TEXT FLY WITHIN
THE BOOK ONLY

UNIVERSAL
LIBRARY

OU_156224

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 330/L310 Accession No. 13830

Author Lapidus, J. Lothers

Title Outline of political Economy.

This book should be returned on or before the date last marked below

AN OUTLINE OF POLITICAL ECONOMY

Political Economy and Soviet Economics

by

I. LAPIDUS and K. OSTROVITYANOV



1929

MARTIN LAWRENCE, LIMITED

MADE AND PRINTED IN GREAT BRITAIN BY
THE GARDEN CITY PRESS LTD., LETCHWORTH.

CONTENTS

PAGE

PUBLISHER'S NOTE - - - - - - - - vii

FOREWORD TO RUSSIAN EDITION - - - - ix

INTRODUCTION - - - - - - - - - - I

PART I: LABOUR AS THE REGULATOR OF THE COMMODITY SYSTEM

CHAP.

I. LABOUR AS THE BASIS OF VALUE - - - 7

II. THE FORM OF VALUE AND MONEY - - - 41

PART II: PRODUCTION OF SURPLUS VALUE

I. SURPLUS VALUE IN CAPITALIST ECONOMY - - 65

II. SURPLUS VALUE IN THE U.S.S.R. - - - 92

PART III: WAGES

I. WAGES UNDER CAPITALISM - - - - - 105

II. WAGES IN THE U.S.S.R. - - - - - 120

PART IV: THE THEORY OF PROFIT AND THE PRICE OF PRODUCTION

I. PROFIT AND THE PRICE OF PRODUCTION UNDER CAPITALISM - - - - - - - - 137

II. THE REGULATOR OF SOVIET ECONOMY - - - 168

PART V: MERCHANT CAPITAL AND MERCHANT PROFIT

CHAP. PAGE

I. MERCHANT CAPITAL AND MERCHANT PROFIT IN CAPITALIST ECONOMY - - - - - 187

II. THE QUESTION OF MERCHANT CAPITAL AND MERCHANT'S PROFIT IN THE U.S.S.R. - - - 205

PART VI: LOAN CAPITAL AND CREDIT: CREDIT MONEY AND PAPER MONEY

I. LOAN CAPITAL AND INTEREST - - - - 217

II. CREDIT AND BANKS - - - - - - 227

III. CREDIT NOTES AND PAPER MONEY - - - 240

IV. INTEREST, CREDIT, AND PAPER MONEY IN THE U.S.S.R. - - - - - - - - - 260

PART VII: GROUND RENT

I. GROUND RENT IN CAPITALIST SOCIETY - - 269

II. PRE-CAPITALIST FORMS OF RENT AND THE QUESTION OF RENT IN SMALL PEASANT AGRICULTURE - 295

III. GROUND RENT IN SOVIET ECONOMY - - - 306

PART VIII

I. ACCUMULATION OF CAPITAL AND THE REPRODUCTION OF CAPITALIST RELATIONS - - - - 319

PART IX

I. IMPERIALISM AND THE DOWNFALL OF CAPITALISM - 381

PART X

I. TRANSITION FROM CAPITALISM TO SOCIALISM - 459

PUBLISHER'S NOTE

THE study of political economy by English-speaking students has hitherto been rendered difficult by the paucity of books in English dealing with Marxist economics.

It is true that there are translations of *Capital* and a number of books dealing with various points of Marxist economics, but a textbook dealing thoroughly with political economy has been lacking, those that have appeared being fragmentary and usually dealing with the subject in a purely academic manner. On the other hand, the individual student has often been deterred from studying *Capital* by its size and the fact that some preliminary course is advisable.

In presenting this *Outline of Political Economy*, we are confident that it will be of immense value to classes and to the individual student. The arrangement is suitable for schools, but can also be used by the lone student, the study material and exercises being extremely useful in both instances.

In addition to being a general course in economics, as the sub-title indicates, the book deals particularly with the economics of the Soviet Union. The authors' analysis of productive forms in the Soviet Union makes a contribution to the study of conditions in the Soviet Union that was much needed.

FOREWORD TO THE RUSSIAN EDITION

STUDENTS taking courses of political economy in the Soviet Party schools, Workers' Faculties (Preparatory Schools) and higher educational institutions have hitherto been greatly hampered in their work by the absence of any manual adapted to the programmes of these educational bodies.

It has been necessary for them to turn first to one and then to another textbook for reference, according to the various sections of the course, and even the individual questions under consideration ; and in the case of a number of problems, especially those touching on Soviet economy, it is sometimes quite impossible to indicate any textbook whatever.

The aim of this book is to satisfy this need for a manual for these schools.

In addition to the basic material of the manual, the book also contains special materials for practical scientific investigation, arranged so as to assist the student to display a certain activity and independence in acquiring knowledge. These materials are not finished lessons. They only provide examples of research work, and so in no way eliminate the necessity for the teacher himself to work out tasks for his pupils.

The selections from classic works recommended in the sections on research work are, of course, intended for more advanced students. They give the student opportunities to develop further the fundamentals acquired during our course, and should also accustom him to the reading of classic works on political economy, and first and foremost to the reading of *Capital*.

As our book is adapted for a course dealing with various problems we have divided it into a corresponding number of sections, and have endeavoured to make each section

more or less complete in itself. As a result, owing to the natural connection which exists between various themes, a certain repetition has been inevitable; it seems to us that this, from the methodological aspect, will not only not be a misfortune in itself, but on the contrary will help towards a surer grasp of the problems of political economy.

In conclusion, a few words concerning the actual construction of the course. Its distinguishing feature is the principle, rigidly observed, of considering the problems of political economy alongside the corresponding problems of Soviet economy. This arrangement of the course seems to us to have a number of advantages as a method of work. In the first place the juxtaposition of problems of political economy with problems of Soviet economy will evoke great interest in the student, and will make the teaching of political economy very interesting. In addition, this juxtaposition will clarify the essence of productive relationships in capitalist society and also the fetishist character and the historical setting of certain brands of political economy.

But while there are advantages in a parallel study of political economy and Soviet economy, the difficulties which are bound to be met with in such a plan have also to be mentioned. The first difficulty is that the problems of Soviet economy have a close inter-connection one with another, and demand a definite method of exposition—one which does not always coincide with the method of exposition of political economy. Thus, for example, in order to resolve the problem of surplus value in the U.S.S.R., it is not only necessary to know how the problem of surplus value is presented in the first volume of *Capital*, but also to have some conception of the manner of the realisation of surplus value, and consequently of markets, of production, accumulation, and so on. All this could be avoided if a course of Soviet economy were taken separately after working through a course of political economy.

But these difficulties are not so fundamental and insuperable as to nullify the methodological advantages which the principle of connecting political economy with Soviet economy provides.

The second difficulty consists in the fact that the theoretical problems of Soviet economy have as yet not been

worked out. In a number of cases the authors found themselves forced to provide their own elucidation of these problems.

This is not likely to guarantee our book against including a certain number of errors. None the less, the possibility of such errors is in our opinion an inadequate justification for passing those problems over in silence. Thousands of workers and peasants passing through the Soviet Party schools, the Workers' Faculties and higher educational institutions, are insistently demanding an answer to them, and not one teacher of political economy can afford to ignore these problems.

Our own answers to them will, it seems to us, have their own value, if only for the reason that they provide materials for criticism, and thus assist in more intensive study. The course of political economy we have provided can be adopted in its entirety by the higher educational institutions, the Soviet Party schools and the Workers' Faculties with a social-economic bias. For use in Workers' Faculties with a technical bias, and also in evening Workers' Faculties, it should be abridged, in accordance with the existing variants provided by the programmes of the State Educational Council.

The authors will be very grateful to any teachers and students who communicate their observations in regard to the book to the following address: The Plekhanov Institute of National Economy, Moscow.

I. LAPIDUS.
K. OSTROVITYANOV.

An Outline of Political Economy

INTRODUCTION

WE propose to work through a course of political economy.

What exactly is this science, and what phenomena does it study?

To many, even of those who have no acquaintance with the science whatever, it is probably known that it is a social science. This means that political economy studies not the phenomena of inanimate nature, or of the animal and vegetable worlds, or even the life of an individual human organism, but the *relations between human beings*, arising out of their life together in society.

How great is the importance of the links between human beings arising out of their social relations is known to everyone. It is impossible to imagine a man living completely outside society, even during the primitive stages of human development. It has well been said that " man is a social animal."

But if we consider man's social relationships we see that they are of various kinds: family relationships, political relationships arising out of the struggle between various classes and their parties, relationships arising out of man's cultural intercourse, and others. Not all these relationships are studied by political economy. The sphere of its study is much narrower: it has as its object the study of only one form of social relationships, namely, *those which arise between men out of the production and the distribution of the produce of social labour*, and which usually bear the name of *productive* relationships.

Just as it is impossible to imagine a man living outside society, so is it impossible to imagine a man who, whilst living in society, does not enter into certain productive relationships with other men. Even though this or that man takes no direct part in the process of production, this does not at all mean that he enters into no productive relationships whatever with other men (taking the term " produc-

tive relationships " in its broad sense, of course). Inasmuch as he eats, drinks, clothes himself, satisfies his needs somehow or other, he is to that extent involved in productive relationships with those who by their labour give him the chance to satisfy those needs without any labour on his part. This possibility of living without working may arise in connection with his ownership of the means of production (factories and workshops) or because he has money in the bank ; but in any case he cannot exist without the labour of other men, without connections with other men on the basis of the production and distribution of goods.

But does political economy study all productive relationships between people ? Again, not all.

Take for example some form of natural economy, even a patriarchal agricultural economy, which satisfies all its needs from within itself and enters into no exchange relations whatever with other economies. Here we have a pecular type of productive relations. They consist, let us assume, in a joint organisation of labour (on the basis of a certain distribution of that labour between men and women, adults and children), in a certain subordination of all to the head of the family, and so on. But these relationships are, in the first place, regulated by the conscious will of the eldest of the family. In his work he starts from an estimate of the needs which exist in his family. In correspondence with this he arranges his " productive plan," he decides what part of the land at his disposition to sow with rye, what with millet, oats, wheat, and so on. In the second place, those relationships are so clear, and there is so little complexity in them, that they do not call for a special science or study.

Take also Communist society, the basis of which is now being laid in the Soviet Union. In such a society all the members will occupy themselves with joint labour for the satisfaction of their needs, and will so occupy themselves according to a certain plan under the direction of the body which expresses the will of this economic combination. That body will previously estimate the needs of the members of the Communist society, and on the basis of that estimate will distribute the labour throughout the various spheres of economy and the various enterprises. The implements of labour and the raw materials will be distributed according

to plan throughout the enterprises, without any form of exchange, without any sale or purchase. And in the same way the semi-manufactures (that is, the products not yet completely finished) will be transferred to the enterprises which give them their final aspect, after which they will pass into the public warehouses, whence they will be distributed among the members of society according to their needs. Thus the correspondence between production and men's needs will, in Communist society, be achieved by the planned organisation of that society and its conscious direction.

Despite the fact that there is an enormous difference between peasant natural economy and Communist economy, they have one common feature. That feature consists in the fact that both are organised and are directed by conscious human will.

Now consider modern capitalist economy. It represents the sum of all the individual private enterprises, directed by individual entrepreneurs ; and in modern capitalist countries side by side with the great capitalist enterprises, which employ thousands of workers, one may meet with innumerable small enterprises of an artisan nature, millions of peasant households, and so on. These innumerable large and small enterprises are not regulated by a single conscious will, and do not possess a single directing centre which previously estimates men's needs and distributes labour throughout the various spheres of production in accordance with those needs. Each individual entrepreneur engaged in production acts blindly. He does not know exactly what demand there will be for the commodities he is producing, or how many others besides himself are occupied in the production of the same commodity. He follows exclusively his own private interests, without regard for society as a whole. Hence arises the arbitrary character, the lack of organisation, the anarchy of capitalist society.

How can such an anarchic society exist ; how is an equilibrium reached between human needs and production in such a society? Obviously certain laws regulating these unorganised relationships of capitalist society must exist. But these laws act blindly, independently of the will and the conscious endeavour of the participants in the economic process, and consequently are in sharp distinction from the

laws of organised society, whether it be a peasant patriarchal family or the Communist society of the future. *And it is these elemental laws regulating the productive relationships of commodity-capitalist society that are studied in political economy.*[1]

In so far as self-supporting and Communist economy are organised, and directed by conscious human will, we cannot find in them materials for the study of political economy. Possibly the productive relationships of Communist society, which undoubtedly will be much more complex than the productive relations of primitive natural economy, will have need of some special science; but that science will not be political economy.

Together with the laws governing the productive relations of capitalist economy we shall also study the laws of Soviet economy. The peculiar feature of Soviet economy lies in the fact that it is in transition from capitalism to socialism. In it are combined planned and anarchic features, socialist elements and the most varied of economic forms, from primitive and simple commodity relationships to private capitalist production. These factors confront us with a number of new problems, such as the extent to which the laws of capitalist economy still operate in Soviet economy; the extent to which these laws are being replaced by planned regulation; the mutual relationships that are being established between the planned and the anarchic basis in Soviet economy; their specific weight (importance), the tendencies of their development, and so on. All these are problems not only of enormous theoretical interest, but also problems which are inseparably bound up with the burning questions of the current practical policy of the Soviet State. The study of all these problems will not only assist us to disentangle the laws governing the transitional period, but will make us conscious participants in socialist construction. On the other hand, a comparison of the laws of Soviet economy with

[1] Productive relationships regulating the relations between individual enterprises (economic productive relationships) have also to be distinguished from the so-called technical productive relationships among men within the individual enterprise. Forms of co-operation between the master, workers and engineer within the factory, for example, come under this category. These latter relationships are not directly studied in political economy.

the laws of capitalist economy will assist us to a more profound and clear understanding of the basic concepts of political economy.

In conclusion, it is necessary to note that political economy touches the most vital interests of the various classes of capitalist society, and consequently a class approach, a class point of view is clearly revealed in its theoretical deductions and assumptions. We shall study political economy from the point of view of the interests of the working class. That does not in the least mean that we shall pervert the facts to meet our own desires. The course of development of capitalism (as we shall see in our further exposition) is inevitably leading to the ultimate victory of the working class. The best proof of this is the victory of the working class in Russia. The working class is interested to the highest degree in the dispassionate, objective study of the development of capitalist society. After studying the laws of that development, the working class will be able to mould its own policy and tactics of struggle against the ruling classes more soundly, and thus hasten and diminish the birth-pangs of Communist society. The interests of the proletariat are diametrically opposed to the interests of the dominating classes, but they are in complete accord with the objective course of social development and with the interests of the whole of humanity.

I. L.
K. O.

PART I

LABOUR AS THE REGULATOR OF COMMODITY ECONOMY

Chapter I

LABOUR AS THE BASIS OF VALUE

I

Private Ownership and the Division of Labour as the Prerequisites of Exchange Economy. The Necessity of Exchange.

EVEN to-day in the remote corners of the Soviet Union one occasionally comes across a little village where the peasant lives his life, meeting his own modest needs entirely by his own husbandry . he gets his bread from the rye or wheat that he himself has sown ; he makes his own clothes from coarse linen, made by his family during the long winter evenings from home-grown flax. If he needs to build a cottage his horse drags up trunks that he himself has cut down in the forest, and the material for the walls is ready ; he has straw for the roof ; and only such things as nails and other less important articles does he occasionally obtain outside his own resources.

In the far north, where live the Samoyeds and other primitive peoples, life is even more simple. A herd of reindeer wandering over the *tundra*, and seals caught in the sea form the whole basis of their economy : the reindeers and seals provide the Samoyed with meat and fat for food, the skins of the reindeer clothe him, and from the same skins he makes a hut to live in.

This is not what happens in modern large towns. There you will not find a single man who is able to satisfy his needs without resort to the aid of others, or who builds his house from materials he has himself obtained, or who makes his own clothes, produces his own food, and so on.

The large towns are inhabited by hundreds of thousands of people, and every one of them has his or her own occupa-

tion ; thousands of metal workers spend all their lives at the drills and turning lathes, the steam hammers and travelling cranes, and many of them have possibly never been in the villages and have no knowledge whatever of how to plough or reap. And the same applies to thousands of others, tailors, builders, bakers, chauffeurs and so on.

Then why can these people, each occupied with his own restricted special line, live without dying of hunger and cold ? It is, of course, because they are all closely associated one with another and work one for another ; for instance, the weavers can spend their lives at the looms only because simultaneously the bakers are baking bread, and the builders are building houses. It is obvious that the baker bakes bread not only for himself but also for the weavers, just as the builders build houses for thousands occupied in other work.

But for this association life in modern society would be impossible.

We remember the situation during the civil war in Russia, when many industrial enterprises were at a standstill, when the area sown in the countryside was restricted, when the railways were almost idle, and the relations between various sections of economic life were broken. The worker could no longer spend all his time at the bench ; the iron which the metal-worker worked up, or the coal obtained by the miner, could not feed them. How many workers abandoned their trade and went back to the villages only for this reason ; how many workers occupied themselves with setting potatoes or sowing grain on the outskirts of the town! With the approach of winter the workers and employees themselves journeyed outside the town to cut down wood in order to heat their houses. In a word, life forced everyone to break through the framework of the narrow division of labour, and to return to the state of the peasant in the remote village, who satisfies all his needs by his own effort.

Thus the division of labour in modern society is possible only because the various producers engaged in various spheres of labour enter into association with one another and supply the produce of their labour to the members of the other specialised crafts.

The more developed the society, the farther does the division of labour proceed ; and the relations between individual

enterprises and their dependence on one another are increased. At the present time we observe a division of labour not only between individual human beings, not only between the town chiefly producing industrial goods and the villages producing mainly foodstuffs, but also between individual countries. Russia is mainly an agricultural country, whilst Germany (and Britain to a still greater degree) are industrial countries. Hence it is obvious that Russia has need of Germany and Britain in order to obtain from them machinery and other manufactured goods, whilst Germany has need of Russian grain. The inter-dependence of these countries was particularly evidenced during the war, when Germany starved while Russia was deprived of a number of articles needed for industrial production.

But in what manner are relations between the various forms of economy established in modern society?

We have seen that in the Communist society of the future these relations will be comparatively simple. For, strictly speaking, in that society no individual, quite independent, enterprises in private possession will exist. Communist society will constitute a single whole, governed by one centre. That governing centre will regulate both production and distribution: it will, for instance, transfer a definite quantity of bread baked by the bakers to meet the needs of the workers occupied in machine building enterprises, and conversely the same centre will give the machinery workers an order for the output of so many machines necessary for baking.

Is such an organisation of the relations between individual enterprises possible in the conditions of the capitalist system? Of course not. For the crux of the matter, as we have already seen, lies in the fact that in capitalist society the enterprises belong to various private owners, each of whom, when organising his enterprise, has in view the interests not of society as a whole, but of himself. Inside his own enterprise the capitalist is complete master, and can administer it as he pleases, working it at full pressure or closing it down, producing this commodity or that.

It is true that if we think more deeply and take into account what we have said so far, it appears that the "unrestricted" power of the individual capitalist is in reality

greatly restricted. For the capitalist has need of other enterprises and other capitalists, if only because he must obtain from them the products necessary for the maintenance of himself and his workers, as well as machinery and raw materials for his factory. And all the other capitalists in whose enterprises these articles are produced are owners in their turn, who also possibly have need of the services of the first capitalist. But none the less all of them have chiefly in view their own personal interests.

The link between such individual enterprises, which have need of one another, but each of which represents a separate independent unit, can be realised only in one way—through the exchange of their goods on the market.

In an economic system where exchange prevails, each individual owner produces the goods necessary to man, having however in view not the satisfaction of his own individual needs by these goods, but their supply to the market, in order to exchange them there for other goods necessary to him.

In such cases the goods themselves are called commodities, and the economy based on the production of commodities is called exchange economy.

The capitalist system is one of the forms of exchange economy. But it must be remembered that the conception of "exchange" economy is wider than the conception of "capitalist" economy. It is possible to have an exchange economy which is not capitalist. As we shall see later, our Soviet economy can also in *a certain sense* be classified in this category, and so also can simple commodity economy, which must in no way be confounded with capitalist economy, despite the fact that both the one and the other are exchange economies.

In simple commodity economy the man who has directly produced the commodity is its owner and seller; but in capitalist economy the owner of commodities is not the producer of the commodity, but the capitalist, who owns the factories and workshops, with the machinery and the means of production, and compels the worker to work for him, since the latter is deprived of both the means of production and the means of distribution.

We have already said that our fundamental aim is the

study of the laws governing capitalist economy. But it will be much easier to carry out this task if we begin not with capitalist but with simple commodity economy. Only after we have acquainted ourselves with the more simple laws of simple commodity economy can we understand the more complex laws of capitalist economy.

2

Price as the Extrinsic Regulator of Exchange.

In simple commodity economy, as in all forms of exchange economy, the link between individual commodity owners is established through the *market*. All the individual commodity producers (or commodity owners) enter the market as equal owners of their commodities, and give up their commodity to another person only if they receive another commodity in its stead.

It is clear that the commodity owners, each of whom enters the market in the capacity of an independent owner, pursuing his own interests, all endeavour to sell their commodities as advantageously as possible. But to sell a commodity advantageously means to receive as large a quantity of another commodity as possible in exchange for it. In a developed exchange economy, where (as we shall see later) all commodities are exchanged for money, this process amounts to receiving as much money as possible for the commodity.

But can an individual commodity owner always achieve his desire, and sell his commodity at the most advantageous price?

Although he would seem to be the " unrestricted master " of his commodity, none the less the achievement of his desire does not depend on him alone. The purchaser with whom he deals is also an owner, disposing of his money according to his own considerations and desiring to buy commodities as cheaply as possible. Moreover, side by side with the vendor of the commodity, there are many others selling the same kind of commodities. Besides, there are not always enough purchasers for all, and each owner runs the risk of remaining

with his commodity unsold. This leads to *competition*, to a situation in which the individual owners of commodities enter into a struggle among themselves for a purchaser and endeavour to sell their commodities more cheaply than their competitors.

Thus a continual struggle is going on in the market between the purchasers and sellers around the question of prices, and also between the various commodity owners.

Here, on the market, the owner realises how restricted is his power, how far the activities of his own enterprise are bound up with and dependent on all the other, also privately owned, enterprises.

Before he entered the market he acted quite blindly. Only the market, by the agency of prices, can show the individual commodity producer the place which his enterprise occupies in the general system of social production and exchange.

If for example the price of boots has gone up, it signifies that there has been a smaller production of them than there should have been ; while if the price has fallen, a surplus of boots has been produced : in other words, as the result of the unorganised nature of exchange economy a distribution of labour throughout the various spheres of production has been established which does not correspond with the needs of the people. The commodity producers immediately take into account the indications of the market. In the first instance they increase their production of boots, in the second they reduce it. Thus exchange economy is governed and regulated by the movement of prices, but this regulator works elementally. Although the prices on the market are the result of the inter-action and the struggle of individual owner-commodity-producers, none the less they do not depend on the will either of any one of them separately, or on that of society as a whole ; and those prices dominate them with the same irresistible force as the laws of nature. The price for any given commodity may be completely ruinous to a given commodity producer and lead to his bankruptcy, but so long as the causes giving rise to that price remain in force nothing and no one can alter it.

It is therefore clear that, as prices play such an important part in the system of exchange, in studying it we must first

of all ask ourselves what determines price, this blind regulator of exchange, and upon what does it depend. It is with this that we are going to deal.

3

The Conditions on which Price depends. Utility. Supply and Demand.

If I look into a shop and want to buy myself a hat, the attentive shopkeeper will show me not one hat, but several, of various styles and kinds. It is obvious that the hats he shows me will hardly ever be all of the same price.

If the shopkeeper asks twelve shillings for one of them, and only eight for another, I of course can at once ask him why the first is dearer and the second cheaper.

What will be his answer?

Either that the first is made of better materials, the felt used is of better quality for example, or else that it is more fashionable.

In a word, he will in the first place explain the difference in prices of various hats by their *quality*, by the service they can render me.

Is this explanation of the shopkeeper a sound one?

At first glance it may appear to be correct and in accordance with reality.

I really can wear a hat made of good materials for two years, and one made of bad materials for a shorter period. Does not that explain why the first is dearer?

But let us think a little more over this explanation.

Take the price not of two hats, but of one hat and some other commodity: a plate for example. As we know, a plate is much cheaper than a hat: four times cheaper let us assume. Can we draw the deduction from this that the length of its service is less than that of a hat? Of course not. A plate, and especially one made of metal, may be in service for many years, and you cannot wear a hat for more than two or three winters. So the difference does not arise from one commodity being of utility to us for a longer period and another for a shorter.

But perhaps a hat is dearer than a plate because it is in general more necessary? One can manage without a plate; in the last resort one can drink one's soup direct from the pot, as the peasants do; one can borrow a plate from one's neighbour for dinner; but one cannot often borrow a hat, and not everyone wishes to go out without a hat in the depth of winter.

But this explanation is also inadequate, if you think it over. In reality bread, for instance, is much cheaper than a diamond, none the less it is far more necessary to man. More than that: as we all know quite well, there are certain things which are very necessary to us and yet their price is quite low, or we do not even have to pay anything at all for them: air, or water, for example.

Apart from this, can we definitely say that a hat is four times as dear as a plate because it is four times as necessary to us? Where shall we find the measure which can exactly fix in figures the extent of a man's need for any article? It is not possible to find such a measure, the more so as need and utility are relative and extremely variable conceptions.

Let us assume that two men have entered a shop to buy trousers: the one a poor student who has so badly torn his old trousers that he has had to borrow a pair from his fellow student in order to go to the shop; the other a comfortably off employee, who has two pairs of trousers at home, but has decided to buy a third pair for going out in or to wear when he has visitors. Let us further assume that on entering the shop they both stop to consider the same pair of trousers. Who has the greater need of them? It is obvious, of course. But the shopkeeper will probably ask the same price from each of them for the same pair of trousers.

To all the foregoing one apparently very serious objection may be made.

It is true that it is impossible exactly to determine how much more useful a certain article is to a man than another article, but one can, however, determine the extent to which a man wishes to buy this article or that, and how many there are who desire to sell such an article.

Of course I cannot determine how much more a pair of shoes is necessary to a man than a loaf of bread, but I can determine how many people came to the market or to the

shops to-day to buy shoes, and I can also determine how many pairs of shoes there were for sale in the market and in the shops. If two hundred persons asked for size number ten shoes in the shop to-day, and there were only one hundred pairs in stock, it means that the stock could satisfy only half the demand ; in other words, the need, the demand for shoes was greater than their supply ; but if to-morrow there are two hundred pairs of shoes in stock and only one hundred purchasers appear, it will mean that this time the need for shoes is not so great, and that the demand does not exceed the supply.

Is not the degree of need for shoes and other commodities, and the price for those commodities, determined in this way by the correlationship between the demand for them and their supply ?

This conception would seem to be confirmed by the facts of real life that are known to everybody.

In practice, when there is a shortage of commodities on the market the price for those commodities rises. We remember how the price of bread rose in Russia during the famine period of 1922, especially in the famine-stricken districts. We remember how cheaply commodities are sold out in the shops at the end of their season, when the need and demand for them decline.

And finally, everyone knows perfectly well how the price of grain goes up in summer time, when the old harvest is all but consumed and there is little grain for sale, while the need for it is even to some extent increasing, since many poor peasants are forced to buy grain ; and how immediately after the new harvest begins to come on the market the price falls considerably.

The law of the dependence of prices on supply and demand, which consists in prices rising with a relative[1] increase in demand and falling with a relative increase in supply, is one with which every one of us was well acquainted even before we came to the study of political economy.

But can we rest satisfied with that law, and decide that we

[1] If a double increase in demand be accompanied by a double supply, then of course the price should not change (other circumstances remaining unchanged). The price changes only when demand grows by comparison with supply, and vice versa.

have now at last found an answer to the question of what fixes the price of one or another commodity in a commodity producing society?

It is not difficult to see that this is not so.

If the law of supply and demand could provide an *exhaustive* explanation of the level of prices of commodities, and the proportions in which they are exchanged one for another, what should be the result?

If the position on the market is such that the relationship between the supply and demand of two commodities is the same, then their prices should be the same.

If, for instance, there are a thousand tons of sugar on the market, and the purchasers demand only five hundred tons, and if simultaneously purchasers on the market are demanding fifty sewing machines and the sellers offer one hundred, it is clear that on both the sugar market and the sewing machine market the supply is double the demand; and if our assumption that the price of goods can be entirely explained by supply and demand be correct, then the price for a ton of sugar and for one sewing machine should be the same. In reality this is not so; even under such conditions the sewing machine will not cost as much as a ton of sugar.[1]

The law of supply and demand can of course explain why yesterday a pound of sugar cost fourpence, and to-day costs fourpence halfpenny, or why yesterday a sewing machine cost five pounds, and to-day costs five pounds five shillings. But this law can never explain why it is that the price of a sewing machine runs to pounds, while the price of a pound of sugar is only a few pence.[2]

[1] It is easy to see that the assumption that the law of supply and demand exhaustively determines the price may lead us not only to the conclusion that under the conditions we postulate a ton of sugar should cost the same as a sewing machine. With just as much justice one can declare that a pound of sugar (or even an ounce) should cost as much as the machine. For our assumption will apply even if we say that there are two thousand pounds (or 32,000 ounces) of sugar on the market, while there is a demand only for one thousand pounds. The relationship between the number of pounds or ounces offered and demanded being the same as that for sewing machines connotes that a pound (or ounce) of sugar should cost as much as one machine.

[2] Here of course we are not dealing with the case of a fall in currency values—that has its own special causes, which we shall analyse

Thus the law of supply and demand can cause the price of commodities to fluctuate, but it can provide no basis for the proportions in which commodities are exchanged for one another, or for money, on the market.

For that matter, the very fluctuation of prices on the market under the influence of supply and demand is restricted by definite limits.

If, for example, in consequence of a small supply prices for a certain commodity were to rise too high, the result would be that a number of people who formerly asked for this commodity would no longer demand it, not because they no longer had need of it, but because they could no longer buy it owing to lack of means. This may happen not only when prices rise for luxury articles, which one can deny oneself, but with a rise in prices for very necessary articles.

It is well known that with a rise in the price of meat the worker depends more on bread, and with a rise in the cost of bread, he turns to potatoes; of recent years the German workers have not eaten fresh butter at all (replacing it by butter substitute, margarine), simply because they cannot afford to buy butter.

Too great a rise in prices, owing to a growth of demand (or a decrease in supply) or for any other reason, evokes in turn a fall in demand until prices come down again.

The converse also is exactly true: if for some reason there is a very large quantity of a certain commodity on the market, and its price has fallen, the manufacture of that commodity becomes unprofitable; it ceases to be manufactured, and then, as the old stocks are gradually sold, supply will be reduced and prices will rise correspondingly.

Thus we see that often it is not a case of supply and demand influencing prices, but that on the contrary the price of a given commodity influences the supply and demand.

For all these reasons we cannot remain satisfied with the

later. For that matter, it is easy to understand that if the currency falls to one-tenth its former value, sugar will be sold in terms of shillings while the sewing machine's price will be in terms of fifty pounds. The question of the proportion in which sugar and sewing machines are exchanged under these conditions calls for its own explanation.

explanation of prices solely by the law of supply and demand, and we must proceed further with our consideration of the matter.

4

Cost of Production.

We have already mentioned that the commodity producer ceases to manufacture any commodity if its price is unprofitable or represents a definite loss to him.

How does he determine which commodity will be unprofitable or may involve him in loss?

Obviously by what it costs him to produce that commodity.

Listen to some purchaser on the market or in a shop, hotly bargaining with the seller and offering him a price which is only half what is asked, and hear the seller assuring him that the commodity "itself cost him more" than the purchaser is offering. Listen to a cab-driver trying to convince you that "the price of hay is much higher" before he asks some enormous sum of you for the ride, or the tailor of whom you order a pair of trousers assuring you that he is not being at all unreasonable in his charges, for life is very dear these days: bread has gone up, the landlord is skinning him, and so on.

Does not all this indicate that the price of any commodity is in the last resort determined by the costs and outlay connected with its production?

We will take our analysis further, taking for example the tailor of whom we are buying a pair of trousers. It is to be remembered that so far we are not dealing with a capitalist who hires workers and forces them to make trousers in order to obtain a profit, but with a tailor, a petty commodity-producer, a typical representative of simple commodity economy, who sells the trousers he has made in order to receive the articles necessary to him in exchange.

