the value of the surplus product which has not been realised in wholesale prices of industrial enterprises. The state determines the share of the net income and the list of the commodities through whose prices the net income goes into the budget in the form of turnover tax.

In the process of distribution, the socialist society's net income falls into two parts: the *centralised net income of the state*, and the *net income of enterprises*. Centralised net income consists of turnover tax, payments from the profits of state farms, and also of the income tax levied on collective farms and other cooperative enterprises.

Profit

Profit, like net income as a whole, is created in the sphere of material production. However, it obtains its specific form at the stage of circulation, when the products are realised, and appears as the differential between the wholesale price (without turnover tax) of the realised product and its cost price.

The source of profit, as of the turnover tax, is the surplus product and partially the necessary product. But in contrast to turnover tax, profit is a variable magnitude, for with the same price, it depends on cost price.

Profit does not coincide with the value of the surplus product created at the given enterprise. This is due to the fact that the surplus product is redistributed. In addition, in economic practice, a part of the value of the surplus product is included in cost price, and this reduces the amount of profit accordingly. Profit also includes a part of the value of the necessary product, for instance, in order to set up material incentive funds.

An enterprise obtains profit if its marketable products are paid for by the consumer. Payment signifies confirmation of the fact that the product meets the society's diverse requirements in terms of quality and range. Where an enterprise increases its output, while a part of its products remain unsold because of inadequate quality or product mix, the assets circuit remains incomplete and there is no

profit. The receipt of profit is connected with the social recognition of the created use value by means of exchange.

In practice, some enterprises seek to increase their profits by unjustifiably raising their prices, and this inevitably reduces the profitability of consumer enterprises. This, in effect, signifies a change in the social proportions of the distribution of the national income for the benefit of the individual enterprise and therefore is at variance with the interests of the society.

By means of discounts or mark-ups, enterprises in the sphere of circulation receive a part of the value of the surplus product created in the sphere of production. Since, apart from their activity, connected with the change in the form of value, these enterprises also carry out a number of additional production functions, they create surplus product and necessary product that also serves as a source of profit.

The growth of profit and other money forms of surplus product is used, directly or indirectly, for the working people's needs, and is not a constraint on the growth of the necessary product, as it is under capitalism. The state regulates profit on the basis of normative social costs.

The main factor behind the growth of profit is the growing productivity of labour, which ensures an increase in the volume of production and, consequently, of the money incomes of the enterprise, and helps to reduce labour inputs per product unit, the cost price. Much importance attaches to economies in material outlays in production, ever greater efficiency in the use of fixed and circulating production assets, and natural conditions of production, which also have an effect on cost price. The magnitude of the profit depends on the quality and assortment of products and price level.

At the enterprises, profit is *one of the synthetic indicators summing up the efficiency of production.*

The improvement of planning and management in the USSR and in a number of other socialist countries has enhanced the role of profit in organising economic calculus. But it would be wrong to regard profit as the sole and universal indicator of the functioning of an enterprise.

Bourgeois ideologists and revisionists identify the profit of socialist enterprises with profit under capitalism. The right-wing revisionists claim that profit is the main instrument for regulating the economy and the sole criterion in establishing national economic and intersectoral propor-

tions. Both groups distort the nature of the socialist system. By contrast, the "left" revisionists deny the need to use profit as an instrument in planned economic management, and regard it as a "left-over" from capitalism. However, the socio-economic nature of these categories under socialism is fundamentally different. The profit of socialist enterprises is based on the product created by the working people, who are free from exploitation, and the net income is used for the benefit of the society as a whole. That is why the formation, distribution and use of profit are not antagonistic. The making of profit is not the sole purpose of socialist production, but is an important source for expanding production, building up reserves and social consumption funds, and maintaining and developing the non-productive sphere for enhancing the people's well-being. In the socialist economy, the formation of profit is a balanced process.

Distribution of Profit

The profit of socialist enterprises is distributed with an eye to harmonising the interests of the society, the work collectives and individual workers.

During the eleventh five-year-plan period (1981-1985), a new normative method for distributing profits is being introduced. The five-year plan sets in advance what part of profits, in absolute terms, will go to the state budget and what will remain at the disposal of the ministry or association (enterprise). If the plan tasks are overfulfilled, part of the extra profits also remains in the production unit.

Payments for productive assets, fixed (rent) payments, as well as deductions from profits as the difference between the total confirmed sum of payments into the budget and the sum of planned contributions for assets and fixed (rent) payments are paid into the *state budget*. The profits that remain at the disposal of the ministry or association (enterprise) are used to finance state capital investment (the part not covered from other sources), to pay back bank credit and the interest on it, to form a fund for material incentives, socio-cultural amenities and housing construction, development of production and a single fund for the development of science and technology (within the ministry), and to cover the cost of additional circulating means of the enterprise, planned losses from the operation of the

housing and public utility facilities and certain other planned outlays.

In 1980, of the total profit received by state enterprises and economic organisations in the USSR, 59 per cent went to the state budget for the formation of centralised funds, 41 per cent remained at the disposal of the enterprises and organisations, and of this 17 per cent was deducted to incentive funds, 5 per cent was used to finance capital investments, and 5 per cent for increasing the circulating means of the enterprise.

For the purpose of enhancing the economic responsibility of production associations (enterprises), all-Union (republican) industrial associations and ministries for the results of their financial and economic activity, and increasing their stake in the most efficient use of their material and financial resources, industrial ministries are assigned stable normative deductions from profit (differentiated by year) which are placed at their disposal and which are based on the targets established in the five-year plan. Depending on the amount of profit remaining at their disposal, and with an eye to the specific features of production and level of profitability, the ministries are allowed to lay down corresponding normative deductions from profit for all-Union (republican) industrial associations and also for production associations (enterprises). As for over-and-above plan profit, 50 per cent of it remains at the disposal of the ministry (association, enterprise). In the event of the profit plan being overfulfilled by more than 3 per cent, 25 per cent of the amount constituting this increment remains at their disposal. The rest of the over-and-above plan profit goes to the state budget.

Rates of Profit and of Profitability

As the surplus product is converted into profit, the rate of the surplus product, which is an indicator of labour productivity, is converted into the rate of profit and the rate of profitability. The latter are different expressions of the ratio of profit to cost of production and marketing.

The *rate of profit* expresses the efficiency of the current inputs into production and may be expressed as follows:

$$P' = \frac{P}{CP} \times 100,$$

where P' is the rate of profit; P is the mass of profit; and CP is the cost price.

The *rate of profitability* shows how efficiently production assets are used and is the ratio of profit to the volume of production assets:

$$PR' = \frac{P}{FA + CAN} \times 100,$$

where PR' is the rate of profitability; FA is the fixed assets; and CAN the normed circulating assets.

Wherever the profitability of an enterprise operating in average conditions coincides with the sectoral normative level, its individual costs approximate to the socially necessary costs. The attainment of a higher level of profitability means that the production collective is working more efficiently than others. Conversely, a relatively low level of profitability shows that inadequate efforts are made at the enterprise to install the latest hardware and technology, that there is a lag in labour organisation, and that production resources are used irrationally.

Like the productivity of social labour generally, the profitability of socialist enterprises is ultimately raised through the systematic introduction of scientific and technical advances, and the rational use of production assets, and labour and natural resources. An increase in the volume of output, a reduction of the enterprise costs, intensive use of the instruments of labour, and a shortening of the time of the assets circuit have a direct impact on the level of profitability.

The use of the profitability indicator to stimulate the efficiency of production rests on the proportions in the economy, which are directly determined by the society's objective requirements rather than the profit and profitability of the various enterprises. That is why these indicators have an ancillary role to play in the balanced regulation of production.

Profitability should not be identified with the efficiency of the whole of social production. The former expresses the returns on living and materialised labour at individual enterprises and sectors of the economy, and the latter, the final results on the scale of the society as a whole. The growing efficiency of social production as a whole is the highest criterion of economic calculus activity.

4. FINANCES AND THE FINANCIAL SYSTEM OF THE SOCIALIST SOCIETY

The Substance and Role of Finance

Various money funds are formed in the process of reproduction at the enterprises, in the sectors of the economy, and in the society as a whole. The economic relations arising in the creation, distribution and use of these money funds are known as financial relations.

Finance, as an economic category, is a system of monetary relations by means of which the formation, distribution and use of money resources are effected in a balanced manner for the needs of expanded reproduction and the satisfaction of other social requirements.

Depending on the nature and range of financial relations and the functional purpose of money resources, concerning which these relations are established, a distinction is drawn between the *finances of enterprises, sectors of the economy, and state finance*. Considering that the finances of enterprises and sectors of the economy cover monetary relations connected with the process of material production and the formation of net income, they serve as the basis for state finance.

In socio-economic substance, function and purpose, finance under socialism differs fundamentally from finance under capitalism. It is based on social property in the means of production and is used to expand reproduction and satisfy other social requirements for the purpose of enhancing the working people's well-being. The steady and balanced development of production makes finance sound and stable. Financial relations under socialism do not contain any antagonistic contradictions. An urge on the part of individual enterprises to retain more monetary resources than is necessary is checked by the state.

Finance has an important role to play in the *distribution of the value which is created in the sphere of material production* and which assumes the form of money incomes from the realisation of the product, especially of that part of it which constitutes the net income. The concrete forms of the distribution and redistribution of the net income by means of finance depend on the level of economic development and the requirements of economic management.

By means of finance, the state distributes the national

income, a sizable part of which goes to meet social and cultural needs: housing construction, medical services, education, pensions, scholarships, aids, etc. At the same time, a definite and relatively insignificant part of the money incomes of the population, mostly those of industrial and office workers in the higher brackets, and also a part of the incomes of collective farmers from their personal subsidiary farms, is withdrawn into the budget in the form of taxes.

The servicing by finance of various stages of reproduction at the enterprise and on the scale of the economy as a whole makes it possible to use finance as an *instrument of monetary control of the production and distribution of the product and to stimulate the intensification and the growth of the efficiency of social production.*

Bourgeois economists incorrectly identify finance under socialism with capitalist one. They try to show that the financial system under socialism, like that under capitalist conditions, is based on taxes levied on the working people. To this end, the turnover tax, which is, in fact, a form of net income, is wrongly described as an indirect tax, i.e., a deduction from the wages of the working people. Right revisionists characteristically strive to attach a primarily consumer character to the state budget and to reduce to the minimum the financing of the national economy out of the state budget. But the socialist state cannot be deprived of the opportunity to redistribute the national income in a centralised and planned way for the purposes of scientific and technical progress, the development of the key branches of the economy and the rational location of productive forces throughout the country. The tendency on the part of "left" revisionists to underestimate the use of economic calculus and the principle of material incentives is also expressed in the under-rating of the role of the financial system, including the finances of the enterprise. These views are shown to be untenable by theoretical analysis and practice in the socialist countries.

The Financial System and Its Main Element: the State Budget

The financial system of the socialist state consists of financial relations which are organised in a balanced manner and the special institutions catering for these. The financial system

of the socialist state includes the finances of the enterprises, the sectors of the economy and state finances.

The *state budget* is the main element of the financial system. It is the principal centralised fund of the monetary resources of *the socialist state*. The state budget provides financial resources for the needs of the balanced development of the economy, science and culture, the raising of the working people's well-being, the maintenance of the organs of state administration and the funding of the country's defences. Through the budget, the state concentrates a sizable part of the net income created at the enterprises for the purposes of its balanced centralised distribution.

The structure of the revenues and expenditures of the state budget appears as follows:

USSR State Budget for 1980
(bln rubles)

Revenues, total	320.6	Expenditures, total	309.8
including:		including:	
turnover tax	100.4	on the economy	169.8
payments by state enterprises and organisations from profits	92.4	on socio-cultural amenities and science	103.6
state taxes from the population	25.5	on defence	17.1
state social insurance funds	15.0	on administration	2.6

In terms of economic nature, *budget revenues* are divided into two main groups: revenues from the national economy, and payments from the population. In the socialist countries, the income of the economy provides the main source for state budget revenues.

Revenues from the net income of the socialised economy come to almost 91.6 per cent of the total budget revenues.

Financing of the economy is the main item of *state budget expenditures*.

The share of budget appropriations for the economy comes to one-half of the total expenditures.

Another characteristic feature of the socialist countries' budgets is the high percentage of outlays for social and cultural amenities. Over the past few years, such expenditures in the USSR have come to over one-third of the total budget expenditures.

The soundness and stability of finance is expressed in the fact that the *state budget is deficit free*. As a result of the

steady growth of the income of the national economy and on the basis of the rational use of resources, the socialist countries' state budgets are, as a rule, framed and executed with a surplus of revenues over expenditures.

The budget system is directed from a single centre under a statewide financial policy. The centralised direction of the budget system goes hand in hand with the extension of broad budget rights to the Union republics and local state agencies, and with the working people's active involvement in financial work.

State social insurance and social security are important elements of the state system of finances.

Outlays on state social insurance and social security make up over 48.1 per cent of all the budget outlays on social and cultural amenities.

State property and personal insurance is one of the links in the state financial system. Concentration in the hands of the state of the whole of insurance makes it possible to effect insurance at a lower cost, grant privileges to some categories of enterprises, ensure the stability of the financial results of insurance operations, and to guarantee the compensation for losses to the insured.

Relations of the enterprises with the budget are arranged with an eye to the need to consolidate economic calculus. The five-year plans (with a breakdown by year) provide for an absolute amount of deductions from profit to the state budget and, whenever necessary, for appropriations from the budget. When the planned profit is not obtained in some year, payments into the budget as fixed in the five-year plan for that year are effected in full through a corresponding reduction in the profit which remains at the disposal of the ministries. In the event of a correction of five-year plan targets for this or that year, the necessary corrections may simultaneously be made in the total normative deductions from profit placed at the disposal of the ministry, and the amount of deductions from profit to the state budget.

The accumulation of tremendous monetary resources at the disposal of the state creates a sound economic basis for the fulfilment of economic plans, for putting through large-scale measures to build up the material and technical basis of communism and to raise the working people's well-being.

Chapter thirty

**SPECIFIC FEATURES OF ECONOMIC CALCULUS RELATIONS
IN AGRICULTURE**

The specific features of economic calculus in agriculture spring from the economic relations over the use of land as the chief resource in agricultural production, and the great role of natural and biological processes in production. The state, while directly regulating social production on the state and collective farms, interfarm enterprises and associations, takes account of the specific way in which agricultural assets are shaped and function, the way in which produce and income are obtained, and additional net income formed. It also reckons with the natural conditions.

1. REPRODUCTION AT AGRICULTURAL ENTERPRISES

*Specifics
of the Productive Assets Circuit*

The difference between the productive assets of collective farms and those of state farms lies in the extent of their socialisation. On the state farm, they are objects of the whole people's property, and on the collective farms, largely objects of cooperative property. The productive assets of collective farms consist of the whole people's means of production (the land and its subsoil, water resources, state irrigation and drainage systems, electric power networks and other installations) and cooperative means of production which are formed by the collective farms with the assistance of the society as a whole.

State investments in the land create the conditions for the steady growth of agricultural output and the efficient use of productive assets.

Industrial means of production like machinery, equipment, transmission devices and means of transport, make up nearly 20 per cent of the fixed productive assets in the agriculture of the USSR.

The structure and formation of the productive assets of the state and collective farms reflect the natural conditions of agricultural production. *Land is the main means of production.* The fixed production assets of agriculture also include specific assets like productive livestock, trees, bushes, fruit trees, berry crops, while circulating assets, in addition to the purchased industrial items, include seed, feedstuffs, young livestock, etc.

A large part of the means of production used up at agricultural enterprises is created within the farm and enters into the production turnover, bypassing the sphere of commodity circulation (as in the production of seed and feedstuffs). As the specialisation and division of labour are deepened, this part of the productive assets tends to shrink.

Because production depends more heavily on natural and biological factors, there are considerable differences in the turnover of fixed and circulating assets. Mechanical instruments of labour are used in agriculture for relatively short periods, while highly intensive production requires the presence of a full complex of machines so as to have all technological operations performed in due time and up to a high standard. The assets of agricultural enterprises as a whole tend to turn over more slowly than they do in other sectors of the economy, and the assets-to-product ratio in agricultural production is relatively higher. An important place in raising the efficiency of agricultural production belongs to improvement of the economic conditions under which enterprises operate.

The Planning of Production. State Procurement of Farm Produce

The activity of agricultural enterprises is carried in a balanced manner, in accordance with an integral state-wide economic plan. At the whole people's agricultural enterprises, production is planned in much the same way as it is in industry: alongside the volume of state purchases of farm produce, they are also assigned a number of other centralised indicators for their production activity.

In the USSR, the plan for the procurement of the basic types of crop and animal produce from the collective farms by the state is laid down in a centralised manner, together with the prices and certain other terms. The state plans the volume and structure of its purchases of produce and includes collective farm production within the system for satisfying social requirements. In this way it predetermines the main lines for the development of the farms, the specialisation and location of production in accordance with the concrete natural and economic conditions, and ensures the efficient use of land, and material and manpower resources. As a result, the society obtains the necessary produce, while the collective farms are guaranteed its stable marketing at firm prices and the corresponding incomes.

State procurement accounts for nearly one-half of the total volume of marketable produce in agriculture. The part of the produce remaining after sales to the state is sold to the members of the collective farms, to other cooperative organisations and on the collective farm market.

The governing bodies in the USSR condemn unjustified interference in the economic activities of collective and state farms. A single plan for procurements of agricultural produce for five-year periods, broken down by the year, is set for republics, territories, districts, regions and individual collective and state farms. At the same time, a system is being introduced for encouraging production units that increase their sales of output to the state compared with the average annual level during the last five-year period. As a result, the link is strengthened between material incentives and the final results of production, and especially an improvement in quality indicators.

On the strength of the state procurement plan, the collective farms plan their economic and production activity, frame and approve long-term and annual plans, and decide on the volume and structure of investments in production. This helps to satisfy social requirements in agricultural produce and ensures a boosting of collective farm production and rising living standards on the collective farms.

Forms of procurement are now being improved through the development of direct ties between collective and state farms and processing and marketing enterprises, improvement of the transportation and storage of farm produce, and direct acceptance of produce in the localities on a larger scale.

Produce is exchanged between the whole people's and cooperative enterprises in the form of *commodity exchange*. Its balanced nature is ensured by the preponderance of the whole people's property in the means of production and the centralised planning of the volume of farm procurement.

The collective farms' proceeds from the sale of their produce cover the costs of the used-up means of production and the remuneration of labour, and of expanded reproduction. A part of their incomes goes into the centralised fund of the state via the mechanism of prices, income taxes and other payments. Simultaneously, the socialist state makes necessary investments in the development of collective farm and cooperative production.

The Economic Fertility of the Soil

The efficiency of production in agriculture depends above all on the rational use of the soil and enhancement of its fertility. A distinction is drawn between the natural and the economic fertility of the soil. *Natural fertility* is the aggregation of physical, chemical and biological properties of the soil. *Economic fertility* is the result of the improvements artificially effected along with the development of social production in the composition of the soil and in farming techniques, the use of mechanical means of production and fertilisers, and introduction of crop rotation.

Enhancement of the economic fertility of the soil is determined by the nature of the dominant system of production. Marx says that "fertility is not so natural a quality as might be thought; it is closely bound up with the social relations of the time".¹

The whole people's property in the land creates the objective conditions for the scientifically grounded use of land on the scale of the economy as a whole and for the stable growth of agricultural production. The socialist economic system ensures the rational location and specialisation of agricultural production, a high level of its concentration, extensive use of the latest machinery and technologies and perfected systems of agriculture.

¹ Karl Marx, "The Poverty of Philosophy", in: Karl Marx, Friedrich Engels, *Collected Works*, Vol. 6, p. 204.

The rational use of land promotes its constant improvement. For its part, the quality of the farm land and the efficiency of its use largely determine the growth of farm output. The growing efficiency of agricultural production provides the criterion for the economic fertility of the soil.

2. RENT RELATIONS UNDER SOCIALISM

Socialist transformations in agriculture result in the exclusion of land from the sphere of the commodity turnover and rent relations, thereby eliminating absolute rent and the obstacles which it creates to the development of agriculture.

In some socialist countries, private property in land is maintained when agricultural cooperatives are set up, and the distribution of incomes according to work, as the basic form, is combined, for a definite period, with distribution in accordance with the size and quality of the landholding share. This type of income does not amount to absolute rent, but is a form in which the peasants' costs in buying and improving the land before their entry into the cooperative are compensated. In most socialist countries, cooperatives have now gone over to the distribution of incomes only in accordance with the quantity and quality of work.

Additional Surplus Product of Agricultural Enterprises

Agricultural production is dependent on natural conditions like the availability of land area, the shortage of relatively higher-quality land, the difference between lands according to their location with respect to the places of consumption, and the diversity of natural and climatic conditions.

The necessity of working relatively worse lands determines the recognition of the costs of production on these lands as the socially necessary ones. In virtue of this, *the social value of agricultural produce is determined by the costs of the farms turning out the produce required by the society on relatively worse tracts of land under socially normal conditions.*

On the farms using best and medium lands, labour is more productive. That is why, in the same period of time

and with the application of the same quantity of labour, these farms turn out larger quantities of use values, while the individual value of the product is lower than its social value. As a result, farms with relatively favourable soil and climatic conditions receive an *additional surplus product* alongside their ordinary product. The specific features of agricultural production make the additional surplus product stable. Its relatively constant character springs from the natural distinctions between land tracts in terms of fertility and location, with the limited availability of land.¹

The socially necessary inputs of labour determined by the costs of production on relatively worse tracts of land should be distinguished from the high inputs on farms which do not function satisfactorily. The social value of agricultural produce is determined by the inputs of labour on the relatively worse lands with *normal economic conditions*, average provision of the means of production and average skill standards of personnel. These inputs are reflected in the average inputs into the production of this or that product on farms in the zone which has been designated as the regulating one.

Two Types of Additional Surplus Product. Formation of Differential Rent

There are two types of additional surplus product in agriculture: additional surplus product resulting from the different productivity of similar inputs of labour on land tracts of the same size but with different fertility and location, and additional surplus product resulting from the different productivity of successive inputs of labour on one and the same tract of land.

Reflecting the specific features of agricultural production and its dependence on soil and climatic conditions, notably soil fertility, both types of additional surplus product have a *common source*—the farmers' more productive labour—and in terms of quantity appear as the differential between the social and individual cost of the commodity. At the

¹ Worse lands are those which are relatively worse in terms of fertility or location and whose working, under the existing level of the productive forces, is necessary for the satisfaction of the society's requirements in this type of produce.

same time, there is a *substantial distinction* between the two types of additional surplus product. The former is connected with the difference in labour productivity determined by the natural fertility of the soil and is a reflection of the extensive development of agricultural production. The latter is determined by the difference in labour productivity connected with the efficiency of investments and is a reflection of the intensification of agricultural production. The latter type of additional surplus product may also be obtained on relatively worse tracts, for instance, through efficient use of mineral fertilisers or irrigation. This type of additional surplus product is relatively less stable than the former.

Two types of relations arise between the society and agricultural enterprises over the production, distribution and use of additional surplus product.

First, there are the relations between the state and the state farms. The produce turned out by the state farms and other state enterprises is the property of the whole people, which is why the additional surplus product belongs to the society as personified by the state. Second, there are the relations between the state and the collective farms. These are determined by the specific features of collective farm and cooperative property. Under socialism, the land belongs to the whole people, while the farming on it is carried on by the collective farms. Their additional surplus product is based on the income which springs from the natural fertility of the soil and the location of the farm and which does not depend on the results of the work by the given collective.

That is why *rent relations are established between the society and the collective farms over the additional surplus product*, and these involve collective farms engaged in operations on the best and medium lands. The former type of additional surplus product is the material content of *differential rent I*, and the latter type of additional surplus product, that of *differential rent II*.

Intensification and Growing Efficiency of Agricultural Production

The intensive development of agricultural production implies *additional investments ensuring the production of growing quantities of produce on the same land area, with a reduction of per unit costs*.

With the preponderance of intensive growth, agricultural output is boosted above all through the steady enhancement of soil fertility, improvement of farming techniques, and fuller use of all the existing and additionally invested resources. The operation of intensive factors is ultimately expressed in economies of the aggregate inputs of social labour into production, an increase in the volume of output, and a rise in product quality.

Intensification of agricultural production in the USSR is now marked by a *switch to industrial methods of cropping and livestock breeding*. Simultaneously, important social problems are being solved in the countryside. Modern machinery and technology make high demands on the general educational, cultural and technical level and the skill standards of rural workers, helping to convert agricultural labour into a species of industrial labour, and further advancing the socialisation of production.

The intensification of agricultural production is connected above all with efforts to increase the technical equipment of production and the assets and power facilities available per worker, to effect the complex mechanisation of livestock breeding farms and use more reliable and stable energy resources.

Intensive agricultural production also entails the ever more extensive *use of chemicals* and mineral and organic fertilisers together with improved cultivation of the soil and the tending of crops, introduction of more productive varieties and hybrids, more rational crop rotation, and effective measures to combat pests and disease, that is, utmost efforts to raise farming standards. The growing productivity of crop farming, for its part, creates the prerequisites for highly intensive livestock farming and the breeding of highly productive livestock adapted to definite soil and climatic conditions.

Changes in sowing structure and the substitution of more productive for less productive crops are also of much importance in intensifying agriculture.