How does such a tailor determine the costs of the production of a pair of trousers?

In the first place he is of course bound to take into consideration the outlay on the materials of which the trousers are made: this includes the price of the cloth and of the

lining, buttons, cotton and other " trimmings." To this has to be added expenditures on heating, lighting (and maintenance in general) of the place in which the tailor works.

Of course these expenses are not entirely included in the price of one pair of trousers, but only partially: if the tailor has worked on the trousers one day, then the outlay on fuel and lighting for one day will also enter into the price. In the same way the price of the trousers has to include the cost of a small part of the sewing machine worn out during the work —thus, if a sewing machine costs five pounds, and two hundred pairs of trousers can be made with it before it is completely worn out,[1] it is clear that for every pair of trousers it is necessary to reckon one two-hundredth part of five pounds, or sixpence.

But the tailor himself has also worked, he has spent a whole day on making the trousers. Will this be taken into account in determining the price of the trousers? Of course it will. If not, why should the tailor have troubled to work? For he worked on the trousers only because he hoped by selling them not only to get back what he had expended on materials and the sewing machine, but also to receive a certain payment for his labour. In selling the trousers he strives in the first place to exchange the product of his own labour for the product of others' labour.

Thus the price of the trousers will approximately be composed of the following:

	s.	d.
For cloth	16	0
Lining, buttons, thread and other materials	2	0
Wear of the machine	1	0
Fuel and light expenses	1	0
For tailor's own labour	6	0
Total	26	0

Will the tailor always sell his trousers for twenty-six shillings, in other words in exact correspondence with his costs (outlay) and labour expenditure? Of course, if it is at all

[1] For the sake of simplicity we have ignored costs for repair of the machine.

possible he will endeavour to obtain more than that sum for them. But that will be possible only if the demand exceeds the supply.

Let us assume that this is so. The tailor is successful in selling his trousers not at twenty-six, but at thirty shillings. What happens as a result we already know. The production of trousers increases, their supply on the market grows, and prices fall; and the prices will continue to fall until they tend to drop below the twenty-six shillings. Then the making of trousers will prove to be less profitable; the production of trousers is again cut down; their price again rises, and so on.

To put it briefly, we have before us the familiar picture of the fluctuation of the prices of commodities in connection with the changes in supply and demand. But note one feature in that fluctuation: it occurs around one level, that of the twenty-six shillings—in other words, the price which is determined by the tailor's costs of production and his labour expenditure.

Thus we seem to have found the cause which determines the level of prices independently of those fluctuations which supply and demand affect in that price. The answer would seem to be clear: a pair of trousers is two hundred times dearer than a pound of flour because the expenditure on them (in both money and labour) is much greater.

But still this answer also cannot satisfy us. In reality let us endeavour to get a clearer understanding of this conception of the expenses and costs of production. A very large share of the cost of our trousers is taken up by expenditure on cloth, which in our example is determined at sixteen shillings. But what does this sixteen shillings represent? Nothing but the price of the cloth. The same applies to the expenditure on buttons, thread, oil for light and wood for heat, which in each case represents the price of the commodity.

We thus obtain that the price of the trousers is in large measure explained by the price of those commodities which have entered into their manufacture. But once the *prices* of certain commodities (in large part) are explained by the *prices* of other commodities, does it not result that in essence we are marking time, since to refer one price to another price is surely the same as to define one unknown quantity by

means of another unknown quantity. It is the same as saying that oil is oily ; or rather it is saying nothing at all.

Does it not appear at the end of our investigation that we have got no further, and have only returned to our starting-point ?

But we recall that the price of the trousers is only explained to the extent of ten-thirteenths (i.e. twenty shillings) by the price of other commodities bought by the tailor. The remaining six shillings enter into the price of the trousers owing to the fact that the tailor has expended a day of his labour on them.

But how are the prices of the cloth obtained, and of the other materials of which the trousers are made ? The answer to this question is easy : because on the one hand a certain material (wool) was bought for the manufacture of this cloth, and also because a certain amount of labour was expended on the working up of the wool into cloth. Let us assume that the price of the material is ten shillings. But on what does the price of the wool depend ? Again on the price of the material (the price of the sheep minus the price of its meat, bones, and hide, say) and on the labour expended on the shearing of the fleece. But the price of the sheep also consists of the price of food and of the labour expended in rearing it. Thus in the last resort we can refer the costs of all materials to the expenditure of labour ; since if we continue our investigations we inevitably come to a point where apart from the labour expenditure of a number of workers, there remains only the materials found ready to hand in nature, which (in so far as no labour is expended on them) cannot enter into the costs of production.

This of course will apply not only in regard to cloth, but also to all the other materials necessary to the production of trousers.

Thus if we continually have in mind a simple commodity economy, where the producers of commodities are also their owners and sellers, we come to the conclusion that the level around which the price of this or that commodity fluctuates on the market depends in the last resort on the expenditure of labour.

5

Summary. Labour as the Basis of Value. Value as the Expression of Social Relationships.

Summarising all we have said so far, we can now draw the following conclusions:

1. All products created by social labour exchange take on the form of commodities, in other words of products manufactured not for personal consumption, but for exchange.

In order that a commodity may be exchanged on the market it must be able to satisfy some need, or, in the language of political economy, it must have a certain *use value*. If any article produced by someone does not have any use value no one will buy it, and it cannot become a commodity.

2. In a more or less developed exchange economy any commodity is exchanged on the market for a definite quantity of other commodities by the agency of money. Thus every commodity acquires a certain price, expressed in a certain amount of money.

The price of a commodity is established in the process of struggle between individual commodity producers, between the sellers and buyers. The movement of prices on the market regulates the activity of individual enterprises and establishes a certain correspondence (equilibrium) one with another and with human needs.

3. The use value of a commodity, or its utility, depends on its natural qualities: physical, chemical, mechanical, and is the absolute requisite for the sale of a commodity; but as we have seen, it cannot explain the essence of prices. Once the price of a commodity is established on the market as the result of relations established between individuals in an exchange economy, the source of that price has to be sought not in the natural qualities of the commodity itself but in the relations between men.

4. Turning to relations between men, we see that the price of a commodity can fluctuate according to supply and demand. But the level around which those prices fluctuate

cannot be explained by supply and demand. That level obviously can be explained only by the expenditure of labour which is necessary to the production of this or that commodity. It is given the name of exchange value, or simply " value," and so we say that *at the basis of the price of any commodity lies its exchange value.*

As the result of our inquiries we thus have passed from the natural qualities of commodities, and from the market and exchange, to the labour of human beings.

Everyone understands that labour is the basis of the existence of any society. All human needs, from the most " exalted " to the most " common," need material articles for their satisfaction. Those articles do not fall ready made from heaven, but are created by man's persistent labour.

But man does not live and labour in the world alone ; he is in the society of other men ; and as we have seen, in the process of labour men become dependent on one another, and so enter into certain productive relations among themselves.

In this way the labour of an individual (or of an enterprise) becomes a part of social labour, and productive relationships should guarantee such a division of social labour as to ensure that all society can satisfy its needs. The peculiar feature of exchange economy, as we have seen, consists in the fact that this distribution of labour expenditure is achieved through the exchange of commodities on the market in a definite proportion. The exchange of commodities is only a special way of regulating productive relationships between men, and as we have established, this regulation occurs by means of the movement of prices around value.

In the process of this arbitrary regulation it rarely happens that the price of a commodity corresponds exactly to its value. Thus the equilibrium of the production relationships in an exchange economy, which is achieved by way of such a regulation, is not something constant and established once for all, but on the contrary is extraordinarily mobile and inconstant. None the less, this does not hinder the law of value from fulfilling its role of regulator.

Only owing to its anarchy and lack of organisation does an exchange economy have need of value as a regulator.

The root of value lies in the specific relationships between

human beings which arise in the conditions of an exchange economy. With the disappearance of these relationships, with the establishment of the conscious regulation of productive relations between human beings, the very need of value will vanish.

From this aspect value is sharply distinguished from use value. The use value of a commodity does not change with an alteration in the social relationships between human beings: thus sugar made under the capitalist system will not become bitter if a revolution takes place and a socialist system is established.

6

Concrete and Abstract Labour.

In an exchange economy commodities are exchanged wholly and entirely according to their value, according to the quantity of labour which has been expended in their production.

It is not identical commodities that are exchanged for one another, but different commodities: of course no one will stop to exchange shoes for similar shoes. If for example shoes are to be exchanged on the market for cloth, it is clear that in this transaction the products of labour different in its form (on the one hand the shoemaker's and on the other the weaver's) will be brought into comparison by means of their value. In making shoes the shoemaker works in a manner quite different from the weaver making cloth. The first operates with a shoemaker's knife, awl, hammer, and so on; the second works at his loom. The material with which they work, the movements which they execute are quite different. Thus the labour of the one and the other has taken on a different form, in so far as they have been engaged in the production of different use values. But as soon as the shoes and the cloth come on the market their value becomes equal; the different forms of labour of the shoemaker and the weaver are compared with each other. Obviously in this comparison the various concrete forms of labour have no consideration.

The labour of men of various crafts, or of men who, producing various use values, can only be brought into comparison with one another because there is something common in them from the viewpoint of the market, namely that all the varieties of labour are considered as labour in general, as an expenditure of human energy, independently of the form which that expenditure of energy takes in various cases.

This can most easily be comprehended if what was previously said concerning the profitability of this or that sphere of labour be borne in mind. If the twelve-hour day's work of a shoemaker is valued on the market below the twelve-hour day's work of a baker, the shoemaker's business will involuntarily diminish ; part of the shoemakers will abandon their craft ; the adolescents planning to begin work as learners will prefer to become apprentices to bakers rather than to shoemakers. Obviously both the shoemaker and the learner beginning work are in this case interested not in the concrete work of the shoemaker, in other words not particularly in the labour which produces shoes, but in labour in general, *as labour which can create value*, and can afford them the opportunity of entering into exchange with other commodity producers, and so obtain other commodities necessary to them in a definite proportion, advantageous to them in the conditions of an exchange economy.

This bringing into a comparative relationship of various forms of labour could of course only arise when exchange itself arose.

There are a number of occupations (forms of labour) which in pre-capitalist society, when exchange relations were not developed, were considered disgraceful and degrading. But at the present time the capitalist (and the small owner) considers that any form of occupation is proper if it gives him " honest bread." Into this category labour also enters, in its general form, irrespective of its variety, as a creator of value.

Labour, in an exchange economy, considered from the viewpoint of the expenditure of human energy in general is called *abstract* ; labour considered from the viewpoint of the form in which the energy is expended is called *concrete*. Abstract labour creates exchange value ; concrete labour creates use-value.

It has to be noted that in an exchange economy every form of labour can be considered from both points of view ; thus a tailor's labour is simultaneously both concrete and abstract. If it were not concrete it would not create commodities with a definite use value, and use value is an indispensable condition of the product of labour becoming a commodity. Moreover, for exchange purposes it is necessary that several concrete forms of labour should exist in society, since, as we have indicated, exchange can be effected only between different use values. But in so far as trousers made by a tailor are exchanged for shoes, inevitably a comparison of their value takes place, and here the tailor's labour takes on the form of abstract labour as labour in general. The same can be said of the labour of a writer or teacher ; these forms of labour can also be considered both from the aspect of abstract labour creating exchange value, and from the aspect of concrete labour creating use value.

It is necessary to get this clearly in one's mind, since many beginners in political economy think that only such labour as creates definite material articles (shoes for example) can be concrete, while they mistakenly think mental labour is abstract.

7

Individual and Socially-necessary Labour.

The value of a commodity is thus determined by abstract labour.

But if we compare various forms of labour, eliminating their concrete aspect, it is necessary to have a standard with which one can measure the quantity of labour expended in the production of this or that commodity. *That standard is time.*

The product of the shoemaker's twelve-hours of labour is equal in value to the product of the baker's twelve hours of labour.

The greater the length of time necessary for the production of one or another commodity, the higher must be its value.

To many this conclusion may appear to be a strange one.

In reality, if we take the point of view that the value of a commodity is determined by the time expended in its production, we get the position that the lazier or the more unskilled the workman, the greater the value of the commodity which he creates.

Let us see how far this objection is a sound one. One stocking maker makes a pair of stockings in perhaps six hours, another makes an exactly similar pair in four, and a third in two hours. All this depends on the one hand on the machine and the materials with which they have to work, and on the other on the degree of their skill and the intensity of their labour.

But now the stockings are finished. All the stocking-makers go to the market to dispose of their commodities.

Taking the value of an hour of labour to be two shillings, will the one stocking-maker succeed in obtaining twelve shillings for his stockings, while the second receives eight shillings for similar stockings and the third only four shillings? Possibly the first stocking-maker will endeavour to sell his stockings in accordance with the time he has expended on their production, at twelve shillings per pair. But if he were successful in this the other stocking-makers who had made stockings in less time would not reject the profitable price of twelve shillings per pair. Thus a situation would arise in which a part of the stocking-makers would be selling their commodities for more than their value. This would lead to an expansion in the production of stockings, their supply on the market would increase, the equilibrium would be disturbed, and finally the price of stockings would fall.

It is clear that when the demand for stockings is equal to the supply and balance each other—and only in that case are all our considerations correct, since they assume that stockings are being sold according to their value—the value of a pair of stockings must be established at less than twelve shillings.

But does this mean that the stockings will be sold on the market in accordance with the labour expended by the stocking-maker who has expended the least time of all, i.e. two hours? Again the answer is in the negative.

Once our condition that demand is equal to supply be granted, it follows that it is not possible to satisfy the market only with the stockings made in two hours; consequently they will be sold for more than four shillings. Thus the value is not established in accordance with the fastest nor in accordance with the slowest one.

In general, the value of a commodity cannot be established according to the individual labour of separate workers or separate enterprises, but according to the labour which is necessary for the production of a pair of stockings on the average throughout the whole of society, i.e. according to the average socially-necessary labour.

This average socially-necessary labour for the production of a pair of stockings depends on the number of stocking-makers at work in the given society, the productivity of the labour of those stocking-makers, and their output of commodities for the market.

Let us assume that to-day 110 stocking-makers in all are selling stockings, and of these, twenty stocking-makers each sell twenty pairs of stockings, each expending two hours on the production of each pair, another thirty sell ten pairs of stockings each, having each taken four hours to make each pair, and the remaining sixty stocking-makers have each five pairs of stockings to sell, which have been made at a rate of six hours for each pair.

In that case how will the time socially necessary for the production of a pair of stockings be determined? As we assume that our society is in a state of equilibrium, i.e. that the supply of stockings is equal to the demand, all the stockings produced will consequently be sold.

20 stocking-makers each sell twenty pairs ..	400 pairs
30 stocking-makers each sell ten pairs ..	300 pairs
60 stocking-makers each sell five pairs ..	300 pairs
Total	1,000 pairs

A thousand pairs of stockings are made and brought on to the market. Now we will reckon the amount of labour time expended by all the stocking-makers on their production.

400 pairs at two hours per pair	800 hours
300 pairs at four hours per pair ..	1,200 hours
300 pairs at six hours per pair	1,800 hours
Total	3,800 hours

To produce the total of one thousand pairs of stockings necessary to society 3,800 hours are expended.

And consequently the average time expended on one pair of stockings is 3,800/1,000, or 3·8 hours.

This time, 3·8 hours (or three hours and forty-eight minutes) will be the average socially-necessary time needed in that society for the production of one pair of stockings; and at 2s. per hour the value of a pair of stockings will be established at about six shillings and ninepence half-penny.

It would be a great mistake to determine the socially-necessary time by taking the arithmetical average between the individual time of the most productive and the least productive enterprise; thus if we were to take the six hours and two hours in our example, adding them and then dividing by two, we should get the figure four and should decide that this is the socially-necessary time, since it is the average between six and two hours. The social value of a pair of stockings is determined as the average of the individual values (individual labour expenditures) of all the stockings produced in society. If there were produced not three hundred pairs of the "six-hour" stockings but twice as many, i.e. six hundred, the average socially-necessary time would be greater. As one can easily reckon, in that case there would not be one thousand but one thousand three hundred pairs of stockings on the market, and the total social labour expended in the production of stockings would be equal to 5,600 hours; the socially-necessary labour required for the production of one pair of stockings would be equal to 5,800/1,800 hours, or about four and one-third hours.

Thus the socially-necessary labour is determined by the average technique of the society in question, by the average

habits and qualities of the worker, and also by the average conditions of labour.[1]

But the technique of society, the habits of the worker and the conditions of his labour are not fixed quantities, unchangeable and given once for all. As we know, technique develops; the conditions of the worker's labour, and also his qualifications and culture alter. In accordance with this the socially-necessary labour time which is necessary for the production of this or that commodity also changes.

After what has been said it should be clear that the introduction of new machinery, and the increase in the productivity of labour caused by its introduction, can only be reflected in the socially-necessary labour time if the new development is more or less widely adopted.

Assume that one commodity producer (even a stocking-maker) introduces a new machine, which raises the productivity of his labour and thus lowers the individual labour necessary for the production of a single commodity. Assume that with the new machine the stocking-maker expends only one hour on the manufacture of a pair of stockings. So long as only one stocking-maker is using the new machine it will have almost no reflection at all in the socially-necessary labour, for the quantity of stockings made by him is small by comparison with the total mass of stockings produced, and the time saved will be lost in the total mass of labour expended by the remaining stocking-makers.

Once his necessary individual labour falls lower than that socially-necessary labour according to which he sells his stockings, it is clear that the introduction of a new machine will be highly profitable to him. Into his pocket will go all the difference between the individual value of the stockings and the socially-necessary value. And this is one of the reasons why in any exchange economy (including the capitalist) the individual owners endeavour to introduce new machines and as far as possible to keep their im-

[1] The word " average " has of course to be understood in the sense in which we have used it hitherto, i.e. taking into account that quantity of commodities which in the state of equilibrium the enterprises of varying technical level put on to the market.

provements a secret so that they should not become widespread.[1]

But as soon as a new machine becomes available to many commodity producers it has a great effect on the socially-necessary labour, and as a result not only is the individual value of the commodity lowered, but also its socially-necessary value, and a drop in price will follow the drop in value.

It is clear that after this each commodity producer will again endeavour to introduce a still more perfect machine.

This will again give him some advantage for a certain time, so long as the machine does not become universally used; then the story starts all over again.

In a simple commodity economy such an unbroken development of technique is not always possible; any new introduction of machinery demands large expenditures, while the artisan (or peasant) has no free resources at his disposal. Only with the transfer to the capitalist method of production does a swift development of the productivity of social labour and a fall in the value of commodities begin.

Thus, for example, the production of iron from pig iron in the eighteenth century took three weeks; with the introduction of the new method of puddling at the end of the eighteenth century the process was reduced by half, and finally the Bessemer process adopted from the middle of the nineteenth century gives us steel or iron from the pig in fifteen to twenty minutes.[2] The introduction of this last method

[1] The great advantage of an enterprise with better technique is also explained by the fact that where less labour is expended on the production of the commodity, the commodity producer can sell his commodities more cheaply than the others, beating them in the competitive struggle, and at the same time still receiving a certain supplementary profit. We shall later deal with the significance of technical improvements in more detail.

[2] Pig iron ore is iron with a certain carbon content. In order to convert pig iron into iron it is necessary to eliminate a certain part of the carbon included in the pig. In the earliest method the molten pig had to be brought several times into contact with the oxygen of the atmosphere; it was let fall drop by drop until the quantity of carbonates fell to the necessary amount. In the puddling method the pig is melted in a special furnace; when this is stirred the carbonates burn at the surface of the molten mass. In the Bessemer furnace the molten pig iron comes into contact with the atmosphere not only on

alone has lowered the price of steel to a quarter of its previous level.

The production of aluminium affords a still more clear example. Owing to the difficulties of its production, until the middle of the nineteenth century it was extraordinarily expensive, costing over forty-five pounds per kilogramme, or eight to ten times as dear as silver. But at the present time aluminium is one of the cheapest and most widely distributed of metals, costing about a shilling a pound. This is explained by the fact that its output has been rendered considerably easier since electricity has been applied in its production ; it is now obtained from clay, in which it is present in large quantities.

It is evident that if the secret of producing aluminium with the aid of electricity was at the disposition of one capitalist, and his aluminium constituted a comparatively insignificant part of the total production of aluminium, the socially-necessary labour for the production of aluminium would remain almost unchanged, and its price could not fall as it has done.

This example also shows better than anything else that it is impossible to explain price by supply and demand. The consumption of aluminium during the last thirty years has risen eight thousand times, and it is clear that the reason for the fall in price of aluminium does not lie in the relationship between supply and demand. On the contrary, the increased demand for it is the result of its becoming cheaper, and the reason for its becoming cheaper is in the first place the drop in its value, the reduction in the labour socially necessary for its production.

8

Simple and Complex Labour.

If in determining the value of commodities we are going to compare the labour expended by men of various crafts according to time, even socially-necessary time, yet another

its surface, but throughout its entire mass (through air blown into the mass in jets). In this way not only is the process speeded up but a greater economy of fuel is attained.

difficulty may arise: can we compare an hour of the labour of an unskilled worker with an hour of the labour of an engineer or writer on an equal basis?

If this were so the number of engineers in society would continually diminish, and all would prefer the labour of the unskilled worker.

Why this would inevitably follow is not difficult to see. For in order to become an engineer the worker has to expend quite a considerable amount of time and labour to learn the profession. And an expenditure of labour is indispensable not only on the part of the learner, but also on that of the teacher. Would it be worth while expending so much labour, in order afterwards to receive merely as much as the unskilled worker, who expends no energy or resources whatever in preliminary training?

It is clear that if this and that labour were valued in the same way the equilibrium of society would inevitably be disturbed. Scarcely anyone would want to learn the engineer's trade. The number of engineers would diminish; the engineering industries would come to a standstill in their development. The other spheres of industry would also suffer from this; the tailors would be unable to buy sewing machines, the agriculturists could not obtain ploughs, threshing machines and so on.

The disturbed equilibrium could only be restored when the value of the product produced by the worker who had no need of training was established as lower than the value of the product of skilled labour.

How the comparison of the two forms of labour—of simple and complex labour—is effected is now easy to understand.

We take as our unit an hour of simple labour, which calls for no training. In measuring the labour of an engineer we assume that he is working as a fully qualified engineer from twenty years to forty-five years of age, i.e. for twenty-five years. We will assume that he spent four years on his preliminary training, and in the course of those four years another, older worker spent one-fourth of his working time teaching the young apprentice. Thus a total of five years is expended on training; four years by the apprentice himself, and one by his teacher. In other words, for his twenty-five

years' work there have been five years' work in preparation, or one-fifth of a year of training for every year of work. It is clear that in his work the engineer will create a value one-fifth greater than the value of the product of an equal amount of labour on the part of the unskilled worker ; one hour of his complex labour will be equal to one and one-fifth hours of simple labour.[1]

If we take the labour of the most highly-skilled workers, which demands special qualifications (electrical engineers, for instance), the task of comparing their labour with simple labour will be even more complicated ; for here we have also to take into consideration the circumstance that in estimating the labour of an electrical engineer we have to include not only the labour expended on training him himself, but also the labour expended on a number of other students who were unable to fathom the " abysses of wisdom " of the technical school and were forced to abandon their studies.

If this were not so the equilibrium of society would again be disturbed ; since it is impossible previously, on entry into the school, to determine exactly who will be able to pass satisfactorily through the course and become a good electrical engineer ; the " influx into the given profession of students, of which (for example) only one-third have the chance of achieving their aim, will occur only under the condition that the heightened value of the products of the given

[1] Once more we remind our readers that we are so far speaking of a simple commodity economy, where both the unskilled worker and the engineer themselves enter the market with the products of their labour. The value of the product of the labour of an unskilled worker and of an engineer must not be confused with the wage which the representatives of these forms of labour receive in a capitalist system, where the worker sells not *the product of his own labour*, but his *labour-power*. We have already mentioned in passing, and later we shall demonstrate in more detail that the worker's *labour* is one thing, and the value of his *labour-power* (and its price, or wage) another. The wage of an engineer is determined by the quantity of articles necessary for the maintenance of his labour-power, the number of unemployed engineers, the demand for them, and so on. The same applies in the case of an unskilled worker's wage. The relationship between the one and the other may be constituted quite differently from the relationship between the value of the products of their labour.

profession will compensate for the expenditure of labour which is inevitable within certain limits."[1]

It would be erroneous to conclude from what has been said that the production of any great artist is highly paid just because the labour of many unsuccessful artists enters into its value. There is not only this aspect to be considered, but also the fact that such a production represents something unique of its kind, that it is impossible to do it a second time. The value of a commodity (it does not matter when it is made, to-day or twelve months ago) is determined by the labour which is necessary in order to create (or better, again to create, to re-create) that commodity in to-day's conditions. The price of such commodities as cannot be created again, the production of which in consequence cannot be regulated by means of exchange, cannot be explained directly by value.

Thus an electrical engineer's labour proves to be still more complex than that of an engineer. But even so, like the blacksmith's labour, it can be expressed in units of simple labour.

This reduction of complex to simple labour is of course not effected in the offices of the enterprise or anywhere else; that may happen under socialism, but in capitalist and in exchange society generally the comparison and reduction of complex labour into simple labour is effected spontaneously by means of exchange, by means of value. The valuation of the product of skilled labour in such a society is effected gropingly, blindly, through an incessant disturbance of the equilibrium, and only thus is the reduction effected.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER I

The connection between textile factories and other spheres of social production.[2]

[1] I. Rubin, *Outlines of the Marxian Theory*, 2nd ed., p. 120. Also L. Liubimov, *A Course of Political Economy*, vol. i, pp. 72-78, of the first edition. (In Russian.)

[2] Taken from *National Economy in Sketches and Pictures*, by R. Kabe and I. Rubin, vol. i, 3rd edition, addendum iii, Leningrad, 1925.

The enterprises of which the textile factory has need for its normal functioning can be divided into three categories:

A. (Nos. 1 to 11.) Enterprises producing machinery and buildings for textile factories (fixed capital).

B. (Nos. 12 to 28.) Enterprises preparing raw materials, fuel, and other accessories for textile factories (the constant part of circulating capital).

C. (Nos. 29 to 46.) Enterprises producing articles indispensable for the consumption of the workers of the factory (the variable part of circulating capital).

ENTERPRISES

A. 1. Leather (belts, valves).
2. India-rubber (rubber belts, valves, asbestos linings, asbestos sheets, india-rubber gloves).
3. Textiles (belts, ropes).
4. Timber (various building materials, beams, boards, joists, veneers and so on).
5. Electrical equipment (motors, electrical supplies, flex, lamps, cables, insulators).
6. Metal working (cast iron, sheet iron, girders, nails, angle-irons, alloys, wire, zinc, copper, steel girders).
7. Building (bricks, cement, lime, chalk).
8. Machinery, engineering (machines and their parts).
9. Paint and varnish (paints and varnishes).
10. Glass and china (glass, tubes, utensils).
11. Woodworking (furniture).

B. 12. Agricultural (cotton).
13. Heavy chemical industry (sulphuric acid, chloride of lime, alkalis).
14. Aniline dyes (primary dyes, dye substances, sulphuric dyes).
15. Coal (coal, anthracite).
16. Oil (naphtha, grease).
17. Timber (wood).
18. Peat (peat).
19. Fat refineries (soap).
20. Chemicals (glycerine).
21. Oil refineries (lubricants).
22. Leather (belts, etc.).
23. Fibre-textiles (baling, ropes, belts, cords).
24. Stock-raising (tallow).
25. Electrical stations (electrical energy).
26. Starch (starch).

27. Mining (clay and earth products: chalk, gypsum, white clay).
28. Paper and stationery (paper, office appurtenances).
C. 29. Milling (flour, groats).
30. Oil manufactures (sunflower, linseed, and hempseed oils).
31. Stock raising (meat, fat).
32. Market gardening (cabbages, carrots, potatoes, onions, etc.).
33. Fisheries (fish).
34. Leather (boots).
35. Textiles (clothing).
36. Tea, etc. (tea, coffee, and chicory).
37. Sugar (sugar).
38. Printing and stationery (books).
39. Tobacco (tobacco, cigarettes).
40. Matches (matches).
41. Salt (salt).
42. India-rubber (goloshes, etc).
43. Fat refineries (soap).
44. Metal working (utensils).
45. Timber, mining (wood, coal).
46. Glass and china (utensils).

EXERCISES

1. What connection has the above table with all that has been said in the first chapter (especially in par. 1)?

2. Try to draw up a similar table for the enterprise in which you have worked. An agricultural worker (or one acquainted with agriculture) should draw up a similar table for agriculture.

3. What basic contradictions in exchange economy can be established on the basis of what you have read in par. 1?

TABLE I [1]

Prices for Russian Wheat in 1913 *in Moscow and Novo-Nikolayevsk (now Novosibirsk) in kopeks per pood:*

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Moscow	122·0	123·0	125 0	125·0	123·2	123·0	—	111·4	111·6	104 9	102·0	104·5
Novo-Nikol.	99·0	94·7	89·2	92·0	92 5	87·0	77·6	75·8	71·0	62·5	63 3	61·8

[1] The materials for Tables I and II are taken from the *Digest of Commodity Prices for the Chief Russian and Foreign Markets* for 1913. Published by the Ministry for Trade and Industry, Petrograd, 1914.

TABLE II

Prices for Cherkass slaughtered meat in Petersburg, 1913.

	Jan.	Feb	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
In roubles, per pood...	7·10	6·74	7·14	7·18	7·5	7·62	7·07	7·25	7·02	6·71	7·43	6·88

EXERCISES

1. From Table II compare the prices of meat in different months, and endeavour to explain their variations.
2. In the same way attempt to explain the difference in the price of grain in various months for Novo-Nikolayevsk. Explain the difference in the movement of prices for grain and for wheat.
3. Trace the movement of wheat prices in Moscow, and indicate whether there is the same law of progress as in the movement of prices for wheat in Novo-Nikolayevsk.
4. How do you explain the difference in price for the same wheat in Moscow and Novo-Nikolayevsk in the same month?
5. Can the materials in these tables be used in order to demonstrate how limited is the rôle played by supply and demand in the formation of commodity prices?

TABLE III[1]

Prices for a pound of cotton yarn No. 40 in Britain over 100 years (in roubles=2s.).

	1779	1830	1860	1882	1892
Prices for raw materials (for 18 oz. of cotton)	1·00	0·30	0·27	0·28	0·20
Other expenses (mainly labour power) and profit	6·75	0·30	0·18	0·14	0·10
Price for 1 lb. yarn	7·75	0·60	0·45	0·42	0·30

TABLE IV

The Productivity of Labour in the Textile Mills of Britain from 1819 to 1882. (Pounds of yarn produced per worker per annum.)

1819-21	968 pounds
1829-31	1,546 pounds
1844-46	2,754 pounds
1859-61	3,671 pounds
1880-82	5,520 pounds

[1] Materials taken from Schulze Gaevernitz's *Heavy Industry*. The prices are translated into Russian roubles at gold par and then taken in round figures.

Consider Tables III and IV and endeavour to explain the reason for the movement in prices of cotton yarn in Britain over the century. In doing so, take into consideration the fact that during this period the wages of the British worker have not fallen, but on the contrary have risen (from 1830 to 1890 they were doubled). Note also that the consumption of cotton fabrics during this period also increased (from 1·5 pounds per person in 1820 to 5·5 pounds per person in 1885). The value of money itself remained almost unchanged. From this instance demonstrate the fallacy of the theories of utility, supply and demand, and costs of production as determinants of value.

EXERCISES ON PARS. 5 TO 8

1. Can the labour of a housewife preparing dinner for her family be considered as concrete labour and simultaneously as abstract labour?

2. By individual labour some understand the labour of an individual person preparing some article for himself, and by socially-necessary labour they understand labour spent in preparing articles necessary to other members of society. Show the error of this view.

3 Is the labour socially necessary for the production of any commodity the same in all countries?

4. In the text we have cited examples indicating that the introduction of the Bessemer process lowered the price of iron to a quarter of its previous level. Meantime the labour necessary for manufacturing iron from pig iron has been reduced not by three-quarters, but by eleven-twelfths and more. Why has the price not fallen to an equal extent? Does this not contradict the assumption that value is at the bottom of prices, while at the bottom of value is the productivity of social labour?

5. As is well known, it is possible to transform coal into diamonds. Then why has the value of diamonds not fallen sharply? The same applies to gold: not so long since the news appeared in the Press that success had been achieved in transforming mercury into gold. If this news be correct, does it necessarily follow that after this discovery the price of gold must fall?

MATERIALS FOR READING IN CONNECTION WITH PARS. 5 TO 8 AND THE EXERCISES

A. The dual quality of a commodity. Use and exchange value.

The student is recommended to read passages from the first chapter of *Capital*, vol. i, ch. 1, beginning with the words: " The

wealth of those societies in which the capitalist mode of production prevails . . ." p. 41 to the words: " For the present, however, we have to consider the nature of value independently of this, its form," p. 45 (*Capital*, tr. Moore and Aveling, Swan Sonnenschein, 1926, Kerr edition.)

QUESTIONS CONNECTED WITH THE RECOMMENDED READING "A"

1. What is there new to you in this passage from Marx, as compared with what is given in the main text of the manual? Write down these new ideas. Ask the teacher for an explanation of each expression or idea that you cannot understand.
2. What did Marx have in mind by the phrase, " The use values of commodities furnish the material for a special study, that of the commercial knowledge of commodities " (ibid., p. 42). Why does not political economy occupy itself with use value?
3. What do you understand by the phrase: " an intrinsic value, i.e. an exchange value that is inseparably connected with, inherent in commodities, seems a contradiction in terms. " ?
4. Can any article have a use value without having an exchange value?
5. And can the converse be true (i.e. that an article should have an exchange value without having a use value)?

B. Abstract and concrete labour. Simple and complex labour.

Capital, vol. i, ch. 1, p. 50, beginning with the words, " By our assumption . . . " to end of section.

C. The measurement of value by labour, and of labour by the socially-necessary time.

The student is recommended to read the passage from vol. i, ch. i, of *Capital*, p. 45, beginning with the words: " A use value or useful article, therefore . . ." to bottom of p. 46.

D. The value of a commodity and the productivity of social labour.

Passage from *Capital*, vol. i, p. 47, from the words: " The value of a commodity would therefore remain constant . . . " to end of paragraph.

Chapter II

THE FORM OF VALUE AND MONEY

9

The General Conception of the Form of Value.

As we now know, the value of a commodity is determined by the quantity of simple socially-necessary labour which is needed for its production. But we also know that for any product to acquire value it is not sufficient only for labour to be expended on it. It is necessary that the product should meet with another product on the market, and entering into an exchange with it, become the material incarnation of the labour relationships between human beings.

Without this the product of labour would be only a use-value, and it would have no exchange value. If a farmer brings rye on to the market that rye demonstrates its value only when the farmer exchanges it for a definite quantity of another commodity, matches, for example. But more than that: if there were no other commodity by means of which the rye could determine its value, the very question of the value of the rye would go by the board, as we have seen. Just as a man would never know what he himself looks like if he were not to come into contact with other men like him, or if he could not see his reflection in a mirror, so no commodity can determine its own value so long as it does not come into contact with another.

An exchange economy is so constructed that the value of any commodity, which is dependent on the quantity of labour incorporated in that commodity, cannot be expressed immediately and directly by the number of hours and minutes expended on its production. The value of one commodity can be expressed only by a definite quantity of another commodity.

Assuming that a farmer is going to sell his wheat, he cannot know beforehand how many other farmers are selling wheat, and how much individual labour each of them has expended in the production of the wheat. It is on the quantity of the commodity produced and subject to exchange, and also on the individual labour expended by all the individual commodity producers, that the dimensions of the socially-necessary labour depend.

It is still more difficult to determine the socially-necessary quantity of labour where the commodity is the product of the labour of several individual workers, each of whom has contributed his share to the value of the commodity. We recall our previous example of the trousers, the value of which is determined not only by the labour of the tailor, but also by that of the textile worker who made the cloth, the stock-breeder who raised the sheep, the metal worker who made the sewing machine, and many others.

Finally, as we have already indicated, exchange economy is an unorganised economy, in which there is no organ which can occupy itself with the regulation of the productive relationships of that society, and consequently with estimates of the quantity of labour to be expended.

Only *after* the rye has come into contact with matches on the market, only after it has been established in the competitive process that a pound of rye can be exchanged for say two boxes of matches, is it possible to say that in the matches the rye has seen its own value as in a mirror, and that the socially-necessary labour incorporated in two boxes of matches and in a pound of rye is the same.

This expression of the value of one commodity by means of another commodity is given the name of " form of value." The commodity which is seeking its expression in another commodity, the pound of rye in our example, appears as a *relative form* of value ; the second commodity which acts the part of a " mirror," or a measure for the first, constitutes an " equivalent " form of value ; in our case the two boxes of matches are just such an equivalent form for the one pound of rye. The actual expression of the value of one commodity by means of another can be represented in the form of an equation :

1 lb. rye=2 boxes of matches.

The commodities which constitute the two parts of this equation are two different use-values, having quite distinct physical qualities, and satisfying different human needs. This is an indispensable condition of value really finding its expression, its form. Let us assume that we are trying to determine the value of a pound of rye by means of rye. What would be the result ? That one pound of rye is equal to one pound of rye! Such an expression would be absurd ; it could not in any way express the value of rye.

In other words, the relative and equivalent forms of value must be different use-values. It is obvious that the concrete labour expended in their production must also be different.

But if this be so, if rye and matches are different use-values and different concrete labour has been expended on them, why are we able to place the sign of equality between them ? We have already given the answer to this : it is because a definite quantity of abstract socially-necessary labour has been expended on each of them. Both commodities which make up the form of value are simultaneously different and simular. If they were not different the very form of value would be impossible. But without their similarity it would also be impossible, since it is impossible to compare two articles in which there is no common factor. We can express the heaviness of flour in tons, hundredweights, and pounds, since both the flour and the weights which express its heaviness have the common quality of possessing ponderability. In exactly the same way the value of flour can be measured in boxes of matches only because boxes of matches, like flour, have value.

It is true that one essential difference exists between weight and value : weight is a natural quality inherent in flour and in the iron weight, while the common quality found in flour and matches as commodities, and which affords the possibility of comparing their value, lies, as we have already said, not in the commodities themselves, but in the relationships between the human beings who have produced them and are exchanging them. If those relationships did not exist, value itself with all its forms of manifestation would also disappear.

We also note (it is clear from what has been already said)

that the actual quantitative relationship in which one commodity is compared with another is an impermanent one. If, say, the productivity of social labour in the match factories is doubled, then one pound of rye will express its value not in two dozen boxes of matches, as formerly, but in four. If, on the contrary, only half as much labour as formerly be necessary in the production of rye, the value of the same pound of rye will be expressed in only one box of matches. It is possible of course for the value of the one and the other commodity to change equally, and then the form of value expressing the relationship between the two values will remain unchanged.

10

The Development of the Form of Value. The Three Forms of Value.

Hitherto we have been dealing with an expression of value in which each commodity finds its value only in one other commodity: rye finds its equivalent form of value only in matches. It is true that our recognition of one pound of rye as the relative form of value and the two boxes of matches as the equivalent form was to some extent conditional and one-sided. The owner of the rye thinks of the matches only as an " equivalent form," only as a mirror, in which the rye must realise its value, but the owner of the matches will on the other hand regard the two boxes of matches as a relative form, for which the rye will be an equivalent form, a measure by means of which the matches determine their own value. That is so, of course. But none the less, in this instance each commodity is set against only one commodity, in which it expresses its value. This form Marx calls the *elementary* or *accidental form of value.*

In real life, however, the expression of value is not confined to this simple or casual form.

With the development of exchange one commodity begins to come into contact not with one other commodity, but with many others; the pound of rye which to-day was exchanged for two boxes of matches will to-morrow be ex-

changed for say half a pound of potatoes, and the next day for a pint of paraffin, or for a foot of cotton print, and so on. Once one commodity comes into contact with a number of other commodities we get as it were a number of " mirrors," in which that commodity realises its value ; we get a number of simple forms of value :

1. 1 lb. rye = ½ lb. potatoes.
2. 1 lb. rye = 1 pint paraffin.
3. 1 lb. rye = 1 ft. cotton print.

As the number of commodities with which a pound of rye comes into contact and through which it expresses its value increases, so the number of such forms increases to the same extent. But in so far as one commodity expresses its value in many others we can represent this situation thus :

$$1 \text{ lb. of rye} = \begin{cases} 1 \text{ pint paraffin.} \\ \frac{1}{2} \text{ lb. potatoes.} \\ 1 \text{ ft. cotton print, and so on.} \end{cases}$$

Thus from a number of simple forms of value we get one new form, known as the total or *expanded form.*

It is easy to see that despite the fact that this form is more complex than the first, despite the fact that here one relative form of value is expressed in many equivalent forms, its essence is the same as in the simple form from which it has developed. Here also the equivalent form must represent a different use-value, and here the actual comparison is possible only because abstract, socially-necessary human labour is incorporated in all the commodities entering into the comparison ; and finally and most important of all, here also the expression of the value of one commodity by means of another is only the material expression of certain labour relationships between human beings.

The difference between the simple and the expanded forms consists in the fact that in the expanded form we have a much clearer demonstration of the transformation of any concrete labour into an abstract, as it were indifferent, value-creating labour (which is so characteristic of exchange economy) than we have in the simple form ; here not only does the labour of the farmer sowing rye stand side by side with the labour of a wood-worker (or chemist) who makes the matches ; here it is clear that into the one cauldron of the market enters the

labour of an innumerable number of men (the agriculturist, the chemist, the gardener, and the miner) and we see how this market associates and unites all the individual forms of labour into one form of social labour.

But none the less the expression of value is not restricted to this complex or expanded form of value. In developing, this very form passes into a new and higher form, the *general form of value.*

Even in the expanded form we have a particularly clear demonstration of the tendency to reduce all individual forms of social labour to a certain unity. None the less complete uniformity is still non-existent. Each commodity expresses its value in a number of other commodities. One pound of rye is compared with a definite quantity of matches, potatoes, paraffin, and so on. But the value of any other commodity, milk for instance, can be expressed in a number of other commodities also. Thus we get a series of comparisons, expressing the expanded form of value.

1 lb. of rye = { ½ lb. of potatoes. / 1 pint of paraffin. / 2 boxes of matches, and so on

1 quart milk = { one dozen eggs. / two pounds of meat. / 20 boxes of matches, and so on.

It is easy to see why there is no complete uniformity in these equations: each commodity (rye for instance) can find an innumerable quantity of expressions for its value, the expressions of the value of rye being distinct from the expressions of the value of milk and other commodities.

If we assume that the farmer were to-day to begin to exchange his rye directly for cotton print, and to-morrow for matches, how could he by way of the expanded form of value determine which of these two acts of exchange was more advantageous to him? For value is established spontaneously; when exchange is unprofitable production is cut down, and where on the contrary it is more profitable it expands. How can the farmer determine whether it is more profitable for him to rear cows and sell milk or to sow rye, if he expresses the value of milk in paraffin and the value of rye in cotton print?

It is evident that the process of " comparison " of all the forms of labour and of their reduction to one abstract social labour, which we have already seen in the simple and still more in the expanded form of value, must be carried still further : this is achieved by the third form of value, which is developed out of the expanded form, and which is given the name of the *general form of value.*

In this third form all commodities, no matter how great their variety, find their expression in one single commodity. In this case we shall assume that milk, and rye, and many other commodities will determine their value through matches, thus :

10 lb. rye,
5 lb. potatoes,
4 pints paraffin,
1 dozen eggs,
2 lb. meat,
1 quart milk, and so on. } =20 boxes of matches.

This new form of value has arisen out of the expanded form, and on considering the equation one may even think that the difference between them consists only in the fact that the two halves of the equation have been transposed. In reality, if we set " twenty boxes of matches " on the left side of the equation and all the remainder on the right we get the expanded form.

But of course it is not merely a question of the rearrangement of the halves of the equation. The difference is a deeper one : in the one case a single commodity had an innumerable number of " mirrors " into which it could look in order to determine its value. The relative form of value was one, but there were many equivalents. In that case each equivalent determined the value of one and the same commodity in its own way. But here in the universal form, the universal equivalent, the single mirror so to speak in which all commodities see themselves, is a single commodity—the matches in our example. In the former case each commodity could take on innumerable forms ; in this case all commodities take on one form, they all express their value in matches. Here the uniformity of all the different parts of an exchange system finds its clearest expression. No matter what you

produce, no matter how " needful " or " irreplaceable " your labour (provided only that it be socially necessary) the product of your labour, in coming on to the market and like other commodities expressing its value in one " universal equivalent," loses its personal features as it were, becomes a value among a number of other values, is finally transformed into a component part of social labour in general.

The commodity which begins to be a universal equivalent, a universal " measure of value," as it were, begins to play a quite special rôle. When I enter the market and desire to ascertain what a pound of rye is worth, I obtain the answer: two boxes of matches. When I ask what a pint of paraffin is worth, I again get the answer: four boxes of matches. Here matches of themselves are of no particular interest to me; they are only a means of expressing the value of all other commodities.

But after what we have said so far, it ought to be sufficiently clear that the rôle of a universal equivalent can be fulfilled by matches only because they themselves are a value: one which incorporates a definite quantity of socially-necessary labour.

Thus, despite the difference which exists between various forms of value, the fundamental content of the simple form of value can be related to all the other forms, since both the expanded and the universal form are themselves only a development of the simple form, as we have already shown.

II

Money. Money and Commodity Fetishism in General.

When speaking of a universal equivalent through which all commodities determine their value, we took matches for our example. We did so in order to show that essentially any commodity possessing value could be a universal equivalent.

In reality, in modern society the rôle of such a universal equivalent is played by a special commodity—money. In consequence the universal form of exchange itself is given

the name of money form of exchange.[1] As is well known at the present day, the basic money commodity is gold.

This was not always the case.

In the days of antiquity, when exchange was far from being so developed as it is now, and was chiefly of a local nature, the rôle of money was played by some other marketable commodity in this or that locality. Where hunting was one of the most important professions, furs and hides were the general commodity ; where stock-raising was widespread, cattle were the commodity, and so on.

Among some of the natives of Africa, as R. André tells, the universal measure of value is played by the members of hostile tribes who have been taken prisoner. " There the largest unit of currency is a handsome youth or beautiful blooming maiden."[2]

Only gradually were precious metals chosen from among the other easily vendible commodities, and later still gold was singled out from these. At first these precious metals begin to play the rôle of universal equivalent in the form of bars of various sizes, then in the form of pieces of definite size and weight ; coins of a definite pattern are the product of a much later time.

What it was exactly that enabled gold, and other precious metals, to supersede a number of other commodities as currency is not difficult to realise. In the first place, these

[1] Many, basing themselves on Marx's division, are of the opinion that four forms of value have to be distinguished : elementary, expanded, general and money value. But Marx himself says : " In passing from form A to form B, and from the latter to form C, the changes are fundamental. On the other hand, there is no difference between forms C and D except that in the latter gold has assumed the equivalent form in the place of linen. . . . The progress consists in this alone, that the character of the direct and universal exchangeability—in other words that the universal equivalent form—has now by social custom become finally identified with the substance, gold." (*Capital*, vol. 1, p. 80, 1926 ed.)

Obviously there is no justification for recognising the form D (money) as a specifically new form, essentially different from form C (general).

[2] During the period of war communism, in the Soviet Union, owing to the catastrophic fall of the currency, the role of the universal equivalent was occasionally played by such commodities as salt, tobacco and flour.

precious metals are convenient chiefly because they do not spoil with time, and wear only very gradually, while such a currency commodity as cattle, for example, can not only "spoil" (fall ill or die, in other words), but demand special attention. In the second place, gold is easily divisible: with gold one can buy commodities of different values, both dearer and cheaper; while, if one has an expensive hide of some animal or cattle, one can only buy commodities the value of which is the equivalent of at least one unit of the commodity, or some exact multiple of that currency unit. For if you cut the hide into sections it may lose its value altogether, while one cannot cut a cow into pieces at all.

In addition, gold coins are convenient by their small size (in other words, by the fact that in one small coin is incorporated a comparatively large amount of social labour); they can easily be carried and transported, kept in safe keeping, and so on. Finally, gold coinage is also convenient by the fact that it can easily be distinguished by its colour, ring, and so on.

All these advantages of gold led to its becoming the basic currency material.

None the less, the circumstance that gold has definite physical qualities—the circumstance, for example, that in ordinary conditions it does not oxidise, or that it is easily divisible—cannot explain fundamentally why gold generally should have become a universal equivalent for all commodities. For, as we know, the physical qualities of a commodity only determine its use value, and use value is only a preliminary condition of any product becoming a commodity.

Gold money can only serve as a measure of value for other commodities because, like matches, it is itself a commodity, having a definite value and incorporating in itself socially necessary labour. Gold can play its rôle in modern society only because the whole structure of that society leads to the arbitrary domination of the law of value, and money is only the universal expression of that value.

There are many sensitive people who are heartbroken at the dominating importance which gold has in modern society, and who often like to expatiate on their hatred of the "despised metal." They begin to see the fundamental

evil of capitalist society in gold as such. Even in ancient Greece there was a " wise " legislator who endeavoured to prohibit gold money in order thus to eradicate the evil of mutual hatred and strife which is evoked by the desire for profit.

But, of course, it is not just a question of the shining yellow discs called money. Money itself is only a reflection of the relationships which predominate in capitalist, and in unorganised exchange society in general. Of itself money does not possess any mysterious magical power. As we have seen, the currency form of value does not differ in principle from the other forms of value, from which it has developed. The power of money is only a manifestation of the general power of things over human beings which is so characteristic of unorganised exchange society.

That power of things over human beings observable in unorganised economy was first revealed by Marx, and was given the name of " commodity fetishism." Just as the primitive pagan prostrated himself before his " fetish " (idol), before some thing which he had himself made, so the man living in an unorganised economy has to bow down before the things he has made.

Of course, it is sufficient to educate the savage and to transform him into a cultured man for his fetishism to disappear as though scales had fallen from his eyes. It is otherwise with commodity fetishism: it is, of course, a great achievement to understand that things express social relationships, that the entire evil is not in them, but in the relationships between men which have given birth to them. But the task is not restricted to that; in order finally to eliminate commodity fetishism it is necessary to eliminate the conditions which have given birth to them.

It is nonsensical to prohibit money, as the " sages " of ancient Greece did. Despite all forms of prohibition, it will appear in some form or other so long as private property exists and individual producers are forced to have communication with one another through the market. But let society be reconstructed so that private ownership no longer exists, and the necessity for the market disappears, and then the power of the " shining yellow discs " over human beings will vanish of itself. And then it will no longer be a case

of human beings being dominated by the things they have created, but of human beings intelligently and systematically administering those things.

" Money fetishism " is one of the worst forms of commodity fetishism. Even well-known economists stop in amazement to consider money and its omnipotence, although they do not seek the reason for that power where it is to be found. That is why we said that it is a great achievement to understand that in unorganised society things reflect social relationships. But it is a still greater achievement, after understanding these relationships, to reconstruct them so that the very root of commodity fetishism shall be exterminated.

12

Money as a Measure of Value and a Standard of Prices.

We have seen that the money form of value, which is a variety of the universal form of value, represents only the most developed and expanded form of value ; while, as we have indicated, it also demonstrates in the clearest possible form that which existed, in a rudimentary form, even in the simple form of value.

Every commodity, then, can express its value in money only because money itself has value. The quantity of money which I receive in selling my commodity, in other words, the price of the commodity, will depend both on the labour incorporated in my commodity and on the labour incorporated in the money. If, for instance, a pound of rye represents the product of twenty minutes of socially-necessary labour, and every farthing incorporates five minutes of the same labour, the price of a pound of rye will be expressed by four farthings. If owing to improvements in the technique of agriculture a pound of rye can be produced in ten minutes[1] the price will change and will be expressed by two farthings. And the price of rye may also change, even if the labour necessary to its production remains the same : that will

[1] It is of course a question of the reduction of socially-necessary and not of individual labour.

happen when the labour necessary for the production of gold varies. But it is easy to see that if the production of gold is made easier, the price of rye will not fall, but will rise, since there will be less socially-necessary labour incorporated in every farthing.

It follows that with an improvement in the technique of gold production there should be a relative rise in prices. But in reality the rise in prices dependent on this improvement is usually not very great, since the annual production of gold by comparison with the reserves of gold already in existence, produced in previous years, is not great, and the socially-necessary labour is determined by the labour which is necessary to the reproduction of all the units of the given commodity in circulation on the market; moreover, the actual technique of gold production shows comparatively little progress. Of course, it cannot be said that the value (and price) of gold has no influence whatever on the level of commodity prices; the fundamental rôle in the "revolution of prices" which occurred in the sixteenth century was played by the increased output of gold after the discovery of America. Rich deposits of gold were found in America, and in consequence the production of gold began to call for less labour expenditure; this led to a decline in its value. The decline in the value of gold led in its turn to a rise in prices.

It is possible, of course, to have a case in which the price of a commodity may alter simultaneously from two causes, a change in the value of money and a change in the value of the commodity itself; and, owing to the various combinations of these two causes, the price of a commodity may in certain cases drop, and in others rise. Whether this be so or not, at any given moment, under definite technical social conditions, a definite quantity of this or that commodity finds the expression of its value in as definite a quantity of money. As is well known, this money expression of value is called the price of the commodity. The quantity of monetary units in which the price of a commodity is expressed depends, of course, on the unit which we choose for the purpose of measurement. The price of one and the same commodity may appear different in accordance with whether we express it in gold ounces or grammes, in gold

pounds or gold dollars. Of course, the total mass of gold in which a commodity measures its value will remain one and the same whether we measure it in ounces or pounds sterling; but the quantity of units in which the price will be expressed will be different.

Different countries have different monetary units in which the prices of commodities are expressed. Until the introduction of money, prices were expressed in units of weight; with the establishment of a monetary system various monetary units were established in various countries, owing to a number of historical conditions. Thus in Great Britain the unit is the pound sterling, since this unit once incorporated a value equal to the value of one pound of silver. In France, since the great French Revolution, the franc has been established as the unit, the franc containing ·9 grammes[1] of pure silver. The U.S.S.R. accountancy unit of money, the gold rouble, contains about 0.775 grammes of gold.

Money in its quality of universal equivalent is a *measure* of value for all commodities; in the form of units of a definite size or weight it also fulfils the function of a *standard of price*, in Marx's expression.

While the value of gold alters (as we saw in our example), this in no way hinders money from fulfilling its rôle as a standard of prices as before. Though the value of the gold of which a gold sovereign is composed may fall by half, the sovereign thereby does not cease to be twenty times the value of a shilling as before.

Marx says: "It is in the first place quite clear that a change in the value of gold does not in any way affect its function as a standard of price. No matter how the standard varies, the proportions between the values of different quantities of the metal remain constant. However great the fall in its value, twelve ounces of gold still have twelve times the value of one ounce; and in prices, the only thing considered is the relation between different quantities of gold. Since, on the other hand, no rise or fall in the value of gold can alter its weight, no alteration can take place in the weight of its aliquot parts. Thus gold always renders

[1] Since stabilisation in 1928, the franc is worth about $\frac{1}{5}$th of its pre-war value.—Ed. note.

the same service as an invariable standard of price, however much its value may vary."[1]

Despite the fact that in different countries different monetary units exist, no special difficulty is experienced in translating prices expressed in the currency of one country into prices expressed in the currency of another. In doing this it is necessary to take into consideration only the quantity of gold found in each coin. This is the way in which the exchange of various gold currencies is also governed. In the exchange of the gold currency of one country for that of another it is necessary to take into consideration, in addition to the weight of the money, only the expense of transferring money from one country to another, or the expense connected with the recoining of the currency of one country into the currency of another (if recoining is cheaper than the actual transfer).

13

Money as a Means of Circulation.

Hitherto we have been considering only the one basic function of money: to serve as a universal equivalent, a universal measure for the expression of the value of all commodities.[2]

In modern society the value of a commodity is expressed not in units of socially-necessary time, not in hours and minutes, but in money. This expression of value is used even when the commodity has not yet been exchanged for real money; I can decide that a pound of rye costs so much money without seeing gold money. Of course, if this money and its value had no existence whatever, such a measurement of the value of commodities by means of money, even "ideal" money, in other words, in a man's head, would be impossible. That would be as absurd as it would be to demand of a man that he should imagine the length

[1] *Capital*, vol. I, 1926 ed., p. 110.

[2] In serving as a standard of price money only fulfils a special rôle in its function as a measure of value.

of a room in yards in his head if a yard of a definite length had no existence whatever in actuality.

But is the function of money only restricted to its serving as a measure of value (and a standard of price)?

By no means. In a commodity economy money is necessary not only to serve as an expression of the value of commodities, but also in order that exchange may be effected by its means.

In a society where exchange has reached a high degree of development it rarely happens that the commodity owner exchanges the commodity produced (or generally sold) by him immediately and directly for the commodity which he needs for his own use.

If a peasant has produced rye or milk for sale, and he has need of paraffin, he may meet with a number of difficulties if money be non-existent. The seller of paraffin may have no need whatever of grain or milk, but needs cloth, say. Thus the peasant who has need of paraffin must search on the market for a seller of cloth who has need of his milk, and only after that can he obtain the paraffin he needs from the paraffin seller in exchange for the cloth. And if the seller of cloth has no need of milk or grain, but does need some other commodity, the exchange takes on a still more complex character. Before the peasant could obtain his paraffin, he would have to resort to the assistance of a number of *intermediary* commodities.

This is still the method among primitive peoples, where exchange is comparatively poorly developed. Here is the story of how one traveller in Africa hired a boat:

"It was amusing to see how I had to pay for the boat I had hired. . . . Sand's agent demanded payment in ivory from me, but I had no ivory. I learnt that Mahomet Ibn-Salib had ivory, and that he was willing to exchange it for cloth, but I was still no better off, for I had no cloth. At last I learnt that Mahomet-Ibn-Hanib had cloth which he was willing to exchange for wire. Fortunately I had some wire, and I gave Mahomet-Ibn-Hanib the quantity of copper wire demanded; he in his turn handed Mahomet-Ibn-Salib the corresponding quantity of cloth, and the latter gave Sand's agent the ivory he required. Only after all this did I receive permission to use the boat from the

agent." (Cited in Trachtenberg: *Paper Money*, Moscow, 1925, page 70.)

We will call the commodity which the traveller possessed, i.e., the wire, C1; and the commodity which he needed (the boat), C2. The traveller endeavoured to effect the following exchange:

$$C1 - C2$$

He was unsuccessful in effecting this exchange immediately and directly, but he achieved his end by means of a number of intermediate links, namely:

$$C1 \text{ (wire)} - C3 \text{ (cloth)} - C4 \text{ (ivory)} - C2 \text{ (boat)}$$

Was the traveller interested in the use value of cloth and the ivory as such? Not in the least. Then why did he purchase them? Obviously in order by their means to obtain the commodity which he needed for his use, i.e., the boat.

In a developed system of exchange, instead of a series of fortuitous commodity-intermediaries which change with different circumstances, and the number of which may in each separate case be very large, *one intermediary* is established, namely money.

The peasant selling his grain no longer has need to seek a paraffin seller who has need of grain. He can sell his grain to any purchaser who has the money. And afterwards with this money he can purchase paraffin, while the paraffin seller in his turn can buy what he needs from another with the money he receives.

Then the metamorphosis in which the peasant has participated takes on the following form:

$$C1 \text{ (grain)} - M. \text{ (money)} - C2 \text{ (paraffin)}$$

Here money serves as an intermediary between two commodities. In this example money again demonstrates its "uniting" rôle; it brings together commodities which without the aid of money would be hardly likely to find the road to each other, or would do so only under the greatest of difficulties.

Such is the second function of money as a general intermediary in exchange between commodities, or, as Marx says, as a *medium of circulation* of commodities.

In fulfilling this rôle money displays certain notable peculiarities, which here we shall consider only briefly, to return to them later when we are dealing with paper money.

In the first place, it appears that money in the process of circulation has a longer existence than other commodities. After we have purchased it, any other commodity goes to satisfy a need. After grain is bought, it is eaten. Clothes are worn out. But now I have sold grain and " bought " money. What happens to the money afterwards? It would appear that I " use " it also. But what is meant by using money as such (i.e., as money, and not simply as a piece of gold)? It means to purchase something with it, paraffin, say. And in this transaction what happens to the money? It is not eaten, it is not lost, but only passes into other hands, into the hands of the paraffin seller. But the paraffin seller again " uses " this money, buying cloth with it, for instance. Here again the same money serves as an intermediary for a fresh metamorphosis.

$$C_2 \text{ (paraffin)} - \text{M. (money)} - C_3 \text{ (cloth)}$$

Here the money passes into the hands of the cloth owner, thus consummating a fresh transaction, and so on. Thus, in serving as a medium of circulation money passes from hand to hand, and even in the course of one day can consummate several transactions; in other words, can several times participate in the process:

$$C - M. - C$$

It is easy to conceive how large must be the quantity of money necessary at any given moment in order to ensure the circulation of commodities.

Let us assume that there are commodities to the value of one thousand pounds on the market. Does this mean that in order to ensure their normal circulation one thousand pounds in money is necessary? Of course not. For every pound will be turned over several times in the one day, and will serve commodities to a value larger than one pound. Supposing a peasant sells grain for a pound and immediately buys paraffin for one pound. The paraffin seller may buy cloth with the same pound; the cloth-seller may in turn buy wool with it. We will assume that the turnover of the pound

in the day is restricted to these operations. What is the result? That one and the same pound has during the day served for these commodities:

Grain	£1
Paraffin	£1
Cloth	£1
Wool	£1
Total	£4

This has taken place because the pound has been turned over four times. The swifter the circulation of money, the larger the number of commodities it can serve. Not all the pounds on the market turn over with the same speed. But if an estimate be made of the *average* speed with which the pounds (or any monetary unit in general) turn over on the market, it is easy to reach the conclusion that the quantity of money required for circulation is equal to the value of all the commodities in circulation divided by the average number of transactions effected by a unit of the money. If on the average each pound turns over five times in one day, then in the case of our example the market will have need not of one thousand pounds, but of 1,000/5, i.e., £200.

Later on it will be necessary to add somewhat to the foregoing, but for the time being this will be sufficient.

14

Other Functions of Money.

But does money always come within the sphere of circulation? Is it condemned to the rôle of "perpetual wanderer" in the circulation of commodities?

That is not altogether so.

We have seen that the quantity of money necessary for circulation is determined by the value of the commodities and the speed of circulation of the money. But the quantity of commodities on the market is not a constant figure: assume that to-morrow there will be fewer commodities on

the market, or assume that the money turns over more quickly, and then part of the money may prove to be superfluous. What happens to this superfluous money? Part of it may be melted down from gold coins into ear-rings, rings, or gold teeth. But part of it may be stored in fireproof safes, in chests, or under the floorboards. So long as it is lying there it is transformed from a medium of circulation into a *hoard*.

To enable someone to hide money and to transform it into a hoard, the process C1 – M – C2 has been broken off in the middle; it has been hung up at the stage C1 – M. The value of the treasure, the labour incorporated in it, is sleeping as it were, ready at any moment to awake again and play its rôle in the regulation of the social relationships.

The transformation of money into a hoard may be effected not only when it is superfluous to circulation. Sometimes the very nature of a commodity or the conditions of the market make it necessary that the process C – M – C should be temporarily suspended. If, for instance, the peasant has to buy a new thresher, he gradually puts aside the money he has received from the sale of his agricultural produce until the necessary sum has been accumulated. Sometimes it is advantageous not to buy a commodity immediately after the sale of one's own commodity, but after the lapse of a certain time.

Finally, the conditions of commodity transactions may be such that the purchaser receives the commodity he needs before he has paid money for it. This is a case of sale on credit, and we shall not stop to consider it in detail here, as we shall have to deal with it later. We merely point out at the moment that this is possible, for example, when the peasant receives a commodity from the merchant in the summer, in the expectation of paying for it after selling the grain of the new harvest. Then the process of commodity turnover takes on the following "abnormal" form:

(1) C2 (the peasant takes cotton print on credit in the summer).
(2) C1 – M (the peasant sells his grain in the autumn).
(3) M (the peasant pays his debt to the merchant).

But customarily, as we know, the process consists of two stages:

(1) C1 – M.
(2) M – C2.

When the peasant pays the merchant the money for the cotton print in the autumn, it is obvious that the money in this payment is not a medium of circulation, since the commodity has already " circulated " before the payment of the money. The payment as it were bridges the gulf which has arisen in the process C1 – M – C2 by purchase on credit. In such a case it is said that money fulfils the function not of a medium of circulation, but of a means of payment.

Thus, money, as we have just established, fulfils the functions of a measure of value, means of circulation, means of hoarding, and finally of a means of payment. Without money exchange and its regulation through the law of value would be extraordinarily difficult.