Melioration is an important means for raising the quality of the soil and so also for intensifying production. Crop protection belts are set up to combat drought and dry winds, and wind and water erosion.

Highly important in the intensification of agricultural production, including cropping, is its correct *location and*

concentration on the basis of interfarm cooperation and agro-industrial integration. The further development of the productive forces in contemporary conditions objectively requires a totally new approach to organising agricultural production, specialising it more fundamentally and pooling the efforts of farms for the purposes of making extensive use of scientific and technical achievements.

The intensification and the growth of the efficiency of production are the main lines of the CPSU's policy in agriculture. Never before in the history of the USSR has so much been done to boost agriculture as has been done over the past several years.

During the eleventh five-year-plan period, agriculture will receive 1,870,000 tractors, 1,450,000 lorries, and 600,000 grain combine harvesters. The intention is to complete the comprehensive mechanisation of the production of sugar beet, raw cotton, and fibre-flax, of the application to the soils of organic and mineral fertilisers, and the use of herbicides and pesticides. The level of mechanisation in the production of vegetables, fruit, fodder and livestock products is also to be raised.

At the 26th CPSU Congress, Leonid Brezhnev stated: "We will continue allocating large financial and material resources to the countryside, and systematically regearing this branch along industrial lines. But the emphasis now—and this is a distinctive feature of the agrarian policy in the eighties—is being shifted to returns on capital investments, to making agriculture more productive, to deepening and improving its links with all branches of the agro-industrial complex."¹

3. DISTRIBUTION OF THE INCOMES OF AGRICULTURAL ENTERPRISES

Since agricultural production depends on natural and climatic conditions, there is a need for the state farms to have an insurance fund which takes up 20 per cent of the distributed profit. With an eye to the specifics of agricultural production on the state farms, normative charges for assets, deductions for the formation of inner-farm funds and the proce-

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 60.

dures for the settlement of accounts with the state budget and the credit system are determined.

Once the collective farm has met its obligations to the state (on the sale of produce and money payments into the state budget), it goes on to form, in accordance with the Rules which govern its activity, the economic funds, above all the payroll fund, the social consumption fund, and the accumulation fund.

Gross Product.

Gross and Net Income of the Collective Farm

The mass of material values produced within a year expressed in money terms constitutes the *gross product of the collective farm*. It is created by the labour of the collective farmers engaged in the sphere of material production and is the property of the collective farm. It is used to satisfy the production and non-production requirements of the given farm and of the society as a whole.

In terms of value, the gross product is divided into the transferred value of the used-up means of production and the newly created value. A replacement fund is set up in accordance with the value of the used-up means of production. The means of production earmarked for the replacement of earlier used-up means consists of the farm's produce and industrial means of production purchased from the state.

The part of the gross product remaining after the formation of the replacement fund constitutes the *farm's gross income*. Just as at the whole people's enterprises, it is created by living labour and includes the necessary product and a surplus product. Gross income is one of the key indicators of the development of collective farm production and the source of its growth and rising living standards of the collective farmers. From the gross income is formed the payroll fund, which is the basic form of the necessary product. The amount of the remuneration of labour depends on each farmer's labour input into the collective production and on the volume of the gross income.

The part of the gross income remaining after the formation of the payroll fund constitutes the *net income*, which is a form of surplus product in the collective farm and cooperative sector. The net income of the collective farms using the worst of the farmland, as of the corresponding state farms, constitutes the ordinary net income. The enterprises

farming on the best and medium lands receive the ordinary and an additional net income. The distribution of the latter is influenced by rent relations.

The net income remaining on the farm is used to increase fixed and circulating assets, to set up a culture and everyday amenities fund, a fund for material assistance to collective farmers, a fund for material incentives to collective farmers and specialists, an education fund, a fund for the replenishment of the reserve fund, and funds for other purposes.

A part of the necessary and surplus product is used up in kind on the farm. This applies to the seed and feedstuffs used to enlarge the production fund; the produce made available to the farmers in payment for their work; the produce used for public catering, the maintenance of children's institutions, assistance to old-age pensioners, and to disabled and needy members of the collective farm.

Accumulation Fund and Consumption Fund

The collective farms' gross income remaining at the disposal of the farms is ultimately divided into the accumulation fund and the consumption fund. The *accumulation fund* is used to increase and improve the production funds, to build up non-production fixed assets and to create insurance and reserve funds. The growth and improvement of production assets ensures the development of collective farm production. Capital construction for cultural and everyday purposes (schools, hospitals, clubs, dining halls, etc.) creates the conditions for the normal reproduction of labour power and helps to raise the collective farmers' living standards. The balance between the inputs into increasing production and non-production funds is determined in the light of the requirements in resources for further expanding production and satisfying the members' cultural and everyday requirements.

The *consumption fund* is divided into a personal consumption fund and a social consumption fund. An important component part of the consumption fund is the deductions into the centralised social security and social insurance funds for the members of the farm.

In the USSR, the collective farmers' centralised social security fund is formed from money deductions from collective farms amounting to 5 per cent of the gross income,

and is used to pay pensions and aids to the collective farmers. The social insurance fund is made up of a deduction of 2.4 per cent from the payroll fund.

The collective farms have a stake in the simultaneous increase of the accumulation and consumption funds, because their size determines the scale of production and their members' consumption. On the whole, the accumulation fund tends, as a rule, to grow faster than the consumption fund, and this creates the prerequisites for expanding agricultural production.

The Collective Farms' Product Going to Meet the Whole People's Needs

As a socialist enterprise, every collective farm uses the achievements of the whole of the society in the fields of science, technology and management, the services of the cultural institutions, public health and education, and receives from the society the necessary assistance in developing production. That is why the collective farms take part in covering the expenditures for the whole people's needs by putting at the society's disposal a part of their product, including a part of the differential rent.

The bulk of the differential rent I (first type of additional net income) goes to the state because the fertility of the soil is used as the whole people's asset for the benefit of the society as a whole. The other part of this rent remains on the collective farms for the purpose of stimulating the most efficient use of land and increasing agricultural output. Differential rent II (the second type of additional net income) results from growing labour productivity from investments by the state and the collective farms in the improvement of production machinery and technique. The bulk of it remains on the farm, and this provides material incentives for the intensification of collective farm production.

The rent is transferred to the society chiefly via the prices of the produce sold to the state. From the produce sold by the collective farms on the collective farm markets, the differential rent goes mainly to the farm, and only an insignificant part of it goes to the state via the income tax which is levied depending on the profitability of the enterprise.

The distribution of differential rent between the state and the collective farms is based on a harmonisation of the whole people's and the collective and individual interests of the working people. Rent relations ensure the expansion and improvement of collective farm production, help to increase the farmers' personal incomes from the social estate and to satisfy the society's growing requirements in farm produce.

Differential rent is also formed on the collective farmers' personal subsidiary farms and goes mainly to the farmers themselves. An insignificant part of it is extracted by the state via the agricultural tax, which is differentiated in accordance with the natural and climatic conditions of production.

4. FORMATION OF PRICES FOR FARM PRODUCE

Prices are one of the key instruments in the consolidation of economic calculus on the state and collective farms. The USSR now has a set of *unified procurement prices* for agricultural produce. For the purpose of stimulating an increase in agricultural production and state procurement of the basic types of produce, a 50-per cent mark-up on the fixed procurement price is allowed for produce sold over and above the volume during the last five-year-plan period.

The produce of the state and collective farms delivered directly to shops and public catering enterprises is sold at retail prices less a commercial discount. The produce going on the collective farm market is sold at market prices. The farm itself fixes the prices for the produce sold on the farm itself. There are also commission prices for farm produce at which cooperative commercial organisations purchase it from the collective farms for retail sales. Contractual prices operate in interfarm trade.

The balance between procurement prices and wholesale prices for industrial products delivered to agriculture is designed to realise the principle of equivalence of exchange between industry and agriculture, the state and the collective farms with an eye to the need to have the farms take some part in the formation of the society's centralised funds.

Specific Formation of Prices for Farm Produce

In planning procurement prices, the state starts from the need to compensate the costs of production for normally operating farms to enable them to expand reproduction, pay taxes, make deductions and payments into the budget, and form various funds.

The need to reckon with different conditions of agricultural production and the amount of the farms' incomes determines the differentiation of prices by zone. Zonal prices are established on the basis of zonal value, which is the concrete form of social value of the farm produce in the context of the natural and economic peculiarities of their production. Its magnitude is determined by the average conditions of production which are characteristic for the farms in the given zone, which put out the bulk of the produce.

The highest price is established for the regions where a given type of produce is grown on relatively worse lands. Accordingly, the lowest price is established for the regions where it is cheaper to grow the produce, that is, where the costs are lower.

While purchasing agricultural produce at differentiated prices, the state sells it at a single retail price or ones for particular zones. Such prices are below the corresponding magnitude of surplus and necessary product, since part of the latter is not reflected in the procurement prices and appears in the form of turnover tax on industrial goods manufactured from agricultural raw materials.¹ At the same time, agriculture receives considerable funds from general state funds. The additional surplus product of the first type included in the retail price usually comes to the state. Alongside prices, another instrument for the redistribution of the additional net income is the differentiation of the volume and structure of procurements of agricultural produce by zone and region.

Procurement prices for a number of animal products, together with expenditures on the processing of these products, are higher than the retail prices, so the corresponding industries receive subsidies from the state budget.

¹ Correspondingly, the gross product of agriculture calculated according to procurement prices is below its social value.

Cost Price and Profitability of Agricultural Enterprises

In agriculture, a distinction is drawn between individual and zonal cost price. *Individual cost price* consists of the costs of turning out a product unit at each given enterprise and the *zonal cost price*, of the average costs per product unit of enterprises situated in the given natural and climatic zone.

The differences in the economic content of the cost price of produce at state and collective farms are expressed in the outlays on the remuneration of labour. In contrast to the state farms, where the remuneration of labour is regulated by norms applying to the whole of the society, the cost price of produce on collective farms takes shape at actually different rates of labour remuneration on each farm.

The planning and accounting of cost price makes it possible to compare the costs of production on state and collective farms, to establish and differentiate procurement prices by zones on solid economic grounds, to determine the amount of deductions for the needs of the whole state, and to decide on the location and specialisation of agriculture by zones throughout the country.

The main ways of cutting the cost prices of farm produce are: the switch of agriculture to a modern industrial basis; the boosting of crop and livestock yields; a rational organisation of labour, growing labour productivity and economical use of seeds, feedstuffs, and other resources.

The *profit of state farms and the net profit of collective farms* constitute a form of surplus product and partially also of necessary product, the former being created at the whole people's enterprises, and the latter, at the cooperative enterprises.

The link between the whole people's interests and those of the collectives at enterprises is ensured through a regulation of the amount of profit and net income, and also by means of the relevant deductions to the budget.

Income tax is one of the channels along which net income goes into the society's centralised funds.

In the USSR, a part of the differential rent (above all differential rent II) is extracted through the medium of differentiated income tax rates depending on the profitability of collective farms, that part of the rent which is not taken into account by zonal prices in virtue of the great

diversity of natural conditions and the sale by the farms of a part of their produce on the collective farm market. Collective farms with a profitability of under 25 per cent are exempt from the payment of income tax. No income tax is also levied on payments into the centralised social security and social insurance funds for collective farmers. This arrangement enables the farms with a low level of profitability to increase their fund for the development of production and remuneration of collective farmers' labour.

The *rate of profitability on collective and state farms* is determined as the ratio of the net income (profit) to the annual average value of the production assets. It characterises the recouplement of the fixed and circulating assets. Since the same production assets function in the production of many types of produce it is hard to determine which part of them is involved in each individual line of production. That is why, this mode of calculating profitability is applied mainly to the farm as a whole and individually to crop and livestock farming.

Considering the great differentiation of farms in the level of equipment with industrial means of production, natural conditions and, consequently, the level of current costs for the farm as a whole and for the individual types of produce, use is made of such important indicator as the ratio of the net income (profit) to the full cost price of the realised produce. This indicator shows how effectively current inputs are used.

Creation of Equal Economic Conditions for Agricultural Enterprises

The quality of soils and the location of lands with respect to markets, and the differing level of technical equipment objectively make for different conditions of production at agricultural enterprises in the various zones and also within them. This has produced the problem of creating equal opportunities for the use of lands from the standpoint of obtaining income with a given level of labour inputs.

The main way for solving this problem is consistent intensification of agriculture, supply of machinery, electrification, chemicalisation and land improvement.

Deeper specialisation and concentration on the basis of interfarm cooperation and agro-industrial integration tends

to acquire ever greater importance for consistent transition to highly intensive production. The pooling of funds, and material, technical and labour resources enables collective and state farms to set up large-scale industrial-type specialised enterprises and associations for the production and primary processing of farm produce, the agrochemical servicing and joint use of machinery and transport vehicles, and for building and land improvement works. This enables the farms to concentrate their efforts on developing the most promising, in the given conditions, branches of production which help markedly to increase its efficiency.

However, the intensification of agriculture does not entirely do away with the differences in the conditions of production arising from different soil and climatic conditions and location. This problem is solved through a more rational location of economic activity by zone and an optimisation of production structure as well as an improvement of procurement prices, differentiation of the norms of state procurement of farm produce and income tax rates. The improvement of procurement prices and the increase in the percentage of marketable farm produce result in a growth of incomes and help to even out incomes in various zones.

Important advances have now been made in aligning the economic conditions of collective farms falling in different groups and zones for such important economic indicators as remuneration of labour and the farms' gross income, and also in the satisfaction of many of the collective farmers' cultural and other social requirements.

Section 6

SOCIALIST SOCIAL REPRODUCTION. THE DEVELOPMENT OF SOCIALISM INTO COMMUNISM

The analysis of the content and advantages of socialist expanded reproduction in the preceding sections of this textbook was designed to bring out the most essential features of the production relations under socialism and the content of the economic laws inherent in it, to show the forms assumed by relations between the society and the economic units, and the specific features of reproduction at the enterprises.

This section considers expanded socialist reproduction in the light of its structure and the objective inter-relations existing between the various spheres of the integrated economic complex, and shows the mechanism underlying the planned and balanced formation and perfection of socialist production proportions and their influence on enhancing the efficiency of production. It clarifies the role of commodity circulation, finance and credit in social reproduction, in view of the fact that under socialism the exchange of products between enterprises and sectors of the economy is effected through the medium of commodity-money relations.

In the process of expanded socialist reproduction there is a gradual development of the socialist economy into a communist economy. Earlier on, we examined these problems in the context of the various aspects of the production relations under socialism. Here, the uniformities underlying the gradual transition to communism are considered in their aggregate, with an overall characterisation of the economy of the communist society.

There are some general features characterising the movement of the material elements of social reproduction which are inherent in large-scale machine production irrespective

of its social form. That is why in the study of this section, much importance attaches to the use of Volume II of Marx's *Capital*, and Lenin's works dealing with the realisation of the social product. Full-scale communism is characterised in Marx's *Critique of the Gotha Programme* and Lenin's *The State and Revolution* (Chapter V), *A Great Beginning*, and other works. The documents of the Communist and Workers' parties of the socialist countries characterise the content of social reproduction depending on concrete tasks of communist construction at the various stages in the development of the society.

Chapter thirty-one

**EXPANDED REPRODUCTION
OF THE AGGREGATE SOCIAL PRODUCT**

The *aggregate (gross) product* consists of the material values produced by a society over a given period (usually a year). It ensures uninterrupted social production, distribution and consumption, and as such, is a category of social reproduction. An analysis of its movement through the phases of reproduction helps to bring out the material and value connections in the socialist economy, the laws governing their change, and their influence on the efficiency of production. The expanded reproduction of the aggregate social product under socialism is a process directed by the society in accordance with objective economic laws.

Right-wing revisionists deny the need for statewide centralised planning of socialist reproduction. According to the "leftists", the socialist state is capable of deciding on the lines, pace and proportions of expanded reproduction irrespective of its actual material potentialities. Such views are the basis of voluntarism in economic policy, inevitably producing disproportions in the economy and losses, which eventually slow down the pace of expanded reproduction.

**1. THE STRUCTURE
OF THE AGGREGATE SOCIAL PRODUCT**

*The Role of the Aggregate Social Product
in Social Reproduction*

The reproduction, distribution, exchange and consumption of the aggregate product express the relations between the members of the socialist society and the society as a whole, socialist enterprises and the workers of these enter-

prises, the enterprises and the state, and the state sector and the collective farm and cooperative sector of production.

The aggregate social product under socialism is created by exploitation free labour at the whole people's (state-owned) and cooperative enterprises, and an insignificant part of it, on the personal subsidiary farms of collective farmers. In the USSR, the bulk of the aggregate product (roughly 90 per cent) is created at state enterprises.

In the USSR, the aggregate social product in 1981 was roughly 106 times that of 1917, and 14 times that of 1940.

The *sectoral structure of the aggregate product* depends on the level of a country's technical and economic development, the socio-economic tasks being tackled at the given stage of socialist construction, and the country's place within the system of the international socialist division of labour.

Aggregate Social Product in the USSR by Economic Sector
(current prices, bln rubles)

	1960	1981
Gross social product	304	1,116.2
including		
industry	189	706.2
agriculture	49	157.1
transport and communications	13	49.2
building	32	106.1
trade, procurement, material and technical supplies, and other branches	21	97.6

In order to create an optimal sectoral structure of production in the socialist state, the industries providing for progressive structural shifts in the national economy and a stable and balanced expansion of reproduction are developed extremely rapidly. The technical retooling continues of the key industries—power, iron and steel, engineering, the chemical industry, as well as transport and construction.

In accordance with the functional purpose of the material values produced—which is to serve as means for productive or personal consumption—the aggregate social product consists (in its natural material form) of means of production (producer goods) and articles of consumption (consumer

goods), which constitute the *two departments of social production*. The new nature of this division lies in the fact that the production of the means of production is subordinate to the strengthening of the social property relations and expansion of the production of the articles of consumption for the purposes of enhancing the well-being and all-round development of all the members of the society.

The aggregate product is a *unity of use value and value*. As a mass of use values, it serves as the basis of the society's material and spiritual life and determines the level in the development of production and the people's well-being. The producer goods are returned to the process of production, while the consumer goods are used by the working people for their requirements.

In terms of value, the aggregate social product expresses the quantity of social labour materialised in a given mass of use values. The total inputs of labour into the production of the aggregate product consist of inputs of living and past labour. The inputs of past labour are expressed in the value of the means of production used up in the process of production and transferred to the product (depreciation of the instruments of labour, the value of the raw and other materials, intermediate products, fuel, energy). The inputs of living labour constitute the newly created value, the value of the society's net product, or the national income. For its part, the newly created value consists of two parts: one is the necessary product which goes to the workers in the sphere of material production (the reproduction of labour power fund), and the other, the surplus product earmarked in the main for expanding social production.

All the elements of the aggregate product have specific socialist forms. The value formed by past labour goes to replace the used-up productive assets—material inputs—and assumes the form of the replacement fund which provides the material basis for the resumption of the socialist property relations in the process of production. The value of the necessary product assumes the form of the consumption fund of the workers in the sphere of material production. The value of the surplus product is essentially embodied in the form of the accumulation fund.

The interconnection between the value and the natural material structures of the aggregate product is illustrated by

the following scheme based on the data of the intersectoral balance of production and distribution of the aggregate social product in the USSR for 1972.

Structure of the Aggregate Social Product
(bln rubles)

In terms of value and the elements of social labour inputs

$$\text{I. } 270 \text{ MI} + 101 \text{ NP} + 84 \text{ SP} = 455 \text{ MP}$$

$$\text{II. } 133 \text{ MI} + 57 \text{ NP} + 72 \text{ SP} = 262 \text{ AC.}$$

$$\text{Total } 403 \text{ MI} + 314 \text{ SNP} = 717 \text{ ASP, or}$$

$$403 \text{ RF} + 158 \text{ NP} + 156 \text{ SP} = 717 \text{ ASP.}$$

In terms of natural material components and purpose of the product:

$$\text{Total } 455 \text{ MP} + 262 \text{ AC} = 717 \text{ ASP,}$$

where *MP* is the means of production; *AC* is the articles of consumption; *ASP*, the aggregate social product; *SNP*, society's net product; *MI*, the material inputs; *RF*, the replacement fund; *NP*, the necessary product (remuneration of labour) and *SP* is the surplus product.

The movement of the structure of the aggregate product in terms of value is interconnected with the movement of its natural material structure. An increase in the share of Department I in the aggregate product with the growth of the technical equipment of labour causes an increase in the replacement fund compared with the national income, or the society's net product. At the same time, the growth of the technical equipment of labour results in its growing productivity, and this leads to the growth in the physical volume of the national income and an increase in the volume of the surplus product as a source of accumulation and acceleration of the pace of expanded reproduction.

Final Social Product

The final social product constitutes a part of the gross product which, in the form of finished products, is made available to the socialist society and which is used for the working people's consumption, for the replacement of the fixed assets worn

out in the course of a year, and for accumulation. In magnitude, the final product differs from the aggregate product in that it does not contain the objects of labour used up in the process of production in the course of a year, and consequently, eliminates the repeat counting of the product which is inevitable in the calculation of aggregate product.

Nor does the final product coincide in magnitude with the newly created value, or with the society's net product, because it includes the value for the replacement of fixed assets—depreciation (amounting to the renovation fund). The inter-relations and correlation between the categories of the aggregate, final and net products will be seen from the following formulas:

$$ASP = MI + SNP;$$

$$FSP = ASP - MI + D;$$

$$SNP = ASP - MI,$$

where *FSP* is the final social product; and *D* is the depreciation.

In 1972, the USSR's aggregate product was equal to 717 billion rubles, the material inputs to 403 billion rubles, the net product to 314 billion rubles, and the final product to 352 billion rubles. For the economy as a whole, the final product exceeded the net product by 38 billion rubles (depreciation), or 12 per cent.

The National Income in Social Reproduction

The realised net product of the socialist society is expressed in the form of its national income. The national income constitutes that part of the *aggregate social product which remains after the subtraction of the value of the means of production used up in the course of the given year*. The correlation between the aggregate social product and the national income can be expressed in the following formula:

$$NI = ASP - MI$$

$ASP > NI$ by the magnitude of *MI*.

As an economic category of socialism, the national income is the net product of the society created by the exploitation free, planned and balanced labour which is used for the pur-

poses of the people's consumption and the expansion of production for the benefit of all the members of the society.

The national income belongs to the whole of the society, and this gives all the working people an interest in its rapid and constant increase. Adding to the current consumption fund that part of accumulation which goes into the building of housing, schools, hospitals, cultural institutions, sports facilities, and enterprises providing communal and everyday services for the population, 80 per cent of the national income in the USSR is used directly for the people's well-being. Production accumulation provides the basis for expanding the production of consumer goods. The high rate of growth of the national income as a whole and per head of the population reflects the advantages of the socialist economic system as compared with the capitalist economic system.

Average annual growth rates of the socialist countries' incomes amounted to 7 per cent, while those of the developed capitalist countries — to 3.9 per cent.

National income, like the whole of the aggregate social product, is created in the sphere of material production. In highly industrialised countries, a large part of it is created in industry. In natural material form, the national income consists of the mass of consumer goods created in the course of the year and that part of the producer goods which is designed for expanding production and building up reserves. *The national income serves, first, as the source for the consumption fund of those who work in the sphere of material production, for ensuring the reproduction of labour power; second, as a source for expanding production and forming reserves which are required for the uninterrupted process of expanded social reproduction; and third, as a source for the maintenance of the non-productive sphere.*

The magnitude of the national income, or the net product of the economy, is the sum-total of the net product of individual sectors of material production. For its part, the net product of each sector is the differential between the gross product and the material production inputs expressed in current or comparable prices. *The magnitude of the national income computed in comparable prices is known as the physical volume of the national income.* The use of comparable prices helps to reflect the growth of the physical volume of the net product.

Considering that the part of the aggregate social product which constitutes the replacement fund is designed to cover material inputs so as to ensure the continuity of the reproduction process, the pace of expanded reproduction and the rise of the people's well-being depend on the magnitude of the national income. The national income is the direct source of the socialist society's material and spiritual development.

The capitalists have a stake in the growth of a part of the national income—surplus value—as the source of the consumption of the exploiter classes and the expansion of capital. The socialist society has a stake in the uninterrupted growth of both parts of the national income: of the necessary and of the surplus product. The necessary product and its increase provide the material basis for the expanded reproduction of labour power, the rising well-being of workers in the production sphere and the growing productivity of labour. The increase in the surplus product is the material prerequisite for improving the people's well-being and increasing the pace of expanded reproduction.

Social Reproduction and National Wealth

The expanded reproduction of the aggregate product results in a growth of the national wealth of the socialist society. At the same time, the national wealth is the necessary material prerequisite for the expanded reproduction of the aggregate product.

The national wealth, as the aggregation of the use values created by labour and accumulated by the society, includes:

- 1) fixed production assets, that is, the instruments of labour: buildings, installations, production equipment, etc.;
- 2) circulating production assets, that is, the objects of labour: production stocks and work-in-progress;
- 3) the assets of circulation of the economy consisting of stocks of finished products at the warehouses of state and cooperative production enterprises and commercial organisations, and also of state and cooperative material reserves and insurance stocks;
- 4) the society's non-production assets, including dwellings and public buildings, scientific and academic institutions, hospitals and sanatoriums, theatres, museums, clubs, etc., together with their equipment; and

5) the personal property of the population: dwelling houses, household furniture and furnishings, clothing, automobiles, bicycles, radio, TV sets, etc.