We began the exposition of this course with prices, and when we attempted to explain the phenomenon of price, we arrived at the law of value, which lies at its basis. Now we see that the price of a commodity is nothing other than its value expressed in money. When talking about price in this chapter, we have continually started from the assumption that price coincides with value. Such an assumption would correspond to the reality only in the event of the demand for a commodity being equal to its supply. We now once more remind the student that in an unorganised exchange economy such a correspondence can exist only for a moment, in the form of an exception, and as a rule the regulation of exchange and the distribution of labour over the various spheres of production in proportion to needs is, as we have seen, effected through a constant deviation of price from value. But this circumstance does not in the least diminish the importance of value as the centre towards which with all its deviation prices irresistibly tend, and around which their fluctuations take place.

In his *Course of Political Economy*, L. J. Liubimov very successfully compares value with the school-bell before the beginning of a lesson. It rarely happens that a scholar

appears immediately the bell rings. The majority arrive a little while before, or else . . . after. But it does not follow from this that the bell has no relation whatever to the beginning of lessons and the arrival of the pupils. The bell is the point of equilibrium by which the arrival of the pupils is regulated.

Of course, despite the success of this simile, it is only a simile. There is a colossal difference between value and the ring of a bell. First and foremost, the ringing of the bell is established by conscious will, whilst value, the regulator of price, establishes itself blindly, as we have seen. But one must never demand an exact resemblance from a simile.

In conclusion, after all that has been said about money it is necessary to note that in our observations we have had in mind only what is called par value money, which to-day is represented by gold coinage.

Everybody knows that in modern society together with this coinage non-par value money also figures; this includes silver, copper, bronze, nickel, and other coins. Less labour is incorporated in these coins than one would expect from the price fixed for them, and from the proportion in which they are exchanged for gold (where that exchange is effected.)

A still greater place in present-day society is occupied by paper money, which can (it is true only under certain conditions) replace gold coinage, despite the fact that the labour expended on its production is insignificant.

At first sight it would seem that this circumstance contradicts our observations; it may appear that it is not in the least obligatory for money to have value.

But in reality this is not so.

Full-value money can be replaced by money of less than full value and by paper money only as a medium of circulation, which is explained by the transient rôle which money plays in the given instance. We have already seen that when a farmer sells his grain for one pound and immediately hands over that pound in exchange for paraffin, the money has only been in his hands for one moment and has immediately slipped out again. In so far as he has succeeded in disposing of this money and in obtaining a commodity in exchange for it, the value of which corresponds to one pound, he is unconcerned whether the pound is of gold or

has been replaced by paper. The paraffin seller takes the same view if he also puts the pound into circulation, i.e., buys cloth with it. None the less, we repeat that paper money can replace full-value money only temporarily and in the process of circulation. If there were no full-value money, its substitute also could not exist.

This question will be analysed in more detail in the chapter on paper money and credit, where we shall make the corresponding deductions from all that we have said so far on the functions of money.

COURSE OF READING IN CONNECTION WITH CHAPTER II

A. Commodity fetishism.

The student is recommended to read (*a*) a passage from Kautsky's *Economic Doctrines of Karl Marx*, 1925 edition, beginning with the words: " Let us take a potter and a cultivator . . . " and ending with " . . . even by the supporters of the Marxian doctrines " (pp. 10-11).

EXERCISES

1. What is commodity fetishism compared with religious fetishism?
2. Does the root of commodity fetishism lie only in the delusions of human beings? Would commodity fetishism disappear if all capitalists understood that the value of a commodity is only the reflection of social relationships? Give your own opinion.
3. Why is it easiest of all for the worker to lay bare the roots of commodity fetishism?
4. The student should commit to paper the main ideas obtained as the result of working over the passages suggested for reading.

B. The indispensability of money in exchange economy. Money as the expression of social relationships.

The student is recommended to read Chapter I of Hilferding's *Finance Capital* (no English translation: Tr.).

EXERCISES

1. Compare the passages from Hilferding with the passages from Kautsky recommended above and answer the question:

Does not the passage from Hilferding complement the passage from Kautsky, and if so, in exactly what way?

2. Why does Hilferding consider that the exchange of toys between two children, brother and sister, is not an economic fact, and is distinct from that act of exchange which their father carried out in buying the toys on the market?

3. Why can the conception "commodity fetishism" be best of all applied to money?

PART II

THE PRODUCTION OF SURPLUS VALUE

Chapter I

SURPLUS VALUE IN CAPITALIST ECONOMY

15

The Impossibility of obtaining Surplus Value from Exchange.

WHEN we were studying the law of value we started with a simple commodity economy, consisting of petty commodity producers who own the means of production and live by the sale of the products of their labour. In such a system the object of exchanging one commodity for another is the endeavour to satisfy one's own needs. We now have to turn to the study of the laws which govern *Capitalist* society.

If we consider the exchange which occurs in a capitalist economy, we see a picture very different from that which we drew in regard to the simple commodity economy. Go into any shop of a modern capitalist town and endeavour to bargain with the shopkeeper over the prices of his commodities. The first argument you will hear from him will not be that which you heard from the tailor who made your trousers: i.e. that " materials are dearer," " we've got to live somehow," and so on; but you will hear that " as it is he only gets a small profit by the sale of that commodity," and as his last argument he will say: " they sell the goods to me at their own price, and I've got to make something somehow."

We see that in our day the very object of commodity exchange has altered. While in a simple commodity economy it can be expressed in the formula: Commodity – Money – Commodity (C – M – C)—that formula is not applicable to the modern capitalist commodity economy. For the modern capitalist the process of exchange begins with money and ends with money: M – C – M.

But if commodity exchange ended with the same sum of money with which it began, it would have no point whatever

for the capitalist. Obviously, exchange is only sensible and justified in the eyes of the capitalist if, as a result, it brings him not the same amount of money which he expended, but more. Thus the formula characteristic of capitalist commodity circulation will be: M – C – M + m.

The question arises: Where does this excess " m " come from?

The first answer which offers itself is that this money surplus, or profit, as the capitalist calls it, is obtained owing to additions to the price of the commodities.

Let us analyse this answer to see how far it is correct.

When considering the law of value we saw that the prices of commodities are continually tending to approximate to their value, i.e., to the socially necessary time which has been expended in their production. The price of this or that commodity has only to rise above its value for commodity producers, attracted by the higher price, immediately to begin to engage more extensively in the production of that commodity (so long as that heightened production does not lead to a fall in the price of the commodity below its value, when a contrary flow of commodity producers out of this sphere of production into another begins). This fluctuation of prices, accompanied by flows and ebbs of capital, will continue until a price is established which corresponds to the commodity's value. It is quite obvious that during the period of such fluctuations one commodity owner can profit at the expense of another, his competitor. But that gain will be of a temporary nature, and will disappear simultaneously with the cessation in the fluctuation of prices. Consequently, the fluctuation in supply and demand cannot explain the profits which the capitalist class receives, but can only explain those fortuitous changes which occur in the distribution of profit among the individual capitalists.

Marx says: " The sum of the values in circulation can clearly not be augmented by any change in their distribution, any more than the quantity of the precious metals in a country by a Jew selling a Queen Anne's farthing for a guinea. The capitalist class as a whole, in any country, cannot overreach themselves."[1]

[1] *Capital*, vol. 1, p. 181, 1926 ed.

Possibly the profit is obtained in consequence of the sellers possessing the unexplained privilege of selling their commodities at prices exceeding their value. But nature knows no capitalists who only sell without buying. Take an industrial capitalist (i.e., one who owns an industrial enterprise) as an example. After the sale of the commodities produced, he has to buy articles for his personal use and a mass of all kinds of commodities necessary to continuing the process of production, with the money he has received. The same applies to a merchant who has no production of his own but trades with ready-made commodities; after selling the commodities he has bought, he has to buy more. Thus the capitalists are continually changing places. Those who yesterday were sellers, to-day become buyers, and vice versa. Consequently, while gaining as sellers, they lose as buyers.

No matter how much we may thus rack our brains over the attempt to explain profit arising out of the process of circulation, we are only wasting time, for we cannot achieve any success. The circulation of commodities cannot be the source of capitalist profit. The explanation of profit by additions to the prices of commodities, which seemed so intelligible, natural and convincing, proves on a deeper consideration of the question to be unable to withstand even the slightest of critical analysis. The secret of the profit obtained by the capitalist class remains unsolved for us. The task before us is the following: "Our friend Money-bags . . . must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value from circulation than he threw into it at starting."[1]

16

Labour Power as a Commodity. The Value of Labour Power.

The task we have set ourselves can be resolved only if we find on the market a commodity which possesses the ability to create value. Value is created by labour. Of all the commodities figuring on the capitalist market, only one pos-

[1] Marx, *Capital*, vol. 1, pp. 184-185, 1926 ed.

sesses the capability of labour, and that is labour power. Consequently, only this commodity can be the source of value.

We know that labour power is not a commodity in every system of social relationships. Take the slavery system, feudalism, and finally the simple commodity economy we have just been considering: in all these cases labour power is not a commodity. In order that labour power should become a commodity, two conditions are necessary: in the first place the labourer must have personal freedom, i.e., he must have the right freely to dispose of his own labour-power. Neither a slave nor a serf possesses that right; they are personally dependent on the slave-owner and landowner. The second condition consists in the worker being separated from the means of production and the means of existence, and consequently compelled to sell his labour power. This is what distinguishes the worker from the artisans and peasantry and in general from the petty commodity producers who possess the means of production: benches, instruments, sheds—and who consequently sell not labour power but the product of their labour.

Thus we have found on the market that commodity the use of which freely creates value: and that commodity is labour-power. By the conditions of the task we have set ourselves, we must explain the appearance of capitalist profit on the basis of the theory of value. Consequently, in buying the commodity labour power, the capitalist should pay its full value for it.

How is the value of labour power to be determined? We have seen that the value of any commodity is determined by the time socially necessary for its production. When we said this of all other commodities: trousers, boots, blacking —it appeared quite clear to us and aroused no perplexity whatever. But how can this definition be applied to labour power? Labour power is not produced in a factory, but develops in the process of life by a natural multiplication. This would appear to justify us in thinking that the commodity labour power must be regarded as an exception to the general rule. However, if we study more closely the exploitation of labour by capital which takes place in a capitalist factory, we see that the commodity labour power

is exceptional and has no privileges which separate it from other commodities.

Of what use is labour power to the capitalist ? It is useful because he can put it for a certain length of time into action.

" Labour is a conscious and deliberate activity of man, an operation performed by man upon natural materials, in order to give them a form useful for his needs."[1]

In working, in operating on external nature, the worker expends a certain quantity of muscular power, nervous (including brain) energy, and so on. In order to preserve his labour power ready for work, the worker must daily restore the quantity of energy expended. And in order to do this, he must use a definite quantity of the means of existence ; he must have a home, furnished with some furniture at least, clothes, food, and so on.

In addition, there has to be a constant influx of labour power. This influx is more or less guaranteed by the natural multiplication of the workers. Consequently, the worker must have means for the maintenance of a family. If the minimum means of existence he receives do not ensure the maintenance of his family, it may not only lead to capital being deprived of an influx of supplementary labour power, but the worker himself will not be able to restore the energy he has expended sufficiently to be in a condition to work for the capitalist. For if the worker has a wife and children, and the means of existence which he receives are only sufficient to restore the energy he personally has expended, it goes without saying that he will divide those means among his family, and in consequence will be unable to restore the energy he has expended. The maintenance of at least an average family, therefore, must necessarily enter into the value of labour power.

Further, every worker has to have a certain minimum of culture.

No matter how poor the worker's dress may customarily be, without it he cannot appear at work. Consequently, if his earnings do not give him the chance to get clothes, he will deny himself more satisfying food ; he will live on bread and water, but will obtain at least some poor outer clothing, but again in detriment to the restoration of his

[1] Kautsky, *The Economic Doctrines of Karl Marx*, p. 65, 1925 ed.

physical powers. Consequently, a certain cultural level must also be ensured the worker.

It goes without saying that in different countries this level is very different. Thus, in the maintenance of his existence, the cultured American worker needs a frequent change of linen, a good suit of clothes, a daily paper, visits to the theatre, lectures, and so on. Were all these things regarded as "articles of prime necessity" to the Russian worker before the revolution? Of course not. There could be no talk of visiting theatres; the need of a newspaper was characteristic only of the upper ranks of the workers. The barracks in which thousands of Russian workers lived in would seem quite impossible to the European, and still more to the American worker.

But compare the life of a Russian worker with that of a Chinese, and what do we see? Huge masses of Chinese workers have possibly never even heard of linen. Outer clothing also is not always an article "necessary to their existence"; a dirty rag covering the body is frequently a satisfactory minimum. His food frequently consists solely of half raw rice; he often spends his nights in the factory, sleeping at the side of the machine; and a barracks with a definite number of places for night-shelter is to him a luxury.

Under such conditions even the average Russian worker probably could not exist.

All this is explained, of course, by a number of causes of an historical nature, by the circumstances in which the birth and development of the working class in general occur, and the customs which have in some cases been established in the course of many centuries.

It is obvious that the more qualified the worker, the more cultural habits and necessities does he possess, without the satisfaction of which he finds it difficult to get along; and this still more enhances the value of skilled labour power.

But the greater value of skilled labour power is, of course, not explained solely by the greater culture of the skilled worker. Here it is necessary to take into account the socially necessary time which has been expended in training. In addition, the maintenance and further enhancement of the worker's qualification also demands a security which is

higher by comparison with the cultural level of an ordinary worker. All the means of consumption necessary to a worker for the restoration of the energy expended by him in the process of labour, for the maintenance of an average family and for the maintenance of a certain cultural level, have a definite value, which, like the value of all other commodities, is determined by the time socially necessary for its production. The value of all these means of existence will be the value of the labour power.

At first sight it may appear strange that the capitalist, whom we are accustomed to regard as an exploiter, who in his sleep dreams how to extract still more from the worker, is suddenly depicted as a kind of benefactor who concerns himself with seeing that the worker should have enough for the restoration of his powers, for the maintenance of his family, and for the maintenance of a certain cultural level. It would appear that all capitalist reality cries out against this. Where have we known a capitalist, when taking on a worker, to interest himself in the question of whether he has a family or not, so that he can pay a man with a family more than he does a bachelor? But in reality, although the capitalist never sets himself the task of ensuring the worker a minimum of the means of existence necessary for the maintenance of a family, but on the contrary strives by all possible and impossible means to reduce that minimum, none the less, owing to those very laws of the market which approximate the prices of commodities to their value, the capitalist is compelled to pay the worker on the average that very sum of money which will secure him that minimum. If the capitalist lowers the payment of the workers' day below that minimum, his action is immediately reflected on the productivity of labour and on the quality of the work; for a hungry, starving worker cannot work as well as a worker who appears at the factory rested and with his strength restored. Here we shall not touch on those fluctuations in the supply and demand of labour power, the struggle of the workers themselves, which may cause the price of labour power to deviate from its value: we shall deal with this in the section on wages.

But for the time being we reach the conclusion that labour

power, like any other commodity, has value, and this value is determined by the value of those means of existence which go to its reproduction, to training, the maintenance of an average family, and the maintenance of a certain cultural level.

17

The Origin of Surplus Value.

But if we thus start from the assumption that the capitalist pays for labour power at its full value, where does his profit come from in that case? Here we have to touch upon the qualities of the commodity, labour power, which distinguish it from all other commodities. When a worker and a capitalist meet on the market, they both act as two equal commodity owners. The worker as the owner of the commodity, labour power, and the capitalist as the owner of a certain sum of money. The capitalist purchases labour power for a definite sum of money corresponding to its value, say a shilling a day. On buying the commodity, labour power, the capitalist can exploit its use value.

The use value of labour power consists in *labour*, which, as we know, is the creator of value. On obtaining the right to the use value of labour power, the capitalist begins to exploit it, compelling the worker to supply his labour. If he has bought labour power for a shilling a day as we assumed, and that shilling represents the money expression of five hours of labour, after the five hours have passed the worker returns to the capitalist the sum which the capitalist has expended in the purchase of the labour power. But labour power has the distinguishing peculiarity that it can give a larger quantity of labour than that which has gone into its maintenance; in other words, it can create greater value than its own value.

Knowing this marvellous quality of labour power, the capitalist does not restrict himself to those five hours of labour in the course of which labour power creates the value equal to its own value, but compels the worker to work much longer—for ten hours, say. Thus that part of

value which the worker creates by his labour in the second half of his working day will represent pure profit to the capitalist. This extra value which the worker creates over and above the value of his labour power bears the name of *surplus value.*

That part of the worker's time in which he reproduces the value of his labour power Marx calls necessary time, and that in which he creates surplus value for the capitalist he calls surplus time. The distinguishing peculiarity of capitalist exploitation consists in this form of surplus value. In reality exploitation also existed during slavery and feudalism, but labour power never became a commodity, and consequently the surplus product never became surplus value. It is this surplus value created by the worker in his surplus time which is the source of capitalist profit.

18

Capital.

We know that more than labour power participates in the process of capitalist production. Instruments of production, machinery, buildings, raw materials, auxiliary materials, and so on, are also necessary. If the capitalist did not possess all these instruments and means of production the worker would not be compelled to sell him his labour power. Only in the association of labour power with the instruments and means of production is the process of production possible, and consequently the production of surplus value. All these things, which have value and are an indispensable condition to the creation of surplus value, are *capital.*

Into the composition of capital there enter first and foremost the buildings, machinery, and raw materials belonging to the capitalist, and the labour power which he has bought. However, the air in the factory, without which also the worker could not create surplus value, does not enter into the composition of capital because although, as we have said, that air assists in the creation of surplus value, none the less it is not a value in itself.

But machinery, buildings, and raw materials are obviously not capital merely because they possess that quality from nature. Let a machine pass into the hands of a worker, and it will no longer assist in the production of surplus value and will cease to be capital. A hammer in the hands of an artisan is not capital, but bought by the capitalist it is transformed into capital. Machinery which is not used and money hidden under a floor-board are also not capital.

Thus things become capital not owing to their natural qualities, but owing to definite social relationships, namely, the exploitation of wage labour by the capitalist. Thus capital is merely a temporary " historical category," peculiar only to capitalist society. From this aspect any attempt to extend the conception of capital to cover all the means of production is clearly useless, and from the viewpoint of a scientific approach to the question of social relations absolutely void of meaning. None the less, such definitions exist and enjoy great popularity among the representatives of bourgeois political economy, since by asserting capital to be an " eternal category " they eliminate all class features from it, and darken the understanding of the working class.

On this question Kautsky says : " Some define it (capital) as tools, which implies that there were capitalists in the Stone Age. Even the ape which cracks nuts with a stone is a capitalist ; likewise the tramp's stick, with which he knocks fruit off a tree, becomes capital, and the tramp himself a capitalist. Others define capital as stored-up labour, according to which marmots and ants would enjoy the honour of figuring as colleagues of Rothschild, Bleichroeder, and Krupp. Some economists have even reckoned as capital everything which promotes labour and renders it productive —the State, man's knowledge, and his soul. It is obvious that such general definitions only lead to commonplaces which are quite elevating to read about in children's fables, but which do not in the least advance our knowledge of human social forms, their laws, and driving forces."[1]

Thus the means of production, accumulated labour, and so on are capital only when, in the hands of the capitalist, they become a means of extracting and acquiring surplus value.

[1] Kautsky, *Economic Doctrines of Karl Marx*, p. 55, 1925 ed.

19

Constant and Variable Capital. The Rate of Exploitation.

We have established that any value which is owned by a capitalist, and in his hands becomes a means of extracting surplus value, is capital.

But it is necessary to add that not all the elements entering into the composition of capital play an equal rôle in the process of production of value and surplus value.

Take in the first place the instruments of production, some piece of machinery, for instance. As is well known, one machine may be of service for a comparatively long period, and may participate in a number of production processes. And although it is gradually worn out, all the time of its existence it does not fundamentally change its original form. Assume that the average "length of life" of a certain machine is ten years. Every year the machine will depreciate by one-tenth of its value, which will be transferred to the commodities produced in the year with the aid of that machine. If the entire machine incorporates 10,000 working days, and if during one year it produces five hundred commodity units, it is clear that to each unit a value will be transferred from the machine equal to $\frac{10{,}000}{500 \times 10}$ or two working days. Although the machine gradually loses its value, it will continue entirely to participate in the process of production until at the end of ten years it becomes completely unusable. And all this can be equally applied not only to looms, say, but to dynamos, transmission machinery, buildings, and so on.

Thus one part of capital, namely the instruments of production, transfers value to its new commodity in parts, in correspondence with its depreciation.

The situation is different in the case of raw materials and auxiliary materials, such as fuel, for example. They can only participate once in production, and in doing so their material form is changed. Raw materials are subjected to working up, fuel is transformed into motive power, and so on, consequently they transfer their value entirely into the

value of the new commodity. But it is necessary to add that with all the difference both instruments of production and the means of production have one common feature, and that an extraordinarily essential feature: neither the one nor the other can create any kind of fresh value, but can only transfer into the value of the new commodity that value which was created by the socially necessary labour expended on them.

Only in one case could they bring profit to the capitalist. That would be possible if the capitalist bought them at a price below their value, while introducing their full value into the commodity produced by their means. But this would be a case, such as we have already analysed above, of profit obtained in consequence of one capitalist gaining at the expense of another; a case which can provide us with no explanation whatever on the question of the real sources of profit.

How is this transfer of the value of the machinery, raw materials, etc., into the value of the new commodity effected? Here again the transfer is due to labour. To make it clear by an example: let us suppose that we own two factories—one in operation and the other standing idle. In both cases we possess the instruments of labour—lathes, machinery, and so on. The instruments of labour are worn out in the active factory under the influence of labour and time, the instruments of labour in the factory standing idle are worn out in a less degree, although they also wear out with time, under the influence of the atmosphere, and so on. Their maintenance in perfect order necessitates their protection, attention, and so on. In the first case the depreciation under the influence both of labour and of time enters into the value of the newly produced commodities and is returned to the capitalist by the sale of these commodities; in the second case that depreciation cannot enter into the value of a commodity, and consequently is not returned to the capitalist and represents a direct loss to him. By this example we have revealed labour's peculiarity of not only creating new value, but of transferring the value contained in instruments and means of production into the value of the newly produced commodity. Like the forces of nature, this peculiar feature of labour is free, and calls for no extra effort from the worker

beyond that which he expends in the creation of new value. Says Marx: "That part of capital, then, which is represented by the means of production, by the raw materials, auxiliary material and the instruments of labour does not, in the process of production, undergo any quantitative alteration of value. I therefore call it the constant part of capital, or more shortly, *constant capital.*

"On the other hand, that part of capital represented by labour power does in the process of production undergo an alteration of value. It both reproduces the equivalent of its own value, and also produces an excess, a surplus value, which may itself vary, may be more or less according to circumstances. This part of capital is continually being transformed from a constant into a variable magnitude. I therefore call it the variable part of capital, or, shortly, *variable capital.*"[1]

Without constant capital it is impossible to create surplus value, since labour power can be brought into activity only in conjunction with the means of production. None the less, although, as we have seen, constant capital is an indispensable condition in the creation of surplus value, of itself it cannot create surplus value. The latter is created only by labour. Consequently, no matter how large the sum of constant capital, not by one iota can it change the sum of surplus value, either to increase it or to decrease it. If we want to find out the degree of a capitalist's exploitation of a worker, we can entirely leave out of account the question of how much the capitalist has expended on constant capital, and need only know the magnitude of the value of labour power (or, what is the same thing, the value of the variable capital) and the magnitude of surplus value.

The extent of the exploitation of the worker can be expressed in the form of a relationship between these two magnitudes, between surplus value and variable capital (or in other words, between the surplus and the necessary labour time).

That relationship expressed in percentages is called the *rate of surplus value*, or the rate of exploitation.

We will explain this by an example, at the same time

[1] *Capital*, vol. 1, p. 232, 1926 ed.

taking the opportunity to recall certain conventional signs which are accepted in Marxian political economy.

Assume that in a certain capitalist enterprise the value of the machinery and buildings equals five hundred pounds, the raw materials and other auxiliary materials cost one hundred pounds, the value of the labour power is equal to two hundred pounds, and the surplus value is equal to one hundred pounds. As it is customary to indicate constant capital by the letter c, variable capital by the letter v, and surplus value by sv, we can write:

$$c = £500 + £100 = £600$$
$$v = £200$$
$$sv = £100$$

As we already know, the rate of exploitation is equal to $\frac{s_v}{v}$, the present instance $\frac{100}{200}$, or expressing this relation in percentages, we get $\frac{100 \times 100\%}{200} = 50\%$. That means that for every hour during which the worker works up the value of his labour power, there is half an hour during which he creates surplus value for the capitalist. Obviously with v and s constant the degree of exploitation would remain the same, even if the value of the means of production changes.

20

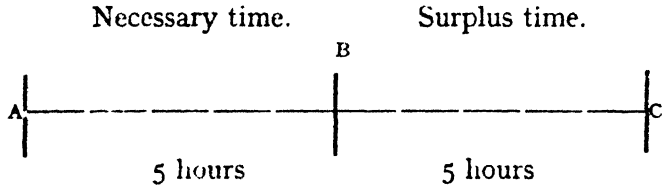
Absolute and Relative Surplus Value.

We have discovered the source whence the capitalist's profit is derived, and we have given a definition to the conception of "capital" itself. Now we have to consider the various ways of increasing surplus value.

Inasmuch as surplus value is the object of the capitalist method of production, it is superfluous to mention that the everlasting dream of every capitalist is to obtain as large a quantity of surplus value as possible. What methods of increasing surplus value are there? We know that a worker's day can be divided into two parts: the first part being the

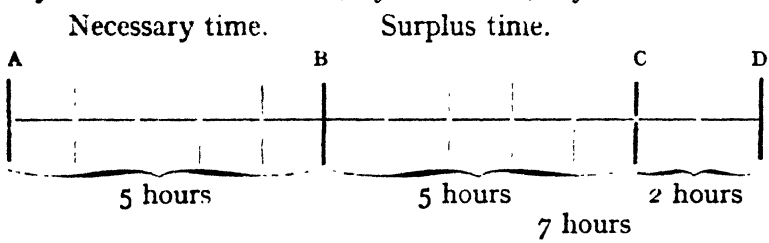
necessary time in which the worker produces the value of his labour power, the second being the surplus time in which he creates surplus value for the capitalist.

We will represent this in the form of a graph :



The rate of surplus value is equal to $\frac{5}{5}$ or 100%.

How can we increase the rate of surplus value? This can most easily be done by increasing the surplus time, in other words, by lengthening the working day, in the present case beyond the ten hour limit, by two hours, say :



Then the surplus time increases to seven hours and the rate of surplus value will be equal to $\frac{7}{5}$ or 140%

This method of increasing surplus value by means of lengthening the worker's day is of great attraction to the capitalist, since it calls for no additional expenditure whatever on his part in the direction of equipping the factory, the obtaining of new machinery, etc. "Capital," says Marx, "is dead labour, that, vampire-like, only lives by sucking living labour and lives the more, the more living labour it sucks."[1] And wherever capital has the opportunity of taking the road of lengthening the worker's day it goes that road.

The lengthening of the working day is the favourite road of capitalism, and even to-day in the most backward countries. None the less, no matter how great that passion

[1] *Capital*, vol. 1, p. 257, 1926 ed.

and desire for surplus value which dominates capital and which inflames it in the measure of its exploitation of labour power, the lengthening of the working day cannot be effected to an unlimited extent and comes up against definite limits.

What are those limits? The first is of a physical, the second of a moral nature. No matter how much the capitalist may desire to prolong the working day to infinity, unfortunately for him there are only twenty-four hours in the day, and even capital, which still "can do all things" in this world, has no power to extend the day beyond that limit. But a still greater disillusionment awaits the capitalist: in order to maintain his sole commodity—his labour power—in a fit condition for work, the worker must have several hours at least for sleep, rest, nourishment, in a word, for at least a partial restoration of his expended energy. And that minimum time, absolutely indispensable for the restoration of purely physical energy, that physiological minimum, is the first limit of the working day.

The moral limit is the definite cultural level, determined, as we have already explained, by the historical conditions of the development of capitalism in the particular country concerned. Within these limits, determined on the one hand by the physiological minimum, absolutely indispensable to the restoration of physical energy, and on the other by the cultural level, the length of the working day may fluctuate.

In addition to the method of lengthening the workers' day, the capitalist may also increase his absolute surplus value by raising the *intensity* of labour.

The capitalist can obtain an increase in the intensity of labour by all kinds of measures: he appoints thousands of supervisors to stand over the worker, fines him for every stoppage with all manner of fines; where threats are of no avail, he strives to catch the worker with cunning, by all kinds of rewards, and various methods of payment, concerning which we shall have more to say in the section on wages. And finally, he strives to organise his production so that, independently of the worker's wish, he must work at the maximum intensity. The modern machines, working swiftly and incessantly, afford the worker no opportunity

to " dodge " his work, since the least stoppage threatens innumerable complications, and may sometimes even cost the worker his life.

But it has to be said that strictly speaking, together with the growth in intensity of labour grows also the value of labour power. Any kind of labour involves the expenditure of a definite quantity of energy on the part of the worker. The more intensive the labour, the greater the energy expended by the worker. But a large expenditure of energy demands better nourishment for the restoration of the expended forces, in other words, it demands an increase in the means of existence indispensable to the production of the worker's labour power.

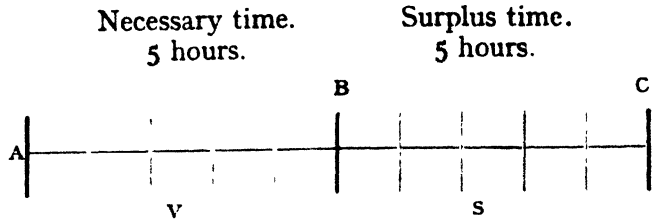
However, it does not follow from this that it is not advantageous to the capitalist to increase the intensity of the worker's labour. For first and foremost, the intensity of labour may increase, within certain limits, more swiftly than the value of the labour power.

Even if the intensity of labour grows only as swiftly as the value of the labour power, there is also an advantage to the capitalist thereby.

Assume that formerly one worker created two shillings of necessary product and two shillings of surplus product. Grant that the intensity of labour is doubled and the value of the labour power is also doubled. Then the worker will create four shillings of necessary and four shillings of surplus product. And although the rate of exploitation remains the same (100%), the capitalist will now be receiving twice as much surplus value from every worker.

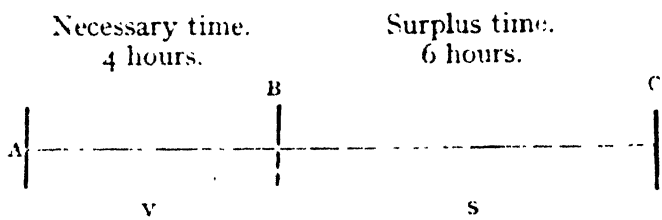
Take into consideration the fact that the expenditure on the machinery and buildings may still remain the same; the capitalist's profit becomes still more obvious.

Both the lengthening of the working day and the raising of the intensity of labour come more and more up against the organised resistance and opposition of the workers, as time goes on and capitalism develops. This circumstance forces the capitalist to resort to other measures in order to increase the quantity of surplus value obtained from the worker. What other measures are possible besides the lengthening of the working day? Let us consider our graph again:



The rate of surplus value is $\frac{s}{v}$ or $\frac{5}{5} = 100\%$.

The dimension $\frac{s}{v}$ can be increased not only by a lengthening of the worker's surplus time beyond the limit C, but also by other methods, e.g. by a reduction of the section AB, constituting the necessary labour time. We will assume that the capitalist has succeeded in reducing AB to four hours.



It is obvious that $\frac{s}{v}$ is increased and will be equal to six hours, although the length of the entire period AC remains unaltered. This means that owing to the reduction of necessary time, surplus time has automatically been increased, and the rate of surplus value, the rate of exploitation, has grown to 6 : 4, or 150%. As we see, the prospect is no less attractive to the capitalist than that of the first case.

Marx says: "The surplus value produced by prolongation of the working day I call absolute surplus value. On the other hand, the surplus value arising from the curtailment of the necessary labour time, and from the corresponding alteration in the respective lengths of the two components of the working day, I call relative surplus value."[1]

[1] *Capital*, vol. 1, p. 345, 1926 ed.

21

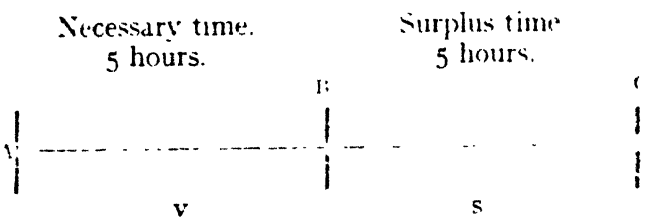
The Creation of Relative Surplus Value.

What are the concrete methods by which the capitalist obtains an increase in the relative surplus value and a reduction in the necessary labour time?

It must be remembered that we are always starting from the assumption that labour power is paid according to its full value, i.e. according to the value of those means of consumption which are necessary to its reproduction. Consequently, the possibility of cutting down the necessary time at the cost of lowering the payment below the value of the labour power must, for the time being, be completely excluded from our consideration. In such conditions the reduction of the necessary labour time is possible only by lowering the actual value of that labour power. This reduction may be achieved by a reduction in the value of the worker's articles of consumption: his food, clothing, boots, and so on. But the value of articles of consumption can be lowered only if a smaller quantity of labour is expended on their production; this is possible by an increase in the productivity of labour. In distinction from an increase in its intensity, an increase in the productivity of labour is achieved not by a greater expenditure of labour on the part of the worker, but by an improvement in the conditions of labour: the introduction of new machinery, improvements in the disposition of the machinery, the elimination of superfluous and inexpedient movements, better lighting, ventilation, and so on. With all these improvements the worker may produce more commodities with the same expenditure of energy. But bear in mind that in order to achieve a lowering of the value of labour power it is an indispensable condition that the increase in the productivity of labour should be effected either in those spheres which produce the workers' articles of consumption, or else in those which produce the means of production for those spheres. A reduction in the value of expensive carpets, pianos, diamonds, and other luxury articles obviously can have no influence on the value of labour power.

Together with a reduction in the value of labour power, a rise in the productivity of labour in one individual factory is advantageous to the capitalist by reason of the fact that in selling the commodity he can pocket the difference between the social value of the commodity and its individual value. (We have already dealt with this in connection with the question of individual and socially-necessary labour.) This surplus provides the capitalist with additional surplus value.

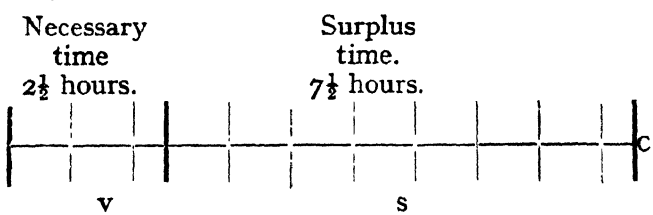
But in this case also the increased production of surplus value arises out of a reduction in the necessary labour time and a corresponding prolongation of surplus labour. Take any enterprise, which we will call A, and assume that the working day at this enterprise is divided into the necessary and surplus time thus:



We further assume that the productivity of labour in this enterprise corresponds to the average social conditions of production. The average socially necessary time expended in the production of a unit of the commodity—one yard of cotton goods, say—is half an hour. Consequently under these conditions in the course of the ten-hour day twenty yards of cotton goods will be produced. If we assume that the money expression for one hour is two shillings, one yard of material will cost one shilling, and the whole twenty yards will cost twenty shillings. Of these twenty shillings ten will go to the payment of the value of the labour power and ten will constitute surplus value for the capitalist.

Now let us assume that owing to the introduction of certain technical improvements the productivity of labour in our enterprise is doubled, so that in the course of a ten-hour day with the same expenditure of labour, the worker now creates twice as much material: i.e., forty yards instead of twenty. For one yard of material produced in our enterprise the labour time now expended is not thirty

minutes, but only fifteen, and consequently its price ought to fall to sixpence. However, in so far as the increase in the productivity of labour has only affected one enterprise, to that extent the socially necessary time remains unchanged. As we know, the commodities on the market are sold not according to individual, but according to the socially necessary time. Consequently, the capitalist, the owner of enterprise A, sells his material not at sixpence, in order to correspond with its individual value, but at one shilling the yard, and for his forty yards of material he receives forty shillings. So that, as the result of the exploitation of bour during the ten-hour working day our capitalist re-ives forty shillings, whereas before the introduction of e technical improvements he received only twenty illings. Despite this, he continues to pay the worker n shillings, since the value of the labour power has not hanged. And that means that in order to produce the value of his labour power, the worker now expends not half the working day, but only one quarter (forty shillings: ten shillings=four), or only 2.5 hours out of the ten-hour day. Representing this by means of a graph, we get the following:



The rate of surplus value $\frac{s}{v}$ will be equal to $\frac{7.5}{2.5}$ or 300%.

It goes without saying that the capitalist will only receive such an enormous excess of surplus value so long as the same productivity of labour is not achieved at other factories.

We have seen that absolute surplus value is the result of the most unrestrained exploitation of the working class, the lengthening of the working day, and the increase in the intensity of labour. Because of this, absolute surplus value acts as a brake in the development of the productive forces of capitalist society, since the capitalist, who is already

receiving an enormous profit from this exorbitant exploitation of the worker, is not interested in improving the technique of his enterprise.

It is otherwise in regard to relative surplus value. Relative surplus value arises in consequence of an increase in the productivity of labour and connotes technical progress. It is not by any means love of progress which drives the capitalist into an improvement of the technique of production, but his insatiable avidity for excess surplus value.

The enormous technical progress, the permanent revolution in the means of production by which the development of capitalism is accompanied, are not the subjective aim of the capitalist, but the objective result of the ruthless competitive struggle which develops among capitalists in the chase after surplus value.

22

The Growth of Exploitation. Taylorism.

Hitherto in speaking of the exploitation of the worker we have assumed that his labour power is paid according to its full value. Later we shall see that this is by no means so, and that the surplus of labour power available often allows the capitalist to be unconcerned whether the worker can restore his labour power or not, since if one worker cannot stand the pressure, his brother, the unemployed worker, can take his place.

Hence the exploitation of the worker is in reality still more terrible than we have so far indicated. The development of capitalism brings with it an intensification of that exploitation, although the payment for labour power may occasionally increase also. But in paying the worker more than before, the capitalist compels him to work still more than before.

The introduction of new machinery, which one would imagine ought to lighten human labour, in reality worsens the workers' conditions of labour. In the first place the new machine frequently deprives many workers of their work. In addition, as technique develops the worker becomes trans-

formed more and more into a mere accessory to the machine. He must adapt the *tempo* (the speed and intensity) of his labour to the *tempo* of the machine itself ; the intensity of the worker's attention reaches the highest limits ; the slightest delay, as we have already indicated, threatens serious consequences, since the action of all the machines is strictly co-ordinated.

In the modern Ford factories the so-called conveyer system is particularly widely applied ; an endless platform passes from one department to another and supplies the worker with materials for his work (iron, for example), the finished work (a turned axle, for instance) is put back on the platform and passes into the next department, where the article is subjected to further working up (the wheels are fitted to the axle, for example), and so on. The moving conveyer, continually supplying material and demanding its working up within a certain period, acts better than verbal orders.

Here in very deed man is transformed into an automaton, into a soulless accessory to a machine.

A particularly vigorous intensification of labour occurs under the Taylor system, which under the name of " scientific organisation of labour," and " rationalisation of production," is being more and more widely adopted not only in its homeland, America, but in Europe also.

This system includes a whole series of measures which increase not only the intensity of labour, but also its productivity.

By eliminating a number of defects in machinery and instruments, and endeavouring to arrange them so that the worker should not have to spend much energy in running after tools or bending down to search for materials, and by the scientific arrangement of lighting and ventilation, this system makes it possible to obtain an increase of output without a growth in the intensity of labour.

But the capitalist is always pursuing the aim of ensuring a growth of output with as little expenditure as possible. Productivity of labour alone is insufficient for him, and so he resorts to all possible artifices to spur on the worker and to increase the intensity of the latter's labour. We shall have more to say about these measures in the section on wages.

How far the growth of technique has worsened the conditions of life for the working class, how far the intensification of labour is growing, is shown if only by the statistics on the worker's length of life and his capacity for work. These statistics testify to the extraordinary deterioration of the organism of the present-day worker.

The extraordinary tension of the nervous system results in very widespread nervous complaints among the working class. In order to maintain their powers the workers, particularly in the " foremost " capitalistic countries, resort to all kinds of stimulants, thus burning themselves up for the benefit of capitalism.[1] The majority of the workers in modern capitalist society lose their capacity for work between the ages of thirty-five and forty; in America it is customary not to take on a man with grey hair, since usually such workers are not in a condition to work.[2] Meanwhile, among the independent classes a man of thirty-five to forty is just getting on to his feet, as is the customary expression; the majority of scientists and bourgeois politicians are just beginning their career at that age.

Despite all the " conquests " of the working class in the foremost capitalist countries, the life of the workers is so unenviable that a German writer has spoken of it as follows:

" Fortunately for him, the American worker dies young—fortunately for him, because the fate of a beggar, suicide, lunatic or enforced criminal awaits him. If anyone wishes to see a picture of a human being dying in despair, let him glance into the lodging house of Kansas City or Clark Street of Chicago; let his curiosity be aroused as to the formation of the bread line before the gates of the soup kitchens of the Salvation Army and the various missions which distribute portions of bread and soup, the long queues embracing whole districts, numbering two or three thousand men, silently and

[1] O. A. Yermansky states, according to Hollitshire, that many American workers spend as much as two pounds a month on arsenic for use as a stimulant. (O. Yermansky, *The Scientific Organisation of Labour and the Taylor System*, p. 60.) It was worth winning an extra two pounds from the capitalist in order to poison oneself.

[2] " American workers often dye their hair in order to conceal their grey hairs, and those who do not possess the means, resort to ordinary boot polish." (Ibid., p. 60.)

patiently awaiting their turn." And this was written in 1913, before the war.

But the pictures of pre-war pale to insignificance before the post-war situation of the working class.

" The rationalisation of production," which was proclaimed and carried through first in Germany, and then in Italy, France and Britain, connotes the transference of all the attractions of American Taylorism and Fordism to European soil.

The result of this is in the first place an extraordinary increase in the intensity of labour. But the essence of capitalistic " rationalisation " in production is not restricted solely to the increase in the intensity of labour.

It would appear to be quite natural that since the intensity of labour has been increased to such an extent as to " suck all the juice " out of the worker, the working day should be reduced and the wages raised.

In reality we not only do not observe a reduction of the working day, but on the contrary we are the witnesses of its prolongation to the maximum.

In a number of countries, Italy, Britain, Germany, etc., we have a ruthless attack on the part of the bourgeoisie on the eight-hour working day, as the result of which this most valuable conquest of the European workers' movement, achieved by it at the cost of a stubborn struggle and heavy sacrifices, has been almost entirely lost. In many countries the working day already reaches ten, twelve, and even fifteen hours.

Farther on, in the chapter on wages, we shall see that together with an increase in the working day, capitalist rationalisation has been accompanied by a no less severe reduction in wages.

All these facts testify more and more to the fact that the sole way out of the situation in which the working class finds itself is the annihilation of capitalist relationships, and of all forms of exploitation that go with them.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER I

1. We have demonstrated that surplus value cannot arise out of exchange, by means of additions to the prices of commodities. Can we accept this, when our everyday experience tells us that the merchant always sells his commodities for more than he has paid for them?

2. If you consider it proved that surplus value cannot arise out of exchange, how do you understand the following words of Marx: "It is therefore impossible for capital to be procured 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." (*Capital*, vol. 1, p. 184, 1892 ed.)

3. In what respect is the worker under capitalism distinguished from a slave, a serf or an artisan?

4. Can it be affirmed that the maintenance of the family, the maintenance of the worker's cultural level, and so on, enter into the value of labour-power, when in reality we have never known a capitalist to pay a worker with a family more than one without, or a cultured worker more than a backward worker, etc.?

5. If the capitalist pays the worker the full value of his labour-power, can he then receive surplus value?

6. What is the difference between labour and labour-power?

7. In his pamphlet, *The Problem of Capital in Soviet Industry*, p. 99, A. M. Ginsburg gives the following definition of capital: "Capital is nothing else than accumulated labour, applied for the purpose of further production." Do you agree with this definition of capital?

8. In his book *Modern Capitalism and the Organisation of Labour*, 2nd edition, p. 39, Rubinstein cites the following examples of the influence of technique on the productivity of labour: "If you take the productivity of a hand-knitter as 1 (15,000 stitches in ten hours), the productivity of a hand-knitting machine will be 95, that of a knitting machine will be 2,000, and that of an automatic machine 3,000."

After this is it possible to declare that machines do not create surplus value, and that it is only created by the labour of a worker?

9. What is the difference between the intensivity and the productivity of labour?

10. We know that the rate of surplus value can be increased by a lengthening of the working day, an increase in the intensivity of labour and an increase in the productivity of labour. Which of

these methods is most acceptable to the capitalist, and which to the worker, and why?

MATERIALS FOR READING

A. The Production of surplus value. Capital. Passage from vol. i of *Capital*, ch. 5, pp. 215, 1926 ed., et seq. Beginning: "Let us examine the matter more closely. . . ."

B. Constant and Variable Capital. Passage from *Capital*, vol. i, ch. 6, pp. 231-3, beginning: "It is otherwise. . . ." down to "as constant and variable capital."

C. Rate of surplus value. Passage from *Capital*, vol. i, ch. 7, pp. 239-72, beginning: "We have seen . . ." down to "by the capitalist."

D. Absolute and relative surplus value. Ch. 10, vol. i, of *Capital*.

Chapter II

SURPLUS VALUE IN THE U.S.S.R.

23

A general characterisation of the economy of the U.S.S.R.

Now that we have made an acquaintance in broad outline with the essence of surplus value—that specifically capitalist form of exploitation—the question naturally arises : to what extent is the category of surplus value applicable in the economy of the U.S.S.R. ?

In order to answer this question we need to have, at least in broad outline, a characterisation of the economy of the U.S.S.R. Even in 1918 in the dispute with the " Left " Communists, Lenin defined the U.S.S.R. economy as a transitional one from capitalism to socialism. " I think," he wrote, " no one so far who has dealt with the question of Russia's economic system has denied the transitional character. But what does that mean ? In application to an economy, does it not connote that in the given system there are elements, particles, morsels of both capitalism and socialism ? Everyone will admit that that is so. But while recognising this fact, not everyone stops to consider what exactly are the elements of the various social-economic forms which are to be found in Russia. But that is the very crux of the matter.

" We specify those elements :

" 1. Patriarchal, i.e. largely self-sufficing, peasant economy.

" 2. Petty commodity production (this includes the majority of those peasants who sell grain).

" 3. Capitalist production.

" 4. Elements of State capitalism.

" 5. Elements of Socialism.

" Russia is so large and so variegated that all these social-economic forms are intermingled within it. The peculiarity of the situation consists in that very fact."

The content of the first three social-economic forms will not be challenged, and consequently have no need of commentary. But to the question of what content Lenin gave to the conception of State capitalism and socialism leads to great differences of opinion. The view exists that the concept " State capitalism " embraces the economy of the U.S.S.R. as a whole, so that from this viewpoint State industry also must be regarded as part of the concept of State capitalism.

What was Lenin's view of this question? First and foremost the quotation already given, with its five forms, where " State capitalism " occupies the fourth place as an equal among the other forms, would seem to afford some justification for understanding the concept " State capitalism " not in a broad, but in a limited sense.

And Lenin has given exact and unequivocal indications of what he understood by the words " State capitalism."

In the first place Lenin has given the following general definition of State capitalism: " State capitalism is that capitalism which we are able to restrict, the limits of which we are able to fix; State capitalism is bound up with the State, and the State is the workers, the leading section of the workers, the advance guard—it is ourselves." Consequently by State capitalism in Soviet conditions Lenin understood capitalism under the control of the worker's State.

But he did not confine himself to this general definition. In his pamphlet on the agriculture tax, written in 1921, he specifies the concrete forms of State capitalism for that time.

In the first place Lenin related concessions to State capitalism: " What is a concession in the Soviet system, from the viewpoint of social-economic forms and their correlationship? " he wrote. " It is an agreement, a *bloc*, an alliance of the Soviet, i.e. the proletarian State power, with State capitalism against the petty private-ownership (patriarchal and petty-bourgeois) elements. The concessionaire is a capitalist. He carries on his business in a capitalist way, for the sake of profit; he accepts the agreement with the proletarian Government either for the sake of receiving extra profit

above the ordinary, or for the sake of obtaining the raw materials which otherwise it would be impossible, or at least extremely difficult, for him to get. The Soviet power gets an advantage in the form of the development of productive forces, and an increase in the output of products."

Further, Lenin included in State capitalism the attraction of the private trader on a commission basis to organise the disposal or purchase of products, and the leasing of State enterprises to private capital.

" We take the third [1] form of State capitalism," he wrote. " The State attracts the capitalist as a trader, paying him a commission for the sale of State products and for the purchase of the products of the small producer. The fourth form : the State leases to the capitalist an establishment or business belonging to the State, or part of a forest, land, and so on."

Not only did Lenin define and render concrete the concept of " State capitalism " ; he clearly and unequivocally referred to Soviet State industry as a socialist form of economy.

To begin with, among the five forms he mentioned the socialist form. If State industry is to be classed as " State capitalism " it is difficult to see what Lenin understood by this socialist order. If Soviet State industry is not socialist industry, what is it ? Or if there be no socialist form whatever in the economy of the U.S.S.R., why did Lenin give it a separate independent classification among the other forms ?

But that is not all : in his article " On Co-operation " Lenin calls the Soviet State enterprises " enterprises of a logically socialist type," and in parentheses he explains that he is referring to those enterprises which are characterised by the following features : " Both the means of production and the land on which the enterprise stands, and the entire enterprise as a whole, belong to the State."

Thus we have established that among the State-capitalist forms Lenin included only such enterprises as concessions, those leased, and those subject to any form of exploitation

[1] Lenin, in the 1921 conditions, in this pamphlet called co-operation the second form of state capitalism. The question of the nature of co-operation and its significance in the work of socialist construction will be considered partly in the chapter " On capital and profits in the U.S.S.R." and partly in the chapter " On Socialist Accumulation."

by private capital, on the basis of a definite agreement, and under the control of the State; while he included Soviet State industry as a socialist element.

But he regarded the Soviet economy as a whole as being a transitional one from capitalism to socialism.[1]

After what has been said it is clear that it is impossible to give a general answer to the question of how far we can talk about surplus value in the U.S.S.R., or an answer which would be identical for all the " forms " of which the Soviet economy is composed. Varying answers have to be given, according to the different productive relationships characterising each " form."

24

The Question of Surplus Value in the State Industry of the U.S.S.R.

We are naturally most interested in the question whether the category of surplus value is applicable in the State industry of the U.S.S.R., and how far Lenin was right in relating the latter to the socialist elements. In order to answer the question we must recall the essence of those productive relationships which are concealed behind the category of surplus value, so as to compare them with the productive relationships which exist in Soviet State industry.

What are the productive relationships concealed behind the idea of surplus value? Surplus value presupposes, first, the existence of value generally, i.e. of commodity exchange relationships; secondly, the concentration of the means of production in the hands of the capitalist class; and thirdly, the existence of wage-labour. All these factors together condition the appearance of the surplus value acquired by the capitalist. In this the essence of capitalistic exploitation consists. Without this specific relationship there is not, and there cannot be, any capitalism.

Now consider the relationships which exist in Soviet State

[1] Later on we shall see that in the U.S.S.R. economy the socialist elements predominate over the other elements.

enterprises and compare them with capitalist enterprises. We begin with the first characteristic conditioning the existence of surplus value: the presence of commodity relationships, regulated by the law of value. It seems to us that this symptom has no decisive significance whatever in answering the question as to the existence of surplus value in the State industry of the U.S.S.R. It is true that without the existence of commodity relationships, without the existence of value generally, it is absurd to talk of surplus value; but on the other hand not all commodity relationships presuppose the presence of capitalist relationships and the existence of surplus value. We recall that simple commodity economy which we considered in the section on value, and partly in the section dealing with surplus value. There we have the presence of commodity relationships, regulated by the law of value, and at the same time surplus value is non-existent. This can be applied in its entirety to the State industry of the U.S.S.R. also. The existence of commodity relationships in the State industry of the U.S.S.R. and all the consequences arising therefrom in the form of currency circulation, a banking system and so on, cannot of themselves testify to its capitalist nature. Thus the question of whether or not the idea of surplus value can be applied to the State industry of the U.S.S.R. can be answered apart from the question of the extent to which commodity relations dominate and the law of value operates in the U.S.S.R. economy generally, and in State industry in particular.[1]

We shall be justified in classifying Soviet State industry as capitalist or State capitalist only if, in addition to commodity relationships, we discover in it the existence of the other two symptoms also characteristic of the surplus value category: i.e. a capitalist class and wage-labour. We must now consider the second symptom: the existence of a class of capitalists.

A capitalist class which owns the means of production is non-existent in Soviet State industry. Its owner is the working class, organised in the State. Thus the basic and deciding symptom of capitalist relations—the existence of a capitalist class—proves to be absent in Soviet State industry. And

[1] This question will be dealt with in detail in the chapter " On the regulator of Soviet economy " (par. 37).

what is the situation in regard to the third symptom of capitalist exploitation: wage-labour?

Inasmuch as we have no capitalists and the means of production belong to the working class, we cannot talk of wage-labour. Such a deduction may appear strange to many, even after all that we have said. How can we deny the existence of wage-labour in Soviet State enterprises, when everyone of us knows from his own experience that Soviet workers are also hired, conclude agreements, receive wages and so on, just as under capitalism? However, we already know how frequently under one and the same external form absolutely different relationships are concealed. Can we speak of wage-labour in Soviet State enterprises in the sense in which we apply it to capitalism? Wage-labour connotes that labour power is a commodity. A commodity presupposes exchange between two commodity owners, in the given instance between the capitalist, the owner of the means of production, and the worker, the owner of the commodity labour-power. In Soviet State industry the owner of the means of production and subsistence is the working class, organised into a State. The " Red " directors and the administrative organs which direct and administer the State enterprises are simply employees, trusted by the working class. Each individual worker is a component part of the working class. To whom does he sell his labour power? He sells it to the same working class of which he is a component part, and which is the owner of all State enterprises.

In order the better to elucidate this idea let us compare a worker in a State enterprise with an artisan. By an analogy with capitalist relationships we can divide the labour of an artisan into the same parts as the labour of a worker in the capitalist factory. That part of his labour which he expends on the production of articles for his own use can be regarded as the value of his labour power; that which he creates over and above this and expends, say, on the improvement and development of his craft can be compared with surplus value. But will these relations have anything in common with capitalist relations? Nothing beyond a simple superficial resemblance. All this can be entirely applied to the worker in Soviet State industry, with the sole difference that an artisan works individually, and proletarian production is collective.

In the proletarian State the means of production and existence are owned by the worker, and like the individual artisan, he cannot exploit himself, nor sell himself his collective labour. Consequently, if we use such terms as wage-labour in connection with Soviet industry, they characterise only the superficial forms, behind which is concealed a completely new, a socialist relationship. This is not in the least altered by the fact that that part of social production which enters into the personal use of the worker largely depends on the value of the means of consumption, which is determined on the basis of the customary market relationships, i.e. just as is the value of labour power under capitalism. For that part of production which an artisan consumes also depends on market relationships, yet we do not on that account classify the artisan among the class of wage-labourers.

The fourth characteristic of capitalism consists in the worker's surplus labour being acquired by the capitalist in the form of surplus value, because of his ownership of the means of production and consumption, and then being expended by the latter in satisfaction of his own personal needs, the maintenance of a non-productive population for his service, and all forms of bourgeois institutions such as vessels, armies, fleets, a State apparatus and so on, and finally in the development of his enterprise. But where does the surplus labour of a worker in Soviet industry go? It goes for the improvement of the existence of the workers, for schools, kindergartens, evening schools for adults, workers' faculties, universities, hospitals, housing construction and for other cultural requirements which first and foremost serve to satisfy the needs of the working class. A big part of the surplus product goes, it is true, for the further development of socialist industry. But the advantages from this development are also enjoyed by the working class. The surplus product invested in this work returns to that class in the course of time.

Finally, part of the " surplus value " goes for the needs of the workers' State, the maintenance of the State apparatus, and the defence of the proletarian dictatorship. Inasmuch as in a capitalist state the power belongs to the capitalists, the maintenance of the State and its institutions is a service to the interests of the bourgeoisie. Inasmuch as in the U,S.S.R

the power is in the hands of the workers, so the satisfaction of the needs of the State is a service to the interests of the working class.[1]

The productive relations in Soviet State enterprises have nothing in common with capitalist relationships beyond external form, and we cannot speak of Soviet industry either in terms of exploitation or in terms of surplus value. What are we to call that surplus labour which the worker hands over to his State? Some propose to call it " surplus product," others insist on the retention of the old capitalist term " surplus value," and finally, yet others propose to introduce the new term " socialist surplus value." None of these terms meet with the substance of the productive relations in Soviet State industry. The term " surplus product " is not satisfactory because its application presupposes a direct relationship, and in the U.S.S.R. exchange still exists. As we have seen from the foregoing exposition, " surplus value " presupposes the existence of capitalistic exploitation, which is non-existent in the Soviet enterprises. The term " socialist surplus value " is a contradiction of terms, since under socialism neither value nor still more surplus value will exist.

For the moment we have to reconcile ourselves to the fact that we have no term which corresponds to the productive relationships existing in Soviet industry. And, consequently, while availing ourselves of one or the other of the unsatisfactory terms aforementioned, it is necessary continually to bear in mind their conditional nature and their disharmony with the socialist relationships which exist in Soviet industry.

We will continue to avail ourselves of the term " surplus product " in our further exposition, while remembering its limitations. The pre-eminence of this term over the others consists at least in the fact, as we shall see, that it correctly indicates the tendency for Soviet economy to develop in the direction of socialist relationships.

It is necessary to note that there is a contradiction between form and content under capitalism also, and that

[1] It has to be noted that part of the surplus product of the workers in State industry falls into the pockets of private capital through private trade. This question will be considered by us in the section on merchant capital and trading profits.

such contradiction existed during the transition from feudalism to capitalism.

Marx says: "On the basis of capitalist competition it becomes so much a matter of course to separate the value, in which the newly added labour is represented, into the forms of revenue known as wages, profit and ground rent, that this method is applied . . . even in cases in which the conditions required for these forms of revenue are missing. In other words, everything is counted under these heads by analogy."[1]

In conclusion we must stop to consider one very widespread error, which consists in the frequently unconscious attempt to separate the idea of exploitation from the idea of surplus value. From this viewpoint it would follow that there is no exploitation in Soviet industry, but that there is surplus value, since inasmuch as there exist market and exchange, and consequently value, one can speak, they say, also of surplus value without exploitation. We shall consider in detail the question of how far value exists in the Soviet economy in the following chapter. Here we only recall that value is a property of any form of exchange economy, while surplus value is peculiar only to the capitalist economy.

The idea of exploitation can in no way be separated from the idea of surplus value, since surplus value is nothing else than the specific capitalist form of exploitation. Consequently those who deny the existence of exploitation in the Soviet State enterprises, yet simultaneously recognise the existence of surplus value, get into a hopeless contradiction of ideas, and transform surplus value from an historical category peculiar only to capitalism into a general category peculiar to any form of exchange economy.

Finally, the facts that the Soviet workers live in greater poverty and on no higher a standard than the workers of the foremost capitalist countries, and that the workers in the State enterprises sometimes live under worse conditions than the workers in private enterprises, are cited as proofs of the non-socialist character of the productive relations existing in Soviet enterprises. Those who adduce this objection are again confusing two things. This or that level of material circumstances is one thing, and the structure of social relationships is another.

[1] *Capital*, vol. iii, p. 1020, Kerr ed.

It is true that in consequence of a number of causes (particularly of the two wars: imperialist and civil) Russia dropped so far in the sense of material welfare that it is only now beginning to approach the pre-war level.

But the relations which obtain in Soviet State industry do not become capitalist relationships just because the workers are poor, any more than the comparatively high wage in capitalist enterprises in any degree eliminates the capitalist relationship. As Marx says: " But just as good food and clothing, good treatment and some savings do not eliminate the dependence and exploitation of a slave, in exactly the same way they do not eliminate the dependence and exploitation of the wage worker.

In the same way the inequality which exists in Soviet State industry between the payment to skilled and unskilled labour, and to mental and physical labour, still does not make those State enterprises capitalist, inasmuch as here we do not have the existence of two classes, of which one is living not by its own labour, but at the cost of the other class. Complete socialism does not yet exist in Soviet Russia, but even complete socialism is not Communism, but only its first stage, and consequently even under socialism one will have for a time to reconcile oneself to the inevitability of material inequality. " Only in the higher stage of Communist society," says Marx, " only when the hierarchy of individuals in the division of labour disappears, and with it the contradiction between mental and physical labour, when labour itself becomes the first vital requirement, and not merely a means of existence, when together with the many-sided development of personality grow the productive forces, and all the springs of social wealth flow abundantly—only then will the narrow bourgeois conception of right and wrong be completely discarded, and society will write on its standard: ' From each according to his ability, to each according to his needs.' "

25

Surplus Value in the other Forms in the U.S.S.R.

Now we have solved what is the chief question interesting us, that of surplus value in the Soviet State enterprises, it will not be difficult to resolve the similar question in regard to the other economic forms.

We will consider the State capitalist enterprises.

It is obvious that here we have in general productive relations reminiscent of the typical capitalist ones. Here we have the capitalist, disposing of the means of production, against whom is set the worker selling his labour power and creating surplus value for the capitalist.

However, the circumstances that State capitalism is capitalism having certain relations with the proletariat State, that the land, and sometimes the instruments of production, are only ceded temporarily by the workers' State to the capitalist, that State capitalism generally is under the control of the Soviet State—all these circumstances impose certain specific features on State capitalism and provoke certain peculiarities and alterations in its social essence. "State capitalism in a society in which the power belongs to capital, and State capitalism in the proletarian State are two distinct ideas. In a capitalist State, State capitalism connotes that capitalism is recognised by the State, and is controlled by the State for the benefit of the bourgeoisie and against the proletariat. In the proletarian State the position is reversed in favour of the working class."

The benefit which the working class derives from State capitalism under its régime consists in the following:

First and foremost State capitalism conduces to the development of productive forces. In addition, thanks to State capitalism the proletariat in power transfers part of the capitalist surplus value to the funds of its own proletarian State. This is effected by means of taxation, rent, and concession payments, etc.

It is obvious that inasmuch as part of the surplus value created by the workers of State capitalist enterprises passes to the State, i.e. is returned to the working class, that part

ceases to be capitalist surplus value and has the same significance as the " surplus product " of the workers in State enterprises.

The same can be said, albeit in much less degree, of purely capitalist enterprises. In the first place, owing to a number of legislative restrictions their development is kept within certain limits. Secondly, part of the surplus value of the capitalist enterprises passes into the funds of the proletarian State, partly by means of taxation, partly through its supply with raw materials or the instruments of labour or through State trade.

But speaking generally, we have here typically capitalist productive relationships, and the greater part of the surplus product is transformed into typical surplus value.

We would seem still to be left with the task of analysing the question of surplus value in the remaining two forms of Soviet economy : in the " natural " and in the " simple commodity " forms. But in its essence this question has already been resolved by all that we have previously said.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER II

1. Why is the fact that a worker employed in Soviet State enterprises does not receive the entire product of his labour, but gives part of it to the State, not to be regarded as exploitation? What is the error of the Mensheviks, who regard the Soviet State as an exploiter of the working class?

2. If you consider that there is no exploitation in Soviet State industry, can there be surplus value?

3. Can one deny the existence of wage labour in Soviet State industry, when labour exchanges exist in the country, just as they do under capitalism, for the purpose of selling and buying labour-power, and when Soviet workers also receive wages and so on?

4. According to Pazhitnov, the wage of a railwayman in 1911 was, for European Russia, £39 10s. per annum; for Austria, £61 10s.; for Germany, £76 8s.; and in the U.S.A., £140 8s. per annum. In this regard, at the present time Russia is only just approaching the pre-war level. Why can we not on the basis of these figures draw the conclusion that exploitation exists in the

State enterprises, considering that our workers are worse off than those of the most advanced capitalist countries?

5. Lenin more than once emphasised that "freedom of trade is capitalism"; trade exists in Soviet State industry also. Does not all this testify to the fact that it is capitalist?