In 1981, the total national wealth of the USSR exceeded 2,900 billion rubles, including all the production and non-production fixed assets worth 1,85 billion rubles, and circulating means—455.0 billion rubles.

Natural wealth is an important element of the national wealth and a condition for the development of social production.

Of the utmost importance for social reproduction is that part of the national wealth which is located in the sphere of material production in the form of production assets, with fixed production assets being the main material prerequisite for expanded reproduction. Not only the volume but also the "age" of fixed production assets, characterising their technical level, are of much importance for the rate of production growth.

A part of the national wealth is annually used up and needs to be replaced. Producer and consumer goods go into productive and personal consumption. These are replaced from the created aggregate social product with new producer and consumer goods. Simultaneously with the replacement of the used-up elements of the national wealth, the latter is accumulated through the expanded reproduction of the aggregate social product.

The magnitude of the national wealth has an effect on the proportions and pace of expanded reproduction of the aggregate social product. The larger the volume of the national wealth, the higher the technical level of the instruments of labour accumulated by the society and the quality and technical properties of the objects of labour, the better the socialist society's material potentialities for expanded reproduction.

2. THE CONDITIONS FOR EXPANDED SOCIALIST REPRODUCTION

The Structure of the Aggregate Social Product. Replacement of Its Parts

In his *Critique of the Gotha Programme*, Marx gives a scientific substantiation of the need to form the following social funds out of the aggregate product: replacement of

the used-up means of production, expansion of production, reserve or insurance, overhead costs of administration not directly bearing on production, collective satisfaction of requirements (schools, public health institutions, etc.), maintenance of the members of the society who are unable to work, and distribution according to labour between the workers in the sphere of material production.

Depending on their functional purpose in reproduction and on the social requirements they satisfy, all the social funds are grouped into three funds: *replacement fund*, *consumption fund* and *accumulation fund*.

Accordingly, the composition of the aggregate product can be expressed as follows:

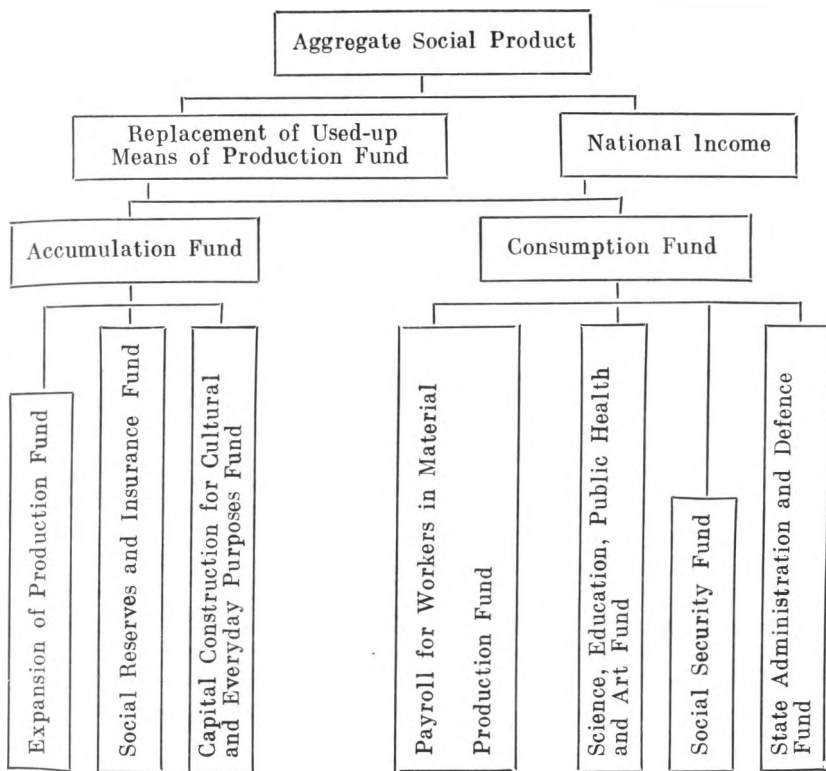
$$ASP = RF + CF + AF.$$

Whereas under capitalism the consumption fund is divided into two antagonistic parts—the bourgeoisie's consumption fund and the working people's consumption fund—under socialism it is one fund: the whole people's consumption fund. In view of the continued existence of the state and the threat of imperialist aggression, a part of the surplus product is used to cover the costs of governmental administration and defence. The accumulation fund provides the source for increasing the national wealth.

In terms of the basic elements of its formation and use, the structure of the aggregate social product is illustrated by the scheme on p. 569.

In the socialist society, there are no social impediments to the realisation of the product, like narrowness of the market, anarchy in production, and rivalry, all of which are organic to capitalism. But that does not mean that the *problem of realising the aggregate product* does not exist as a *problem of replacing or renewing its component parts*. To keep the production of the aggregate product running without interruption and on an ever growing scale, it needs to be so distributed as to ensure the replacement of the used-up means of production and the creation of the consumption and accumulation funds. Lenin emphasises that "the problem of realisation consists in analysing the *replacement* of all parts of the social product in terms of value and in terms of material form".¹

¹ V. I. Lenin, "A Characterisation of Economic Romanticism", *Collected Works*, Vol. 2, p. 162.



The crisis free and balanced development of the economy and the steady rise of the people's well-being determine the new socio-economic content of the process of realisation, namely, the balanced distribution of the aggregate product between the departments and sectors of social production, the production and the non-production spheres, the classes and social groups with the aim of fully ensuring the well-being of all the members of the society.

In analysing the replacement of the parts of the aggregate product, account is taken of the division of social production into two departments and the corresponding natural material composition of the product. The different purpose of producer goods and consumer goods determines the different spheres in which they are realised. For producer goods, there is a special sphere of realisation which is, to some extent, independent of personal consumption; there is also

a special sphere of realisation for consumer goods. Account is also taken of the division of the aggregate product in terms of value into the value of material inputs (replacement fund), the value of the necessary product, and the value of the surplus product.

*Realisation of the Aggregate Social Product
under Expanded Reproduction*

The aggregate social product is realised in accordance with the functional purpose of its component parts and this is designed to ensure the *replacement of these parts and to expand production*.

The structure of the production and distribution of the aggregate social product of the USSR, according to the data on the intersectoral balance for 1972, appears as follows: (bln rubles):

$$\begin{array}{l} \text{I. } 270 MI + 101 NP + 84 SP = 455 \\ \text{II. } 133 MI + 57 NP + 72 SP = 262 \end{array} \left. \vphantom{\begin{array}{l} \text{I.} \\ \text{II.} \end{array}} \right\} 717 ASP.$$

The distribution of the surplus product created in Department I and Department II of social production proceeded in accordance with the rates of accumulation in force, the technical composition of production, and the share of the surplus product (SP_2) going into the satisfaction of the requirements of the non-productive sphere (bln rubles):

$$84 SP \text{ I} = 38\Delta MI + 14\Delta NP + 32 SP_2$$

$$72 SP \text{ II} = 14\Delta MI + 6\Delta NP + 52 SP_2.$$

Such a distribution of the surplus product ensured the necessary composition by year's end of the gross product in Department I and Department II in terms of value:

$$\begin{array}{l} \text{I. } 270 MI + 38\Delta MI + 101 NP + 14\Delta NP + 32 SP_2 = 455 \\ \text{II. } 133 MI + 14\Delta MI + 57 NP + 6\Delta NP + 52 SP_2 = 262 \end{array} \left. \vphantom{\begin{array}{l} \text{I.} \\ \text{II.} \end{array}} \right\} 717 ASP.$$

The product in both departments is realised as follows:
Out of the annual product of Department I worth 455 billion rubles, 270 billion rubles goes to replace the means of production used up in the course of the year, and 38 billion rubles' worth into increasing the production assets with an eye to the forthcoming expansion of production. This means that the product of Department I worth 308

billion rubles is realised within this Department through a mutual exchange between the enterprises within it.

Out of the annual product of Department II worth 262 billion rubles, 57 billion went to meet the needs of the workers in this Department in accordance with the necessary product they created, and 6 billion rubles to meet the needs of workers additionally involved in production in view of its expansion (ΔNP). Besides, a part of the product—worth 52 billion rubles—is realised to the workers of the non-productive sphere in exchange for their incomes which come from a part of the surplus product created in Department II.

The product worth 147 billion remaining after realisation within Department I (455 billion—308 billion rubles) is realised to enterprises in Department II for replacing the used-up means of production ($MI=133$ billion rubles), and for increasing production assets ($\Delta MI=14$ billion rubles) in view of the expansion of production. Enterprises in Department II realise their products of the same value (262 billion—57 billion—6 billion—52 billion=147 billion rubles) to workers of enterprises in Department I to satisfy their personal requirements according to the necessary product created by them ($NP=101$ billion rubles), to satisfy the requirements of workers additionally involved in Department I in view of the expansion of production ($\Delta NP=14$ billion rubles) and workers in the non-productive sphere ($SP_2=32$ billion rubles) in exchange for the incomes which come from the corresponding share of the surplus product created in Department I.

The next stage in analysing the uniformities of socialist reproduction is to bring out the conditions for expanded reproduction with an eye to scientific and technical progress and the growth of labour productivity. These conditions are directly connected with the law of the priority growth of the production of the means of production.

The Law of the Priority Growth of the Production of the Means of Production under Socialism

The law of the priority (or faster) growth of the production of the means of production compared with the production of the articles of consumption is a law of large-scale machine production.

The need for the faster growth of Department I is objectively determined by the changing correlation between materialised and living labour resulting from the growth of labour productivity. *As the share of living labour in the aggregate social labour diminishes, and the share of materialised labour increases, the share of the means of production in the aggregate social product goes up. That is why the growth of Department I of social production is faster than that of Department II.*

Lenin wrote: "*In capitalist society, the production of means of production increases faster than the production of means of consumption...* this conclusion follows directly from the generally known proposition that capitalist production attains an immeasurably higher technical level than production in previous times."¹ This proposition is of general methodological importance, and also applies to socialist production.

In the socialist society, the priority growth of the production of the means of production creates the necessary material basis for scientific and technical progress and promotes the steady rise of labour productivity, which, for its part, ensures a high rate of expanded reproduction. A steadily growing mass of material goods is placed at the disposal of the society. At the same time, there is an increase in the volume of the surplus product as the source from which social requirements are satisfied and production is further expanded.

The antagonistic contradictions between production and consumption, between Department I and Department II, of social production which are organic to capitalism are eliminated under socialism. The priority growth of the production of the means of production helps to satisfy the requirements in them on the part of Department II and is the condition for the high rate of growth of the latter.

The availability of a large stock of producer goods in some years makes it possible to develop Department II (which includes production of foodstuffs, consumer goods, housing and utilities, etc.) at a pace that is equal to and sometimes—over a definite period—faster than the growth of Department I (which includes the bulk of the heavy industry, industrial buildings, a large part of the agricultural and light industry products going into production needs,

¹ V. I. Lenin. "On the So-Called Market Question", *Collected Works*, Vol. 1, Progress Publishers, Moscow, 1977, p. 88.

etc.). But then there is a diminution of the part of the product of Department I which is larger than the replacement fund for both departments, and the part of the net product of Department I which is larger than the replacement fund of Department II. When the pace of growth of Department II is equal to or faster than that of Department I over a long period, the volume of the means of production and accumulation in the society could fall short of the requirements of scientific and technical progress and expanded reproduction in both departments.¹

Making use of Lenin's methodology and on the strength of data for the USSR's intersectoral balances for 1966 and 1972, the following scheme could be used to illustrate the uniformities of the priority growth of the production of the means of production under scientific and technical progress (bln rubles).

Department	Product				Accumulation			Growth rate as % of 1966
	MI	NP	SP	Total	ΔMI	ΔNP	Total	
1966								
I	160	70	50	280	24	11	35	—
II	84	39	48	171	11	5	16	—
Total	244	109	98	451	35	16	51	
1972								
I	270	101	84	455	38	14	52	163
II	133	57	72	262	14	6	20	153
Total	403	158	156	717	52	20	72	159

¹ The subdivision of social production into Department I and Department II does not coincide with the division of industry into Group A and Group B. Soviet statistics refers to group A the industries which produce the means of production: power, oil, gas, coal, metallurgy, engineering, chemicals and other heavy industries. Group B includes the light and food industries: textile, garments, footwear, furniture, baking, meat and dairy, sugar-refining, etc.

These data showed that scientific and technical progress leads to a rise in the technical composition of production. As a result of the higher rate of growth in Department I, as compared to that of Department II, the share of the product of Department I in the aggregate social product is increased. From 1966 to 1972, the product of Department I increased by 63 per cent, and that of Department II by 53 per cent. The share of the product of Department I in the aggregate social product went up from 62 to 63 per cent, and that of Department II dropped from 38 to 37 per cent.

The coefficient of the priority growth of Department I, as compared with the rate of growth of Department II, is not a constant magnitude, but tends to change depending on a number of factors, above all the country's technical and economic level and rate of industrial development.

A country developed in technico-economic terms has at its disposal a larger mass of producer goods, a sizable part of which can be used to develop Department II. Besides, the attainment of a high level in the production of producer goods makes it possible to expand within Department I the production of the means of production for Department II. That is why the coefficient of the priority growth of Department I, as compared with that of Department II, tends to diminish.

3. THE RATES AND PROPORTIONS OF SOCIALIST SOCIAL REPRODUCTION

The Rates of Expanded Socialist Reproduction and Its Intensification

The socialist system ensures the objective potentiality for carrying on expanded reproduction without interruption and at a steadily high rate. Social property in the means of production and the balanced development of the economy help to make rational use of the society's material and manpower resources. Technical progress and the rising productivity of labour result in a steady growth of socialist accumulation. Under socialism, the potentialities of accumulation are vastly increased because of the absence of parasitic consumption by exploiter classes, of crises of overproduction

and of competition. The steady rise of the people's well-being with the growth of the aggregate product ensures a constant expansion of the market. All of this is expressed in the higher rates of production growth in the socialist countries as compared with those in the capitalist countries. Thus, from 1971 to 1981, industrial growth in the socialist countries averaged 6.8 per cent a year, as compared with 3 per cent in the capitalist countries.

The cyclical development of the economy and crises of overproduction are among the gravest defects of the capitalist system which lay bare its deep-seated antagonistic contradictions. By contrast, the crisis free development of the socialist economy and the steady and high rate of expanded reproduction are evidence of the basic advantages of socialism.

Bourgeois economists, echoed by the reformists, try to ignore the fact and deny that socialist social reproduction is crisis free and uninterrupted, and that it continues at a high and stable rate, and so to play down the advantages of socialism over capitalism. The bourgeois economists' claims that socialist social reproduction is also cyclical are based on the methodologically defective technique of applying to the socialist economy the antagonistic contradictions between social character of production and private appropriation, between production and consumption which are inherent in capitalism. In actual fact, reproduction under capitalism and under socialism is determined by the socio-economic substance of the two antithetical social systems and by the different types of property in the means of production.

The critics of socialism today insist that as a country's technico-economic level rises, its rate of growth tends to slow down. Accordingly, they insist that the socialist countries have had high economic growth rates because they have yet to reach the highest stage of maturity. As this stage is reached, the advantageous investment opportunities and manpower resources are allegedly worked out, and this tends to slow down the growth of social production. Those who advocate the "slow-down of rates" theory borrow their arguments from the reactionary bourgeois and petty-bourgeois theories of diminishing productivity of social labour, which were criticised by Marx and Lenin.

In the developed socialist society, the volume and the complexity of the tasks of communist construction tend to grow. Large-scale socio-economic problems in social development can be solved only through stable and high rates of social production growth. That is also required by the external conditions in which the USSR has to develop, notably the extension of cooperation with the socialist and developing countries. Simultaneously, there is an ever fuller demonstration of the advantages of the socialist economic system, as compared with the capitalist system, the scientific and technical revolution is advanced, and the international socialist division of labour deepened. This helps to create the prerequisites for ensuring a high rate of expanded reproduction.

There are two ways of expanded reproduction: the extensive and the intensive.

The Intensive Way of Development

The extensive way of expanded reproduction implies a growth of production through the involvement of additional labour resources (an increase in the number of those employed in the sphere of material production) and an increase in the volume of fixed and circulating assets. According to Marx, this is effected through an extension of the "field of production", without any change in its technical basis.

The intensive way of expanded reproduction is ensured mainly through a growth of labour productivity and an improvement in the means of production on the basis of technical progress. It implies mechanisation and automation of labour processes, a growth in the assets-per-worker and the power-per-worker ratios, the rational use of raw and other materials, and progressive changes in the structure of the raw material, fuel and power balances, thereby creating the possibility for accelerating the rate of growth of the aggregate social product and the national income.

In the developed socialist society, there is a growing need to resort to the intensive way for boosting production. There is a marked growth in the number of persons of working age being trained in day-time secondary special and higher schools. The rapid development of science, culture and

the service sphere results in changes in the balance of manpower resources in favour of the non-productive sphere. Working time is reduced. Labour inputs into the extraction of natural resources tend to increase as poorer and less accessible sources of raw materials are worked. All of this induces a transition to mainly intensive expanded reproduction.

Intensive reproduction, i.e. the rise in the productivity of social labour, between 1971 and 1975 accounted for over 80 per cent of the increment in the Soviet national income, and between 1976 and 1980—for over three-quarters of it.

The Assets-Saving Form of Expanded Reproduction

There are two forms of intensive expanded reproduction: *the assets-intensive and the assets-saving*. Under the first form, labour productivity is boosted by an increase in the share of production assets in inputs per product unit. Under the second, rising labour productivity results in economies in material inputs and, consequently, in production assets per product unit. The latter form releases additional means of production for accelerating economic development, which is why it is most favourable for attaining the goals of socialist production. It helps to increase the volume of production with the same volume of capital investments, fixed and circulating assets, and cultivated land. Labour productivity tends to outrun the assets-per-worker ratio, and this improves the use of production assets and enhances the efficiency of production.

Scientific and technical progress has a complex effect on the assets-to-product ratio in social production, ultimately ensuring the prevalence of the more efficient and assets-saving form of intensive expanded reproduction. Mechanisation and automation of production involve large capital outlays. The development of new natural resources likewise entails high inputs. But the opposite trend is simultaneously in operation: the more economical types of energy are used in production, natural raw materials are replaced by less labour-intensive man-made materials, the value of the instruments of labour is reduced, and labour organisation is perfected.

The Criterion of the Efficiency of Social Reproduction

For the capitalists, surplus value is the indicator of the economic efficiency of reproduction. The capitalist takes an interest in the value of the necessary product only to the extent to which it helps to obtain surplus value. The socialist society wants to see a growth both of the surplus and of the necessary product, that is, of the national income as a whole. That is why the *ratio of the physical volume of the national income to the inputs for its production* is, in practice, used as an indicator of the efficiency of social production (E):

$$E = \frac{NI}{MI + NP + SP} \cdot$$

Use is also made of an indicator expressing the ratio of the national income or its increment to the amount or increment of material inputs and the amount or increment of the society's outlays for the remuneration of the labour of workers engaged in material production.

The rising efficiency of socialist production can be expressed in the growth of the national income being effected not "at any price" but through the rational and economical use of the society's manpower and material resources, that is, through a minimum of inputs.

The national income is created by living labour, while material inputs provide the necessary conditions for its reproduction. That is why the principal factor in enhancing the efficiency of social reproduction is the *growth of labour productivity on the basis of scientific and technical progress* and intensification of production. An important role also belongs to *economies in the means of production*, that is, the inputs of past labour embodied in raw and other materials, fuel and fixed assets. Crisis free and balanced economic development and the working people's stake in economising on labour time and on the means of production they own create favourable conditions for doing away with all sorts of losses and irrational use of labour and the means of production.

The scientific and technical revolution exerts a tremendous influence on the efficiency of social reproduction. Prerequisites are created for improving all the proportions of expanded reproduction and ensuring a better balance of the econ-

omy, acceleration of scientific and technical progress and accordingly, a rapid development of heavy industry, engineering in particular, the boosting of product quality and accelerated development of agriculture.

Large economies in social labour are obtained through a change in the structure of the fuel and energy balances, wider use of nuclear energy; replacement of natural raw and other materials with less labour-intensive man-made materials, reduction in the norms of raw and other materials' inputs, cutbacks in the value of the instruments of labour through an improvement of their design, greater durability, etc. The growing efficiency in the use of production assets in the economy helps to reduce the share of the replacement fund and to increase the physical volume of the national income.

Changes in the Relations Between Department I and Department II

The scientific and technical revolution conditions the structural changes within each department of social production and in the correlation between them. The importance of industries like radio-electronics, instrument-making, and electronic computers, which determine technical progress, is enhanced. The generation of electric power develops at a faster rate. Automation and complex mechanisation require an increase in the share of engineering. The technical revolution in the objects of labour and the emergence of synthetic materials result in the growth of the organic synthesis industry and a number of other branches of the chemical industry producing new types of materials, and in the expansion of the production of consumer goods made of chemical raw materials.

With the new industries' growing share in output, the share of the old industries in the aggregate social product tends to diminish. Improvement of the technology of production, complex use of raw materials and a reduction in the material-to-product ratio result in a priority development of the manufacturing industry as compared with the extractive industry.

Because the growth of labour productivity is effected through a rise in the assets-per-worker ratio, the share of

the means of production and, consequently, the need for accelerating the pace of growth in Department I tends to increase. Working in the same direction is the deepening of the social division of labour, the hiving off of new lines of production and industries, and intensification of specialisation and cooperation in production.

At the same time, the opposite tendency also has an effect: the growing strength of technically advanced heavy industry, the ever larger scale on which modern instruments of labour are produced and their quality improved, and the increase, on that basis, in the scale and efficiency of socialist accumulation—all these go to create the material prerequisites for reducing the priority growth coefficient for Department I, as compared with Department II.

The aggregate result of the operation of these factors is an alignment of the rate of growth in the two Departments, with Department I still growing at a faster rate.

Thus, from 1961 to 1965, the priority coefficient in the growth of the industrial production of the means of production (Group A), as compared with that of the industrial production of the articles of consumption (Group B), in the USSR came to 1.5, and from 1976 to 1980, to 1.24. Fundamental specifics of the eleventh five-year period are more rapid growth rates of the output of Group B industries compared with Group A industries.

In the developed socialist society, heavy industry has a growing role to play as the foundation of economic strength. On its level depend the successful construction of the material and technical basis of communism, the technical equipment of labour and, consequently, the growth of labour productivity, and the successful raising of the people's well-being. At the same time, much importance attaches to the development of the light and food industries, and the provision of everyday services of the population, something that is directly connected with the fulfilment of the programmes for raising living standards.

Improvement of the Proportions Between Industry and Agriculture

An optimal balance in the development of industry and agriculture is one which accords, on the one hand, with the growing requirements of agriculture in the means of produc-

tion made in industry, and of the rural population in consumer manufactures, and on the other, with the growing requirements of industry in agricultural raw materials and of the population in food. In the USSR, this implies the need to overcome the earlier lag in agriculture behind the growing requirements for its produce.

Nowadays, the high level of economic development in the USSR enables the Soviet state to allocate to expanded reproduction in agriculture a sizable part of the accumulation fund, to step up the development of the heavy industries making the means of production for agriculture (power, engineering, chemicals) and make extensive use of scientific advances in agricultural production.

Roughly one-third of the total capital investments goes into the agro-industrial complex, including industries turning out the means of production for agriculture, and those processing agricultural raw materials.

The efforts of the state are designed to secure full satisfaction of the country's growing demands in agricultural produce. In 1965, the country turned out 121.1 million tons of grain, 10.0 million tons of meat, and 5.7 million tons of raw cotton, and in 1980, 189.1 million tons of grain, almost 15.0 million tons of meat and 10.0 million tons of raw cotton. During the eleventh five-year period and the period up to 1990, an all-out development has been envisaged for the agro-industrial foodstuffs complex, and also a proportionate and balanced growth of agriculture.

Progressive changes are also under way within the structure of agriculture and its exchange with industry. The deepening of the social division of labour also intensifies the specialisation of agricultural enterprises. There is growing cooperation between industry and agriculture (primary industrial processing of farm produce, the preparation of feedstuffs, etc.). Agro-industrial complexes are set up on the scale of individual farms, districts and regions. As a result, the share of the gross product of agriculture going into industrial processing as objects of labour has been increasing.

The faster development of agriculture and the progressive structural changes within it as a result of its industrialisation help to improve the proportions between industry and agriculture.

*The Intersectoral Balance of the Production
and Distribution of the Social Product*

Apart from the proportions between Department I and Department II, between industry and agriculture, there are a large number of other intersectoral and intrasectoral proportions in social reproduction. Some of them are more general, like those between industry, agriculture, building and transport, between production and trade, etc. Others express the correspondence between the production and consumption of the products of individual sectors: ferrous metallurgy and engineering, the coal industry and ferrous metallurgy, livestock breeding and cropping, etc. The product of one sector is, as a rule, used by several and sometimes a large number of other industries (as in the case of electric power and fuel). That is why almost every intersectoral proportion expresses the interdependence of a whole range of economic sectors.

The intersectoral balance plan and intersectoral balance report on the production and distribution of the social product are used for planning optimal intersectoral proportions and producing an economic analysis of the intersectoral ties that have taken shape.