6. In Soviet State enterprises one can come across workers who receive £2, £7, and £20 monthly, while specialists receive £30 and £50 monthly. Why cannot one draw from this fact the conclusion that the better-paid workers and specialists live by exploiting the worse-paid workers, although under Communism each will receive according to his needs?

7. Attempt independently to solve the problem: Does the category of "capital" exist in the Soviet economy?

PART III

WAGES

Chapter I

WAGES UNDER CAPITALISM

26

Wages as the Price of Labour Power. Forms of Wages.

THE object of any capitalist is profit. As we already know, the sole source of profit is surplus value, created by the worker in the process of production. The capitalist can appropriate this surplus value because he has at his disposition the machinery and means of production without which the worker himself cannot apply his labour power.

The whole secret of the production of surplus value consists in the capitalist buying labour power and paying the worker only for the value of that labour power, and not the value created by his labour. Under the capitalist system labour power is transformed into a commodity having a definite value. But that value (like the value of any commodity) must find its expression in an equivalent, usually in a definite sum of money, which is the price of the labour power. This price of labour power is called wages.

Superficially it may seem that wages are payment not only for labour power, but for all the work expended by the worker in the course of the working day. This appears to be so not only to the capitalist, who is vitally interested in maintaining such an inaccurate conception of the essential nature of wages, but sometimes even to the worker.

This happens because: (1) in return for his wages the worker does actually give the capitalist his labour during the whole of the day, and (2) the worker receives his reward not before, but after the process of labour is concluded. Thus the form of the wage masks and obscures the relations which arise between the workers and the capitalists. But, the true nature of wages as the price of labour power has

already been adequately elucidated by us in connection with what we have said on surplus value.

As we have said, the price of labour power, or wages, is usually expressed in a sum of money, and in that case we speak of wages in the form of money.

In the first stages of the development of capitalist society there was also another form of wages, viz., wages in kind. Under this form the worker did not receive money from the capitalist in exchange for his labour, but a definite quantity of products, either of those he himself had produced in the factory, or products necessary to him and his family (bread, clothing, etc.) which the capitalist bought for him on the market.

With the development of capitalism the system of wages in kind gradually died out.

Where wages take the form of money, it is obvious that in determining the rate of wages what is important is not the sum of money in itself, but the quantity of the real means of existence which can be bought with it. If two workers, say, one in Moscow and the other in Samara, each receives two roubles a day, can we immediately say that their wages are the same? Superficially, judging by the sum of money which they receive (or, as we say, the *nominal* wage) it would appear to be so. But if we approach the question from a different angle and estimate what a Samaran can get for his two roubles, and what a Moscow worker can get, we see that this is far from being so. The first thing necessary to a worker in order to maintain his labour power is food. About half the budget of a Russian worker is expended on food.[1] About a quarter of his earnings goes for housing.[2] Both foodstuffs and housing are cheaper in Samara than in Moscow. Thus the real wage of the Samaran worker, in distinction from the nominal wage, will in this instance be higher than the real wage of the Moscow worker.

To the worker (and to the capitalist also) not only is the form of payment for his labour power (in money or in kind)

[1] 47·94 per cent., according to an investigation of 1908 (N. Vigdorchik, *Problems of Motherhood in capitalist society*, quoted in vol. 2 of *National Economy*, Kabo and Rubin, p. 290).

[2] 23·01 per cent., according to the same authority.

important, but also the actual methods of reckoning his wages.

In capitalist society two chief forms of reckoning are known: (1) *time* and (2) *piece-work*.

In the time form the worker receives his wage in exchange for a definite number of days worked: one day, a week, a month, etc.

In piece-work payment the worker is paid according to the quantity of commodities made by him, as it were independently of the time he has expended on them.

What is achieved by this form of wages?

In time payment each individual worker is not particularly interested in working more intensely. Whether he produces more or less, the payment for the day will not thereby be altered. In piece work he continually bears in mind that the less he does the less he will receive.

Under the time-payment system the capitalist has to maintain an entire army of supervisors, who watch to see that the worker does not "dodge" his work; in the piece-work system this supervision is rendered unnecessary—the system itself urges on the worker and compels him to work harder. And the harder the worker works, the greater the surplus value he creates for the capitalist, as we already know.

But how can one determine the payment which in piece-work the worker receives for each unit of commodity made by him? It is easy to see that once the wage (as we indicated in the previous section) has to provide the worker with the value of articles socially necessary to the maintenance of his existence, piece-payment must be reckoned in such a manner that the average worker can receive so much in a day as is necessary in order to restore his energy for the forthcoming period. Assume, for example, that in a shirt factory every worker makes on the average six shirts every day; and grant that in order to maintain existence each needs four shillings per day. It is obvious that an equilibrium in the production of labour power[1] can be preserved only if each worker receives eightpence for each shirt. And we will assume that the capitalist fixes such a wage. Will every worker confine herself to making six shirts in the day? As the worker lives in continual need, each will strive to improve

[1] Of course we presume that the demand is equal to the supply.

her position, and will do her best to make as much money as possible, some making, say, eight shirts and receiving 5s. 4d. per day. The diligent worker's example will be followed by others: a rivalry begins, each endeavours to surpass the others, and as a result possibly a number of them will make not eight shirts but more. What results? As the average worker is now sewing eight shirts daily, in order to continue her existence it will be enough if for each shirt she receives four shillings divided by eight: i.e., sixpence.[1] If after this the worker again "speeds up" and sews nine shirts each day, the payment for each shirt will eventually fall to 5½d.

Thus the "advantage" which the workers receive from piece work reminds one of the "blue bird" which the children sought in Maeterlinck's play · it often seemed to them that they had found their blue bird, but as soon as they caught it it turned from blue to grey.

The incredible intensity of labour connected with piece-work has a pernicious reaction on the working class, leading, as we have alrady seen, to chronic fatigue, nervous trouble, and the premature exhaustion of the worker's organism; apart from the lowering of wages, piece-work leads to competition, jealousy and dissension among individual workers. In reward for their zeal the workers may, moreover, find themselves without work, since the intensity of the work allows of the same work being carried on with a smaller number of workers. In addition, under piece-work payment the false conception of the very character of wages may be strengthened: it appears that every article made by the worker is paid for; while actually the capitalist is paying the worker only part of the value of the product made by him. It is obvious that as a result the actual fact of exploitation is masked.

This is why the organised workers in capitalist countries have for years carried on a struggle against piece-work, and for its replacement by time wages.

[1] We ignore the fact that with a rise in the intensity of labour the quantity of necessary articles of existence rises somewhat. But as we have seen (par. 21, sec. 2), even in this case the capitalist loses nothing by the intensification of labour which he has achieved through piece work.

In addition to these two forms of reckoning wages, which are the chief forms, there also exist in capitalist society a number of other forms.

With all their variety, these forms are all characterised by the fact that their object is to conceal the class character of capitalist society, to gloss over the actual fact of exploitation, and by way of illusory baits to force the worker, without external compulsion, to strain his powers and to increase the intensity of his labour.

Among these forms the first and foremost is the so-called *Bonus* system.

This consists in a definite rate of output per day being established for the worker (returning to our shirt makers, we will assume it to be six shirts). The worker receives a definite wage per day (four shillings, say). But if the worker produces above the rate, for each article turned out he receives a " bonus."

One hardly need say that such a system represents only a variety of piece-work, and one which is worse than the usual form of piece-work. The crux of the matter is that the capitalist, who considers payment for output beyond the fixed rate as a " bonus " and not as the usual payment for labour power, makes only an insignificant payment to the worker for the extra output. If the shirt-maker sews an extra two shirts, for her endeavours he gives her a shilling ; and thus in actuality for each shirt turned out beyond the rate he pays sixpence, whereas for each shirt turned out within the rate he pays eightpence. If it happens that the capitalist does pay a diligent worker according to each article turned out beyond the rate, in that case as a general rule he never pays the same price for it that he pays for the basic output.

In addition to the bonus system we must also mention the *profit-sharing* system.

This system consists in the worker receiving a basic wage, and at the end of the year receiving from his master a supplementary sum of money, which is alleged to be part of the profits of the capitalist, returned by the latter to his workers.

What lies behind this system of " profit-sharing " is easy enough to see : the capitalist of course wishes his workers to

work more diligently, in virtue of their being interested in the profits of the enterprise; he also wishes to give the workers the impression that their interests are in complete accord with his interests.

It is obvious that this participation in profits is only an illusory bait, and brings nothing but injury to the workers: the percentage set aside by the capitalists is very small indeed, and of course the "basic" wage[1] is cut down in anticipation to set off against it; the worker frequently finds himself tied down to his enterprise for a long period, since the capitalist only makes the supplementary payment at definite intervals (every year, for instance).

For that matter the workers themselves clearly recognise the harm of this system, and it is not very widespread.

In conclusion we may mention yet another form of wages, the so-called *sliding-scale* system. In this the level of the wage is changed in accordance with the price of the commodity turned out by the workers. Without speaking of the swindling tricks and cheating which can go on under this system, we note that in this case the worker's wage is made to depend on the caprice of the market. In the sliding-scale system the capitalist, struggling with his competitors and lowering the selling price of his commodities, loads on to the worker the risk associated with that lowering of prices.

27

Factors in Wages.

As we now see, wages are nothing other than the price of a particular commodity: labour power. The wage-level, like any other price, is in the last resort determined by value.

While an individual capitalist entering the market in order to purchase labour power is chiefly preoccupied with paying

[1] The capitalists themselves sometimes admit that the participation of workers in profits is a fiction. "For instance, the director of a London gas company boasted at a meeting of the Chamber of Commerce that the workers' participation in the profits of the factory 'cost the shareholders nothing.'" (O. A. Yermansky, *Scientific Organisation of Labour and Production and the Taylor System*, 4th ed., p. 23, U.S.S.R.)

as low a price as possible for labour power (since the less he pays the more surplus value will he receive), from the viewpoint of capitalist society as a whole, and from the viewpoint of its equilibrium it is important not only to obtain labour power at the cheapest price possible to-day, but also to ensure for capitalism an unbroken supply of labour power, to guarantee its constant reproduction. That is only possible if in exchange for its labour power the working class as a whole receives such an equivalent as will allow it to restore its energy again, and so again to place its power at the disposal of the capitalist class.

If there were exactly as many workers as the capitalists needed, every individual worker would receive exactly the value of his labour power. But in practice this is not so, since the supply and demand of labour power seldom corresponds to each other ; or more truly *they scarcely ever correspond*. So we get that the price of labour power, the wage, is always deviating from its value, while at the same time the value in this case, as in the case of any other commodity, remains the point around which the price fluctuates.

In order to understand the circumstances on which the magnitude of the workers' wages in a capitalist society depend, we must thus in the first place realise : (1) on what the value of labour power is dependent, and (2) what are the causes of the alterations in the supply and demand for labour power, giving rise to incessant fluctuations of wages around their value.

We already know the factors on which the value of labour power depends. The value of labour power is determined by the value of the means of subsistence necessary for its reproduction.

But the situation on the labour market, the demand on the part of the capitalist and the supply from the workers' side, depend on a number of circumstances, and in the first place, of course, on the general condition of industry and the national economy as a whole.

In a period of expansion, when the old enterprises are being extended and new enterprises are being started, the demand for labour power may grow. But as any extension of production customarily is connected with an improvement in its technique, and the introduction of new and better

machinery, the demand for labour power grows much more slowly than the growth of production itself; for a better machine is introduced by the capitalist because it gives a greater productivity and intensity of labour than the one it replaces. Thus, assuming that the capitalist doubles the production of his factory with improved machinery, he needs not twice as many, but say only one and a half times as many workers as before.

All this takes place during a period of industrial expansion. But in the anarchical conditions of the capitalist system (as later we shall see in more detail) the periods of flourishing expansion are followed by periods of crisis, of depression in industrial and economic life. Obviously during these periods a sharp drop in the demand for labour power occurs. The capitalist discharges large numbers of his workers.

It is obvious that the colossal army of unemployed which clamours at the doors of the capitalists engenders such a situation that even the fortunate man whom the capitalist has left at work can no longer dream of receiving the full value of his labour power.

What does it matter that with reduced wages the worker can no longer reproduce his expended labour power? The capitalist is no longer concerned with this. Let the worker get out of the system,—a whole reserve army of unemployed workers is ready to take his place, only waiting for the capitalist to be merciful and to afford them the opportunity of working; in other words, the opportunity of subjecting themselves to capitalist exploitation.

The worker's position in regard to the level of his wages is worsened also by the fact that the reserve of unemployed, ready for the capitalist's service, is further added to by the intermediate classes of society, and first and foremost by the peasantry and the town bourgeoisie. The reason for this is that capitalism (as we shall see in more detail later) ruins these strata and drives them into the ranks of the proletariat. But little cultured, with comparatively few needs, unstable in the struggle with the capitalists, they are made the victims of the most shameless exploitation on the part of the capitalists, and simultaneously conduce to the lowering of the wages of the other workers.

This (and also the incessant process of replacing the

workers by machinery) explains the fact that unemployment is clamant not only during a period of depression, as we have already said, but even in periods of the " normal " development of capitalism.

In the search for work enormous masses of unemployed migrate from place to place. With the modern development of means of communication they travel everywhere where they can hope to find some kind of remuneration. In every country is to be observed an unbroken migration of workers from agrarian and peasant spheres into the industrial areas.

The migration of labour from area to area is not confined to the borders of one state: from the economically backward countries where there are enormous masses of indigent peasantry, and a ruined petty bourgeoisie, masses of unemployed struggle to enter the industrial countries, where there is a shortage of labour power, or where labour power is better paid. Thus Tsarist Russia, Poland, and Italy for many years supplied labour power for the developing industry of America. During the last twenty years a fresh mighty reservoir of labour power for world capitalism has been opened up. We refer to the colossal human ocean of the Eastern countries, and first and foremost to China and Japan.

Such are the basic conditions of the labour market.

Although on this market the worker and the capitalist both act as " equal " commodity owners, the one as owner of labour power, the other as owner of money, constituting wages, none the less the predominance in this " equal " struggle is far from being on the worker's side. To begin with, we have noted the capitalist's monopoly of the means of production, which is the factor that compels the worker to sell his labour power, and we have pointed out the enormous reserve army which is customarily always ready for the capitalist's service and is an instrument conducing to the reduction of wages. While taking all possible measures for the intensification of labour, by improving technique, by piece-work, the employment of female and child-labour and the lengthening of the working day, the capitalist strives to lower the wages or, in any case, to reduce the worker's share in the general mass of created value, thus increasing the absolute or the relative surplus value.

All these efforts, however, meet with the opposition of the seller of labour power, i.e., the working class. *To a certain extent the extent of the worker's share and the level of his wage may depend on that opposition.* The weaker the working class, the less it is organised, the less its chances of success. The capitalist has no greater advantage than when he is dealing with disunited workers, each of whom is represented by himself in the struggle for his interests. The vital interests of the workers themselves drive them to organisation for a joint struggle with the capitalist who employs hundreds and sometimes thousands of workers.

The first form of labour organisation to make its appearance was the *trade (or labour) union.* Trade unions made their first appearance about two hundred years ago in the country where industrial capitalism developed earliest of all, namely in Britain, and at the present time they unite an enormous mass of some fifty million workers in almost every country in the world.

The rôle played by the trade unions in the struggle to raise the worker's wages and to improve the conditions of his labour is enormous.

The methods with which the trade unions carry on their struggle are generally known. The first place is occupied by the strike weapon.

Trade unions recognised by the capitalists obtain collective agreements with them, covering conditions, wages, hiring and discharge of workers, the length of the working day, etc.

The direct struggle with individual capitalists, or groups of capitalists, through the trade unions is complemented by the *political* struggle of the working class, by means of which within the limits of the capitalist system success is achieved in the direction of certain measures for the reduction of the working day, the restriction of female and child labour, and so on.

But it has to be said that no matter how great have been the successes of the working class in the struggle for the improvement of the conditions of labour and the increase of wages, within the *limits of the capitalist system* they are none the less extremely restricted.

The workers' struggle for the improvement of their position within the limits of the capitalist system comes first

and foremost up against the fact that in addition to their wealth, the capitalists have in their hands the State power also, which will not allow the workers to go beyond " definite limits." To the workers' strike the capitalists of recent years have begun to oppose their " lockout," closing down the factories and threatening the workers with death by starvation.

In this regard the clearest example is provided by the British miners' lockout, in which the miners with unexampled heroism stood for many months by their right to a seven-hour day and the maintenance of the then existing level of wages. The British bourgeoisie brought all means possible into play to inflict defeat on the miners. The government, parliament, the church, the press, the police, the army, Russian white guards and even British trade union organisations and the compromising leaders at their head were used by the bourgeoisie in this struggle against the British miners. In the end the latter had to yield, brought to this pass by starvation, poverty and the betrayal of their own leaders. The defeat of the British miners served as a signal for a fresh struggle against the working class both in Britain, and in other countries. And one does not need prophetic gifts in order to predict that the betrayal of this struggle will lead to a still greater worsening of the situation of the working class.

Later on, in the chapter on capitalist accumulation, we shall see that the general basic tendency in the development of wages under capitalism is the reduction of the workers' share in the social income. By their labour the workers create continually increasing masses of surplus value for the capitalist, but the workers themselves receive a continually diminishing share of that which they create. While the worker in Europe and America certainly receives higher wages to-day than fifty to a hundred years ago, this does not controvert the fact of the decline in the worker's share in the total sum of income, since both the intensivity and the productivity of labour have increased still more during that period, and the sum of the capitalists' income has grown much more than the mass of wages.

The clearest illustration of this tendency comes from such a flourishing country as the U.S.A. " The general tendency

to reduce the workers' share in the national income has by no means been avoided by the country of 'prosperous capitalism,' the U.S.A.," says Bukharin. "The enormous growth in the productivity of labour which American industry has achieved has not been accompanied by a proportionate increase in wages . . . the average productivity of one American worker grew by 30 per cent. from 1919 to 1926, while (nominal) wages rose only by 11 per cent."[1]

In the chapter dealing with surplus value we have already said sufficient about the delights which the growth of technique under capitalism brings the working class, delights which often negate all the advantage of a rise in wages.

In capitalist Europe after the war we have to note not only the relative fall in the worker's share in the total sum of income, but a reduction in the absolute magnitude of wages.

Thus, according to figures cited by G. Zinoviev at the sixth Plenum of the Executive of the Communist International on 20th February, 1926, the real wage of European workers in comparison with the pre-war level was at the end of 1925 as follows: Britain, 99 per cent.; France, 92 per cent.; Germany, 75 per cent.; Italy, 90 per cent.; the Balkans, 50 per cent. At that time there were five million unemployed in Europe.

During the two years which have passed since then the position of the working class has by no means improved. We have already mentioned the attack on the working class which the British (and afterwards other) capitalists began after the defeat of the British miners. We have also spoken of what the latest "rationalisation" in capitalist countries is bringing the workers.

"Here, for example, are the figures of the indispensable monthly existence minimum of a worker's family, and the actual earnings, in Italy and Poland:

	Poland.	Italy.
Existence Minimum:	350–500 zloties.	900–1,000 lira.
Earnings:	200–300 ,,	200–700 ,, ."[2]

[1] Bukharin, *Capitalist Stabilisation and the Proletarian Revolution*, pp. 99-101.

[2] Bukharin, *Capitalist Stabilisation and the Proletarian Revolution*, pp. 99-101.

Approximately the same difference is to be observed in other countries.

All this goes to show that so long as the capitalist system exists the workers will not be able to obtain a radical improvement of their position.

Only the destruction of the capitalist system and a change over to a new society, not based on exploitation, can radically change the position of the working class.

From what has been said it would be erroneous to draw the conclusion that the economic struggle within the limits of the capitalist system is of no importance whatever, and that trade unions are quite unnecessary: besides the relative successes we have already mentioned arising out of the struggle for shorter hours, wages, etc., it also has to be noted that the work of the trade unions educates the masses of workers in organisation and struggle, and thus prepares them for the final struggle for socialism.

It will become particularly obvious that only the overthrow of capitalism can open new prospects for the working class when we come to consider the question of wages and the working conditions in the U.S.S.R.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER I

1. According to the figures of the Central Statistical Department, the average monthly earnings of a Russian worker from 1913 to 1916 were as follows:

1913	...	...	...	21 roubles 70 kopeks
1914	...	...	...	22 roubles 90 kopeks
1915	...	...	...	31 roubles 60 kopeks
1916	...	...	...	60 roubles

We know that over this same period the prices of commodities rose. Taking 1913 as 100, prices in 1914 were 101, in 1915 prices were 130, while in 1916 they were 203.[1]

Work out what difference there was between real and nominal wages during those years.

2. Why was it particularly important to distinguish the real

[1] Figures taken from Strumilin's article in the 3rd ed. of *On New Roads*.

from the nominal wage in the determination of wages in the U.S.S.R. during the years 1921-23?

3. In the following table[1] the daily wages of the workers of different categories in Moscow, Petersburg and London before the war are given.

Trade.	Moscow.	Petersburg.	London.
Turner ...	—	2 rs. 15 kops.	2 rs. 70 kops.
Locksmith ...	—	1 r. 95 kops.	2 rs. 70 kops.
Carpenter ...	1 r. 52 kops.	1 r. 87 kops.	3 rs. 50 kops.
Bricklayer ...	1 r. 19 kops.	1 r. 36 kops.	3 rs. 15 kops.
Labourer ...	90 kops.	96 kops.	2 rs. 30 kops.

What conclusions can you draw from this table?

How is the difference in the wages of a Moscow, Leningrad (Petersburg) and London worker explainable?

4. Taking the wages which the British worker received in 1913 as £10, the wages of workers in other countries in the same year were as follows:

	£ s.
American (U.S.A)	24 0
German	7 10
French	6 8
Belgian	5 4
Russian (approximately)	4 10

Give an explanation of the difference in wages (endeavour to make an analysis of the factors in the wages of each country, on the basis of your information as to the situation of these countries).

NOTE.—It is well known[2] that the price of foodstuffs and housing accommodation in the above-mentioned countries (excluding Russia), taking the figures for Britain as 100, were as follows:

Germany	119
France	114
Belgium	96
U.S.A.	162

5. How do you explain the fact that the agricultural labourer receives lower wages than the town worker?

6. Why is it that, as Lenin tells us in his book, *The Develop-*

[1] Pazhitnov, *The position of the working class in Russia*, vol. 3.

[2] All the figures are taken from Falkner's *Movement of Wages in Western Europe* (second printing, "Materials on labour statistics," 1921).

ment of Capitalism in Russia,[1] the agricultural worker in the localities where seasonal employment has developed customarily receives a higher wage than the worker where such employment is not developed.

Why is it that in the agricultural districts of pre-war Russia generally the wages of the workers (not only agricultural labourers, but town workers also) were lower than those of the industrial districts? [2]

7. How do you explain the fact that in pre-war Russia the difference between the wage of an unskilled labourer and that of a skilled worker was much greater than it was in Britain for example (in pre-war days)? (Thus, the wages of a bricklayer, for instance, were in Britain only one and a half times, and in Russia twice as high as the wages of an unskilled labourer.)

[1] "Moscow Worker" edition, pp. 156-161.
[2] Lenin, *Development of Capitalism in Russia*, pp. 180-181.

Chapter II

WAGES IN THE U.S.S.R.

28

General Survey. Wage Factors in the U.S.S.R.

WE now turn to the question of wages in the U.S.S.R.

As a very large part of the enterprises in the Soviet Union belong to the State, i.e. to the working class as a whole,[1] the workers working in the state enterprises cannot, as we have already said, be called wage workers in the usual sense of the word. For when we speak of the employment of labour we presume that someone in possession of the means of production hires someone else who does not possess those means of production. In the Soviet state enterprises can one set the individual worker in sharp opposition to the state, which represents the organisation of the working class as a whole? It is clear that here there is not that severance between labour power and the machine which we have seen in the capitalist system, since the machines are owned by the State, i.e., by the working class. Nor is it possible to speak in this connection of labour power as a commodity, in the sense in which we spoke in regard to capitalism.

The wage which the worker in a Soviet State enterprise receives has an entirely different social content.

It is true that in many regards its external form recalls that of capitalism; in Soviet Russia also the worker receives a definite amount of money in exchange for the time he has worked (or for the articles he has made) and in receiving wages it would appear as though he too does not receive the full product of his labour, but only part of it.

But the similarity is restricted only to this external form.

We know already that in distinction from the capitalist

[1] Basing itself on the peasantry, of course.

system the remaining, seemingly " unpaid " part of the worker's labour does not (the bulk of it)[1] fall to the disposition of another class, but is expended by the Soviet State itself on the extension of industry, the building of schools, aid to the peasantry and other needs of socialist construction; in other words, on the satisfaction of the needs of the entire working class as a whole (taking into account not only the interests of the present day, but the prospects of development in future years). Thus the " unpaid " part of the labour of an individual worker, going in this way to satisfy the needs of the entire working class, is in the last resort also returned to the worker.

In that case what is the real nature of the wage of a Soviet worker? It is none other than that part of the product of his labour which, in distinction from the surplus product which goes to meet the social needs of the working class, is paid directly to him in the form of a definite sum of money for the satisfaction of his *individual* needs.

It is obvious that if a developed socialist system, without money and without markets, existed in Soviet Russia, wages as a special form of distribution of the product created by the worker would not exist; each worker would receive the products he needed (possibly against special certificates) directly from the distribution points.

But in the present transition period, in view of the existence of the market, this is impossible; the working class can customarily receive the products necessary to it only in exchange for money, by means of purchase. This is why the share received directly by the workers for the satisfaction of their individual needs takes the form of wages, despite all the differences in principle between " wages " and what we are accustomed to understand by this term in the capitalist system.

It is obvious that in view of the special nature of wages in the U.S.S.R. the laws which determine the magnitude of wages in a capitalist society cannot be applied in their entirety.

[1] We have already reminded the student that part of the surplus product of the workers in State industry may find its way into the pockets of the capitalists by way of private trade.

We know that in capitalist society, the wage-level is regulated by value; at best the capitalist gives the worker as much as is indispensable to ensure the uninterrupted functioning of his labour power and the uninterrupted creation of surplus value. But the fundamental purpose of the capitalist is the extraction of as much surplus value as possible, and consequently when there is a reserve army of labour in existence he does not trouble to safeguard the worker's necessary minimum.

The situation is otherwise in the U.S.S.R.: the working class which is building up socialist society cannot restrict itself to safeguarding the reproduction of its labour power; consequently in the Soviet State we see a *striving to achieve an uninterrupted increase of wages*, to satisfy the growing needs of the working class and ensure its development and further cultural growth.

Taking the average real wage received by a worker in the state enterprises of the U.S.S.R. in October 1922 as 100, by January 1923 it was approximately 150, by January 1924 it was 210, and by January 1925 it was 240.[1]

If the wages of 1913 be taken as 100, we get the following figures:

Industry	1922–23	1923–24	1st qr. 1924–25	4th qr. 1924–25
Metal working ..	39·6	51·7	54·5	83·1
Textiles	56·4	86·3	96·0	123·1
Chemical	66·6	82·0	99·4	122·9
Provisions.. ..	89·8	114·7	——	157·6
Mining	57·5	46·5	55·8	72·9

Taking State industry as a whole the real wage in February 1926 reached 103 per cent. of the pre-war level.

This rise in wages is not being achieved as the result of a struggle between the working class and another class, over the division of the value created by labour; as we have seen, this opposing class does not exist in the State enterprises. It

[1] Dzerzhinsky, *U.S.S.R. Industry, its achievements and tasks*, 1925, diagram No. 16.

is being achieved through the deliberate regulation of wages by organisations of the working class, by both the State and the trade union organisations, which in doing so harmonise their activities with the interests of socialistic construction.

This regulation is to a great degree limited by the influence of blind factors, and we shall see later that in view of the existence of the market, this influence cannot be entirely eliminated.

Let us recall the factors which influence the dimensions of wages in capitalist society. And first and foremost we recall the importance which the age of the worker, his sex, cultural development, and qualifications have in that society.

Do these factors exist in Soviet Russia?

In regard to differences in wages depending on the *sex* of the worker, no such difference exists in the U.S.S.R. In Soviet Russia the workers, male and female, doing the same work, receive the same wage.

In regard to *Child* labour, the question does not arise in the Soviet Union at all, since the labour laws forbid the employment of anyone who has not reached the age of sixteen. Adolescents (up to the age of eighteen) employed in any occupation, receive a lower wage only when their qualification is lower than that of an adult worker; with equal qualification they actually receive more than an adult, in the sense that for a six-hour day they *receive* as much as the adult worker receives for an eight-hour day.

In the U.S.S.R. also wages depend on the *qualification* of the worker, although the variations in the earnings of workers of different qualifications (mainly between the workers, foremen, technicians, engineers and the administration) are not so pronounced as is frequently the case in capitalist countries.

But how are these variations in wages explained?

In the Soviet economy it is not possible of course to annihilate at one stroke all vestiges of the old society, in which there were comparatively few qualified and cultured workers. Soviet industry cannot get on without qualified workers. The more it develops, the greater becomes the scarcity of qualified labour (while there is a surplus of unskilled labour). It is obvious that in such conditions

the available skilled workers must be spared and new forces of skilled labour created. This can be achieved only through the payment of higher wages to the skilled workers.

In addition to this wage variation according to qualifications, we have to mention the variation in wages according to *localities*.

The entire territory of the Soviet Union is divided into five zones: Wages are highest in the 1st zone (Moscow, Leningrad, and so on) and lowest in the 5th zone (Siberia, for example).

This variation is explained chiefly by the variations in prices which obtain in the various regions for products used by the workers. By this policy the Soviet State is endeavouring to ensure the worker a definite level in real wages.[1]

We will stop to consider further the dependence of wages on the varying degree of culture of individual workers. What rôle does this factor play in the U.S.S.R.? To a certain extent the higher wage of a skilled worker is also explained by his development, and so by his higher cultural demands; in this direction the variation in culture of individual workers may exert a certain influence on the dimensions of the wages received in the U.S.S.R. also.[2]

But the difference in the culture of workers of differing nationalities, which under capitalist conditions plays a very important rôle, has no significance in Soviet Russia; all the workers, irrespective of their nationality, who perform the same work receive the same wage.

We know for instance that the capitalists in the Baku oil industries paid a different wage to the Russian and the

[1] The real level of wages depends, as is well known, on the prices charged for the means of existence necessary to the worker. As these prices depend first and foremost on the state of agriculture, it would appear that the dependence of wages on the blind elements of the market is here displayed most strongly of all. But regulation in the direction of maintaining wages at a certain level negates the influence of those elements to a certain extent.

[2] To a certain extent the variation in wages according to zones is also explained by old traditions and differences in the cultural level of the workers of separate areas. But by comparison with what we have mentioned above the importance of this circumstance is not so very great.

Turcoman workers. At the present time such distinctions do not exist.

The State is consciously raising the cultural level of the workers of the backward peoples.

The fact of the elimination of the old laws governing wages is witnessed to also by the circumstance that *the rise in wages goes on in the U.S.S.R. independently of the number of unemployed*, and so in utter contrast to what we have seen in capitalist society.

Thus, in just over a year, from the beginning of 1923 to the middle of 1924, the wage of the workers in the U.S.S.R. rose on an average almost 50 per cent. (from 16.95 to 24.04 roubles). Meanwhile, during this period the country was passing through a crisis. In connection with the concentration of production, the reduction of staffs, and also owing to other causes, the number of unemployed was more than doubled during this period (from 361 to 823 thousand for 70 regional capitals[1]).

Unemployment, of course, has a certain indirect influence on wages: by paying unemployment benefit to the unemployed, the Soviet State and the trade unions diminish the reserve which is the source of wages; in certain instances the State institutions and the trade union may curtail the amount of work per employed worker (and so reduce their wages) in order to spread the work among the unemployed. But in any case the influence of the law of supply and demand of labour power which we observed in capitalist society is not to be observed in the Soviet Union.

All that has been said in the foregoing has reference to wages in State industry. In the private industry which exists in the U.S.S.R. the sale of labour power goes on in the same way as in capitalist countries; in this case we are dealing with wages not only in form, but in content. Of course the magnitude of the wage, and its regulation, are not quite those which exist in capitalist countries; the existence of State side by side with the private enterprises is of tremendous importance: the capitalist cannot establish too low a wage, not only because of the direct pressure of the powerful Soviet trade unions, but because the worker would leave the private

[1] *National Economy in U.S.S.R. in Figures* Statistical (Central Department), sec. xvii (Labour).

owner and enter the State enterprises if the wages paid in the former were lower.[1]

In our further studies we shall have in mind only state industry, as the basis for the development of socialism in the Soviet Union (as we shall see later on in more detail) is the growth of the State industry.