The intersectoral balance shows the feedforward and feedback intersectoral ties: which sectors and to what extent take part in creating the products of the given sector and to which sectors and for which lines of production they are made available. It also shows the quantity of the products allocated for non-production consumption, accumulation, export, etc. On the basis of these data, input coefficients—for inputs of material and living labour—are set to determine the type and quantity of products, living labour and capital investments required to turn out a unit of the given product.

Mathematical methods are used for drawing up and analysing intersectoral balances.

Apart from the static intersectoral balance, which helps to tie in the aggregate and the final products planned for the year, various *dynamic balance models* are used. These help to analyse the links between capital investments, the national income and the rate of growth of the aggregate product over a number of plan or report years.

Territorial Proportions of Social Reproduction

Territorial proportions are of much importance in ensuring a high rate and greater efficiency of socialist reproduction, for they express the correlation in the development of economic regions and territorial-administrative units in the country (in the USSR, this means above all in the development of the economy of the Union Republics and large-scale economic regions).

The productive forces are located as close as possible to the sources of raw materials and with an eye to reducing to the utmost the losses of labour in the switch from the processing of raw materials to all the subsequent stages in the treatment of the intermediate product all the way to the output of the finished product. Accordingly, the *availability of natural and manpower resources* is taken into account in planning the location of production throughout the country.

The *complex use of natural and manpower resources* of every region in the light of the specialisation of its economy in the lines of production which best correspond to its natural and economic conditions is another principle in the location of the productive forces. This helps to satisfy the requirements of production and the population out of local resources to the extent to which this makes economic sense, to induce more efficient use of local potentialities for the provision of electric power, transportation, repair facilities, housing and public utilities, etc.

Furthermore, rational territorial proportions imply an *evening out of the technical and economic levels of the regions of the country*, and this helps the socialist countries to overcome the backwardness of some areas, which they inherited from the old system, in a relatively short time.

The improvement of territorial proportions and the balanced location of the productive forces help to provide full employment for all persons of working age, to raise the people's living standards and to strengthen the country's defence capability.

The acceleration of scientific and technical progress brings about substantial changes in the territorial proportions of production. Large-scale power and technical installations catering for the economy of a sizable part of the country's territory (integrated power grids, irrigation systems, transportation systems, etc.) are built. The economic spe-

cialisation of regions is promoted through the rational territorial division of labour and production cooperation is developed between them.

The Eleventh Five-Year Plan provides for a further improvement in the location of productive forces in order to increase the efficiency of social production on the basis of greater specialisation and proportionality in the development of the economies of the Union republics and regions within the country's integrated national economic complex.

The increase in the economic potential of the eastern regions is gaining momentum, large-scale work is under way to develop their natural resources and develop the fuel and energy, and raw material bases of Siberia and Kazakhstan.

The Accumulation Fund and the Efficiency of Capital Investments

The proportions between the two component parts of the national income—the consumption fund and the accumulation fund—have a great influence on the pace and efficiency of social reproduction.

An optimal balance between the accumulation fund and the consumption fund is one which enables, with a given national income, most fully to satisfy the material and spiritual requirements of the members of the socialist society, while ensuring high and stable rates of social reproduction. This calls above all for greater efficiency of capital investments by means of which accumulation is effected: the construction of enterprises up to the latest scientific and technical standards, enlargement, remodelling and modernisation of existing enterprises, and the use of new, progressive materials and technological plant. The efficiency of capital investments is influenced by the sectoral structure, the balance between investments in new construction and in the enlargement, remodelling and technical re-equipment of existing enterprises, the time it takes to carry out capital construction and start up new production facilities.

Scientific and technical progress induces a growth in the share of capital investments going into the most progressive industries. Improvement of the structure of investments also entails an increase in the share of investments for the purchase of machinery and equipment with a reduction in

the per-unit investments in building and assembly operations and other capital inputs.

Whereas the building of new enterprises, which takes a long time, usually prevailed during industrialisation in the socialist countries, so slowing down the recouping of capital investments, with the high technical and economic level of production, it is now possible to increase the share of rapidly recouped capital investments in the enlargement, remodelling and technical re-equipment of existing enterprises.

The protracted periods of capital construction and the scattering of investments among a large number of projects result in a growth of work-in-progress. One effective way to enhance the efficiency of capital investments is to reduce the period of construction and the number of simultaneously going projects. The smaller the volume of work-in-progress in construction, the greater the effect yielded by capital investments for the economy.

In fulfilling the tasks of improving construction and raising the efficiency of capital investments the main attention is focused on ensuring the timely commissioning of fixed assets and productive capacities, concentration of capital investments and material resources on the most important construction projects, limitation of the number of projects under construction at any one time, a cut in building times, even and comprehensive introduction of productive capacities and projects in the non-productive sphere over the year, and making the volume of incomplete construction and stocks of non-installed equipment correspond to the set levels.

High efficiency of capital investments means maximum returns, that is, the maximum growth of the national income. That is why, in practice, the efficiency of capital investments (*ECI*) for the economy as a whole is measured by the ratio of national income increment to the capital investments (*CI*) into fixed production assets which have produced that increment or to the increment of fixed production assets (*FPA*)

$$\text{or } ECI = \frac{\Delta NI}{CI}$$

$$ECI = \frac{\Delta NI}{\Delta FPA} ,$$

In view of the fact that many projects take a relatively long time to build, while the volume of investments in the period of construction tends frequently to change, when computing the efficiency of investments, it is correct to relate the national income increments not to capital investments, but to the fixed production assets that have been started, or to their increment. Computation of the efficiency of capital investments needs to take into account time lag, for the investments or the increase in assets do not bring about an increase in the national income right away, but after the period of construction and the starting-up of production facilities. Thus, the national income for 1980 is related to 1979 assets.

Profit indicators are used to measure the efficiency of capital investments relative to individual sectors of the economy and enterprises. The product-to-assets, the assets-to-product or investment-to-product indicators are also used. The latter are determined as the ratio of capital investment or increment of production assets to the gross product increment.

The enhancement of the efficiency of capital investments and rational and thrifty use of the production assets in operation in the economy help to accelerate the pace of expanded reproduction and optimise the proportions between the accumulation fund and the consumption fund in the national income.

Chapter thirty-two

**COMMODITY CIRCULATION
IN SOCIALIST SOCIAL REPRODUCTION**

The exchange of products between the two departments of social production, between industry and agriculture, between the sectors and subsectors of the economy, between enterprises and associations is effected through the purchase and sale of commodities. Accordingly, in the reproduction process, exchange assumes the form of commodity circulation, which operates as the medium between production and the distribution it determines, on the one hand, and consumption, on the other.

This chapter examines the influence of commodity circulation on the pace and proportions of expanded socialist reproduction, on the increase of the aggregate social product and the growth of the people's well-being.

**1. THE ROLE OF COMMODITY CIRCULATION
IN EXPANDED SOCIALIST REPRODUCTION**

*The Substance and Functions of Commodity
Circulation under Socialism*

Commodity circulation under socialism is a *planned and balanced exchange of commodities effected through the medium of money for the purpose of satisfying production and individual requirements*. It differs in principle from commodity circulation under capitalism, which is geared to the realisation of value and surplus value.

The bulk of the commodity mass functioning in the sphere of circulation (in the USSR in 1980—98.8 per cent) is the product of socialised socialist production. Accordingly, in the socialist society there is no economic basis for the exist-

tence of private commercial middlemen. Commodity funds, their location, prices and other conditions of realisation are determined in a balanced manner. With private property in the means of production and in the products of labour are also eliminated competition, marketing crises and the economic basis for speculations.

The steady growth of commodity circulation at a high rate is typical for the socialist society.

Thus, from 1940 to 1981, state and cooperative retail trade (including public catering) in the USSR increased by over 11 times. That is the result of the steady growth of production and the expansion of the market.

The steady development of every sector of socialist production provides the basis for a constant growth of demand for the means of production. The scientific and technical revolution has led to a growth of demand for producer goods turned out by industries which determine technical progress (electric power, chemicals, instruments, means of automation, computers, etc.)

Simultaneously with the development of production there is an increase in the working people's money incomes, and with these also of demand for consumer goods. The socialist economy is not faced with any of the marketing difficulties which are organic to capitalism and which spring from the antagonistic contradictions between production and consumption. The state takes steps to ensure the necessary proportionality and balance between commodity masses and the paid-up demand of the population, creating the conditions for the uninterrupted exchange of products to purchase and sale.

In the socialist society, the main function of commodity circulation is to ensure, by means of wholesale and retail trade, *the planned distribution of the aggregate product and, accordingly, the satisfaction of the paid-up demand of state and cooperative enterprises for the means of production, and of the population for consumer goods.* Enterprises purchase the commodities they need for production purposes in exchange for the money incomes from the sale of their finished products and services and with the use of funds made available by the state by way of financing and extension of credits, while the working people buy consumer goods in exchange for their money incomes. Consequently, commodity circulation ensures the timely arrival of the material goods ne-

cessary to replace the used-up means of production, to expand production and to reproduce the labour power, and also for the people's consumption. That is why a high standard of organisation of commodity circulation, concern for the consumer and his needs are of great importance in raising the people's well-being.

Another function of commodity circulation under socialism is the *replacement in the form of money of the value of the commodities that had been produced and supplied to the market*. The sale of the products covers the costs of the enterprises, and this enables them to resume production. The surplus product is also realised as the source of expanding production and for maintaining the non-productive sphere. Each act of purchase and sale of commodities is effected as satisfaction of paid-up requirements, and as replacement of value.

While these functions of commodity circulation are intrinsically coherent, there is between them a non-antagonistic contradiction: one of them is connected with the realisation of the commodity as a use value, and the other, as a value. The former function expresses the interests of the consumer, and the latter, those of the producer. This contradiction is exemplified by the frequent urge of some enterprises to obtain a greater value through non-fulfilment of the range-of-products plan, by increasing the output of more costly commodities, something that results in a shortage or overstocking of some types of products. This contradiction is resolved through the improvement of planning and the organisation of commodity circulation, enhancement of product quality, and reduction of its costs.

Commodity Circulation and Production

Under commodity-money relations, the process of production is resumed, provided the *value of the used-up means of production is replaced and a payroll fund is created*. But the point is that when the process of production is completed, the value of the means of production and the necessary product are embodied in the commodities for production and personal consumption. In order to resume the process of production there is a need to convert the commodities into money. The sphere of commodity circulation, where

the commodity form of value is converted into the money form, and the money form into the commodity form, constitutes a necessary phase of social reproduction. Whenever commodity stocks are delayed in the sphere of circulation and are not converted into money, the process of reproduction may be disrupted.

Commodity circulation has an important role to play in creating the conditions for the *growth and improvement of production*. In the course of expanded reproduction, the accumulated value of the surplus product is added to the initially advanced value. For that purpose, the corresponding part of the producer and consumer commodities is converted into money. Whenever the realisation of the value of the surplus product is delayed, the formation of socialist accumulation in money form is slowed down, and this has a negative effect on the rate of production growth. Conversely, the acceleration of commodity circulation and, accordingly, of realisation of the part of the value of the surplus product earmarked for accumulation helps to increase the rate of expanded socialist reproduction.

If the reproduction of the aggregate social product is to be uninterrupted, there is a need to *realise the society's commodity stocks to the final consumer*. From the standpoint of realisation of the aggregate social product, the movement of money from production to commercial organisations signifies no more than the movement of commodity stocks from the sphere of production into the sphere of commodity circulation. Because the society's commodity product is realised later, any delay here leads to a slow-down in the circuit of money funds and may cause a break in the reproduction of the social product.

Commodity circulation has an effect on the *improvement of the proportions of expanded reproduction*. By realising the connections between town and country, circulation, among other things, acts as an economic instrument for attaining optimal proportions between industry and agriculture. State and cooperative trade provide the state farms and collective farms with manufactured products—the means of production (farming machinery, mineral fertilisers, building materials, etc.)—so promoting the development of the productive forces in agriculture.

Commodity circulation has a marked influence on the improvement of intersectoral and territorial proportions.

Commodity Circulation and Consumption

Commodity circulation ensures the connection between production and consumption, thereby helping to shape balanced proportions between the individual parts of the aggregate social product in terms of value and natural material form.

Through commodity circulation, the consumers of the means of production and of the articles of personal consumption induce enterprises to marshal their internal resources and to increase output, while improving its assortment and quality and reducing the costs of production. Production and consumption of new types of products, for their part, lead to the creation of a more effective structure of consumption.

From the sphere of commodity circulation the enterprises obtain the bulk of the means of production they use. This uninterrupted supply largely depends on the correct functioning of the system of material and technical supply.

In the recent period, the means of production are partially being distributed under a plan through *wholesale trade*, when enterprises place order for producer goods, which are still allocated in a centralised manner by the sectors and districts in accordance with normative use. Wholesale trade in producer goods is effected through the sale to consumers of tools, materials and other producer goods by shops and depots of territorial administrations of the State Supply Committee and through direct ties between producer enterprises and consumer enterprises.

In the sphere of commodity circulation, there is an exchange of the working people's money incomes for consumer goods. Whenever the population is unable to purchase the necessary consumer goods or has to face shortages or low quality, this has a negative effect on distribution according to work. In the sphere of commodity circulation the money incomes of that part of the population which is maintained at the society's expense (pensions, scholarships) are also realised.

The scale and level in the development of trade in consumer goods have an important role to play in raising the working people's living standards. In the USSR, over 80 per cent of the personal consumption fund is realised through trade. During the tenth five-year plan period (1976-1980),

the volume of retail turnover rose by 24 per cent. During the eleventh (1981-1985) retail turnover will increase by 22 to 25 per cent. Progressive forms of trade will become widespread: the sale of goods by the self-service method, by advance orders, mail order and so on.

*Forms of Commodity Circulation
and Their Role in Social Reproduction*

The existence of various forms of commodity circulation depends on the existence of various forms of socialist property in the means of production and, accordingly, in the finished product, and also of the individual property of the working people in consumer goods.

Commodity circulation *within the state sector of the economy* covers the circulation of the means of production between state production enterprises. In addition, there is the circulation of consumer goods between state production and commercial organisations, and also between state production enterprises and commercial organisations, on the one hand, and state establishments and organisations in the non-productive fields (public health, education, culture, state administration, defence), on the other. Here, the state (the society) remains the owner of the commodities when these are purchased and sold. The movement of commodities takes place on the basis of state plans, in accordance with contracts and their prices approved by the state, with the quantity and assortment determined by the plan.

Within the state sector is mainly realised that part of the aggregate social product which constitutes the means of production replacement and accumulation funds. Besides, the first stage of realisation of consumer goods is also effected here. For instance, when a textile mill sells fabrics to wholesale depots, and the latter to a shop, the fabric merely passes from one enterprise to another. The final realisation of the fabric and the replacement of the value occurs at the second stage, when the fabric is sold to the population.

Commodity circulation *between state and collective farm and cooperative enterprises* includes the sale of producer goods by industrial enterprises to collective farms and the state procurements of farm produce from the collective farms. This also covers the circulation of consumer goods and some producer goods between state enterprises and organisa-

tions, on the one hand, and consumer cooperatives, on the other. Here the balanced movement of commodities is effected between two sectors of the socialist economy. The commodities are realised under state plans for the industries turning out producer goods for agriculture, and plans for the procurement of farm produce. Both the manufactured goods and the farm produce are realised at planned prices. This form of commodity circulation is connected with the recoupment of the costs of state and collective farm and cooperative enterprises.

Commodity circulation between collective farms, and also *between collective farms and consumer cooperatives* caters for the collective farm and cooperative sector. Among its specific features is the change of proprietor within the collective farm and cooperative sector of the economy. This sphere of circulation is regulated by the state plan (for the procurement of the agricultural produce effected by consumer cooperatives) and plans for collective farms and consumer cooperatives. Commodities are circulated in accordance with planned or contracted prices.

Commodity circulation *between the socialised economy and the members of the socialist society* includes the sale to the population of consumer goods and the provision of services by state and cooperative enterprises in trade and public catering. Through this form of circulation there is an exchange of the working people's money incomes for consumer goods. Here the commodity moves from social property to the personal property of the members of the society. The value of the consumer goods is finally realised and the costs of their production and circulation recouped.

In the USSR, state trade accounted for 71.3 per cent of the total of retail trade, and cooperative trade, for 27.5 per cent. In state trade, commodity stocks and prices are planned by the state. Cooperative trade relies mainly on the collective farm and cooperative form of socialist property and caters mainly for the rural population. Consumer cooperatives sell most of their goods at prices approved by the state.

Collective farm trade consists of commodity circulation between collective farms and collective farmers, on the one hand, and the population, on the other. Its existence depends on the existence of the collective farm and cooperative form of property and the collective farmers' individual

subsidiary holdings. Commodities in this sphere consist of a limited range of farm produce of the collective farms and the individual subsidiary holdings of collective farmers (potatoes, vegetables, fruits, meat, dairy and certain other products).

Collective farm trade provides an additional channel for the supply of the urban population with foodstuffs. In 1981, collective farm trade in the USSR accounted for 1.2 per cent of overall retail commodity turnover.

In contrast to the above-mentioned forms constituting the organised market, this form of commodity circulation is known as the unorganised market. The volume of sales, the time of realisation and the prices here are established in accordance with supply and demand. But collective farm trade is influenced by the organised market, which has the predominant and definitive position in consumer goods trade.

The Role of Foreign Trade in Social Reproduction

Commodity circulation in the socialist countries also includes their trade with each other, trade with the industrialised capitalist countries, and the newly-free countries.

In foreign trade, it is the socialist state that acts as the seller and buyer of commodities. Foreign trade is organised in a balanced manner. But as a balanced process it is effected mainly on the world socialist market. In trade with capitalist private companies and governments, the socialist countries' trade activity has to reckon with the uncontrolled processes sweeping the world capitalist market.

The socialist countries' foreign trade is based on *state monopoly, which means that foreign trade operations are effected under the direction of the state and under its assignments by specially authorised organisations.* The state monopoly helps to develop socialist production and protect the internal market from the incursions of foreign capital and the impact of the ungovernable world capitalist market.

The economic basis for foreign trade is provided by the international division of labour and the relevant specialisation of the various countries in the manufacture of various types of products in accordance with each country's technical and economic level and its natural and climatic conditions. This determines the differences in the structure and costs of production. It becomes advantageous to exchange

some goods turned out in a volume exceeding a country's domestic requirements for other goods which are either not produced in the given country or are produced in short supply and entail high costs of production. Thus, foreign trade helps to raise production efficiency.

Export is economically appropriate because a socialist country usually exports goods for which the national costs are below world costs. Import makes it possible to acquire various goods entailing lower costs as compared with the costs of production of the given commodity at home.

On the world market, commodity prices are based on the value of commodities which is determined by the average conditions of production in the country exporting the bulk of the given product. The gain from foreign trade operations depends on the ratio between the national and the international value of the exported and imported commodities. The latter, for its part, is determined by the differential in the levels of labour productivity in the individual countries and countries involved in the international turnover of this commodity as a whole.

The main ways of enhancing the efficiency of foreign trade are: reduction in the social costs of production and circulation through a boosting of labour productivity, improvement of the quality of the products sold on external markets, and improvement of foreign trade services.

2. THE MARKET UNDER SOCIALISM AND THE PLANNED AND BALANCED ORGANISATION OF SUPPLY AND DEMAND

Specifics of the Market in a Socialist Economy

The sphere of circulation, which functions under a plan, constitutes the *commodity market* of the socialist society, that is, the *aggregation of economic relations between the sellers (producers) and buyers (consumers) of commodities.*

The market under socialism differs fundamentally from the market in a capitalist society. The common interests of the society which are determined by the prevalence of the whole people's property in the means of production and in the product determine the socio-economic homogeneity of the market and the absence of antagonistic contradictions, which bring about marketing crises. The sphere of the market under socialism is limited to the sale of pro-

ducer and consumer goods. There is no money market or stock exchange, because there is no fictitious capital, or capital generally, and there is no labour market.

Under socialism, the market does not act as a spontaneous regulator of the social production, distribution and consumption of material values. The market itself is regulated in a balanced manner on the scale of the whole country and is an instrument of planned and balanced economic development. This is based on socialist socialised production, which makes it possible to anticipate demands and to determine its possible satisfaction. An important role is played in the planned regulation of the market for the means of production by direct long-term economic ties between enterprises, which are established in their contracts, a reinforcement of their material responsibility for the timely and qualitative fulfilment of plan tasks and obligations to deliver and transport output in accordance with consumers' orders and long-term agreements.

The bourgeois and right-revisionist advocates of market socialism distort and exaggerate the importance of the commodity market under socialism, and assign to the plan the role of a passive recorder of current processes. With production so adapted to the market the planned and balanced development of the economy would be upset. By contrast, the "left" revisionists underestimate the role of the commodity market in the socialist economy.

Balanced Regulation of Supply and Demand under Socialism

The balance of supply and demand is a form of economic connection between the producers and consumers of goods which is systematically regulated on the scale of the society as a whole.

Demand does not consist of all the requirements of the society, but only requirements in producer and consumer goods which are subject to satisfaction and which are backed up with cash. Demand is ranged against the *supply* of goods which are available on the market or which may be delivered to it in accordance with the economic plan. Supply, like demand, does not reflect the whole volume of a country's production. Thus, it does not include the reserves and out-

put of products going into production and individual consumption bypassing the sphere of commodity circulation.

The correspondence of supply and demand creates the necessary prerequisites for realising the aggregate social product and also helps to adapt production to the steadily developing requirements of the society. The planned and balanced organisation of commodity circulation is aimed to ensure the correspondence of supply and demand in volume and structure of goods and services.

Correspondence between supply and demand for consumer goods depends on the balance between the consumption fund and the output of consumer goods. Since the consumption fund is used mainly for the purposes of individual consumption and also to cover the material outlays at the establishments catering for the population, at scientific institutions and in administration, its volume must correspond to the volume of production and supply of consumer goods (including services). A relative lag in the growth of production leads to supply falling short of demand.

Rational use of the accumulation fund and higher efficiency of production assets are an important factor in increasing the supply of commodities and creating a normal balance between supply and demand. Capital investments divert sizable funds from economic commerce. Industrial and office workers employed in the building of new projects receive wages and this increases the volume of demand. Meanwhile, the volume of supply does not increase throughout the whole period of construction. That is why the periods of construction and the starting of new production facilities exert an essential influence on the balance between the supply of and demand for goods.

The balance between supply and demand is influenced by the rate of growth of Department I and Department II of social production. Whenever the growth of Department I is much too fast, as compared with that of Department II, there is a disruption of the right balance between the value newly created in Department I and Department II and the value of the whole product of Department II, so that the demand for the product of Department II under the given level of prices cannot be fully satisfied.

The balance of supply and demand also depends on the correlation of the rate of growth of the working people's cash incomes and the rate of labour productivity growth.

It is in the interests of the socialist society to have labour productivity growth outrun the growth of wages. With labour productivity growing more slowly than wages, the supply of the commodity mass on the market is relatively reduced and a shortage of goods results.

Price has an important role to play in the planned regulation of the balance of supply and demand. When the supply of some goods is in excess of demand, the state cuts retail prices, so increasing the volume of the market and accelerating the sale of the goods. When supply lags behind demand, the socialist state takes steps above all to expand the production of consumer goods and only in the rare cases when it is impossible markedly to expand the production of some goods does it resort to price increases so as to strike the right balance between the supply of and demand for these goods. But even so the increase in retail prices for some goods is, as a rule, offset by price cuts for other goods.

The financial and credit system and the state monopoly of foreign trade are among the essential instruments for the balanced regulation of the internal market. The financial and credit system exerts an effect on the amount of money held by the population and constituting the basis of market demands. The foreign trade monopoly ensures the stability of the internal market, which makes it possible to use the export and import of goods, including gold, to cover shortages of goods at home or to export surpluses.

The systematic study and accounting of the population's demands is a necessary prerequisite for the establishment and maintenance of the equilibrium of the consumer goods market. The main thing is to determine the commodity structure of demand and its changing trends. Because demand expresses a definite part of requirements, its structure depends above all on the structure of requirements and the trends in their change. That is why scientifically substantiated norms of consumption of foodstuffs and industrial goods are determined for the purposes of studying changes in demand and the uniformities governing the formation of requirements.

A discrepancy between the supply and demand may do great harm to the economy. Excessive growth of some commodity stocks tends to slow down their turnover, increases the costs of storing surplus inventories, and also los-

ses. Inadequate satisfaction of demand hampers the operation of the law of distribution according to work done and slows down the rise of the people's well-being. Growing efficiency of production, an improvement of products quality and application of socialist methods of economic management, with a correct assessment of the society's requirements, are the main means for expanding the supply of goods in accordance with the demand of the population.

Chapter thirty-three

FINANCE, CREDIT
AND THE CURRENCY OF MONEY IN SOCIALIST
SOCIAL REPRODUCTION

The diverse and intricate inter-relations of social reproduction are mediated by money. In the creation, distribution and use of the aggregate social product, money is separated from the circulation of commodities and performs relatively independent movement, constituting, first, the currency of money, and second, the money funds of the economic units, the population and the state. Depending on the sources from which money funds are formed and the character of their functioning, purpose and methods of use, they acquire the forms of finance and credit.

1. THE ROLE OF FINANCE AND CREDIT
IN SOCIALIST REPRODUCTION

*Finance and the Distribution
of the Aggregate Social Product*

Finance caters for the distribution and redistribution of the aggregate social product. Finance is the medium through which its value is distributed among the various funds.

The *replacement fund* is created out of the receipts from the sale of the finished products of the enterprise in the form of special-purpose money funds: the depreciation fund and the circulating means fund. The replacement fund accounts for over 55 per cent of the product, and in industry, for over 60 per cent. The uninterrupted development of social production ensures a steady growth of material expenditures. The socialist society wants to see the share of the national income in the aggregate social pro-

duct increased through the utmost economies in material expenditures. Finance has an important role to play in stimulating rational and economical use of the depreciation fund and the circulating means fund.

The *distribution and redistribution of the national income* are effected through the medium of finance. At the stage of primary distribution, a part of the national income created in the whole people's sector of production constitutes the payroll fund for workers in the sphere of material production, the basic money sources for the workers' fund of the goods of life. Another part takes the form of wages-related payments to the social insurance fund, which is placed at the disposal of the trade unions for the payment of temporary disability benefits and to meet various socio-cultural needs of the working people. Yet another part assumes the form of a turnover tax, which is transferred to the budget. Finally, a part of the national income constitutes the profit of the enterprises.

In the collective farm and cooperative sector, a corresponding part of the national income is distributed to the fund for the remuneration of the collective farmers' labour and the collective farms' social funds. The incomes of collective farmers from their subsidiary holdings are also regarded as primary incomes.

A sizable part of the national income of the socialist society is concentrated in the *state budget*, the leading unit of the statewide financial system. Enterprises in the sphere of material production make payments to the state budget, from which are financed the society's production sphere and the non-productive sectors.

The redistribution of the net income of state enterprises through the budget is effected in the form of payments from profits.

In the USSR, payments from profit by state enterprises and organisations to the state budget came, in 1981, to nearly 30 per cent of budget revenues.

Collective farm and cooperative enterprises transfer to the state budget a part of their net income in the form of an income tax. Another part of it is redistributed through the mechanism of procurement prices. The socialist state leaves the bulk of the net income at the disposal of the collective farms in order to intensify production and raise the well-being of the collective farms.

In 1981, of the funds accumulated in the whole people's sector of the economy in the USSR, which came to 249.7 billion rubles, turnover tax and payment from profit amounted to 219.6 billion rubles, that is, 45.5 per cent of the country's national income.

A differentiated income tax is used to redistribute a relatively small part of the incomes of the population through the state budget.

In 1980, taxes paid by the population in the USSR came to 25.5 billion rubles, that is, 8.0 per cent of the total state budget revenues.

By means of the state budget, the national income is redistributed between the state and the collective farm and cooperative sectors of socialist production, between Department I and Department II of social production, between industry and agriculture, and between the sectors, enterprises and regions of the country. In this way, the state budget provides financial resources to promote the balanced development of the economy, science and culture, the raising of the working people's well-being, to maintain the organs of administration and strengthen defences.

Finance as the Money Source of Expanded Reproduction

The redistribution of monetary accumulations through the state budget between enterprises and sectors of the economy and economic regions ensures the concentration of capital investments in the crucial sectors of the economy.

In the period of transition from capitalism to socialism, with its process of socialist industrialisation, new industries and the material and technical basis of large-scale machine production are built up in all the sectors of the economy, including agriculture, expanded social reproduction is financed almost entirely from the budget. Subsequently, with the rise in the country's technical and economic development level and the growth in the volume of the accumulation fund, the share of capital outlays financed from the resources of enterprises tends to increase.

In the USSR, the finances of enterprises are used to increase circulating production assets and the payroll fund for workers additionally recruited for production, and capital investments for enlargement of existing enterprises, their

remodelling, and construction of new enterprises the outlays for which are recouped within five and, in some cases, within eight years. The building of new enterprises with a recoupment period of over 5 (and frequently over 8) years is effected at the expense of the state budget. In individual industries, enterprises are built on bank credit granted to contracting organisations to the full estimated cost of the project, with the completed enterprises handed over ready for operation to the organisations that ordered them.

The balanced redistribution of a part of the accumulation fund is effected in accordance with the state economic plan with an eye to the economic interests of enterprises in most fully mobilising internal resources and making efficient use of them.

Statewide finance in the socialist society has a special role to play in the expanded reproduction of labour power. From the state budget are covered the costs of public health, education, training of skilled personnel and specialists, housing and public utility construction, the working people's rest and recreation, social security, a large part of the costs of child education, etc.

In 1981, some 10 per cent of all the USSR state budget appropriations for socio-cultural measures and science went into the training of personnel through a network of higher and secondary special schools, including vocational schools. Partial training and retraining of personnel is paid for by the enterprises and industries.

The Role of Finance in Ensuring Scientific and Technical Progress

Finance provides the necessary funds for the development of science, the application of the latest scientific and technical achievements in production, and its specialisation and cooperation. Among the conditions for the efficient use of the funds allocated for the development of science and technology are: their concentration along the main lines of scientific and technical progress, greater emphasis on economic calculus through the cost-effectiveness of research, and the use of various sources and methods of financing to induce enterprises to accelerate scientific and technical progress and obtain the greatest benefits from the invested funds.

In the USSR and other socialist countries, scientific and technical progress is financed through budget appropriations, the funds of industries and enterprises, and bank credit. For this purpose, a single fund for developing science and technology is created in ministries and departments. Research of statewide or intersectoral importance is financed from the state budget.

Budget financing is a sound economic basis for the steady development of science and technology and helps to conduct a coherent technical policy on the scale of the country as a whole, and to balance out scientific and technical development in the sectors of the economy and territorial regions. The financing of scientific and technical advances by enterprises and economic sectors gives them material incentives for enhancing the efficiency of the effected measures in the technical improvement of production and reducing the period for the introduction of new technology and new types of goods.

The Role of Finance in Perfecting the Proportions of Social Production

Finance is an important economic instrument in optimising the proportions of expanded socialist reproduction, above all, the proportions between the *consumption fund and the accumulation fund in the national income*. The socialist state uses the budget to distribute the national income between the consumption fund and the accumulation fund in such a way as to satisfy the requirements of the population and to ensure the necessary volume of accumulation to the greatest possible extent (within the limits of the national income volume attained).

Within the framework of the accumulation fund, the budget is used to improve the proportions between production and non-production accumulations and reserves. With the growth of the national income an ever larger part of the consumption fund is used for the collective satisfaction of the working people's requirements from social consumption funds, and for the social security of the non-working members of the society.

The state budget and the finances of enterprises and industries are used to attain the necessary correlation in the *rate of development of Department I and Department II of social production*. Thus, the state budget and the finances

of enterprises actively help to optimise the proportions between Group A and Group B in industry, and to accelerate the industrial production of consumer goods. Expanded reproduction in Group B industries is effected above all through the reconstruction and re-equipment of production, and the building of new enterprises whose cost is rapidly recouped. That is why the stepped-up development of the production of consumer goods essentially depends on the finances of enterprises.

Finance has the function of redistributing funds between the sectors of the economy, and *is used for the accelerated development of the most advanced industries*. The key industries which ensure scientific and technical progress do not always have the internal accumulations they require for a high rate of reproduction. Intersectoral redistribution of the net income through the state budget helps to shape the financial sources for the development of these industries and to improve the intersectoral proportions.

Finance has an important role to play in *optimising the proportions between industry and agriculture*, in enhancing the technical equipment of agricultural production and in intensifying it. Large power plants, irrigation and land improvement projects and development of new lands are funded from the state budget. Sizable appropriations go into statewide measures to enhance the fertility of the soil and improve farming techniques. At the same time, the finances of agricultural enterprises are highly important in intensifying agriculture and increasing its growth rate.

The redistribution of a part of the net income through the budget also helps to *develop the economic regions abounding in natural raw materials and energy resources*, but lacking their own accumulations. This has a great influence on the optimisation of the territorial proportions of social reproduction, towards the rational use of natural resources. In the USSR, a sizable part of the state finance goes into the development of the eastern regions of the country.

The leading role of the state budget within the financial system of the socialist society and its great importance as a source of funds for expanded reproduction, scientific and technical progress and optimisation of economic proportions is distorted by bourgeois and right-revisionist advocates of the market socialism conception. For them, the state budget is mainly of consumer value. But such a

budget would prevent the socialist state from effecting the centralised and planned and balanced redistribution of the national income for the development of key sectors of the economy, rationally locating the productive forces across the country, and improving the statewide economic proportions. This would have a negative effect on the pace of scientific and technical progress and expanded social reproduction, and on raising the people's living standards.

*The Role of Credit in Funding Social Reproduction
and Improving Its Proportions*

Credit caters for social reproduction, providing the necessary monetary resources to meet the temporary requirements in funds arising at enterprises, in industries and sectors of the economy.

Social reproduction is kept going without interruption by means of bank credits like the following: credit for overhaul (made available to enterprises until they have accumulated the necessary depreciation fund); credit for seasonal commodity stocks and seasonal inputs into production in some sectors of the economy (agriculture, forestry, the peat industry, and some food and light industries); so-called credit on turnover, which is made available to enterprises with the bank having a share in their circulating means (issued to pay for material values—raw materials, basic and auxiliary materials—from the time of their receipt by the enterprise until the finished product has been sold, and also for the payment of wages).

Bank credit used to service payments made in the marketing of the social product has a big part to play in keeping reproduction continuous on the scale of the economy as a whole. The enterprises' temporary requirements in funds in the period of shipment of their finished products and their receipt of payments for them is fully covered by bank credit.

Credit pending clearance makes up over 20 per cent of the short-term credit investments of the Soviet banking system.

Smooth material and technical supply of enterprises and the existence of the necessary material stocks are an important condition for uninterrupted reproduction. The flexibility which is inherent in credit, and the credit-influence meas-

ures available to the bank (differentiation of interest charges, credit sanctions) make it possible to use credits as an active economic instrument in the balanced regulation of inventories in the economy.

Bank credit helps to keep social reproduction uninterrupted and so operates simultaneously as a major source for funding the expansion of production, and an active and effective instrument for *enhancing the efficiency of capital investments*. The need to repay the bank credit by a given deadline and to pay the interest charge on it induces efforts to complete construction and reconstruction of existing enterprises by the planned date, to start projected capacities in due time, and to increase output and profit, an important factor in reducing the period of recoupment of investments and enhancing their efficiency.

Credit is used to cover a sizable part of the costs of remodelling and enlarging existing enterprises and modernising equipment, and the costs incidental to the introduction of advanced technology. Credit is also used in some industries to fund the building of new enterprises and installations.

Long-term credits in the USSR went up from a total of 7.3 billion rubles at the end of 1965 to 86.2 billion rubles at the end of 1981, that is, nearly 14-fold.

Bank credit is also highly important for the *reproduction of fixed assets in the collective farm and cooperative sector*. Credits are made available to collective farms for the building of production facilities and, also, social amenities (schools, kindergartens, clubs, etc.), the purchasing of machinery and livestock, the overhauling of equipment, and for other needs.

From 1966 to 1981, the measures taken in the USSR to intensify agricultural production and strengthen the financial condition of the collective farms led to an increase by 880 per cent in credits to collective farms, which by the end of 1981 totalled 38.3 billion rubles.

Short-term bank credit is the main monetary source for the circulating production assets and assets of circulation for expanding production. In most socialist countries, almost one-half of the circulating means catering for the process of social reproduction is formed from bank credits.

At the end of 1981, short-term credit investments by banks in the Soviet economy totalled 327.3 billion rubles.

The influence of credit on the improvement of the proportions of social reproduction is expressed in the *priority extension of credit to advanced industries* and those whose volume of production in the given period tends, for some reason, to fall short of social requirements. There is a growth of credits made available for construction, technical renovation and development of enterprises in the heavy industry, and the building of enterprises in Department II with a relatively short recoupment period. Special credits are used to expand the output of consumer goods from local raw materials and waste from the main lines of production.

Bank credit is extensively used for the *intensification and technical re-equipment of agricultural production*.

In the USSR, long-term credit investments in agriculture as a whole went up from 11.7 billion rubles at the end of 1970 to 49.2 billion rubles at the beginning of 1981.

Being an instrument of repayable redistribution of funds *between the industries, sectors and economic regions of the country* and within these, credit helps to optimise the territorial proportions of social reproduction, more rationally to locate the production forces across the country, and even out the development of individual regions.

Revisionists, who want the state directive planning of the socialist economy to give way to indirect regulation by means of bank credit, are wrong, because they ignore the fact that the socialist society has objective potentialities for direct balanced regulation of expanded reproduction thereby establishing its volume and proportions. By means of credit and interest charges, the banks merely promote the fulfilment of economic plans.

2. PLANNED AND BALANCED CURRENCY OF MONEY AND ITS ROLE IN SOCIALIST REPRODUCTION

Money in the Process of Social Reproduction

As the *standard of value*, money functions as an instrument of planned pricing and, consequently, of planning and accounting of the volume of production of the aggregate social product, its distribution and use, and also as an instru-

ment in planning the proportions of social reproduction. Since money is used by the socialist society to control the measure of labour and consumption, it also caters for the expanded reproduction of labour power.

As the *medium of circulation*, money caters mainly for the realisation of that part of the aggregate social product which goes through the sphere of commodity circulation into the personal consumption of the members of the socialist society.

Money has an important function in social reproduction as the *means of payment*. It is used as an instrument for meeting the obligations of enterprises and the population to the state budget and the credit system, thereby catering for the exchange between enterprises, industries, sectors and economic regions. Payments for goods and services within the framework of the socialised economy are effected through the banking system by means of book-keeping entries, without cash transfers.

As the *means of accumulation*, money helps to accumulate funds on the enterprises' bank accounts for the replacement of the used-up means of production, expansion of production and formation of reserves. This function helps to form the state funds—the state budget and the state credit fund—which have an important role to play in social reproduction. Money is also used for the cash savings of the population and the accumulation of these funds by the credit system as an essential resource for credit investments in expanded reproduction.

The function of *world money* is expressed in the monetary and settlement services money provides in foreign trade and in other forms of economic cooperation and mutual assistance between the socialist countries and also in consolidating economic ties with developing countries and developed capitalist states.

The gold and currency reserves of a state help, whenever necessary, to replenish commodity stocks and to balance out the production and consumption of this or that type of material values by means of the external market. The development of socialist economic integration tends to enhance the role of money as an instrument of international settlements in the socialist countries' expanded social reproduction.

In catering for the production, distribution, exchange

and consumption of the aggregate social product, money performs a relatively independent movement, which constitutes the currency of money.

*The Currency of Money
and Its Importance for Reproduction*

The currency of money is effected through the use of cash (bank notes) and *cash free settlements*. The latter are mainly used in commerce between state and cooperative enterprises and establishments, which means that accounts are settled through entries in bank (or savings bank) accounts, or through a clearing of mutual claims and obligations. This method is also used in settlements between enterprises and establishments on the one hand, and the population on the other, and also between individuals.

Cash free settlements help to rationalise the currency of money, accelerate the circulation of money, reduce the costs of circulation and promote its balanced regulation. As a result of the reduction in the enterprises' requirements for cash there is an increase in resources for extending credit to the economy. That is also the effect of the withdrawal of cash from the population by banks and savings banks. A reduction in cash requirements means a reduction in the costs incidental to the printing, transportation, storage and counting of banknotes.

The *money supply* in circulation consists of tokens of gold, mainly banknotes and metal coins. In the USSR and some other countries, treasury-notes are also in circulation. Because banknotes, treasury-notes and metal coins all have the same economic nature, the state bank of issue in a socialist country is able to operate as the sole agency of issue on its territory. The issue of money or its withdrawal from circulation is effected within the framework of the state plan.

The *systematic regulation of the currency of money* helps to increase the turnover of money and of the money supply required for the uninterrupted process of expanded reproduction and fulfilment of plans for the production and sale of commodities by enterprises. It includes the planning of the money turnover of the bank of issue, or so-called cash planning, planned balances of cash incomes and expenditures of the population. The cash plan is the basis for establishing the amount of money withdrawn from circulation or

the ceiling for the supply of money for circulation over the planned period. The planning of the currency of money is based on the plans of production and circulation of goods, wages and the commodity turnover.

One of the key advantages of the monetary systems in the socialist countries is the *state monetary monopoly*, that is, the exclusive right of the socialist state to perform transactions involving foreign currency and other monetary values, and to have all the monetary reserves at its disposal. There is no private money market under socialism, and this rules out the existence of two exchange rates: the official and the "free", market exchange rate. As a result, the currency of money in the socialist countries does not depend on the haphazard play of the capitalist money market.

Because money caters for every aspect of socialist social reproduction the correlation between the commodity and the money mass epitomises the proportions of reproduction.

Stability of the Currency of Money

The socialist economic system creates the necessary prerequisites for the stable currency of money. The money supply is made to correspond with the requirements of the commodity turnover by the state, in whose hands the bulk of the commodities is concentrated and enters into the turnover at *fixed planned prices*. The absence of crises of overproduction means that there can be no monetary crises either, with their resultant difficulties and interruptions in sales. The budget of the socialist state is deficit free and, far from requiring the issue of money as a source for covering its expenditures, is itself a source of the state credit fund. Here, the state money monopoly also has an important role to play.

However, the existence of objective conditions for the stable currency of money does not rule out occasional situations in which, for various reasons, the money supply may exceed the requirements of economic turnover. This may threaten a lowering in the purchasing power of money, above all on the collective farm market, as a result, in particular, of the lag of labour productivity growth behind the growth of the money incomes of the population. The socialist state effects measures to enhance the efficiency of the economy, to optimise the correlation between Depart-

ment I and Department II of social production, so as to increase the production of consumer goods and services, and takes measures to accelerate the turnover of commodities, the currency of money and cash free settlements, and perfect the planning of the commodity turnover and the currency of money.

Financial Balances

The active influence of finance, credit and the currency of money on the process of expanded socialist reproduction predetermines the importance of financial and credit plans and plans for the currency of money within the system of economic plans. Financial planning starts from the rates of growth, the proportions between production and distribution of the aggregate social product, and the distribution of the material and labour resources of the socialist society, as set forth in the economic plans.

Primary financial balances are financial plans of state and collective farm and cooperative enterprises. These are drawn up in the form of balances of revenues and expenditures and determine the financial resources and the lines on which these are to be used, the relations between the enterprises and the budget (payments into the budget and receipts from the budget) and the banking system (credits, payment of interest on credits, and repayment of credits). The revenue and expenditure balances of the industries and subindustries reflect the redistribution of funds between the enterprises subordinate to the corresponding ministries. The *state budget* is the *principal financial plan* of the socialist state.

Improvement of the planning of the national economy required better elaboration of financial balances. The USSR State Planning Committee now elaborates and presents to the Council of Ministers of the USSR, within the draft state five-year plan for the economic and social development of the country, a consolidated financial balance, with incomes and outlays distributed by the year, and within the annual plan—an annual consolidated financial balance envisaging the provision of financial resources for all the measures included in the state plans, as well as the formation of the necessary financial reserves.

The credit relations between an economic unit and the banking system are planned in the form of the *banks' credit plans*, which are drawn up for credit resources (funds of the

state budget, state and cooperative enterprises, budget-funded and social organisations, deposits by the population, etc.) and their designation (by types of credit for the industries and departments). Considering that the sources of funds, the deadlines and the special purposes of short-term and long-term credit investments are different, plans for short-term and long-term crediting are drawn up separately.

The planning of the currency of money is effected by means of a cash plan, the balance of receipts of cash by the State Bank and the payment of money by the Bank. The receipts part of the cash plan includes sales proceeds, the earnings of transit systems, communication establishments, places of entertainment, taxes and premiums, etc. The expenditures part includes money for wage-and-salary disbursements, farm produce procurement from collective farmers, pensions, aids, insurance compensation, etc.

The *balance of the population's cash income and expenditure* has an important part in cash planning. The receipts part of this balance covers all the cash incomes going to the population from the state and cooperative establishments and enterprises in the form of cash and cashless transfers (remuneration of labour, pensions, scholarships, aids), receipts from the sale of farm produce on the collective farm market, etc.

The expenditures part takes into account the disbursements of the population effected at state and cooperative enterprises and organisations, and also the purchase of farm produce on the collective farm market. An excess of receipts over expenditures means that in the given period the unexpended balances of money in the hands of the population have increased, and vice versa. This shows the cash flows between the socialised economy and the population and determines the purchasing funds of the population and the extent to which these are covered with the corresponding commodity masses. When the balance is drawn up, the sources and funds for eliminating any emergent partial disproportions in the sphere of circulation are brought out. The balance of cash receipts and expenditures of the population is taken into account in the planning of retail commodity turnover, the volume of paid services to the population, the working people's savings deposits, the growth of wages and salaries, and other types of money incomes of the population, and also reductions in retail prices.

The *consolidated financial plan* of the economy, like all the other financial plans, is drawn up with due regard for the coordination between individual financial plans, the tying in of the targets of the economic plan with monetary resources and the designation of the sources for these funds; and the tying in of material and labour resources with the financial resources.

The financial plan and report balances help the socialist state to form the optimal proportions of expanded reproduction. In the elaboration of financial plans the value of the aggregate social product is determined as it is allocated in accordance with the functional purpose of the component parts (replacement, consumption and accumulation funds), the forms of property, the productive and non-productive spheres, industries and sectors of the economy and economic regions; the volume and sources of monetary resources are established as required to back up the rates and proportions written into the economic plan. Financial planning is designed to bring the value proportions into correspondence with the natural proportions and to promote the acceleration of scientific and technical progress and enhancement of the efficiency of social production.

3. THE NATIONAL ECONOMIC BALANCE

The improvement of the whole complex of proportions of expanded social reproduction in accordance with the requirements of the socialist society in material values necessary for the needs of productive and personal consumption is promoted by the national economic balance, which is a *quantitative model of socialist social reproduction as a whole*. The need for such a balance springs from the socialisation of the means of production and labour on the scale of the economy as a whole and the planned and balanced production, distribution and use of the aggregate social product.

The diverse ties within socialist social reproduction have a definite quantitative expression. Thus, the law of the priority growth of the production of the means of production is quantitatively expressed in a definite correlation between the rate of growth of Department I and Department II. Similarly, definite magnitudes express the correlation between accumulation and consumption in the

national income, and between industry and agriculture. The national economic balance is a *reflection of all the basic quantitative correlations of expanded social reproduction and shows the replacement of the parts of the aggregate social product in terms of value and natural material form, and characterises the phases of socialist reproduction.* This helps to tie in the society's resources with its requirements and social outlays with the results of production. In this way, the national economic balance helps to shape progressive national economic proportions and to solve the social problems facing the society.

The Marxist-Leninist theory of socialist social reproduction is the scientific methodological basis for drawing up the national economic balance. Proportions which ensure the uninterrupted replacement of the means of production used up in the process of production, the reproduction of labour power and the consumption in the non-productive sphere, and an adequate volume of accumulation as the source of expanded production are the conditions for high and stable rates of growth of social production.

The schemes of the national economic balance are drawn up in the light of the principles of the theory of reproduction on the division of social production into two departments, on the priority growth of Department I under scientific and technical progress, on the structure of the aggregate social product in accordance with the elements of value, and on the formation and purpose of social funds.

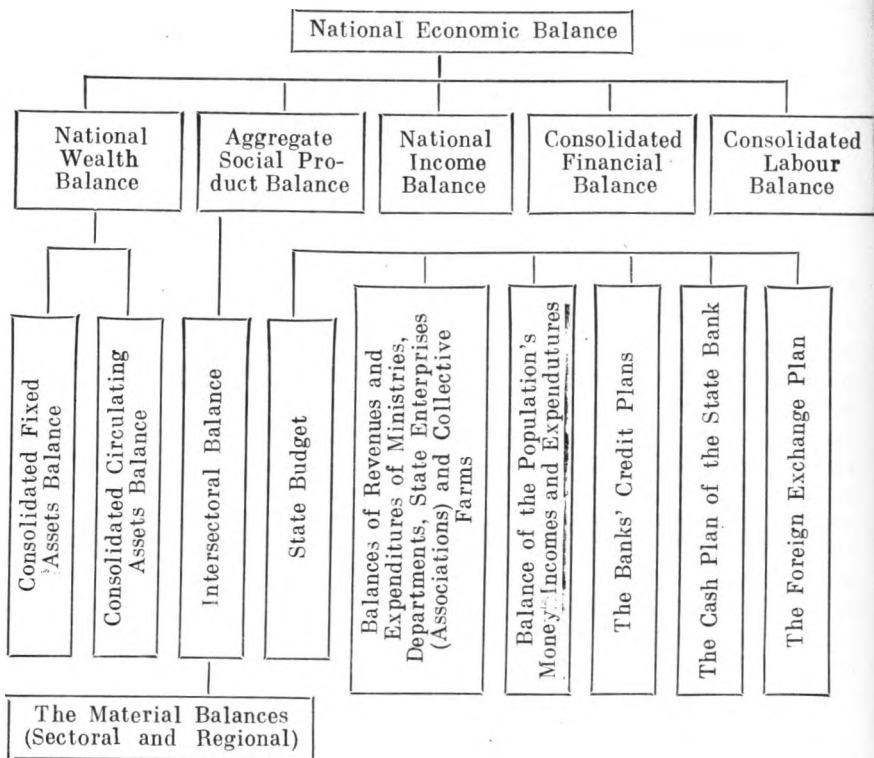
The national economic balance consists of a system of interconnected *economic sections (tables)* each of which reflects a definite aspect of reproduction. The aggregation of these sections gives a generalised characterisation of expanded social reproduction as a whole. The main sections are the following: the aggregate social product balance (material balance), the national income balance, the consolidated financial balance, the consolidated labour balance, and the national wealth balance.