29

The Productivity of Labour and Wages in the U.S.S.R.

We have already indicated more than once that in the Soviet system, where the master is the working class moving towards socialism, wages have to rise in order to ensure that working class its development and cultural growth.

At the same time we pointed out that, in considering a rise in wages in the U.S.S.R., one has to take into account not only the interests of the individual worker, not only the interests of the present, but first and foremost the prospects of socialist construction over many years.

But what does this socialist construction demand? As we have already said, it is inconceivable without the industrialisation of the Soviet Union, without the growth of State industry, since only in these conditions is the final victory of planned production, and the satisfaction of the growing demands of the peasantry for industrial commodities, possible for agricultural machinery. This machinery is indispensable, especially for the development of co-operation in the villages and to bring them towards socialism.

Socialist construction demands that the commodities turned out by State industry should be produced in as large quantities as possible, and should be as cheap as possible, since only in that way will they be accessible to the great masses of toilers.[2]

Under such conditions it becomes possible to raise wages only if simultaneously there is a rise in the productivity of labour.

[1] It is necessary to make the qualification that in the cases where State industry cannot provide work for all the unemployed, this may not apply.

[2] This is dealt with in more detail in the next and subsequent chapters.

What would happen in practice if the workers' wages increased while the productivity of labour remained unchanged?

The greater the share of the product the worker received for his individual consumption, the smaller would be the " surplus product " left to the State, and the smaller would be the resources for the extension of State industry and the satisfaction of the other needs of socialist construction.

Granted an unchanging productivity of labour, the higher the wage the greater will be the expenditure for each commodity turned out by the worker, and *the dearer will be the cost of that commodity*; and thus the worker himself will have to pay more when purchasing it (thus neutralising the rise in real wages). At the same time the growing dearness of the commodities, and their consequent inaccessibility to the peasantry, can cause difficulties in the work of ensuring the peasants' support for socialist construction.

We see the diametrically opposite position with a rise in the productivity of labour: of the larger quantity of products turned out, the worker can take a larger share for his own immediate consumption in the form of wages, while at the same time the surplus product which falls to the disposition of the Soviet State may grow; simultaneously, by cheapening the price of products this rise in the productivity of labour will ensure their disposal among the peasantry, and will strengthen the workers and peasants' alliance without which the construction of socialism in the Soviet Union is impossible.

It has to be admitted that the position of affairs as to the productivity of labour is none too brilliant in the U.S.S.R. It is true that the Soviet worker is now producing much more than he did during the civil war and the famine period, but his output has still not quite achieved even the pre-war output in Tsarist Russia. And even in those days the productivity of the Russian worker was considerably lower than (approximately one-fourth of) that of the workers in Western Europe and in America.

How is it possible to raise the productivity of the Soviet worker's labour?

From the preceding section (on " Surplus Value ") we

know that the productivity of labour in the sense in which it is usually understood (i.e., the quantity of output per worker per day) should more correctly be separated into two concepts: (1) *the productivity of labour* in the narrow sense of the word, i.e., the productivity of a worker depending on the conditions of his labour (the quality of the machinery, raw materials, etc.); and (2) *the intensity of labour*, depending on the degree of exertion of the worker.

In order to increase the success[1] of labour in Soviet society a rise in the productivity of labour in the strict sense of the terms is, of course, of prime importance.

How is it to be achieved?

We know already that the chief cause of the rise in the productivity of labour in capitalist society is the *development of technique*: the introduction of new machinery, the discovery of new sources of energy, of raw materials, and more perfected methods of obtaining and working up those raw materials. It is obvious that in the Soviet system this factor has a colossal significance.

We are conscious of the dependence of the productivity of labour on technique at every step: if the Soviet worker, as we have seen, at the present time produces much less than the European worker, and in particular the American worker, or sometimes even less than he himself produced in pre-war days, one of the chief reasons for this is the backward nature of Soviet technique. As we know Soviet machinery has not appreciated in quality over the last ten or twelve years, but has rather deteriorated, since in the majority of instances the Soviet worker is still working on pre-war and severely worn machinery, and only of quite recent times has the work of re-equipping the old factories with new machinery and of building new, more modern factories been begun, and even that only partially.

But the low productivity of labour depends not only on the quality of the machinery but also on the working conditions in general; we know for example that the more light there is in an enterprise and the better that light is arranged, and also the better the machinery is arranged from the

[1] This term is more suitable than the generally accepted term "productivity of labour," by which is understood both the productivity and the intensivity of labour.

worker's point of view and the better the ventilation in the factory, the higher is the worker's productivity.

The quality of the raw materials with which the worker has to work is of enormous importance: the worse the cotton, fibre, or yarn, the lower is the productivity of labour in a textile factory; the better the quality of the iron received by an engineering works, the higher will be its productivity with the same machinery, and so on. One of course need not speak of the importance of the quality of the instruments, lubricating oils, etc.

Meantime, in regard to all these matters the position in the Soviet Union is not altogether satisfactory.

What is the reason for this? Of course once more the cause lies in the technical equipment of the enterprises; all the factories inherited by Soviet Russia from the capitalist system have a definite system of lighting, ventilation, arrangement of machinery, of departments, and so on. Without a radical re-modelling of these enterprises a radical alteration of those conditions is impossible. The poor quality of the raw materials is of course explained to a certain extent by the poor technical equipment of the industries concerned with their output.

But from all this it does not follow in the least that it is impossible to alter the conditions of labour, and to organise it for higher productivity, even under the conditions of the old technical equipment. Here the scientific organisation of labour, of which we spoke in the preceding section, when dealing with Taylorism, is of colossal importance; if it be rationally applied, rejecting all its negative, typically capitalist features, aiming only at exploitation, such scientific organisation may yield important and immediate results.

In every enterprise and industry there exist a number of factors which greatly complicate the work: any delay in the supply of raw or other materials, any lack of co-ordination between the various sections of the enterprise, may lead to a serious hold-up of the entire production; the very methods used by the workers in their work are frequently out of date; many unnecessary movements and irrational operations only fatigue the worker and result in an unproductive expenditure of his labour. The materials and instruments with which he works are frequently not supplied to time and are not

arranged so that their use should not occupy more time than necessary, and frequently they are simply not adapted to the work which the worker is doing at any particular moment. Improper division of functions among the individual workers frequently leads to waste of time in explanation and so on. The productivity of labour also suffers by the fact that every worker executes several operations, and in doing so loses time in the changing of instruments and materials and the adaptation of machinery.

All these defects can be eliminated by a rational organisation of the work : in this Soviet economy is placed in a much more advantageous position than is capitalist economy in the latter ; anarchy is often an impediment to the elimination of a number of defects in production. In order to co-ordinate the activity of individual enterprises (and in the scientific organisation of labour this is sometimes of extraordinary importance) the capitalists have to summon conferences, or congresses, which not always lead to the results desired, owing to the fact that each capitalist has regard first and foremost for his own interests. In the Soviet system these obstacles do not exist : the institutions specially set up by the State and the trade unions for the study of the " scientific organisation of labour "[1] serve not the capitalists but the Soviet system. At the disposition of individual Soviet enterprises are special scientific and technical institutes which carry out tests of the qualities of raw materials, advise on the materials most suitable for the work, and so on.

The unity of Soviet State economy sets up particularly favourable conditions for what is known as the *normalisation and standardisation of production*, in which the parts of individual machines produced by various enterprises are standardised to such an extent that one can easily replace another, or in which all the enterprises turn out definite sorts of commodities, according to a fixed type (in such a fashion that all the enterprises turn out the same commodity under a definite number or name). In carrying out these measures the productivity of labour may be still further increased owing to the reduction of expenses on the creation of special plans, models, the adaptation of non-standardised parts and

[1] The " Central Institute of Labour " in Moscow, for example.

so on, and also owing to the fact that if any part of the machine be broken it will not be difficult to replace it by other, standardised parts, so reducing the period during which the machine is at a standstill and eliminating an unnecessary waste of time on the adaptation of parts.

It is unnecessary to say that all the foregoing measures for a rational organisation of production are being introduced in Soviet industry with the active participation of the workers themselves, in distinction from the capitalist system.[1] Owing to this fact their success is still more guaranteed, since the workers directly participating in production see its defects best of all.[2]

But whatever the importance of measures for the scientific organisation of labour, it is not possible to carry on the struggle for an increase in the production of Soviet State industry by their means alone. With unchanged technique the scientific organisation of labour has definite limits beyond which it is impossible to go.

Thus the chief concern still remains the improvement of the technique of Soviet production.

Without this the construction of socialism generally is inconceivable, and the capitalist system itself must yield its place to the socialist system, because it (i.e. capitalism) as we shall see later, is already becoming incapable of advancing the technique of society. *The swifter the growth of technique the more swiftly shall we get socialism.*

And the growth of technique itself depends on the material wealth available for that purpose, i.e., in the first place on the quantity of surplus product which the Soviet worker creates to that end.

[1] A great rôle is played by what are known as efficiency conferences, in which the workers discuss the defects of production. These conferences firmly establish in the mind of the worker the fact that no one but he himself is the master of Soviet industry.

[2] In the struggle for a rational organisation of production an enormous importance has to be attached to the cultural level of the population. We have already indicated that the more cultured the worker the higher the productivity of his labour. Hence we can understand the enormous economic importance of the struggle for culture which has been declared by the revolution. Of course, as we have seen, the level of culture depends in its turn on the material welfare of the workers.

Consequently the interests of socialist construction demand at the present time an increase in the production of industry not only through an increase in the productivity of labour, but through an increase in its intensivity.

By comparison with the Western European and American worker the intensity of labour of the Soviet worker is very low. To a certain extent, that of course is explained by the fact that the wage received by him is lower than the wage of the foreign worker, and the better a worker lives the more he consumes, and so the more he can produce. Thus a rise in the material welfare of the Soviet worker ought to lead to an increase in the intensity of his labour (of course within certain limits, beyond which a serious deterioration of the organism sets in).

But in Soviet industry a rise in wages alone cannot directly lead to an increase in the intensity of labour. The reason for this is that despite the radical difference in the rôle of the worker in Soviet production by comparison with capitalist production, certain workers sometimes still fail to recognise that difference. This is explained by the fact that owing to the low culture inherited by the Soviet state from capitalism, and with the existence of the market and the superficial resemblance of present-day payment to the capitalist wage, it is difficult to get away from those conceptions and habits which have been established by centuries of the capitalist system; consequently the Soviet worker also strives first and foremost to obtain as high a wage as possible, and in doing so does not think that he, as a member of the working class, is in the last resort interested in giving as much as possible to the Soviet State. In consequence one may not rarely come across an absence of labour discipline, and the existence of absenteeism, etc., in the State enterprises.

This forces the Soviet organs (in agreement with the trade unions) to ensure that the very forms of wages should incite them to increased diligence.

This explains the existence of standards of output and piecework payment in Soviet State industry.

Obviously, in distinction from the capitalist system these measures are of a temporary character in Soviet Russia; as the socialist consciousness of the worker is developed and as

the old individualist outlook[1] is outlived, both piece-work and the compulsory minimum standard will become unnecessary.

But even to-day their significance is quite different from that which they have under capitalism : they have as their aim the raising of the production of State industry, and thus the creation of the pre-requisites for the complete annihilation of all inequality.

Obviously a number of negative features which accompany these forms of wages in the capitalist system are absent from the Soviet system : output over the standard, for instance, is always paid for at not less (and sometimes at more) than the rate for the normal output. Holidays, the eight-hour day, and other laws for the protection of labour tend to protect the worker from the injurious consequences which intensified labour brings with it.

The raising of the intensity of labour played a comparatively big rôle in 1923-24, when the working day was actually not fully utilised. At the present time, when certain successes have been achieved in this and in the raising of labour discipline generally, from the beginning of 1926 we have a fresh disparity between the increase of wages and the productivity of labour, which is largely explained by the influx of unskilled and poorly disciplined workers (owing to the development of Soviet industry). The problems of raising not only the productivity but also to a certain extent the intensity of labour are again the order of the day. None the less one can say of the great majority of the old workers that among them the intensivity of labour has almost reached those limits possible in present-day conditions. Its further increase is possible only extremely slowly, parallel with the growth of the worker's culture and training ; *consequently the fundamental task still remains the re-equipment of the enterprises and the scientific organisation of labour.*

[1] That the new workers being poured into industry from the village should rid themselves of their individualist outlook is of particular importance.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER II

THEMES AND EXERCISES

1. In the tables below will be found statistics of the Russian worker's budget in 1908 and in December, 1924, and also the pre-war budget of a Berlin worker.

Although the statistics of these tables are of rather a fortuitous character (being made up from various reports) nevertheless from them certain deductions can be drawn regarding the relative share occupied by various items in the worker's budget. Make these deductions for yourself and elucidate to what these differences in the worker's budget witness.

From a Russian Worker's Budget in 1908 (*an average typical family*) [1]

	R.	K.	
Housing (per annum)	194	12 or 23·01%	of wages
Clothing	101	03 or 11·97%	,,
Food	404	52 or 47·94%	,,
Bathing, washing, etc.	28	40 or 3·37%	,,
Drinks and games	37	40 or 4·43%	,,
Cultural and social needs	37	23 or 4·41%	,,

From an average worker's budget for November-December, 1924.[2]

	R.	K.	
Housing (monthly)	3	47 or 12·9%	of wages
Clothing	5	66 or 20·9%	of ,,
Food	12	42 or 46·0%	of ,,
Alcoholic drinks	0	29 or 1·1%	of ,,
Hygiene	0	77 or 2·8%	of ,,
Cultural needs	1	47 or 5·5%	of ,,

Budget of an average Berlin worker with family.

Housing (per annum)	16·5%	of wages
Food	48·0%	,,
Cultural needs	3·0%	,,
Alcohol and other means of nervous stimulant	8·5%	,,

2. On the basis of the table below state why the question of the productivity of labour of the U.S.S.R. workers was particularly important in 1924:

[1] N. Vigdorchik, *Problems of motherhood in capitalist society* (Kniga edition).

[2] G. Pollak, *Differential wages and the worker's budget.* Economic Survey (Moscow) for January, 1926.

Productivity of labour and wages in State Industry (wages and output per man per day on October 1st, 1924, taken as 100).[1]

	Wages.	Productivity of Labour.
January 1st, 1923	151	102
April 1st, 1923	167	108
July 1st, 1923	204	108
October 1st, 1923	190	123
January 1st, 1924	210	120
April 1st, 1924	208	130
July 1st, 1924	210	135
October 1st, 1924	243	160
January 1st, 1925	240	190

3. How in your opinion does the growth in the productivity of labour in the U.S.S.R. influence the real wage in the event of the nominal wage remaining unchanged?

[1] Dzerzhinsky, *U.S.S.R. Industry, its achievements and tasks*, diagram No. 16.

PART IV

THE THEORY OF PROFIT AND THE PRICE OF PRODUCTION

Chapter I

PROFIT AND THE PRICE OF PRODUCTION UNDER CAPITALISM

30

The Rate of Profit and the Rate of Surplus Value.

HAVING analysed in detail the question of the share in the product of his labour which the worker receives in capitalist society in the form of wages, we now return to the share of the product of the worker's labour which the capitalist appropriates, i.e. to surplus value.

From the foregoing exposition we already know the rôle played by various parts of capital in the creation of surplus value: we already know that machinery, buildings, raw materials, constant capital in other words, is only a condition for the creation of surplus value, and that surplus value is created only by variable capital, i.e. by labour power.

Starting from this point, we came to the conclusion that in determining the degree (rate) of exploitation of labour power, we must not take constant capital into consideration, since it creates no value whatever. We have to take into consideration only two magnitudes: (1) the magnitude of variable capital, v, in other words, the value of labour power or the necessary labour time; and (2) the surplus value s, or the surplus labour time. From the correlation of these two magnitudes $\frac{s}{v}$ we get what we have called the rate of surplus value, or the rate of exploitation.

That this is the only possible method of determining the degree of the exploitation of the worker is, in addition to all theoretical considerations, obvious to any man who is not blinded by bourgeois class interests: in practice, if the worker works twelve hours, and receives wages equal to

six hours in payment for his labour power, it is obvious that the worker is giving the capitalist twice as much value as he himself receives, quite independently of what the machinery, buildings, raw materials, etc., with which he works may have cost.

However, the capitalist is not of this opinion. He reasons along the following line: "What business is it of mine whether you take into account the value of the machinery, raw and auxiliary materials? To me all my pounds are of value, irrespective of what I expend them on, whether labour power or machinery. If from my operations I receive a certain surplus as against what I have expended, it is important for me to know what percentage that surplus represents, in other words, what is my profit in relation to *all* my capital."

Thus, while we are interested in the relation of surplus value to variable capital, i.e. $\frac{s}{v}$, the capitalist is interested in the relation of the surplus value he has received to all the capital invested, i.e. $\frac{s}{c+v}$; this relationship, expressed in percentages, is called the *rate of profit.*

Every capitalist is out to obtain as high a rate of profit as possible. The greater the profit he receives on every pound of his capital (and that *is* the rate of profit), the more advantageous is his enterprise to him. Further, one must take into account the fact that the capitalist always has in view profit obtained over a definite period, and customarily over a year.

Assume that we are considering two factories: one a textile, the other a match factory. We assume that both factories employ the same number of workers, those workers are exploited to the same extent, and receiving thirty thousand pounds per annum in wages, create surplus value also to the extent of 30,000 pounds in the year. Assume, further, that the total capital sunk in the textile factory is 300,000 pounds, and in the match factory 150,000 pounds.

While from the workers' point of view both factories extract the same amount of surplus value from them, (for in both cases $\frac{s}{v}$ is equal to 100%) the capitalist reckons other-

wise: the first (textile) factory brings him 30,000 pounds profit with an expenditure of 300,000 pounds capital, thus his profit per annum is $100 \times \frac{30,000}{300,000}$ or ten per cent. of his total capital, while the match factory brings him in 30,000 pounds profit with a total capital of 150,000 pounds, and the rate of profit will be $100 \times \frac{30,000}{150,000}$, or twenty per cent. In the latter case every pound of capital gives not two, but four shillings profit in the year. And as it is quite unimportant to the capitalist what he invests his capital in—a patent food factory or an undertaker's—he of course *endeavours to invest it where the rate of profit is higher.*

31

The Organic Composition of Capital and the Rate of Profit.

But on what does the rate of profit which the capitalist may receive from his enterprise depend?

If we again take our example of the match and the textile factory, it is obvious that here the difference in the rate of profit does not depend on the exploitation and the rate of surplus value, since they are the same in both cases. It is obvious that under such conditions the variable capital of both enterprises must also be the same. Obviously the difference between the rate of profit in our two enterprises depends on the different dimensions of the constant capital. Obviously the capitalist receives a lower rate of profit from the textile factory because in this case larger resources are expended on machinery, buildings, or raw materials with the same variable capital.

If instead of a match factory we were to compare some other enterprise where not only was the entire capital only half the amount of that sunk in the textile factory, but the variable capital also was half the amount, in that case the rate of profit would be the same as in the textile factory.

Thus the correlation which exists between the mass of profit and the constant and variable capital is called the rate of profit. On the other hand, the correlation between

constant and variable capital is called the organic composition of capital.

Returning to our textile factory, we see that the constant capital, which constitutes 270,000 pounds (300,000 – 30,000 = 270,000) is nine times the amount of the variable capital, while in the case of the match factory the constant capital is only four times the variable capital (150,000 – 30,000 = 120,000).[1] Thus the organic composition of the capital of the match factory will be equal to 120,000 : 30,000 or 4 : 1, and that of the textile factory will be 270,000 : 30,000 or 9 : 1.

The larger the capitalist's expenditure on machinery, buildings, and raw materials by comparison with expenditures on labour power, and *consequently the higher the organic composition of capital, the lower must be the rate of profit* which he receives on his entire capital.

It is easy to see that the height of the organic composition of capital depends first and foremost on the state of the technique of the particular enterprise: as a rule, with the growth of technique the number of machines in a factory increases more quickly than the number of workers, and the percentage of the total sum of all the capitalists' expenditures which goes on the workers becomes smaller and smaller.

Thus the organic composition of capital may grow even while the number of workers (and the variable capital) is also growing. It is only necessary that the constant capital should grow still more. If, for instance, twice as many workers are employed in a factory as before, but simultaneously four times as much is expended on new machines as before, the organic composition of capital will increase.

Thus *with the growth in technique there is a growth in the organic composition of capital*[2] accompanied by a fall in the rate of profit.

[1] For the sake of simplicity we, for the time being, assume that variable capital makes one turnover in the year.

[2] In two mechanics' shops, where the same number of workers is employed at similar lathes, and where the technique is the same, the organic composition of capital may be unequal. In the one where iron is turned the organic composition of capital will be lower than in the other where more precious metal is turned at similar lathes. Here the difference in the organic composition of capital depends on the value of the raw materials.

32

The Turnover of Capital and the Rate of Profit.

But in addition to the magnitude of constant capital, in addition to the organic composition of the entire capital, one other circumstance *plays a very great rôle in the determination of the rate of profit.* We remember that the capitalist is interested not only in the question of how much profit he receives on his capital, but also for what period he receives that profit. In order to reckon the rate of profit he takes his income for a year and divides it into the entire capital he has sunk in the enterprise.

But the capital of the enterprise does not remain in an unaltered state for the whole of the year: in the process of production various parts of it are transformed into finished commodities: into the value of a commodity (and into its price) there enter the value of the worn-out part of the machine, and also the value of the raw material, labour power, etc., used.

The finished commodities are realised on the market, are sold, in other words; and with the money received, more labour power, raw materials, and machinery are purchased in place of that worn out and used.

The newly-restored capital is again transformed into commodities, the commodities are transformed into money (money capital), the money is again transformed into productive capital, and so on. *This process is called the circulation of capital.*

It is easy to see that the periods of circulation of various parts of capital are not equal: machines and buildings are built for years and scores of years; their value, as we already know, returns to the capitalist only little by little, in small sections, and only after the lapse of a very long period are new machines installed in place of the old.

The position is different in the case of raw materials and labour power. In the course of one " cycle " of production their value is entirely transferred into the finished commodity; after the realisation of the commodity fresh raw materials and labour power are purchased with the

money received, and a new turnover of the same capital begins.

The capital which is invested in *raw materials and labour power*, the value of which enters entirely into the finished commodity in the course of one cycle of production, is called circulating capital.

The capital which is invested in *machinery and buildings*, the value of which returns only bit by bit, is called *fixed capital.*

It is obvious that it is far from being a matter of indifference to the capitalist how swiftly the various parts of his capital circulate, and what part of that capital he has to advance for a more or less prolonged period. *The larger the fixed capital, and the slower its circulation*, the larger will be the share of capital lying immobile, *and the smaller will be the capitalist's rate of profit*, reckoned for the entire capital over the year. On the contrary, the swifter the circulation of capital, and first and foremost the more turnover per annum effected by the circulating capital, the greater will be the profit made in that year on the entire capital.

But how does all this work out in practice?

As we have said, with the growth of technique there is a growth in the organic composition of capital, i.e., the growth of constant capital exceeds the growth of variable capital.

But the growth of constant capital connotes first and foremost an increase of expenditures on machinery and buildings and in less degree on raw materials; thus there is chiefly a growth in fixed capital; but simultaneously there is a slowing up in the circulation of constant capital: modern machinery costs much more and is built for a much greater number of years than was the former lighter and less complex machinery.

Of course, it must not be forgotten that at every given stage of development in technique there simultaneously exist enterprises with a varying speed of circulation of their capital: thus, in enterprises turning out equipment for production (machinery engineering), the circulation of capital is slower than in enterprises turning out means of consumption.[1]

[1] Here we shall not speak of the differences existing between factories turning out the same kind of commodities, as we have already dealt with this.

We can work out the speed of circulation of the capital of any enterprise if we know the magnitude of the capital sunk in the enterprise and the sum of capital circulated in the year.

Assume that we have an enterprise with a fixed capital of 80,000 pounds and with a circulating capital of 20,000 pounds ; assume further that the period of circulation of the fixed capital is eight years, and of the circulating capital is one month. Then the sum of capital turned over in the year will be equal to :

Fixed capital : 80,000 pounds ÷ 8 = 10,000 pounds.
Circulating capital : 20,000 pounds × 12 = 240,000 pounds.

Total capital circulated in the year is 250,000 pounds.

As the total capital sunk in the enterprise is 80,000 pounds plus 20,000, or 100,000 pounds, the sum of capital circulated, i.e., 250,000 pounds, is two and a half times as great as the capital invested. In other words, one can say that the total capital of the enterprise has circulated two and a half times in the year.

If in the same way we estimate the period of circulation of capital in enterprises of differing technical level, our view that the period of circulation of capital is longer in technically more advanced enterprises will be completely confirmed.

Thus, if we take estimates made by S. G. Strumilin for the period of circulation of capital in enterprises of various Russian shareholding companies during 1911–12, we get the following[1] :

Magnitude of enterprises according to turnover.	No. of turnovers in year.
5,000,000 roubles	1·51
3,000,000 roubles	1·55
1,000,000 roubles	1·90
500,000 roubles	2·30
101,000 roubles	3·18
10,000 roubles	3·50

Although the technical level of the enterprises is not

[1] Strumilin, *The Problem of Industrial Capital in the U.S.S.R.*, Moscow, 1925, p. 7.

indicated in this table, one can say almost certainly that the technique is on a higher level in the larger enterprises.

However, a certain modification has to be made in the foregoing remarks on the slowing up of the circulation of capital together with a growth of technique. As with the growth of technique there takes place an improvement in the means of communication (railways, telegraph, postal system), thanks to this fact the period of capital circulation may be somewhat reduced; for in order to realise the commodity and to begin a fresh circulation of capital it is necessary to get that commodity to the purchaser. In exactly the same way the period of capital circulation may be reduced by certain other technical improvements; thus leather tanning, for example, which was carried on in a very primitive fashion, was formerly a very protracted process, and in consequence the circulation of the capital invested in raw hides was retarded; with the application of electricity in tanning, the time taken by this process has been considerably reduced.

But it has to be admitted that the influence of all these circumstances making for the speedier circulation of capital is small by comparison with the causes of the retardation in its circulation we have mentioned above (e.g. the introduction of heavy machinery). *Thus our conclusion as to the slowing up in the circulation of capital with the growth of technique holds good, wholly and completely.*

33

The Correlations Between the Rate of Exploitation and the Rate of Profit.

Hitherto we have been speaking of the rôle of the organic composition of capital and the influence of the rate of its circulation on the rate of profit. In our examples we assumed that the rate of exploitation was the same in all cases, and in consequence surplus value would seem to have been thrust into the background.

But it ought to be clear to anyone that surplus value and its magnitude, and consequently the rate of exploita-

tion, play an enormous part in the formation of the rate of profit. For profit itself, as we have already said more than once, is nothing other than surplus value realised by the capitalist. *The greater the mass of surplus value extracted from the working class, the greater the exploitation, the higher must be the rate of profit.*

Of course, the rate of profit does not increase in strict percentage corresponding with the growth in the rate of exploitation. Take our old example of the textile factory: in that case the total capital was 300,000 pounds, and the surplus value 30,000 pounds; we took the rate of exploitation as 100%, and the rate of profit as 10%.

Assume that the rate of exploitation grows by a further 100%; then the surplus value will also increase and will equal 60,000 pounds, while the rate of profit will equal $\frac{60{,}000}{300{,}000} \times 100\% = 20\%$; thus the rate of profit will grow only by ten per cent.

But if instead of considering the percentage increase, we observe how many times the rate of exploitation and the rate of profit have increased, we see that both have been doubled.

With the growth of technique in capitalist society the exploitation of the working class also grows, and that growth of exploitation must raise the rate of profit. But in practice we may not see this, since, although the growth in exploitation drags the rate of profit upward, the *growth in the organic composition of capital and the slowing up of its circulation can drag (and does drag) that rate of profit downward with greater force.*

The relationship which exists between the rate of profit, the organic composition of capital, and the rate of exploitation can be expressed in a single formula.

We get that formula thus: we already know two formulæ expressing the rate of profit and the rate of exploitation:

Equation 1. p' (rate of profit) $= \frac{s}{c+v}$ (surplus value) / (total capital, i.e. constant plus variable capital)

Equation 2. s' (rate of surplus value) $= \frac{s}{v}$ (surplus value) / (variable capital)

In order to unite these two formulæ in one, we find out from the second equation what " s " is equal to and apply that " s " to the first equation.

From the second equation we have established that $s = s' \times v$.

We apply this to the first equation :

$$p' = \frac{s}{c+v} = \frac{s' \times v}{c+v}$$

or $$p' = s' \cdot \frac{v}{c+v}$$

From this formula it is quite evident that the rate of profit is directly proportionate to the rate of exploitation. On studying the formula more closely one can see that it also contains an expression of the dependence between the rate of profit and the organic composition of capital.

34

The Formation of the Average Rate of Profit and its Tendency to fall.

Thus with the growth in technique, with the growth in the organic composition of capital, and the slowing up of its circulation, the rate of profit must fall.

If this tendency for the rate of profit to fall is correct in regard to capitalist society as a whole,[1] does it always apply in individual instances ?

We will analyse this question rather more thoroughly.

Assume that two capitalists are " working " side by side, with capitals equal in value, but the one owning a machinery-building works, and the other a tannery. In the machinery-building works the organic composition of capital is extremely high, in the case of the tannery it is considerably lower. What should be the result in that case ? In the case of the machinery-constructing capitalist the variable capital will be lower than in the case of the tanner, so that with an equal exploitation of the workers in both enterprises

[1] For that matter in regard to society as a whole there are a number of causes (as we have already partly seen and shall see again later) which to a certain extent hinder the action of this law.

he (i.e. the first capitalist) ought to receive less profit on his capital than does the tanner. The two capitalists have equivalent capital and receive a different rate of profit from those two equivalent capitals. If now a further capitalist is thinking of investing his capital in some new business, which will he prefer in the circumstances—to open a tannery or a machinery-building works? The answer is clear: since the tannery will yield a larger rate of profit, any free capital will flow into tanneries, and not into machine works. And more than that: our "machine manufacturer" will at the first convenient opportunity to "clear out," dispose of his works and invest his capital in the more advantageous tannery business. But what will be the result? The number of tanneries will increase, the number of machinery-works will decrease. The quantity of leather goods thrown on to the market will be greatly increased, and, as we already know, their price will inevitably fall. This will result in an inevitable fall in the rate of profit in the tannery businesses.

The exact converse occurs in the machine-building industry. Here production is cut down; but the demand for machinery (including that from capitalists building new tanneries) may even increase. The price of machines (and their parts) rises, and simultaneously there is a rise in the rate of profit.

For how long will this rise in the price of machinery and fall in the price of leather goods continue?

It will continue until the rate of profit obtained by the tanners falls lower than the rising rate of the machine-builders. Then will set in an *influx of capital* back into the machine industry, until the expansion of production begins to lower prices for machinery and the rate of profit in this sphere also. Thus in capitalist society, in the process of the chase after profits, there goes on an unbroken flow of capital from one sphere to another. And in the course of this the enterprises where the rate of profit is higher will be deprived of part of their profits, and on the other hand, in the enterprises where the rate of profit is lower (the machine works in our example) it will rise.

The rate of profit of various spheres of production with differing organic composition of capital thus strives to find

a common level, to reach a certain average rate of profit for the given society.

In practice this levelling up of the rate of profit does not occur quite freely, since the flow of capital we have described is no simple matter. The capitalist cannot at once dispose of his unprofitable enterprise, since as we know, the capital invested in it circulates in the course of many years.

But this circumstance does not negate, but only somewhat retards, the action of the law of *the tendency for the rate of profit to find a common level.*

It goes without saying that this flow of capital from one sphere into another is determined not only by the growth in the organic composition of capital, but also by other causes which can lead to variations in the rate of profit of various enterprises; among these causes in the first place are the variation in the speed of circulation; and the variation in the rate of exploitation. We have seen that all these causes are closely interlinked, and a growth in the organic composition of capital is usually accompanied by a slowing-up in circulation and with a rise in the rate of exploitation.

But what, it may be asked, is the average rate of profit which will be obtained as the result of the interflow of capital in the given society? *It will depend on the average organic composition of the capital in that society, on the average speed of circulation, and the average rate of exploitation.*

We know that there exist side by side enterprises with different proportions of machines and workers, i.e., with a varying organic composition of capital, with a varying speed in the circulation of capital, and with a varying degree of exploitation.