The structure of the national economic balance may be presented in the form of a scheme (see p. 616).

The national economic plan and report balances help to determine the structure of production of the aggregate social product for the two departments of social production and sectors of the economy, thereby making it possible to bring out the possibility of progressive changes in its natural,

material composition. They show the distribution of the social product along the main channels, and this provides the basis for the planning and analysis of its realisation and the use of the national income for the purposes of consumption and accumulation. The balance data help to tie in the volume of material resources with the social requirements in producer and consumer goods.

The national economic balance makes it possible to determine the volume of labour resources required to ensure the set rate of social product growth, the sources of labour power and their distribution by the main spheres of the society's activity, and within the productive and non-productive spheres by the sectors. The balance is used for planning the growth of reserves and the national wealth according to the main elements: production and non-production fixed assets, circulating assets, and assets of circulation.



The example of the fixed assets balance helps to show the importance of the national economic balance in planning and improving the proportions of social reproduction. The fixed assets balance helps to determine the growth of the economy's requirements in fixed assets and, consequently, in capital investments in each sector, with the given increase in the volume of output, and makes it possible to analyse the sectoral structure of fixed assets which took shape in the report period, to compute the assets-to-product coefficients and to make a number of other calculations helping to raise the level of economic analysis and scientific back-up of capital investment planning. The balance data help to study the composition and structure of the instruments of labour in every sector, to bring out the shortcomings in their use and to adopt the most effective plan variants for capital investments and reproduction of fixed assets.

Consequently, the national economic balance helps to solve the important problems in the development of the socialist economy, and provides a necessary instrument for scientifically substantiated planning of social reproduction aimed at raising the people's living standards.

Chapter thirty-four

**THE UNIFORMITIES OF THE GRADUAL DEVELOPMENT
OF SOCIALISM INTO COMMUNISM**

Analysis of the relations of production in the communist society has an ever more important role to play in fulfilling the socio-economic tasks which arise in the development of socialism into communism. Lenin says: "As we begin socialist reforms, we must have a clear conception of the goal towards which these reforms are in the final analysis directed, that is, the creation of a communist society."¹

On the basis of an analysis of the trends in the development of the productive forces and the relations of production of mature socialism, this chapter describes the main features and uniformities of full-scale communism.

1. SOCIALISM AND COMMUNISM

*General Features
and Specifics of the Economy of Socialism
and Communism*

The classics of Marxism-Leninism say that the communist mode of production passes through two phases: the lower (socialism) and the higher (full-scale communism), and give general characteristics of the higher phase of communism. Relying on their theoretical legacy, summing up the experience in building the new society in the Soviet Union and other socialist countries, the CPSU Programme defines communism as follows:

"Communism is a classless social system with one form of public ownership of the means of production and full social

¹ V. I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B), March 6-8, 1918", *Collected Works*, Vol. 27, p. 127.

equality of all members of society; under it, the all-round development of people will be accompanied by the growth of the productive forces through continuous progress in science and technology; all the springs of cooperative wealth will flow more abundantly, and the great principle 'From each according to his ability, to each according to his needs' will be implemented. Communism is a highly organised society of free, socially conscious working people in which public self-government will be established, a society in which labour for the good of society will become the prime vital requirement of everyone, a necessity recognised by one and all, and the ability of each person will be employed to the greatest benefit of the people."¹

The level of the productive forces, the maturity of the relations of production based on social property in the means of production and the level of communist consciousness among the members of the society are among the chief criteria which determine the content of the two phases of the communist mode of production.

Socialism and communism are two phases of one and the same socio-economic formation and have a number of common features.

Even in the first phase, *social property comes to reign supreme*. Considering that the basic means of production become the property of all the members of the society, the word "communism" is also applicable to the first phase, while bearing in mind that it is *not yet full communism*.

In both phases of the communist formation, *the producers work for themselves and for their society, and labour is free from exploitation*. Production is designed to ensure full well-being and free and all-round development for every member of the society.

Socialism and communism proclaim and realise the *principle of the universality of labour*. Relations between men are based on *collectivism, comradesly cooperation and mutual assistance* between free and equal citizens.

Social socialist property in the means of production invests production with a *directly social character*. Under socialism and communism, production is developed in a balanced manner, on the basis of scientific prognostications.

¹ *The Road to Communism*, Foreign Languages Publishing House, Moscow, 1961, p. 509.

Alongside their common features, socialism and communism have a number of *essential features which characterise the different stages of maturity of economic relations.*

Socialism creates the conditions for a tremendous growth of production, but it does not yet provide an abundance of consumer goods that would help to satisfy the diverse requirements of the fully developed members of the society. Full communism implies an abundance of consumer goods.

Social property in the means of production under socialism exists above all in the forms of the whole people's (state) and collective farm and cooperative property. Under full communism, one form of the whole people's communist property in the means of production will be established.

With the transition to the higher stage of the communist society, the class distinctions which still exist under socialism will be overcome.

Under socialism, the antithesis between town and country, and between manual and mental labour has been eliminated, but essential socio-economic distinctions between them remain. Under communism, these distinctions will be overcome. In the level of the productive forces, the character of labour, and cultural and everyday conditions, the countryside will rise to the level of the cities, whose face will also change. With the construction of communism, mental and manual labour will organically blend in men's production activity.

Socialist production is developed in a balanced manner. The whole people's communist property will ensure the higher form for the balanced organisation of production based on the higher stage in the development of direct social labour. Commodity-money relations, which have a substantial role to play under socialism, will disappear in the developed communist society.

Work for the society under socialism has yet to become a prime necessity for all people. Under communism, all the members of the society will develop an organic need to work for the benefit of the whole people. Work for the society will become a prime necessity of life.

In the first phase of communism, the society distributes the goods of life in accordance with the quantity and quality of labour expended by the workers in social production. In the second phase of communism, there will be a transition to the communist principle of "from each according

to his ability, to each according to his needs". The elements of socio-economic distinctions between the members of the society will completely disappear and harmonious relations between the individual and the society will be established on the basis of the community of social, collective and individual interests.

As socialist relations of production develop into communist relations of production, there will be considerable changes in the social superstructure—the activity of political, juridical and other institutions. The development of the socialist state system will gradually lead to its transformation into social communist self-administration.

The distinctions between socialism and communism are essential, but they do not give any grounds for regarding socialism and communism as two special, independent or relatively independent socio-economic formations. The transition from socialism to communism is effected through a gradual development of socialist relations of production into communist relations of production.

*The Importance of Marx's "Critique
of the Gotha Programme"*

This work was written in 1875 and contains a critical analysis of the draft programme of the German Workers' Party, which reflected the views of Lassalle.

Marx applied materialist dialectics to bring out two phases in the development of the future society. He says: "In a higher phase of communist society, after the enslaving subordination of the individual to the division of labour, and therewith also the antithesis between mental and physical labour, has vanished; after labour has become not only a means of life but life's prime want; after the productive forces have also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois right be crossed in its entirety and society inscribe on its banners: From each according to his ability, to each according to his needs."¹

¹ Karl Marx, "Marginal Notes to the Programme of the German Workers' Party", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, p. 19.

In a number of his works, Lenin elaborated the ideas set forth by Marx. Of especial importance here is his work *The State and Revolution* (Chapter V). The doctrine of the higher phase of communism has been further developed in the documents of the Communist and Workers' parties. The entry of the USSR upon the stage of developed socialism required the elaboration of a new economic strategy for the Party and further concretisation of the ways in which socialism develops into communism.

Development of Socialism into Communism

As the developed socialist society is built up, a powerful economic complex is created with science playing an ever greater role and the general cultural, scientific and technical development of the society rising to a high level. The socialist relations of production based on social property in the means of production are developed and consolidated. The society's material and cultural progress leads to a marked alignment of the working and living conditions in town and country, and between the sphere of manual and mental labour. The balanced functioning of the economy as a coherent system is perfected. The socialist principles of the distribution of goods and services are consolidated. The survivals of capitalism in the minds of men are ever more rapidly overcome and the communist attitude to work is shaped. The Soviet state, which emerged as the dictatorship of the proletariat, develops into a state of the whole people. Socialism is transformed into a world system.

The entry upon the stage of developed socialism signifies the *creation of objective prerequisites for the full-scale construction of communism*. The pending tasks of communist construction in material and spiritual production are tackled by the society in the light of the objective prerequisites and in a *gradual, planned and balanced manner*. Cognition and use of all the potentialities of developed socialism amount simultaneously to transition to the building of communism.

The construction of full-scale communism results from the conscious activity of the people. As social measures are put through in the economy and social life, there is an accumulation of the elements whose strengthening and development will subsequently lead to the triumph of full-

scale communism. In view of the tremendous complexity and gigantic scale of the socio-economic transformations, the development of mature socialism into communism constitutes a relatively lengthy stage.

The Constitution of the USSR says: "The supreme goal of the Soviet state is the building of a classless communist society in which there will be public, communist self-government. The main aims of the people's socialist state are: to lay the material and technical foundation of communism, to perfect socialist social relations and transform them into communist relations, to mould the citizen of communist society, to raise the people's living and cultural standards, to safeguard the country's security, and to further the consolidation of peace and development of international cooperation."

2. THE BUILDING OF THE MATERIAL AND TECHNICAL BASIS OF COMMUNISM

STR and Changes in the Technical Make-Up of Production

The growth of developed socialism into full-scale communism determines the objective necessity for qualitative changes in the material and technical basis of the society, ensuring an abundance of material and spiritual values, the full vent of man's creative potentialities, and the communist transformation of the relations of production, and on that basis, of all the social relations as well. Such changes imply shifts in the technical make-up of production and are directly connected with the creation of *complex automated production* as the STR is realised.

Bourgeois theorists claim that technological developments, especially of electronic and cybernetic devices, can of themselves produce deep-going social changes, and that social advances under capitalism can change the social system. They lose sight of the interconnection between the development of the productive forces and the nature of the relations of production. In the socialist society, the advances of the STR help to build up the material and technical basis of communism. There are none of the constraints on the boosting of the productive forces which arise from the domination of private property in the instruments and means of pro

duction. There are now already computerised electric power plants, refineries and chemical works, and also numerous automated lines, sectors and shops in manufacturing. But on the whole, the automation of production in industry and in other sectors of the economy is still relatively limited. Technical progress tends to run towards the completion of complex mechanisation of production processes and automation of processes which in technical and economic conditions are mature for this, and the creation of prerequisites for advancing to complex automation. There is a consistent transition from the development and installation of individual machines and technological processes to the design, production and mass use of highly efficient systems of machines, equipment and instruments and technological processes ensuring the mechanisation and automation of all the processes of production, and especially of ancillary, transport and storage operations. Connected with this is a significant expansion of the production of miniature electronic control machines as component parts of basic technological equipment, instruments, various control systems and means, an increase in the output of automatic manipulators (industrial robots).

In future, automation will range over every sector of production, resulting in a coherent automated system of control of production based on the extensive use of economic and mathematical methods, and computer techniques.

The emergence of complex automated production, together with the advance of new instruments of labour, entails a *tremendous expansion in the generation of electric power*. In the course of the STR, no newer and more convenient type of energy has been created than electric power, which continues to be the energy basis of automated production. Solution of the energy problem runs through the expansion of the existing sources and the use of nuclear energy. In the USSR, the nuclear power industry is developing rapidly. A national electricity grid is being formed and already covers a territory with a population of over 220 million; a single gas supply system has been formed for the country.

Modern production calls for growing masses of raw and other materials. Scientific and technical progress had produced two fundamentally new lines in the use of the objects of labour: *the freeing of the development of production from the limitations of natural materials, and the creation of new*

materials which do not exist in nature, and which in terms of quality meet the conditions for the functioning of new hardware and technology. Plastics and synthetic resins have already been broadly developed, and these are being successfully used as substitutes for the raw and other materials provided by nature, and frequently surpass them in chemical properties. It has become possible to produce large quantities of new types of highly durable, heat-resistant, insulating, corrosion-resistant and other materials.

The use of automatic machines and new materials makes for *progressive advances in the technology of production*. This produces an automated system of optimisation of production processes in various sectors of production, especially in metallurgy and the chemical industry. There is ever wider use of chemical treatment in production for the purpose of its intensification and the enhancement of the durability and reliability of goods. Broad use is made of electronic technology. The artificial acceleration of natural biological processes is developed in agriculture.

New hardware and technique in production require a higher standard of labour skills, and *all-round development of human capacities*, for man is the society's chief productive force. Special knowledge, a high standard of professional training and general culture tend to become a mandatory condition for the successful development of production. With the building of the material and technical basis of communism, the activity of the bulk of men is concentrated on complex-skill labour, first in the setting up and tuning of automatons to keep them going, and then in supervising and controlling the operations of self-tuning automatons.

Qualitative changes in hardware and labour power call for corresponding *development in the organisation of production*. The use of automatons with controlling cybernetic machines will subsequently make flow-line production capable of rapid re-adjustment. One of the conditions for the extensive spread of flow-line production is a deepening of specialisation, which means a further development of cooperated enterprises. The trends towards ever deeper and more complex processing of raw materials lead to the broad development of combination. The concentration of production is increased.

There will be a further *change in the proportions of social production*. Heavy industry will continue to be the industrial

basis of the economy even under automated production, with engineering, especially instrument-making which supplies all the industries with advanced equipment, continuing to play the definitive role. According to scientific forecasts, in the foreseeable future the growing use of plastics will go hand in hand with increased metal output. The chemical industry's share in the overall volume of production will markedly increase. The generation of electric power and the output of electric machines will also be significantly increased. Electronics and radio-engineering will be even more broadly developed. There is a need for striking and optimal balance between industry and agriculture. The complex development of economic regions and their specialisation will eliminate the excessive crowding of the population in the big cities.

The building of the material and technical basis of communism entails the *development of science as a productive force of the society* and a corresponding multiplication of the links between science and production. Science will have to make a great contribution to the solution of the most important problems in communist construction, among them, most importantly today, the discovery of new sources of energy and substitutes for many types of natural resources, the technical re-equipment of the economy to reduce to a minimum manual and, above all, arduous, physical labour, the boosting of agriculture, the drive against disease, and the prolongation of human life. Accelerated development of science will make the technical basis of communist production especially dynamic.

The *growing social character of production* through the use of powerful instruments of labour, a high concentration of production and development of specialisation and cooperation of enterprises are a concentrated expression of the level of the material and technical basis of communism. For its part, the growing social character of production serves as the basis for transforming the different social forms of property in the means of production into one communist property.

Communist production will be the whole people's complex automated production organised in a balanced manner in town and country.

The material and technical basis of communism is built up by the society under a plan. In the light of STR trends,

the society works out the lines of technical progress, ensures the accelerated development of advanced industries, and regulates the structure of social production.

*The Building of the Material and Technical Basis
of Communism—the Main Economic Task*

The building of the material and technical basis of communism helps to solve the fundamental problem of communist construction, which is to *make production more efficient and social labour more productive* than they are in the most developed capitalist countries. Lenin says: "Communism is the higher productivity of labour—compared with that existing under capitalism—of voluntary, class-conscious and united workers employing advanced techniques."¹

High efficiency of social production creates the conditions for the latter's accelerated growth, for satisfying the constantly growing current demands of the fully developed members of the society and ensuring the creation of sizable reserves of goods for the rapid restructuring of production in view of changing requirements under the impact of technical progress.

As the material and technical basis is built, *the material conditions for the development of socialist relations of production into communist relations of production take shape*. The growing social character and the rising level of socialisation of production tend to consolidate the links between work collectives, to develop relations of comradely cooperation and mutual assistance, and further to enhance the community of the workers' interests. The growing role of the whole people's sector of the economy signifies the *growth of the leading role of the whole people's property, which increasingly acquires the features of communist property*.

Under the impact of the whole people's sector of the economy, *collective farm and cooperative property also develops towards communism*. State industry, which increasingly provides for the collective farms' requirements in hardware, helps to create highly productive agriculture. The boosting of the productive forces in agriculture helps to align agricultural production with industrial production in the technical equipment of labour and skill standards of workers.

¹ V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 427

Simultaneously, the living conditions in town and country are also aligned.

In the developed socialist society, a new type of worker develops under the influence of the scientific and technical revolution. Creative work stimulates the workers' initiative and results in a rise of their technical education standards and general cultural level. The high level of production creates the material prerequisite for reducing working time and increasing the leisure time available to the members of the society. The opportunities for expanding the non-productive sphere and developing science and culture are increased.

As a result of the changes in the content of labour, the growing cultural and technical standards of workers, there is a gradual obliteration of the essential distinctions between mental and manual labour, and the moulding of a new type of workers whose cultural and educational standards are close to those of engineers and technicians.

3. DEVELOPMENT OF SOCIALIST RELATIONS OF PRODUCTION INTO COMMUNIST RELATIONS OF PRODUCTION

Communist Property in the Means of Production

Communist relations of production develop together with the productive forces and under their influence. For their part, they give the productive forces great scope, so ensuring their unprecedented growth.

Communist relations of production are based on the *whole people's integral communist property encompassing all the means of production in the society*. As compared with socialist property, it marks a higher stage of social development. Its material basis consists of the productive forces, embodying the achievements of the STR and ensuring a growth of production efficiency required for practising the principles of communism.

The way to communist property runs through the development of the existing *forms of socialist property*, with the crucial importance in the gradual communist transformation of the whole system of social and production relations belonging to the further improvement of the whole people's property as the leading and more mature form of socialist prop-

erty, for it relies on a higher level of the social character of production and the whole people's large enterprises which are organically knit into an integral economy through the balanced social division of labour.

The relations of communist property in the means of production are expressed in the *establishment of the higher state of collectivism in the society*. This takes shape and attains a considerable level of development in the socialist society, in which man is no longer exploited by man, and in which men establish among themselves relations of comradely cooperation and mutual assistance. But under socialism there still exist survivals of capitalism in the attitude to work and social property. In the communist society, collectivism attains a level under which the relations of comradely cooperation and mutual assistance are developed in every way, with men freed from the private acquisitive urge, and each member of the society receiving the means for all-round perfection of his capabilities. In this way, man becomes free not only from exploitation but also from the constraints on the development on his personality imposed by the material conditions of his existence. The unity of individual, collective and the whole people's interests provide the basis for the shaping of harmonious relations between the individual, the working people's collectives and the society. "All for one, and one for all" is a principle of social life that becomes part and parcel of the human consciousness, a household notion, a habit for one and all.

Enterprises of the integral communist type based on complex automated hardware and technology in production and management, close bonds between production and science, the labour of sophisticated workers, universal participation by members of the society in management, and communist forms of labour will become the primary units of production.

Communist property will provide the basis for *eliminating the remaining socio-economic distinctions in the society*. All the working people of the communist society will have an equal status within the system of production as collective owners of the whole people's means of production distributing the social products they own in accordance with their needs. Only those distinctions which are determined by the natural conditions of labour will remain between town and country, and between industry and agriculture.

The *personal property of citizens* will acquire new features. The communist character of individual appropriation will enable each member of the society to receive as many goods as are required for his all-round development. There will no longer be any need for the society to regulate individual appropriation as it is still being done under socialism.

The predominance of communist property in the means of production ensures the *full-scale use of the incentives to production which are proper to the communist formation*. At the higher stage of communism, production will also be geared to the satisfaction of human needs, but the needs of the society will be determined in content and volume by the fully developed man's requirements in material and spiritual values.

Consolidation of communist property in the means of production ensures that the class differences between people are erased. At the 26th CPSU Congress, the fundamentally important conclusion was drawn: "In evaluating the experience of our society's development over the past few decades we can assume that a classless structure of society will take shape mainly within the historical framework of mature socialism."¹

Development of the Balanced Organisation of Production

In the communist society, the *balanced organisation of production will rise to its highest stage*, while planning will become an even smoother, more reliable mechanism for the administration of social production.

The *growth of the social character of production* provides the objective basis for this process. All the sectors of social production will reach a high industrial level. The integration of production units into a single economic organism through specialisation and cooperation will reach a point at which the society will become "one office, one factory". Communist planned and balanced cooperation will rest on the whole people's property in the means of production, which has attained communist maturity, and on the communist attitude to work.

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 69.

The direct social regulation of production will attain full maturity. There will be no commodity relations in the developed communist society as an economic form of relations. The system of accounting the diverse requirements of men will clearly surpass smoothly functioning retail trade and will make it possible rapidly to readjust the production apparatus in accordance with changing requirements.

There will gradually be no longer any objective basis for accounting the inputs of social labour by means of money as the standard of value. The society will completely go over to the *natural measure of labour, directly through labour time*. However, greater importance will attach to accounting the cost of the social labour going into the production of products for, as Marx says, "*labour-time, even if exchange-value is eliminated, always remains the creative substance of wealth and the measure of the cost of its production*".¹

The development of relations between collectives of producers united on communist principles will lead to a change in the *methods of economic management*. The socialist method of economic management is based on production aimed to satisfy the requirements of the society as a whole, on systematic regulation, on social labour saving, and on the unfolding of the creative activity of the masses. These features will be further developed, so ensuring incomparably higher efficiency of management. Democratic centralism in management will be developed to its prime and there will no longer be any need to hold out material incentives to work collectives of enterprises and individual workers depending on the quantity and quality of their work for the society.

Work for the Society, A Prime Human Want

Lenin says: "Communist labour in the narrower and stricter sense of the term is labour performed gratis for the benefit of society, labour performed not as a definite duty, not for the purpose of obtaining a right to certain products, not according to previously established and legally fixed quotas, but voluntary labour, irrespective of quotas; it is labour performed without expectation of reward, without reward as a condition, labour performed because it has become

¹ Karl Marx, *Theories of Surplus-Value*, Part III, p. 257.

a habit to work for the common good labour as the requirement of a healthy organism."¹

Directly connected with the assertion of communist labour is the *all-round development of the worker*, who is free to choose his line of activity in accordance with his capabilities and endowments. Even today the use of automated devices improves and eases working conditions, provides broad opportunities for highly productive and creative work, facilitates the erasing of the fundamental differences between mental and manual labour, and the transformation of agrarian labour into a type of industrial labour. The fragmentation of the process of production into an ever wider range of operations leads to an extension of the production profile of workers, because narrowly specialised operations are performed by automatons, while workers controlling them perform an ever more complex set of operations. Besides, the scientific and technical basis of the various trades tends to be increasingly similar, and this requires that workers should master the polytechnical principles of production and have a deep knowledge of their field of science and technology and a high level of cultural development.

The level of production efficiency under communism helps to regulate the length of the working day and the working week in the light of the fully developed man's natural requirements in labour. Consequently, there is to be a growth in the leisure time available to the members of the society for raising their educational and intellectual level, for performing social functions, and associating with their comrades.

It is important to emphasise that none of this means an end to specialisation and the trades. Workers in the communist society will have a perfect knowledge of what they are doing, and that is impossible to achieve without some specialisation. Marx says: "In consequence of the separation of the social branches of production, ... the various bents and talents of men select a suitable field, and without some restraint no important results can be obtained anywhere. Hence both product and producer are improved by division of labour."²

Communist consciousness is the key feature of the fully

¹ V. I. Lenin, "From the Destruction of the Old Social System to the Creation of the New", *Collected Works*, Vol. 30, p. 517.

² Karl Marx, *Capital*, Vol. I, pp. 344-45.

developed man. In the future, the acquisitive attitude surviving from capitalism will entirely disappear from the minds of men, and work will no longer be regarded as a means of obtaining goods. The communist consciousness is shaped in the vigorous creative activity of men, under the influence of the system of education and upbringing. A big part belongs to the Marxist-Leninist theory, which shows the objective laws of social development, so helping men to understand their condition within the system of social relations.

The communist society will bring about a flourishing of the *creative potentialities of labour*, with its specific features, which socialism has already brought out, being especially developed as conscious and truly creative human activity, and as the highest source of satisfaction and happiness. But, as Marx emphasises, that does not at all mean that "work will be done only for fun, as an amusement, as Fourier so naively, in the spirit of young working women, imagined. Actually free labour, for instance, the work of the composer, is in effect a devilishly serious business, involving the greatest tension".¹

The production process in large-scale automated factories and the collective activity of large numbers of men are inconceivable without a high level of organisation and discipline. This is exemplified by the numerous teams of shock-workers, innovators and inventors, who take the communist attitude to work.

Socialist emulation will develop into *communist emulation*. The urge, which is also displayed by people under socialism, to make labour more efficient, will grow and man's all-round development and technical progress will create the conditions in which this urge will be concretely expressed in a constant rise of creative labour activity and continuous origination and spread of advanced models.

One of the primary tasks will be to foster in men and women the yearning for lofty social goals, ideological convictions and a truly creative attitude to work. This is a highly important frontline in the struggle for communism, and on the victories along this front will increasingly depend both the course of economic construction and the country's socio-political development.

¹ Karl Marx, *Grundrisse der Kritik der politischen Ökonomie (Rohentwurf)*, 1857-1858, p. 505.

Distribution of the Goods of Life in Accordance with the Requirements of the Fully Developed Man

In the communist society, the distribution of the goods of life is to be effected in accordance with the principle of "From each according to his ability, to each according to his needs". This principle signifies the elimination of inequality in consumption which springs from social distinctions in labour, and distribution in accordance with human requirements and the interests of communist production.

The ideal upheld by the "left" revisionists is egalitarian distribution among the members of the society of all the available wealth, which amounts to nothing but an alignment in poverty, something that ultimately acts as a drag on economic development. The theory of scientific communism proceeds from the assumption that the *fully developed man has a high standard of requirements*.

The rapid growth and purposeful nature of requirements are characteristic of developed communism. Physiological requirements will be entirely in line with man's rational needs in food and clothing. The level of spiritual requirements will correspond to the level of science and culture which has by then taken shape.

It is totally wrong to take the philistine view of communism as a society in which anyone can take as many goods as he likes and store them for the rainy day, to throw them out or do something similar. Lenin says that communism implies "*not the present* ordinary run of people, who ... are capable of damaging the stocks of public wealth ... and of demanding the impossible".¹

The level of consumption will not serve as an indicator of man's status in the society. People will come to evaluate things from the standpoint of their capacity to ease and embellish everyday life. Things will not be used from vainglorious possession, as it still sometimes happens. Under communism, the natural physiological distinctions reflecting the uniqueness of each man, individual requirements and preferences, and differences in the capacities displayed by different men in production and social activity continue to exist. As a result, distinctions in requirements and consumption

¹ V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 469-70.

will remain. Distribution according to needs does not mean, therefore, any levelling down in consumption of the goods of life among the members of the society, as theories hostile to Marxism-Leninism claim.

The transition to the communist principle of distribution implies the existence of a number of *socio-economic prerequisites*. The key prerequisite for distribution according to needs is *creation of an abundance of consumer goods*. Even under developed socialism, the level of production attained helps to create a considerable advance in satisfying rational human requirements. In the communist society, the range of human requirements will be multiplied and so the production of the necessary goods will steadily increase.

The transition to distribution according to needs is possible only *on the basis of communist property in the means of production*, when the essential distinctions between town and country, and those between mental and manual labour have disappeared. Communist distribution implies the assertion of the communist attitude to work and is closely connected with work for the society in accordance with one's abilities. Work for the common good will be performed without any control over the individual's measure of labour and consumption.

Under communism, consumer goods will be distributed mainly through *social consumption funds*. Some features of the future communist social consumption funds are already inherent in the social consumption funds existing under socialism, including access for all the members of the society to the key goods of life.

It is now hard to visualise in every detail the mechanism by means of which consumption will be accounted, but it is clear that the members of the society will obtain their goods without the purchase and sale operation.

Development of the Socialist State's Economic Functions

With the advance of the society towards communism, ever greater importance attaches to the further strengthening and development of the socialist state. In the light of the internal conditions in the socialist countries, the state will be a necessity throughout the whole period in which the society develops *until the complete triumph of communism*.

Lenin says that "the state will be able to wither away completely when society adopts the rule: 'From each according to his ability, to each according to his needs', i.e., when people have become so accustomed to observing the fundamental rules of social intercourse and when their labour has become so productive that they will voluntarily work according to their ability".¹

As the state withers away, *the need for the planned and balanced organisation of production*, distribution, exchange and consumption on the scale of the society as a whole and in its individual spheres tends to increase, but it will no longer amount to political activity by the state entailing the regulation of relations among classes and social groups.

Administrative methods involving the use of instruments of individual and collective material stimulation will disappear. It will be a natural thing for all the members of the society to fulfil the decisions taken by the organs of administration, which spring from the requirements of economic laws. The sphere of administration will be saturated with new hardware and technology, and all of this will make production highly efficient, so fully revealing the advantages and potentialities of the communist formation.

The perfect centralised directive planning will ensure the *participation of each member of the society in economic management*. Already, a number of key management functions in the USSR are performed by social organisations. Thus, trade unions effect labour protection, social insurance, and provide health and recreation services for the working people. An extensive system of standing production conferences and diverse production commissions has been set up and through it industrial and office workers, engineers and technicians are involved in economic management decision-making. Millions of working people take part in the standing commissions of the Soviets of People's Deputies. There are also volunteer people's patrols and comrades' courts, which combat breaches of public law and order.

The development of democracy and the active participation by the masses in the administration of the state and social affairs show the regularities underlying the gradual transformation of the socialist state system into the communist social self-administration.

¹ V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 469.

TWO WORLD ECONOMIC SYSTEMS

The law of the uneven economic and political development of capitalism at the stage of imperialism determines the victory of the socialist revolution in individual countries at different periods, as imperialist contradictions are concentrated and sharpened. Hence the inevitability of the protracted coexistence of a socialism which has won out in a number of countries, and a capitalism which continues to be dominant in other countries.

History has ranged alongside each other two opposite social systems: the progressive socialist system, and the moribund capitalist system. The countries which have escaped from the capitalist system are united not only politically but also economically. A new, socialist type of international division of labour and the world economy takes shape with its own market, and these help each individual country to enhance the efficiency of production. Besides, expanded socialist reproduction is, to some extent, mediated by the worldwide division of labour and the world market, which have a definite impact on the growth of production in the socialist countries.

Political economy examines the economic processes going forward in the socialist world economic system. It also considers the interaction between the two socio-economic systems—socialism and capitalism—its character and prospects.

The primary sources for the study of these problems are contained in the documents of the socialist countries dealing with the international socialist division of labour and economic cooperation, the meetings of the socialist countries' Communist and Workers' parties, the Comprehensive Programme for the Further Extension and Improvement of Cooperation and the Development of Socialist Economic Integration of the CMEA Member Countries, which these countries have adopted.

Chapter thirty-five

THE SOCIALIST WORLD ECONOMIC SYSTEM

This chapter brings out the specific operation of economic laws in relations between the socialist countries. The Constitution of the USSR says: "The USSR, as part of the world system of socialism and of the socialist community, promotes and strengthens friendship, cooperation, and comradesly mutual assistance with other socialist countries on the basis of the principle of socialist internationalism, and takes an active part in socialist economic integration and the socialist international division of labour."

1. A NEW TYPE OF WORLD ECONOMY

International Socialist Division of Labour

The socialist world economic system is based on the international socialist division of labour and the consequent economic cooperation of the socialist countries and the community of their socio-economic systems.

The capitalist type of the international division of labour is determined by the domination of private property in the means of production and its hallmark is the subjugation of countries inadequately developed in economic terms by stronger capitalist powers, which take over a part of the national wealth of their weaker partners. For these reasons it is shot through with antagonistic contradictions: the trend towards the economic association of countries is opposed by the sharpening struggle among imperialist powers for marketing outlets, sources of raw materials and spheres of capital investment, and the movement for national liberation by the oppressed peoples. As a result, the division of labour in the capitalist world economic system is

not developed in accordance with the state of the contemporary productive forces.

Bourgeois economists claim that the division of labour between the socialist countries is uneconomical, artificial and allegedly based on the political domination of individual highly developed socialist countries forcibly tying down the other, less developed countries. All sorts of unscientific concepts are being trotted out for the purpose of dividing the socialist states and prying away the economy of individual countries from the socialist world economic system so as to weaken the positions of socialism as a whole. In actual fact, the domination of social socialist property produces cohesion and a pooling of efforts by the socialist countries, removing the social barriers to the development of the international division of labour and acting as a powerful catalyst in the internationalisation of economic life.

The new social nature of the international division of labour is here expressed in the fact that there is neither exploitation of some countries by others, nor competitive in-fighting or economic expansion, or the imposition of a lopsided structure of production by the economically stronger states on their weaker partners. The division of labour is organised by the socialist states.

The development of the international socialist division of labour is effected in a balanced manner on the principles of complete equality, friendship and mutual assistance. It helps to raise the economically less developed countries to the level of the advanced countries. Each country develops its economy as a complex, laying emphasis on the industries and sectors for which it has the most favourable conditions. The national economic complex in each socialist country acquires its specific features and its characteristic structure of production.

The *basic principles* of the international socialist division of labour are:

consideration of the objectively necessary proportions in the economic development of the individual countries and of the world socialist system as a whole, which help to balance out the economy;

efforts to ensure a high level of economic efficiency of the international division of labour, which is expressed in the fast rate of production growth and the fullest satisfaction of the requirements of the population in each country;

combination of international specialisation of production and the complex development of the economy of individual countries for the most appropriate use of natural and economic factors of production, including labour resources, in all countries;

a gradual overcoming of the historically rooted distinctions in economic levels with the utmost use of the internal potentialities of each country and the advantages of the world socialist system.

The international division of labour has an utmost importance for the growing efficiency of production, and this calls for an intensive scientific and technological cooperation in production among the socialist countries.

The Substance of the Socialist World Economic System

The international socialist division of labour and the interconnection between the economies of the individual countries which springs from it result in the establishment of a certain community of economic life characterised by the presence of economic proportions that are common to all the countries. This leads to the shaping of the socialist world economic system as a historically new type of international organisation of production and exchange on the principles of socialist solidarity, voluntary planned coordination of all the participants' interlinks.

Socialist integration is one of the chief directions in the development and consolidation of this system.

The deepening and perfection of the economic, scientific and technical cooperation and development of socialist economic integration of the countries constitute a process of the international socialist division of labour which is consciously and systematically regulated by the Communist and Workers' parties and the governments of the CMEA countries, drawing their economies closer together and shaping a modern, highly efficient structure of national economies, gradually aligning and evening out the levels of their economic development, shaping deep-going and stable ties in the main sectors of the economy, science and technology, expansion and strengthening of these countries' international market and perfection of commodity-money relations.

The formation of the socialist world economic system is objectively determined by the social character of large-scale production and the existing level of the productive forces, which require the cooperation of labour through its rational international division.

Lenin says that the tendency "towards the creation of a single world economy, regulated by the proletariat of all nations as an integral whole and according to a common plan, ... has already revealed itself quite clearly under capitalism and is bound to be further developed and consummated under socialism".¹

International socialist relations of production take shape in the process of the division of labour, specialisation and cooperation in production, joint construction and operation of economic facilities, exchanges of goods and the results of R&D, in the process of monetary settlements, international freight flows, etc. The new social content of these relations is determined by the fact that they involve states in which social socialist property in the means of production is predominant, while state power belongs to the working people led by the working class. This results in the socialist character of the interaction of the national economic systems, without exploitation or competition, in the form of relations of cooperation and mutual assistance.

Marx says: "...In order that their interests may become common, the existing property relations must be done away with, for these property relations involve the exploitation of some nations by others... The victory of the proletariat over the bourgeoisie is, at the same time, victory over the national and industrial conflicts which today range the peoples of the various countries against one another in hostility and enmity."²

Socialist internationalism is the most visual manifestation of the nature of the new relations between the socialist states. It means that each country's interests are harmonised with those of the whole socialist community, and that the national and international elements in the economy are concerted, and mutual support is developed.

¹ V. I. Lenin, "Preliminary Draft Theses on the National and the Colonial Questions", *Collected Works*, Vol. 31, p. 147.

² Karl Marx, Frederick Engels, "On Poland", *Collected Works*, Vol. 6, p. 388.

Relations between the socialist countries are based on *mutual assistance and mutual advantage, sovereignty and independence, and non-interference in domestic affairs*. The Communiqué issued by the CMEA's 33rd Session says that the system of foreign trade and monetary and financial relations which has now taken shape between the CMEA countries meets the interests of balanced economic cooperation, ensures the equivalence of settlements, and equal rights for all the participants.

The relations of production which are predominant in the socialist countries also determine the nature of their political cooperation, the latter exerting an active influence on their economic ties with each other. The scientifically based policy of the Communist and Workers' parties helps them correctly to evaluate and use the advantages of joint measures in the field of production and to discern in these not only current but also long-term interests.

The socialist world economic system is an inalienable *element of the world socialist system, the economic foundation of its political unity and cohesion*. The countries of socialism, it was stated at the 26th CPSU Congress, are building "a new socialist world, and a type of truly just, equal, and fraternal relations between states never seen in history before".

Operation of the Economic Laws of Socialism Within the Socialist World Economic System

The relations of production between these countries have a socialist character, and that is why the economic laws of socialism operate within the socialist world economic system.

Such relations and the categories which express them—international socialist division of labour, international socialist property, mutually advantageous trade, monetary settlements—are proper to the world socialist system and operate under the influence of the specific economic laws of socialist world economy. On the other hand, this sphere falls under the influence of the economic laws of socialism operating within individual national economies. *Because the participants in the world economy are sovereign independent states, the use of economic laws within the socialist world economic system is effected by means of coordination of acts by the states concerned on a voluntary basis.*

Within the world capitalist economy, profit is the motive force. In the socialist world economic system, there is another *motive force for development*, namely, *the ever fuller satisfaction of the working people's requirements*. The socialist states have an objective stake in economic cooperation because it speeds up their economic development and helps to satisfy the society's requirements more fully and with smaller inputs.

The economic integration of states in which social, above all the whole people's, property in the means of production is predominant converts the need to *achieve constant coordination of their economic development* into an objective necessity. The law of balanced and proportionate development begins to operate on international scale as soon as the planning element in the national economy of the individual countries has been sufficiently well established, definite proportions in the division of labour have taken shape, and mutual economic ties have developed and been consolidated.

The need to ensure planned and balanced development requires that the socialist states concert the development of the leading sectors of their economy, especially those which ensure scientific and technical progress, and observe the proportions in sectors where the international division of labour has taken shape.

Bourgeois economists argue that the economic integration of the socialist states cannot be successful because it lacks a "sound" basis, namely, a market with the free play of prices and convertibility of currencies. However, the balanced regulation of the socialist world economic system implies the *use of commodity-money relations* with a new content which these acquire under socialism. Here, commodity exchange is planned and balanced and equivalent.

Evening Out of the Socialist Countries' Economic Development Levels

With the formation of the world socialist system, the tendency towards an evening out of the socio-economic levels of these countries becomes a feature of the movement towards communism on an international scale. *The socialist community countries are ruled by a law which works to even out these countries' economic development levels.*

The development of each of the countries of the socialist

community is inseparably linked with consolidation of their ideological unity, their growing community in politics, the economy and social life, the development of fruitful, equitable cooperation in all spheres. The successful solution of such problems as providing energy and raw materials and introducing the latest scientific and technological achievements is impossible without links with other socialist countries. But the process does not erase national specifics or the historical features of the socialist countries. The wealth of methods for consolidating the socialist way of life is manifested in the variety of forms of their social life and the organisation of their economies.

Relying on the advantages of the new social system and the socialist world economic system, on cooperation and mutual assistance, the socialist countries, on the one hand, ensure the utmost mobilisation of their internal resources (the necessary level of production accumulations, increase in the technical level of the economy, full employment, the raising of the workers' skills) and on the other, extend international specialisation and cooperation in production, which markedly enhance the efficiency of the efforts aimed to bring about a rapid rise in the national economy and to overcome historically rooted backwardness.

In a relatively short period, most of the socialist countries which had once had a relatively low economic level have become highly developed states, with a marked growth in living standards for the working people and a flourishing science and culture. Contrary to the assertions by bourgeois propaganda, practice over many years shows that the advanced industrialised states, the Soviet Union in the first place, actively help to raise the economic development level of the other countries, by giving them large-scale material, scientific and technical assistance, and providing marketing outlets for the goods turned out by the new industries built in these countries.

The Soviet Union receives from the socialist countries many types of machinery and equipment, means of transport, consumer goods and various raw materials. In its turn, the USSR provides them with oil, gas, ores, cotton, timber and a variety of industrial products. From 1976 to 1980, the USSR received goods to a sum of 90,000 million rubles from the CMEA countries, and delivered goods worth 98,000 million rubles.

2. THE DEVELOPMENT OF THE WORLD SOCIALIST SYSTEM

The Substance of Socialist Economic Integration

The development of the world socialist system depends on the level of the productive forces, the state of inter-relations between the economies of the various countries, and on the maturity of socialist relations of production. At the present stage, it is characterised by economic integration, which springs from the need to accelerate scientific and technical progress, to enhance the efficiency of production, and to shape a highly efficient structure of the national economies and of the world economic system as a whole.

Economic integration is characterised by the shaping of deep-going and stable cooperation ties between the socialist countries in the leading sectors of production, extensive joint planning activity, the setting up of international economic organisations, a developed international market, and diverse forms and methods of economic cooperation ranging over production, scientific, technical, commercial and marketing activity.

Integration develops economic inter-relations and raises cooperation to a higher stage, investing it with new properties.

First, the integration process leads to coordinated changes in the structure of the productive forces, helping to concentrate resources on the most effective and technically advanced lines of production; this shapes the basis of the international reproduction complex, consisting of complementary national economies.

Second, it increases the international pooling of various types of resources for joint economic activity (accelerated technical development, effective solution of the fuel and raw materials problem, and the expansion of the international transport system).

Third, it increases the importance of ties in the sphere of planning production, R&D, and capital construction which predetermine the volume, structure and rate of growth in the exchange of goods and services.

Fourth, it increases the interconnections between the individual spheres of cooperation, making it necessary to engage in systematic complex solution of scientific, technical, production, trade, and financial problems of cooperation.

Fifth, integration is connected with the use of more perfect forms of planned management of the process of coopera-

tion itself; growing importance attaches to joint planning and international economic organisations; cooperation agreement periods are lengthened; there arises the need for a comprehensive international programme determining the ultimate and intermediate goals, stages and concrete mechanism for realising integration measures.

The socialist countries may differ on their approach to individual problems in the development of the world economy, depending on the different levels of the socio-economic development, international position and national peculiarities. But these differences are non-antagonistic and are overcome through an improvement of the forms and methods in which national and international interests are harmonised. The 26th CPSU Congress noted: "A fundamental unity of views has taken root among us on all major aspects of social and economic development, and international affairs. This is a result of the continuous cooperation of fraternal communist parties, and our common achievement".

In contrast to integration in the capitalist world, which entails conflicts and struggles between the state-monopoly capital of individual countries, between labour and capital, and a worsening of the condition of the economically weaker countries, international socialist integration meets the vital interests of the whole world socialist system. The objective necessity of economic integration ultimately determines the inevitable involvement of all the socialist countries in this process.

Emergence and Development of Socialist Economic Integration

The scale and effectiveness of economic cooperation among the socialist countries are determined by the depth of the structural changes going forward in the world economy under the impact of technical and social progress, the development of the national economy and perfection of social relations in each country.

Up until the Second World War, the European countries which subsequently began to build socialism had weak economic ties with each other. In 1938, the capitalist countries of Western Europe accounted for 86 per cent of the foreign trade of Bulgaria, Czechoslovakia, Hungary, Poland and Romania.

Following the postwar rehabilitation of the economy and the transition to industrial construction under long-term economic plans, the foundation is laid for stable international economic ties. In that period, the first few bilateral long-term trade and payments agreements are concluded. The growing interconnection in economic development made it necessary to set up a special international organ for the purpose of promoting economic cooperation. Accordingly, the *Council for Mutual Economic Assistance (CMEA)* was set up in 1949 as the practical embodiment of the new type of international economic relations based on the principles of socialist internationalism, respect for state sovereignty, independence and national interests, non-interference in domestic affairs, equality, mutual advantage and mutual assistance.

The early experience in multilateral coordination of long-term economic plans within the CMEA framework and the formulation of recommendations for international specialisation and cooperation of production involved the framing of national five-year plans for 1956-1960. By then, the socialist countries' production potential had markedly increased.

Objective prerequisites were formed for the regulation, on the basis of joint planning activity, not only of mutual commodity deliveries, but also of the structure of the economy, the build-up of new production capacities, and the development of science and technology. In 1962, the leaders of the CMEA countries approved the Basic Principles of the International Socialist Division of Labour.

By the end of the 1960s, the international socialist division of labour became an important factor of expanded reproduction in each CMEA country. The CMEA's 23rd Session, held in Moscow in April 1969, with the participation of the leaders of the Communist and Workers' parties and heads of government was highly important in developing economic cooperation among the CMEA countries and perfecting its forms and methods.

The Comprehensive Programme reflected the common tasks of integration, the stages and concrete mechanism for their solution, and determined the joint measures in the key sectors of the economy, intensification of scientific and technical cooperation, and joint solution of major scientific and technical problems. Simultaneously, the organisa-

tional, economic and legal forms for extending cooperation and ensuring effective ways and means for directing the integration of the national economies were formulated.

In recent years, the CMEA member countries have been coordinating their national economic plans, compiling a concerted plan for multilateral integrational measures, as well as elaborating long-term programmes for the specialisation and cooperation of production for 1981-1990. A major role in the cooperation between the CMEA countries is played by the USSR. Possessing a mighty economic, technological and scientific potential, the Soviet Union delivers fuel, raw materials, machinery, equipment, and other commodities, and renders broad technical assistance to the CMEA countries in building industrial projects. It also hands over advanced production, scientific and technological experience. The capacious Soviet market guarantees most of the CMEA countries stable sales of a large part of their engineering and other exports.

Cooperation within CMEA also brings considerable advantages to the USSR. During the last five-year period, the CMEA countries provided up to 40 per cent of the increment in the Soviet fleet, 35 per cent of the new passenger railway carriages, 12 per cent of the buses, and up to 15 per cent of the retail trade funds for clothing, footwear, furniture and conserved foodstuffs. From 1981 to 1985, the Soviet Union will import, in exchange for its own goods, over 60,000 million rubles' worth of modern equipment and over 40,000 million rubles' worth of consumer goods.

While accelerating the integration process within the CMEA framework, its participants seek to maintain and develop extensive mutually advantageous economic ties with all the states, regardless of their social systems.

3. THE MECHANISMS AND FORMS OF THE SOCIALIST COUNTRIES' ECONOMIC COOPERATION

The further development of socialist economic integration requires the perfection of its economic mechanism, of all the forms and methods of the socialist countries' cooperation.

Plan Coordination

Cooperation in planning activity, first of all the *coordination of economic plans* and concerted planning and prognostication, has the leading role to play in the balanced organisation of the socialist world economic system. Planning cooperation provides a clear perspective and enables each country to make more efficient use of its own resources, the advantages of socialist international specialisation and cooperation in production, while reducing the impact on the socialist economy of the crisis phenomena which periodically hit the world capitalist economy.

Coordination of production programmes on a bilateral and multilateral basis is widely practised. Large-scale projects promote active multilateral cooperation in planning activity. The important role here belongs to the formulation and fulfilment of *long-term special-purpose programmes*. Life itself puts forward the task of supplementing plan coordination with coordination of economic policy in general. Questions such as that of making the structures of the economic mechanisms more similar are also being raised.

Intensified joint planning activity implies a high scientific level of national plans and their efficient fulfilment, common basic methods in planning and statistical accounting, comparability of main indicators of economic plans, joint formulation of data on the production and consumption of key types of products in all the socialist countries or a group of interested countries, the drawing up of consolidated economic calculations and variants for the solution of individual economic problems. The importance of economic reserves is also enhanced.

International Specialisation and Cooperation in Production

The specialisation and cooperation in production, both of which are progressive forms of international socialist division of labour, first, make it possible to ensure a high level of concentration in turning out similar products in one or several countries to meet the requirements of all the other countries; and second, they are aimed to attain the best world indicators of quality and technical standards. These are the most intensive ties between the countries which deeply penetrate the internal structure of the economy, multiply the

economic effect of their cooperation, accelerate technical progress and the socialist countries' economic integration. In the period up to 1990 there is to be intensive production, scientific and technical cooperation between the countries of socialism. Specialisation has been developed in virtually all industries, science and technology. Mutual exports of specialised engineering output increased from 1,300 million rubles in 1971 to 9,100 million rubles in 1980, and its share in deliveries of machinery and equipment between the CMEA countries reached 34 per cent.

Agreements have been concluded for 1981 to 1985 on specialisation and cooperation in production of equipment for nuclear power stations, heavy and unique machine tools, processing centres and machine tools with digital controls, tractors, agricultural machinery, mining and other equipment.

One major form of the development of specialisation and cooperation is *direct links* between the participating ministries, associations and enterprises. Joint firms are also set up.

Now and again, one finds the advantages from the international division of labour unevenly distributed. To make cooperation acceptable to all its participants, the savings obtained by the individual countries are redistributed by means of the relevant prices for specialised products, credits and other types of economic and technical assistance are extended, marketing terms are eased, etc.

However, it is not only a matter of economic benefit. The 26th CPSU Congress noted: "The benefit of augmenting each other's economic potential is certainly not confined to the purely commercial field. This task calls for a responsible approach by economic executives and Party workers, and for a profound understanding of the fraternal countries' indissoluble community of interests".¹

Scientific and Technical Cooperation

Specialisation and cooperation of production is being ever more closely interwoven with scientific and technical cooperation, because of the changes in the content of scientific

¹ *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 43.

ic and technical cooperation itself. Initially, it boiled down to the mutual transfer of technical experience and documents for already developed types of hardware and technology. With the advance of economic integration, cooperation is concentrated on the joint elaboration by the various countries of new scientific and technical problems.

The necessity for specialisation and coordination of research and development projects springs from the growth of their scale and the limited potentialities available for tackling them in some countries.

The multilateral scientific and technical cooperation between the CMEA countries is based on 120 agreements covering 290 problems, with about three thousand R&D organisations in the CMEA countries and Yugoslavia engaged in their elaboration.

The cooperation in R&D is an important factor in the international cooperation of production.

International Trade and Settlements

Extensive specialisation and cooperation of production in the leading sectors of the economy provide the basis for the rapid growth of trade between countries. As noted in the Declaration of the 33rd Session of the CMEA on its thirtieth anniversary, "Mutual foreign trade, monetary, financial and credit relations have been established and are being constantly improved, stimulating the planned expansion and development of economic, scientific, and technological cooperation between the CMEA member countries and facilitating the efforts of these countries in reducing the effects the crisis developments in the world capitalist economy may have on their economies."

The commodity turnover between the CMEA countries rose by 270 per cent from 1970 to 1980 and reached 134,000 million rubles. Mutual deliveries provide most of the import requirements of the majority of the CMEA countries for machinery and equipment, oil, iron ore, and consumer goods. In 1980, mutual deliveries between the CMEA countries accounted for about two-thirds of the imports of these items.

A special sphere of international commodity exchange—the *world socialist market*—has taken shape within the framework of the socialist community; it exists alongside the

world capitalist market and is a component part of the world-wide market. As it develops, it exerts an ever stronger influence on the world capitalist and worldwide markets.

Foreign trade between the socialist community countries is designed to satisfy each country's requirements through imports of goods made in other countries on the basis of the international division of labour, and is an important factor in developing the economy and raising the people's well-being. It is planned and balanced, free from the haphazard influence of the capitalist economy, market outlook and speculative fluctuations of the world capitalist market, and also from devastating marketing crises, trade wars and discriminatory restrictions. This trade is carried on under long-term trade agreements, which are tied in with long-term economic plans. This exchange is equivalent and is mutually advantageous for the participants. The socialist countries manage their foreign trade ties with each other on the basis of the state monopoly of foreign trade.

On the world socialist market, commodities are sold at *prices which are based on world market prices cleared of speculative play*. They also take account of the costs of production and the peculiarities of marketing some goods within the world socialist system.

Trade between the socialist countries is mediated by *monetary, financial and credit relations*. The resources of the monetary and credit system are used to fortify the planning principles of cooperation and stimulate its most progressive lines.

On January 1, 1964, the CMEA countries introduced a system of multilateral settlements through the International Bank for Economic Cooperation (IBEC), in a special currency—the *transferable ruble*—which is a new type of *international socialist currency* that is distinct in economic substance from the national currency of any CMEA country, including the Soviet ruble. What is special about it is that each IBEC country can use its monetary receipts, regardless of their origin, in order to pay for the goods and services in IBEC country. This obviates the need for settling accounts with each partner separately. The important thing is merely to ensure the equivalence of monetary receipts and payments by all the countries taken together, so that the indebtedness with respect to some countries is covered with credits with respect to others. This makes the currency of money on the

world socialist market independent of the crisis phenomena in the capitalist monetary system.

Credit relations involving the temporary transfer of a part of the accumulation fund from one country to another are broadly developed among the socialist states. Credits are made available on the most favourable terms, sometimes even free of interest. States which obtain credits usually repay these by delivering their traditional export goods. In order to ease the economic development of the borrower country, creditors may now and again waive repayment of their debts. International socialist credit is not enslaving, and does not entail any loss of economic or political independence on the part of the borrower countries.

Credit relations are increasingly becoming a way of pooling the funds of the socialist countries for common economic projects. With that end in view, in 1970 the CMEA countries set up the International Investment Bank (IIB), with a capital consisting of contributions by bank members in freely convertible currency and transferable rubles. The bank's long-term and medium-term credits are made available above all for the construction and enlargement of industrial facilities in whose products the bank members have an interest.

Joint Industrial Projects

The joint construction of industrial facilities is regarded by the socialist countries without adequate mineral reserves of their own as a way of ensuring stable supplies of the required raw materials and fuel for their industry. This also entails an even distribution of capital inputs into asset-intensive extractive or manufacturing industries. Joint construction agreements result in stable specialisation and cooperation of production.

The results of the joint labour are such major projects as the Soyuz gas pipeline, stretching almost three thousand kilometres, the Mir power system, which has had new electricity transmission lines added to it, the Ust-Ilimsk pulp-and-paper plant, the Erdenet ore-dressing plant in Mongolia, nickel plants in Cuba and many other new projects.

The distinctive features of credits made available within the framework of such agreements is that they are repaid with deliveries of the products turned out by the industrial

facility or industry for whose construction and enlargement the credit was extended. In addition, after the repayment of the credit, the borrower country undertakes to continue exporting the same products over a given period on normal commercial terms.

International Economic Organisations

The socialist countries' international economic organisations jointly formulate the methodological principles of their cooperation, economic plan coordination, specialisation and cooperation in production and joint running of economic facilities, regularly exchange information and sum up the information on economic matters coming in from the individual countries.

In addition to the Council for Mutual Economic Assistance, which is the largest international organisation promoting the creation of the most favourable political, economic and organisational prerequisites for the socialist countries' economic cooperation, organisations with narrower practical goals have also been set up, among them a number of international sectoral organisations like Intermetall and Bearings. International economic and scientific production associations operating on economic calculus have also been set up.

Bilateral intergovernmental commissions (committees) for economic, scientific and technical cooperation have important functions to perform within the system of cooperation among the socialist countries. Their principal task is to help most fully to bring out and make use of the potentialities of the international socialist division of labour.

The forms and mechanism of socialist economic integration are being steadily enriched and perfected with the continued development and strengthening of the socialist world economic system.

Chapter thirty-six

COMPETITION OF THE TWO WORLD ECONOMIC SYSTEMS
AND THE INEVITABLE TRIUMPH OF COMMUNISM
ON A WORLD SCALE

This final chapter of the course in political economy sums up the overall results of the analysis of the uniformities underlying the development of the economy of socialism and that of capitalism, and shows the substance of the economic competition between the two economic systems and the objective inevitability of the triumph of communism throughout the world.

1. ECONOMIC COMPETITION OF THE TWO WORLD
SOCIAL SYSTEMS

*Coexistence and Competition of the Two Systems:
Substance and Inevitability*

The socialist economic system has to exist alongside the capitalist economic system and is connected with it through trade and economic relations. These relations are based on the worldwide division of labour and the internationalisation of production and exchange. The socialist and the capitalist economic systems constitute the *world economy*, which is an embodiment of international economic relations of antithetical social types. Despite the resistance on the part of reactionary circles in the capitalist countries, ties between them have made headway. Lenin says: "There is a force more powerful than the wishes, the will and the decisions of any of the governments or classes that are hostile to us. That force is world general economic relations, which compel them to make contact with us."¹

¹ V. I. Lenin, "Ninth All-Russia Congress of Soviets. December 23-28, 1921", *Collected Works*, Vol. 33, p. 155.

In content, the relations between the socialist and the capitalist countries, which constitute two antithetical socio-economic systems, are class struggle, but it is not inevitable for this struggle to assume the form of armed clashes and wars or to involve the threat or use of force. The USSR's Leninist policy of peaceful coexistence and mutually beneficial cooperation with the capitalist states, and firm rebuff to imperialism's aggressive sallies, is exerting a growing influence on international relations. Recognition of the need for peaceful coexistence of states with different social systems is being asserted in the foreign policies of some capitalist states. In the 70s these factors determined the swing to relaxation of tensions in international relations and recognition of peaceful coexistence in international affairs as the only realistic and reasonable alternative. The participants in a meeting of the Warsaw Treaty Political Consultative Committee, held in November 1978, steadfastly pursuing the principled line formulated at the congresses of their countries' Communist and Workers' parties, once again reaffirmed their resolve to continue their consistent struggle for world peace, the freedom and independence of the peoples, for an end to the arms race, and for disarmament, for international detente, for greater confidence and stronger friendship among nations, and a practical solution of these most important problems of our epoch. The course towards detente is, however, stubbornly opposed by the reactionary forces of imperialism.

Peaceful coexistence implies a repudiation of war as a means of solving controversial issues between states, the equality of states, non-interference in their domestic affairs, recognition of each nation's right independently to solve its country's socio-political problems, scrupulous respect for the sovereignty and territorial integrity of all countries, and development of economic and cultural cooperation in complete equality and with mutual advantage.

In the sphere of economic relations, the class struggle between the two systems assumes the form above all of *economic competition*. Bourgeois ideologists have distorted the substance and prospects of the economic competition between the two systems. Some assert that socialism is a product of Russia's "immaturity" and "specific conditions", and so insist that this competition is a process leading to the re-establishment of the undivided domination of capital-

ism in the world arena. Others claim that the USSR seeks to use this competition in its drive for "world domination". The substance of the competition between the two systems is frequently reduced to ideological and political struggle. Leftists persistently assert that peaceful coexistence virtually amounts to "aid to capitalism" and a "freezing of the socio-economic status quo". These and similar other "theories" have nothing in common with the actual development of the human society.

*The Development of Material Production:
Chief Sphere of the Economic Competition*

Material production, which ultimately determines the development of every aspect of social life, is the principal sphere of the economic competition.

The initial historical situation in the competition between the two systems was unfavourable for socialism. Socialism did not initially win out in the most developed country of the world. Tsarist Russia's share of world industrial output in 1913 came to just over 4 per cent. In 1913, it turned out per head only 12.8 kWh of electric power, 26 kg of pig iron, and 11 kg of cement, as compared with the US figures of 293, 324 and 163, respectively. Prerevolutionary Russia was a supplier of foodstuffs and raw materials (nearly 80 per cent of the total value of its exports), with machinery and equipment accounting for only 0.3 per cent.

The economy of most of the countries which took the socialist road after the Second World War was also at a low level. In the early years of the existence of the world socialist system, the disproportions inherited from capitalism had a negative effect on the development of production. In addition, tremendous damage had been inflicted on the economy of all the socialist countries as a result of the aggressive wars started by the imperialists. All of this complicated the development of the economic competition between the two systems, and that is the main reason why the socialist countries have yet to attain the level of the basic indicators of US production.

In the economic competition with capitalism, the socialist system relies on its advantages, which consist in the

predominance of the whole people's property in the means of production, the planned and balanced development of the economy as a coherent whole, and the workers' new attitude to their work. As a result, despite the backward economic basis inherited from the old system and the unfavourable external conditions, the socialist countries succeeded, in a relatively short historical period, in industrialising, building up large-scale production in agriculture, and ensuring a high rate of economic growth. This is made visual by a comparison of the data on the development of production in the USSR and the United States, the two major countries in the socialist and the capitalist systems.

By 1937, the USSR had outstripped Germany, Britain and France in industrial output, to become the world's second industrial power. Today, the USSR turns out more industrial goods than the whole world produced in 1950. The correlation of the basic economic development indicators of the Soviet Union and the United States has been steadily changing in favour of the USSR. The national income of the USSR increased from 31 per cent of the US national income in 1950 to 67 per cent in 1981; capital investments, from 30 per cent to nearly 100 per cent; industrial output, from less than 30 per cent to over 80 per cent; agricultural output from over 70 per cent (the average from 1950 to 1960 annually) to approximately 85 per cent (the average from 1976 to 1980 annually); all types of freight from 31 per cent to 127 per cent; and labour productivity in industry, from less than 30 per cent to more than 55 per cent.

Economic Competition in Labour Productivity and Scientific and Technical Progress

Socialism can win in the economic competition with capitalism by attaining a labour productivity higher than that under capitalism. The starting level in labour productivity in the socialist countries was relatively low.

In 1913, labour productivity in Russia's industry was 88.9 per cent of the US figure, 79.6 per cent of Britain's, 78.7 of Germany's and 71.5 of France's. In productivity in agriculture, Russia also lagged far behind the developed capitalist countries. Most of the other countries which have taken the socialist road had a low labour productivity before the revolutionary transformations.

In virtue of socialism's advantages, labour productivity in the socialist countries has grown faster than it has in the capitalist countries, and this has led to a bridging of the gap between them.

In 1981, labour productivity per worker in USSR industry was 440 per cent up of 1951, whereas in the United States it was only 150 per cent up, in Britain 150 per cent and in France 260 per cent. The USSR has some enterprises which already have a higher labour productivity per worker than the best enterprises in the United States.

The development of science and technology is of crucial importance in boosting labour productivity and strengthening the positions of socialism in the economic competition with capitalism. Even before the Great Patriotic War of 1941-1945, the USSR had surmounted the lag in the technical level of production inherited from tsarist Russia. In the subsequent period, science and technology have developed at an even faster rate. Just now, the socialist countries are among the world's leaders in a number of crucial fields of scientific and technical progress. Their production apparatus has been remodelled on a modern technical basis, engineering has been developed in every way to provide the economy with sophisticated machines on a massive scale. Scientific and technical development has brought about the rapid growth of power engineering, the chemical and the petrochemical industries, engineering, especially radio-electronics and instrument-making. A numerous body of skilled workers, specialists, scientists and economic executives has been trained.

Socialism's Advantages in the Rates of Development in Production

Production development rate is a synthetic indicator of the progressiveness of a socio-economic system and a country's economic growth. High and stable growth rates have enabled the socialist countries to outstrip the most developed capitalist countries in the level of production in a historically short period. This is best seen from a comparison of growth rates over a relatively long period, which characterise the internal uniformity of the economy and its capacity for advance, instead of the short-term, market-outlook booms which are characteristic of the capitalist countries.

From 1971 to 1981, industrial growth for the whole world averaged 4.5 per cent a year, for the socialist countries—6.8 per cent, and for all the other countries—3.2 per cent (the developed capitalist countries—3.0). In this decade the capitalist countries were three times hit by economic recession.

The socialist countries' faster rates of growth have steadily increased their share, above all, the share of the CMEA countries, in world industrial output. Today, the socialist community countries' industrial output comes to over 75 per cent that of the economically developed capitalist countries.

The 1970s were not very favourable for the national economies of many socialist states, yet the economic growth rate of the CMEA members was double that of the developed capitalist countries. The CMEA members remained the most dynamically developing group in the world.

Output per Head.

Steady Rise of Living Standards in Socialist Countries

When output per head indicators are compared, an account is taken of the specifics of the sectoral structure of production which are proper to the given social system. In the capitalist world, output includes a huge mass of consumer values generated by the militarisation of the economy, cultivation of unnecessary requirements, advertisement of so-called prestige goods, demand on the part of the exploiter classes for luxury goods, etc. The socialist countries have been developing their own structure of production, which is why in terms of output per head the socialist countries do not look to the so-called record indicators attained by some countries.

It is a characteristic fact that the records in the output of the key goods per head do not, as a rule, belong to the major capitalist countries. Thus, Norway and Canada are well ahead of the United States in the generation of electric power, although in absolute volume the United States leads the world. Belgium is ahead of the United States in steel. New Zealand and Denmark are among the leaders in the production of meat, etc.

When competing with capitalism, the socialist countries look to scientifically grounded norms of consumption. These

norms cover a wide range of products: steel, pig iron, oil, synthetic fibres, and many other producer goods; and among the consumer goods, items like footwear, fabrics, clothing, foodstuffs and consumer durables. Scientifically established norms are based on the data provided by science and technology and take into account national specifics, historical traditions and the climate, changes in the life style of the population, and the balance between expenditures and incomes obtained in the form of remuneration for labour, and payments and benefits received from social consumption funds.

Under the influence of scientific and technical progress, the assortment of goods is changed and improved. Of especial importance for characterising a country's economic development level today is a comparison of indicators of per head production of electric power, automatic equipment and instruments, computers, chemical products and other goods connected with the STR.

From 1951 to 1980, the national income produced per head in the USSR multiplied 5.8-fold, as compared with only 1.9-fold in the United States. From 1941 to 1980, per head production in the USSR increased as follows: electric power 19.6 times, oil 14.3 times, coal 3.2 times, pig iron 5.3 times, steel 6.2 times, mineral fertilisers (in conventional units) 23 times, cotton fabrics 1.9 times, and meat 2.3 times.

The Soviet Union came into first place in the world in the production of many major products, including oil and steel, cement and mineral fertilisers, wheat and cotton, electric and diesel locomotives for mainline railways. The Soviet Union has the largest number of machine-tools in the world.

One must bear in mind that the production-per-head indicator is not identical with the *standard of living* indicator. In the capitalist countries such average figures cover up the great gap in living standards between various social groups, the wealth of the few in the midst of the poverty of millions of working people.

The peoples of the socialist countries are free from exploitation. They own the whole product they turn out, and it is distributed for the benefit of the society as a whole. As production is developed and becomes more efficient, there is a steady rise in the living standards of all citizens.

The capitalist society is based on man's exploitation of man, on indentured labour. Because production is geared to the capitalists' maximisation of profits, the working people's consumption is limited to the value of their labour power. As capitalism develops, the intensity of labour tends to grow and the methods used to exploit the working people are increasingly refined.

Socialism ensures the right to work, the full employment of the working people. They are never humiliated by a sense of fear for the future, the fear of becoming unemployed. By contrast, unemployment is a corollary of capitalism, and it spreads among the working people a constant fear for their future and dooms millions of men and women to a life dragged out in poverty.

In the socialist countries, there is no job discrimination, whether for racial or any other reasons. In the capitalist countries, there is discrimination in jobs and wages for reasons of national origin, sex, age, and frequently also for political motives.

The socialist countries are ahead of all the developed capitalist countries in the provision of social security for the working people: free medical services, free education, social insurance, rest, leisure and athletic facilities, etc. In these countries, all the conditions have been created for the all-round development of children and for a secure life in old age. In the capitalist countries, the social security system is, as a rule, set up from the contributions made by the working people themselves, covers only a part of those who work, and is in the nature of charity. Medical services have to be paid for and so are beyond the reach of many.

The rise in the working people's living standards under socialism implies their spiritual growth and all-round development of the individual, with active participation in social life. Capitalism leads to the spiritual degradation of men, induces in them a consumer attitude to life, spreads socio-political oppression and results in a deep-seated moral crisis of the society.

The assurance of a steady rise in living standards for the people is written into the USSR Constitution, whose Article 39 says: "Citizens of the USSR enjoy in full the social, economic, political and personal rights and freedoms proclaimed and guaranteed by the Constitution of the USSR and by Soviet laws. The socialist system ensures enlarge-

ment of the rights and freedoms of citizens and continuous improvement of their living standards as social, economic, and cultural development programmes are fulfilled."

In order to put a gloss on capitalism, bourgeois propaganda makes use of the lag which still exists in the consumption of some products in the socialist countries, a temporary phenomenon which is being overcome with the development of production. The USSR has already surpassed the United States in the per head consumption of milk and milk products, sugar, fish and fish products, and is close to the US level in the consumption of eggs. From year to year, the population is provided with more and more consumer durables and well-appointed housing.

2. THE SOCIALIST COUNTRIES' ECONOMIC TIES WITH NON-SOCIALIST COUNTRIES

Economic Ties with Developed Capitalist Countries

The socialist states strive to make rational use of the advantages of the international division of labour and the opportunities of foreign economic ties to increase the efficiency of social production.

For a long time, the development of economic ties between countries belonging to different social systems ran up against stubborn resistance by the imperialist powers. There were the well-known attempts by the monopoly bourgeoisie of the United States and other industrialised capitalist countries to mount an economic blockade of the world's first socialist state, and to introduce diverse bans and restrictions in trade with the CMEA countries.

Even today, the socialist countries' share of world trade comes to about 10 per cent, whereas their share of world industrial output is over 40 per cent.

The policy of the Soviet state, aimed to develop economic cooperation with the capitalist countries, was formulated by the 26th Congress of the CPSU: "Proceeding from the principles of peaceful coexistence of states with differing social systems and the need to strengthen detente, to maintain stable mutually beneficial trade, economic, scientific and technical contacts with capitalist countries showing interest in cooperation with the Soviet Union."

The relaxation of international tensions helped to enliven economic ties between the capitalist countries and the CMEA countries.

The establishment of lasting peace would help considerably to expand cooperation between socialist and capitalist countries, producing prerequisites for rational collective solutions of problems (so vital for mankind as a whole) like the discovery and use of new sources of energy, provision of foodstuffs to the earth's growing population, preservation of the nature of the world in all its richness, and development of outer space and the depths of the World Ocean.

One important task is further to enhance the effectiveness of external economic ties, notably, improve the structure and balance of the socialist countries' foreign trade, and raise the competitiveness of their goods on the world markets.

Economic Ties with Developing Countries

In economic cooperation with developing countries, the socialist countries act as vehicles of progressive tendencies, helping these countries to do away with the survivals of colonial dependence and transform social relations on non-capitalist lines and furthering the establishment of just international economic relations.

The importance of the socialist countries' assistance to developing countries in building up their national economy cannot be described only in terms of volume. There is a need also to reckon with the goals for which the assistance is extended. It is used to create key enterprises, industries and sectors helping to transform the structure of the national economy and laying the foundations of its independence on imperialism. The bulk of the resources is placed at the disposal of the state sector. One should also bear in mind the exceptionally easy terms on which it is extended: long periods of maturity and a relatively low interest charge on credits. Enterprises built with the help of socialist countries become the property of the national state alone.

The Soviet Union and the other socialist countries have built or are in the process of building over four thousand industrial projects in the developing countries. These in-

clude iron and steel, chemical, and engineering plants, electric power stations and irrigation systems.

By extending the utmost support to developing countries, the socialist countries help them to get rid of imperialist exploitation and to be masters of their own destiny.

3. THE INEVITABLE TRIUMPH OF COMMUNISM THROUGHOUT THE WORLD

Advance of the Economic Competition of the Two World Systems

The economic competition between socialism and capitalism was inaugurated by the victory of the Great October Socialist Revolution in Russia.

Lenin worked out a scientifically grounded programme for socialist construction which included the elimination of technical, economic and cultural backwardness inherited from tsarist Russia. This called for socialist industrialisation, the solution of the most difficult task facing the proletarian revolution after the take-over of power—the collectivisation of agriculture—a cultural revolution and socialist transformations in other spheres of social life. That was the way of ensuring the country's economic independence and its conversion from an agrarian into an industrial country capable of turning out modern equipment and looking to its own defences. In the early five-year periods, the Soviet people's selfless labour effort already transformed the face of the country and turned it into a major industrial power of the world.

Today, a key feature of the economic competition between socialism and capitalism is that the world capitalist system is confronted with a world socialist system. The successes of socialism in the competition with capitalism are determined by the joint efforts of all the countries of the socialist community.

The socialist countries now have a tremendous economic potential, trained cadres of highly skilled industrial workers, engineers, technicians and scientists. The socialist countries account for nearly two-thirds of the world's geological coal deposits, more than one-half of the iron and bauxite deposits, almost 90 per cent of the world's de-

posits of manganese ore, nearly 70 per cent of the potassium deposits, etc. In 1980, they had a population of 1,480 million, or 32.9 per cent of the population of the world.

The CMEA countries have an especially important role to play within the world socialist system. With only 10.2 per cent of the globe's population, these countries produce roughly one-third of the world's industrial product. They turn out over 33 per cent of the world's engineering goods, over 22 per cent of the world's electric power, 31 per cent of the natural gas, 32 per cent of the coal (in terms of conventional fuel), 28 per cent of the pig iron, 29 per cent of the steel, 31 per cent of the mineral fertilisers (in terms of 100 per cent nutrients), 22 per cent of the cement, nearly 29 per cent of the wheat, about 77 per cent of the rye, 43 per cent of the potatoes, and 30 per cent of the milk.

The high, priority rates of development in production and scientific and technical progress within the world socialist economic system determine the preponderance of the forces of socialism in the economic competition with capitalism.

A great many forecasts about the possible results of the socialist countries' economic development until the year 1990 have been produced in the capitalist countries. Many suggest that by then the socialist countries will be turning out the greater share of the world's industrial product, will surpass the developed capitalist countries in industrial potential and will determine the "industrial face" of the world.

Socialism's Growing Influence on World Socio-Economic Development

The world socialist economic system gains a victory over capitalism owing to its historical superiority.

Nowadays, the peculiarities of the competition between the two systems are determined by the fact that as a result of the radical change in the balance of world forces, the historical initiative belongs to existing socialism, whose advantages are being ever more fully displayed. The socialist world exerts a positive influence on capitalist countries and helps the progressive forces in their just struggle.

The development of the economy, science, technology and culture, the growth of the working people's well-being, and the economic and political strengthening of socialism promote the growth of political maturity and improved organisation of the proletariat and the struggle of all the working people in the capitalist countries for higher living standards and against the rule of the monopolies. The greater the achievements of socialism, the stronger are the positions of the world revolutionary movement and of all the Marxist-Leninist parties, the leading force in the struggle against imperialism, and for peace, democracy and social progress.

Socialism counters the capitalist society, with its acute social contradictions, unemployment and inflation, crises and recessions, by the socio-political and ideological unity of the socialist society, concern for the working people, the advantages of the socialist management system and the planned economy.

The successful construction of socialism in the Soviet Union and the other socialist countries is having a profound influence on the socio-economic orientation of the national liberation movement. The peoples of the former colonies are increasingly aware that the socialist road of development ensures political and economic independence, rapid industrialisation and elimination of backwardness and makes it possible to raise the well-being and culture of the masses and to wipe out poverty and unemployment.

Successes in the struggle for peace are of great importance for the development of the world revolutionary process. Life shows that the socialist countries and the other progressive forces are working to block the operation of imperialism's inner workings which make world wars inevitable, to create the possibility of ridding mankind of wars and avert the threat of a thermonuclear holocaust.

The socialist community has now become the most dynamic economic force in the world. The strength and vitality of any social system are determined by its capacity to develop the economy, constantly to perfect hardware and technology in production, boost the productivity of social labour, and steadily raise the people's well-being. The Soviet Union and the other socialist countries have been confidently consolidating their positions along all these

lines. At the same time, imperialist domination has been reducing.

The new social system originates from the urge to realise the basic human right, the right to a life in dignity and without exploitation, to create the conditions for the all-round development of the individual.

Capitalism increasingly proves itself to be a society without a future. Theory and practice of the world development visually confirm that the future belongs to communism.

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