But if we calculate the dimensions of the constant and variable capitals of *all the enterprises* of the particular society at a definite moment of time, and take their correlationships, and if we do the same with the circulation of capital and the rate of exploitation, we obtain the *average organic composition of capital* at the given moment, and also the other average magnitudes by which the average rate of profit will be determined.

We will illustrate that by a further example, and in order not to render it complicated we will consider only the organic composition of capital. Assume that we can

divide all the enterprises of a certain society into three kinds: (1) those with a high organic composition of capital, in which machine works, say, preponderate; (2) those with a low organic composition of capital, which include bakeries, tailors' shops, and similar businesses; and (3) the remainder, among which the most typical are textile mills, for example. We presume that the number of workers is the same in all three spheres, that the variable capital in each sphere is equal to 100 million pounds, and that the rate of exploitation is also everywhere the same (100% say). But in the sphere of production with a low organic composition of capital there are only 100 million pounds of constant capital; in enterprises with a high organic composition 500 millions of capital are invested; and in the others there are 300 millions. For the sake of simplicity we assume that not only the rate of exploitation, but also the speed of circulation is everywhere the same.

How, then, shall we determine the average organic composition of capital and the average rate of profit?

In order to do this, we calculate the total sum of the constant and variable capitals of all the enterprises, and also the surplus value which the workers create in those enterprises (remembering that everywhere the rate of exploitation is equal to 100%). We then obtain the following:

	Constant Capital. c	Variable Capital. v	Surplus Value. s
Spheres with a high organic composition of capital (machine works, etc.)	£500 million	£100 million	£100 million
Spheres with a low organic composition of capital (bakeries, etc.) ..	£100 million	£100 million	£100 million
Remainder (textile mills, etc.) ..	£300 million	£100 million	£100 million
Total ..	£900 million	£300 million	£300 million

Thus the total constant capital of our society is 900 million pounds, and the total variable capital is 300 million pounds.

The organic composition of the total capital of society is then : £900 million : £300 million, or as 3 : 1.

As the total capital of society (c+v) is equal to 1,200 million pounds, and the surplus value (s) is 300 million pounds, the average rate of profit $\left(\frac{s}{c+v}\right)$ will be equal to $\left(\frac{300}{1,200} \times 100\%\right)$ or 25 %.

The profits of all the enterprises will tend towards that average rate.

But does this mean that all capitalists (whether machine-builders, bakers, or mill-owners) will receive this same average rate of profit? Not in the least. Every capitalist will chase after the greatest profit. And he may succeed in this with certain favourable conditions prevailing in the market : so long as the improved technique introduced by him and the cheapening of production does not become widespread, or so long as the number of capitalists engaged in the given sphere of production is small, he may obtain a certain surplus over and above the average rate of profit—what is called *differential* (i.e., surplus) *profit.*

But as soon as those improvements have widespread application, or as soon as a mass of other capitalists fling themselves into this sphere, the differential profit inevitably disappears ; the price of the commodity also may fall to such an extent that our capitalist may not succeed in receiving even the average rate. But obviously as soon as this happens the converse flow of capital into other spheres sets in, and the rate of profit again rises.

This fluctuation of profit in capitalist society upward and downward around the average rate of profit recalls the fluctuations of prices around value concerning which we have already written.

The average rate of profit is the point of equilibrium of individual profits in any society where there exists a blind chase after the greatest profit obtainable.

For that matter, this is not the only way in which the anarchic nature of capitalist society is demonstrated. Individual enterprising capitalists, wishing to cheapen the

cost price of their commodities and thus to beat their rivals in the struggle for larger profits, introduce technical improvements. However, as these technical improvements come to be applied by other capitalists not only does the differential profit disappear, but yet another result, quite unexpected to the capitalist, is obtained. As soon as the technical improvements get widespread application, this factor is reflected in the average organic composition of the capital of the whole society, and *as a result the average rate of profit itself inevitably falls.*

Thus a drop in the rate of profit according to the growth in the organic composition of capital does not reveal itself directly in an individual capitalist enterprise with the improvement of its technique. That drop is revealed in the average rate of profit, which is the regulator of the profit of individual capitalists.

It is true that a drop in the rate of profit (i.e. the receipt on every pound of capital) through the widespread application of technical improvements is customarily recompensed to the capitalist by his extension of production (i.e., in a way that the number of pounds from which he draws an income is increased). But none the less there is diametrical opposition between the individual intentions of a capitalist (the greatest rate of profit) and the results achieved (a fall in the average rate of profit).

This is yet another indication of the anarchic character of the capitalist society.

35

Costs of Production and Calculation in Capitalist Society.

Profit is the motive principle of capitalist society. The capitalist is not an artisan, who in engaging in production sets himself the task mainly of satisfying his own needs. From the capitalist's point of view an enterprise which does not bring in a profit has no sense. But the capitalist strives not only generally to obtain some profit: his slogan is "maximum profit." He is driven to this, apart from his own avidity for gain, by competition. If there were to exist a capitalist

who despite his own capitalistic nature did not strive after as large a profit as possible, but for some more or less considerable period was content with a small profit, the other capitalists receiving larger profits would have greater possibilities of extending and improving their enterprises, and at the first convenient opportunity would ruthlessly ruin their modest comrade in the competitive struggle.

By what methods can the capitalist obtain larger profits?

Obviously, in the competitive struggle this can be done not by way of raising the selling price of a commodity, but by lowering the expenses connected with the production of that commodity, by lowering the costs of production. By cheapening the cost price the capitalist can lower the selling price, and thus not only beat his competitors but also obtain larger profits.

But in order to do this and in order generally to judge of the state of affairs in his enterprise, the capitalist must have a clear idea of what are the costs of production in his enterprise, what are the expenses, and what exactly is the expense per unit of the commodity produced.

The calculation of these expenditures consequently plays an enormous part in the rational (from the capitalist viewpoint) arrangement of the affairs of his enterprise and in his struggle on the market.

We will examine the costs of production more closely.

By way of example let us examine the manner in which the costs of production were composed in the case of such a commodity as cotton print in 1913 in Russia[1]:

Kind of expense.	Expense in gold roubles.	% relationship to total expense.
Raw materials ..	15 rs. 40 kops.	41·0%
Auxiliary materials ..	3 rs. 84 kops.	10·5%
Fuel	1 r. 75 kops.	7·5%
Wages	6 rs. 87 kops.	18·5%
Depreciation	4 rs. 20 kops.	11·0%
Overhead charges ..	4 rs. 30 kops.	11·5%
	36 rs. 36 kops.	100·0%

[1] See I. G. Borisov, *Prices and Trade Policy*, 1925. The calculation given therein has been simplified somewhat, and the percentages cast into round figures.

We see from the foregoing table that the main expenses in the production of cotton print fall to raw materials (41%), fuel, auxiliary materials, and wages.

We will examine these costs separately.

(1) The expenditure on raw materials, i.e., on cotton, occupies the central position by its size in our example. It is obvious that in various spheres of production the expenses on raw materials will be different; in the primary industries, where the materials to be worked up are not bought but are taken ready from nature (coal, oil, ore, for instance), the expenses on raw materials will be insignificant. On the other hand, there are spheres of industry in which the cost of raw materials is a still larger item in the price of the commodity than it is in our example of cotton print; thus, the value of the raw material will be considerably greater than 41% in the case of a diamond sold by a jeweller.

In any case in all the manufacturing industries the expenses on raw materials constitute one of the chief costs of production; consequently the cheapening of the price of raw materials plays a colossal part in the competition among the capitalists themselves, in their hunt after profit.

As the result of the individual manufacturers' striving to cheapen the cost of raw materials there develops a ruthless struggle between the capitalists who purchase raw materials and the capitalists who sell them.

Many of the richer capitalists sometimes endeavour themselves to open or acquire enterprises producing the raw materials necessary to their production, so as to save themselves from the caprices of the sellers of raw materials (and fuel also). Thus, for example, capitalists owning machine-building plant endeavour to acquire mines, in order to have their own iron or coal-mines, etc.

As we shall see later on, in modern society a struggle goes on between states, each of which strives to capture the rich sources of raw materials in the backward countries of Asia, Africa, and America for its own capitalists.

In the struggle for cheaper raw materials, an enormous part is played by the extent to which raw materials already purchased are well exploited. In any manufacture, there is a certain amount of waste products (shavings, sawdust, and odd pieces of board, for instance). Obviously the

less there is of such waste products the cheaper will be the commodity.

The successes in this sphere largely depend on the achievements of technique and science: the more exact and perfect the work of the machinery, the better the exploitation of raw materials.

Quoting a French economist, Marx (*Capital*, vol. III, part 1) cites an instance in which, after the replacement of old millstones by new ones, there was an output of one-sixth more flour than before from the mill, using the same kind of grain.

In exactly the same way production can be greatly cheapened if a method can be found of utilising the waste-products. Pieces of tin and iron filings are again melted down into raw metal, the waste products of agriculture, dung and manure, go to improve the soil (and are sometimes used as fuel), the bones left in a sausage or tinned-food factory also go to form a special kind of manure or are used in soap-manufactories.

The successes of modern science, and of chemistry in particular, are continually opening fresh possibilities of utilising waste products and of exploiting raw materials for the preparation of a number of extremely necessary articles. In addition to the cases we have already mentioned of the utilisation of dung and bones for manure, we may mention the successes of chemistry in the realm of obtaining material for manure (and other nitrogenous combinations) from the free nitrogen in the air, and to the success in the matter of preparation of a number of complex organic combinations by artificial (synthetic) methods.

(2) The second item entering into the costs of production after raw materials and auxiliary materials (the latter of which we shall not stop to consider in detail) is *expenditures on fuel and on energy generally* (electricity, gas, etc.).

One of the greatest services to technique in the nineteenth century was the invention of new power machinery and the exploitation of new sources and forms of energy, and a colossal increase in the output of fuel.

The transfer from the exploitation of animal motive power to that of steam engines, turbines, electrical motors, and the internal combustion engine, the transfer from wood-

fuel to coal, oil, and the exploitation of the mighty water torrents, have all greatly reduced expenditure on fuel, which even so still constitute a very important item in the cost of production.

(3) Labour power is an element which, of course, cannot be dispensed with in any form of production whatever. The lower the organic composition of the capital of an enterprise, the lower the constant capital by comparison with the variable capital in that enterprise, the greater is the percentage of the costs of production falling to labour power.

The cheapening of labour power is, of course, one of the chief cares of the capitalist.

We already know what measures the capitalist adopts in this direction. They are an increase in the intensity of labour, a lowering of wages, and a rise in the productivity of labour by the introduction of new machinery.

All the expenses we have been discussing so far, i.e., for raw material, fuel, and labour power, constitute the main items in the production costs and are called production expenses.

In addition to these, we have also to deal with what are known as depreciation and overhead charges, which it is true usually occupy a comparatively small share in production costs, but which none the less are of no little importance.

(4) Let us first of all consider depreciation.

What do we call depreciation? It is none other than the gradual transference of the price of the worn-out machinery and buildings into the price of the commodity.

We already know a little about this from the chapter on surplus value, where we said that the value of constant capital enters in parts into the value of the commodity. An exact calculation of depreciation, of the share of the costs of machinery and buildings which falls to a single unit of a commodity is sometimes extremely difficult. If, for example, I turn an axle on a lathe, how am I to determine exactly what part of the lathe has entered into the turning of that axle? How can I previously determine with more or less exactitude the period during which the lathe will be in service, and how much I shall have to expend on repairs?

However, approximate estimates based on all previous experience are possible; and not only possible, but even

indispensable. The capitalist must set aside as reserve the value of the fixed capital which is returned to him in parts through the sale of the commodities, setting it aside as a depreciation fund which afterwards has to serve him for the restoration of his fixed capital. If the capitalist makes an erroneous calculation in this sphere, then for a time, so long as the old machinery and buildings have not completely worn out, nothing would appear to be happening. But the more ominous and terrible will be the catastrophe when the time comes to buy new machinery in place of the old, and the depreciation fund proves to be inadequate to this purpose.[1]

How can the capitalist ensure a reduction of the depreciation charges falling on a unit of his commodity (i.e., on every yard of cotton print, every pound of sugar, etc.)? In the first place, an enormous part is played in this realm by the same growth in technique and the productivity of labour of which we have already spoken. As we shall see later, this is assisted by the concentration of production, and the growth of large enterprises. Here the rationalisation of production is also of some importance (we have already referred to this in dealing with Taylorism), and the reduction of the time during which a machine is standing idle, the elimination of such features as machinery working unproductively (i.e., a lathe continuing to turn when no work is being done at it), and similar items. When cheapening depreciation charges (as for that matter other charges also), the capitalist, of course, is least of all concerned with the interests of the workers; in his hunt after cheap machinery he often greatly worsens the worker's conditions of labour (makes no provision for safety guards to the machinery, and so on).

It has to be noted that with the growth in technique and the organic composition of capital, the depreciation charges take a continually larger place in the costs of production,

[1] Of course it must not be thought that the depreciation fund must always remain in the capitalist's hands as cash. We shall see (in the section on credit) that so long as the old fixed capital is not completely worn out he can temporarily make use of this money. But it is obvious that it ought to be available in ready money towards the time when it will be necessary for him to occupy himself with the purchase of new machinery (or the construction of new buildings).

and the question of economy in this sphere assumes a continually growing importance for the capitalist.

(5) The remaining costs to the capitalist, which are not directly connected with the production of the commodity, are called *overhead charges*.[1]

In this category come expenses entailed in the maintenance of administration and the entire administrative machinery, office-workers, travellers (e.g., agents purchasing raw materials), auxiliary workers (office-cleaners, watchmen); also the payment of various taxes and rates, expenses on the insurance of the property, payments for the maintenance of such institutions as schools, hospitals, etc., are referred to this category.

Are these overhead charges indispensable? Can the capitalist completely eliminate them? Of course he cannot do without an administration and the maintenance of an office; if he does not insure his property he risks losing a great deal in the event of any misfortune: the State forces him to pay rates and taxes.

But obviously every capitalist endeavours to reduce his overhead charges to a minimum.

The scientific organisation of labour and Taylorism, of which we have already spoken more than once, are important to the capitalist not only because with their help he directly raises the intensity and productivity of the labour of his workers; they help him to organise the work of the enterprise and of its administration in such a way that a large reduction in overhead charges is achieved. For instance, the piece-work system eliminates expenses connected with the supervision of the workers: the delusive baits of the Taylorists compel the workers themselves to take good care of the property of the capitalists and to work to the limit of their powers without pause. By providing the capitalist with rationally worked out methods of estimating and accountancy, the scientific organisation of labour also reduces and cheapens the work of the administrative machinery.

The concentration of production, which plays a decisive part in the lowering of all the costs of production, is, of course, of great importance in the reduction of overhead

[1] By many, depreciation charges are also included among overhead charges.

charges. The larger the factory, the less is the expenditure per unit of the commodity on watchmen, lighting, etc.

In regard to taxation, the capitalist takes all measures possible in order to evade them. Capitalists conceal their revenues and by all " legal " and illegal methods endeavour to get a lower estimate of their property. But as the capitalist state which to-day is concerned with the defence of no other interests than those of the bourgeoisie, has need of money for the maintenance of its machinery, the bourgeois politicians contrive to transfer the tax-burden from the bourgeoisie to the toiling masses. Thus the capitalist achieves a reduction of overhead charges in this respect also.

Overhead charges for schools, hospitals, etc., constitute, as everybody knows, an infinitesimal part of the total mass of the capitalist's expenditure. The farthings which the wiser capitalists set aside for this work are returned to them with interest ; they form one of the sugar-plums which appease the workers and increase their ardour.

For that matter, the capitalist seldom gives this money voluntarily ; occasionally the worker himself wins these concessions by sheer force through his trade unions, by means of the direct economic struggle (strikes, etc.), or by way of the political struggle (for laws ensuring the protection of labour).

A number of overhead charges arise not as the result of the production of the commodity, but through the necessity of its disposal, its sale. Among these are expenses on the maintenance of trading machinery, advertising, etc.

But as they do not enter into the costs of production, and at the moment we are not discussing trade, we shall not stop to analyse this question.

Such, then, is the general importance of various costs in the price of the finished commodity. The specification of these various costs constitutes the calculation which aids the capitalist to take measures to lower expenses on particular items, in order thus to be able to compete with other capitalists, and not go under in an unequal struggle.

More than this, of course, calculation cannot give him. The costing system which he establishes for his own business affords him no possibility of eliminating the lack of organisation and anarchy which exists in capitalist economy as a

whole ; no matter how exactly the capitalist calculates the cost price of a commodity, he cannot calculate how many commodities are being produced by other capitalists nor the price at which they will sell them ; each individual capitalist makes his calculation in order more rationally to exploit his capital, in order to receive as great a profit as possible from it. But other capitalists are striving to the same end ; the struggle continues, and the anarchy of the capitalist system remains.

36

The Price of Production and the Theory of Labour Value.

Summarising all we have said so far, we come to the following conclusions :

1. Every capitalist strives to sell his commodity so as to recover the costs of production and receive as large a profit as possible.

2. In the process of competition and the transfer of capital the profits of individual capitalists tend to the average rate of profit, which in turn depends on the organic composition (and the speed of circulation) of all the capital of society taken as a whole.

3. The point of equilibrium around which the prices in capitalist society fluctuate is thus *the cost of production plus an average profit.*

This regulator of capitalist society is called the *price of production.*

After what has been said, however, the question inevitably arises : does not the conclusion we have reached contradict what we said in the chapter on value ? For there we established that the price of a commodity is determined in the last resort by the socially-necessary labour expended on its production. In that chapter, in reckoning the price of commodities we were continually dealing with hours of labour, but now it would seem that we have not even touched on the labour question, but have talked only of the expenditures of the capitalist, both production and overhead, and of the profits of that capitalist.

It is true that in that previous chapter we were talking not of capitalist society, but of a simple commodity economy.

But what relation has the price of production, with which we are now concerned, with the value of a commodity, of which we spoke earlier? It is very important that an answer should be given to this question, since we built all our previous observations on that very theory of value.

In order to get a clear understanding of the position, we will return to our society of which we spoke previously (par. 34). This society has a total capital of £1,200 millions, and its enterprises can be divided into three categories according to the organic composition of their capital:

	Constant Capital.	Variable Capital.	Surplus Value.
Spheres with a high organic composition of capital (machinery - building works, etc.)	£500 mn.	£100 mn.	£100 mn.
Spheres with a low organic composition of capital (bakeries, etc.)	£100 mn.	£100 mn.	£100 mn.
Remainder (textile mills, etc.)	£300 mn.	£100 mn.	£100 mn.
Total	£900 mn.	£300 mn.	£300 mn.

In passing, we direct attention to those spheres of production which are grouped together under the section "remainder." They have a constant capital of £300 millions, a variable capital of £100 million; the organic composition of their capital is equal to 300 : 100, or 3 : 1. And the organic composition of the capital of the society as a whole is the same (900 : 300 or 3 : 1). Those enterprises coming in the "remainder" category thus have an average organic composition of capital. Thus in our example we have enterprises with a high, an average, and a low organic composition of capital. Grant that one shilling represents one hour of socially-necessary labour. We will reckon how many hours of such labour are incorporated in the commodities of all the

categories of enterprises, in other words, what is the value of the commodities produced by them equal to. (In order not to complicate the example, we shall assume that the constant capital is worn out and its value is entirely transferred in the course of one cycle, which is effected in exactly one year.)

	Value of the Constant Capital transferred to the commodity. mn. hrs.	Value of the Variable Capital transferred to the commodity. mn. hrs.	Surplus Value incorporated in the commodity. mn. hrs.	Total. mn. hrs.
Spheres with a high organic composition of capital (machinery-building works, etc.) ..	10,000	2,000	2,000	14,000
Spheres with a low organic composition of capital (bakeries, etc.).. ..	2,000	2,000	2,000	6,000
Spheres with an average organic composition of capital (textiles, etc.) ..	6,000	2,000	2,000	10,000
Totals	18,000	6,000	6,000	30,000

Thus there are 14,000 million labour hours in the commodities produced by the machinery-works and other enterprises with a high organic composition of capital; the value of these commodities is equal to 14,000 million shillings, or £700 millions; the value of the commodities produced by the sphere of industry with an average organic composition of capital is equal to £500 millions; and that of the low organic composition to £300 millions.

What will be the price of production of these factories?

As the average rate of profit is equal to 25 per cent., as we have already ascertained (in par. 34), and the machinery and similar works have expended a total capital of £500 c+100 v, i.e. £600 millions, the price of production of the machinery, etc., turned out by them should equal the cost of production (600 million) + the average 25 per cent. profit (i.e. $\frac{600 \times 25}{100}$ = £150 millions); in other words, a total of £600 millions + £150 millions = £750 millions.

In the same way we can reckon the price of production of the other enterprises with an average organic composition of capital.

Costs of Production.		Average Profit.	Price of Production.
£300 mn. + £100 mn.		25 % of £400 mn.	£400 mn. + £100 mn.
c. v.		or	or
or		$\frac{400 \times 25 \text{ mn. } £}{100}$	£500 mn.
£400 mn.	+	or	
		£100 mn.	

We shall make a similar calculation for the enterprises with a low organic composition of capital:

Costs of Production.		Average Profit.	Price of Production.
100 c. + 100 v.		25 % of £200 mn.	£200 mn. + £50 mn.
or		or	or
£200 mn.		$\frac{200 + 25}{100}$	£250 mn.
	+	or	
		£50 mn.	

Now we shall compare the prices of production of the commodities in the various spheres of production with their values.

	Labour value of commodity produced.	Price of production of commodity	Plus or minus of price of production over value.
Machinery and other enterprises with high organic comp.	£700 mn.	£750 mn.	+ £50 mn.
Textile and other enterprises with average organic comp.	£500 mn.	£500 mn.	no difference
Bakeries, etc., with low organic comp.	£300 mn.	£250 mn.	− £50 mn.
	£1,500 mn.	£1,500 mn.	no difference

What results do our calculations afford us?

The owners of the machinery works and enterprises with a high organic composition of capital, who sell their commodities at the price of production, will receive more than their value for them; the owners of the bakeries will be in the opposite position.

Why is this so? It is because the bakers should " really " have received a rate of profit higher than the average, owing to the low organic composition of their capital, but they were forced to renounce that excess. They (i.e. the owners of the bakeries) were compelled to do so willy-nilly, since otherwise, as we already have seen, the owners of the machinery works would have preferred to put their capital into bakeries, which give higher profits and that would inevitably have led to a drop in prices.

Thus in the process of levelling the rate of profits the baker capitalists and their fellows lost fifty million pounds. Instead of the one hundred million pounds of surplus value which the workers in their enterprises had created, they succeeded in getting only fifty million pounds into their hands.

But while the enterprises with a low organic composition of capital " lose " fifty million pounds, the machinery enterprises gain that very sum.

In the spheres of production with an average organic composition of capital the price of production of commodities is equal to their value, as our calculations show.

In exactly the same way, if we consider the sum of prices of production of all commodities produced by the society and compare that sum with the value, we shall see that they are equal; and this is obvious, for, as we have seen, the losses incurred by the bakers have been counterbalanced by the profits of the machinery builders.

After what has been said we see that even from the purely quantitative aspect, i.e. from the aspect of the magnitude of value and price of production, there is a definite connection between the two; here it becomes obvious that in capitalist society value does not disappear, but it remains of effect only for all society taken as a whole. And the price of production itself also rises on the basis of value, since it is formed from the cost of production and the average rate of profit; while the average rate of profit which evokes deviations from value has, as we know, itself arisen out of value; for the average rate of profit is no other than a relation of the surplus value of all enterprises to the value of the capital of the whole of society.

But the connection between the price of production and

value is not limited only to what we have just said: the *quantitative* connection between the magnitudes of the values of commodities and their prices of production is in its turn explained by still more fundamental connections which exist between those productive, working relationships of men which are expressed in value and the price of production.

What productive relationships find their expression in value? The relationships between commodity-owners and relationships as are regulated blindly on the market by the agency of exchange. Value, which regulates the relationships between men, indicates where the labour of an individual commodity producer should be directed; in other words, it (value) *regulates the distribution of social labour* in that society where what is essentially social labour has taken on individual, private-ownership forms.

But while in a simple commodity economy the distribution of social labour is effected directly through value, while in that economy labour tends directly to that sphere of production where price is higher than value, in capitalist society the affair takes a somewhat different turn, as we have already seen. Here the regulator becomes the price of production; here the difference between the individual price and the price of production determines the degree of profitability of this or that enterprise, the amount of profit which it can bring to the capitalist on his capital and consequently the direction in which capital must tend.

Thus the price of production leads to a definite distribution of capital between the various spheres of enterprises. But it is obvious that *while regulating the distribution of capital, the price of production simultaneously regulates the distribution of social labour also*; for a certain distribution of capital entails a certain distribution of social labour. While in a simple commodity economy the distribution of social labour is effected directly through value, under capitalism it is effected indirectly through the price of production and the distribution of capital. This occurs because in a capitalist economy other relationships exist, in addition to the relationships between individual commodity-owners. There are in the first place the relations between the capitalists and the workers, and in

the second place those between various groups of industrial capitalists.[1]

The relationships of simple commodity economy (i.e. the relationships between individual commodity owners, regulated arbitrarily through the agency of the market) do not disappear in capitalist society, but are only rendered complex and take on a new form, thanks to the fact that other relationships are associated with them.

But if this be so, it is obvious that value also, which expresses the relationships of a simple commodity economy, does not disappear in capitalist economy, but only takes on a new, more complex form—namely, the form of price of production. It is obvious that although these two categories (i.e. value and the price of production) do not entirely coincide, a profound connection none the less exists between them.

MATERIAL FOR STUDY IN CONNECTION WITH CHAPTER I (PARS. 31-36)

1. According to statistics the output in large scale industry in Russia, in 1913, consisted of the following elements:

	Mil. rbls.
(*a*) *Transferred Value:*	
(1) Machinery, buildings, repairs and equipment	547.6
(2) Raw material, accessories and fuel ..	2,972.0
(*b*) *Newly-created Value:*	
(1) Wages and maintenance of labour power	1,052.5
(2) Taxes and duty	408.1
(3) Net profit	639.5
Total	5,620.7

[1] " . . . The theory of labour-value studies only one type of production relationships between men (as between commodity owners); but the theory of price of production presumes the existence of all three fundamental types of production relationships in capitalist society (relationships between commodity owners, relationships between capitalists and workers and relationships between various groups of industrial capitalists.)" I. Rubin, *Outlines of the Marxian Theory of Value*, State Publishing Co., Moscow, 1924, p. 164.

(1) Show and work out separately the elements of constant and variable capital entering into the output.
(2) Which of the indicated elements belong to fixed and circulating capital? Work out separately the magnitudes of both.
(3) Work out the rate of exploitation and the rate of profit.

2. There is one factory with £1,000,000 constant capital and £500,000 variable capital; another factory has £100,000 constant and £25,000 variable capital. In which of them is the organic composition of capital higher?

3. In your opinion, in which enterprises will the organic composition of capital be higher, in factories or in capitalist farms?

4. Why does not the capitalist want to divide capital into its constant and variable parts and why does he divide it into its fixed and circulating elements?

5. In which countries is the organic composition of capital higher in the U.S.S.R. or in the United States, in Great Britain or in India, in Russia or in China?

6. In which of these countries should the rate of profit be the highest, and what conclusions can be drawn from this as to the rate of profit in the advanced and colonial countries?

7. What practical conclusions should capitalists draw from the different rates of profit in the various countries?

8. What will be more correct to say: is it the individual employer who exploits the worker, or is it the entire capitalist class as a whole? In answering this question give the reasons for your answer.

9. Is the rate of profit in the various countries being levelled out, and what conditions are necessary for the levelling of the rates of profit?

10. How is it that although the rate of profit is falling the capitalists are not growing poorer but richer?

READING

The Organic Composition of Capital.

(*a*) Marx, vol. 1, p. 671, 1926 edn., beginning with " The composition of capital . . ." to the end of the paragraph.

(*b*) Marx, vol. 3, pp. 171-2, 1926 edn., beginning with " By the composition of capital . . ." and ending with " is called the organic composition of capital."

The Organic Composition of Capital and the Rate of Profit.

(*a*) Marx, vol. 3, pp. 176-7, 1926 edn., beginning with " Capitals of different composition . . ." and ending with " the total capital must also differ."

(*b*) Marx, vol. 3, ch. iv, pp. 186-7, beginning with " Since the capitals invested . . ." and ending with " capital invested in social production."

Formation of the Rate of Profit.

Marx, vol. 3, ch. v.

Chapter II

THE REGULATOR OF SOVIET ECONOMY

(Value, Profit, and Price of Production in the U.S.S.R.)

37

The Question of Value in the U.S.S.R.

Now that we have made a general acquaintance with the laws regulating the productive relationships of capitalist society, the question naturally arises, do all these laws hold good in the U.S.S.R.? We shall begin with the law of value.

In order to answer the question of how the law of value operates in the U.S.S.R., we need to recall at least in a few words the part played by that law in capitalist society. Independently of this or that form of productive relationships any society can exist only under conditions of a certain equilibrium between human needs and the means of satisfying those needs, or, in a word, an equilibrium between production and consumption. But as human needs are satisfied by means of labour, any equilibrium between production and consumption presupposes a division of labour in various spheres of production as will correspond to the needs of society. In what way is this proportion in the division of labour over the various spheres of production achieved in capitalist society? As we have already said more than once, it is achieved through the law of value, which is the regulator of productive relationships in capitalist society. And the law of value fulfils this rôle by means of what Marx called the "barometrical fluctuations of prices."

Now consider Communist society. Like any other, Communist society will have definite needs, and the satis-

faction of those needs will also demand the observation of a certain proportion in the distribution of labour over various spheres of production in correspondence with those needs. Here also it will be necessary that the various economic groups can, in exchange for their product, which they will hand over to society as a whole, receive such a quantity of products of others' labour as will ensure the existence of the entire society and its individual parts. Thus here also the " expenditure of labour " connected with any particular product has to be taken into account. But the regulation of this " labour balance " will not assume the form of value ; as we have already said, it will be regulated not blindly by means of exchange on the market by independent commodity-producers, but by the conscious will of all society. The various " expenditures of labour " will throw off their fetishistic wrappings and be revealed in a direct and pure form.

The question may be asked : in what way is equilibrium achieved in Soviet economy—blindly, through the law of value, or consciously, by way of a planned direction of economic processes ? We already know from the foregoing that the basic distinction of Soviet economy is its transitional character, that taking it as a whole it is no longer capitalist, but at the same time it has not yet been transformed into a wholly socialist economy. If we were asked, is Soviet economy capitalist or socialist, we should of course reply that it is impossible to call it one or the other, since the peculiarity of Soviet economy consists, as we said, in the very fact that it is of a *transitional* nature, passing on from capitalism to socialism. In exactly the same way we should have to answer anyone who demands from us whether the law of value operates here in its entirety, or whether it has entirely ceased to operate and has been replaced by conscious regulation. To asseverate that one of the two is correct is impossible, because neither the one nor the other is correct, but rather a third : *that we are living through a process of transition from the one to the other.* The law of value has not yet fallen away, but continues to operate in Soviet conditions ; but it does not operate in the form in which it operates in the capitalist system, since it is passing through the *process of withering away*, the process of trans-

formation into the law of " expenditure of labour " that operates in socialist society.[1]

But it is not sufficient to say that the law of value is dying, that the law of value is being transformed into the law of " expenditure of labour." It is necessary to indicate *exactly how it is dying*, and in what consists the peculiarity of its operation in Soviet economics.

In order to give a concrete answer to this question, we must first remind the student once more of the various modes of production extant in the Soviet Union, by which actually its transitional character is determined. As we know, all these various modes do not exist side by side as independent and isolated spheres ; each brings influence to bear on all the others, and they are all bound together in the synthetic system of the transition period.

Consequently, in order to fulfil our task we have first and foremost to consider more closely the basic features of these modes of production, the methods of regulation which are native to each of them separately, if it be taken " in its pure form " ; then we have to consider the influence which one mode of Soviet production can have on the others, so as afterwards to pass to a consideration of the regulator which determines the equilibrium of the economic system as a whole.

Let us first consider the State economy of the U.S.S.R. It no longer represents an aggregation of individual privately owned enterprises, of which each is connected with the others through the market and prompted in its activity exclusively by the struggle to receive as large a profit as possible, such as we see under capitalism. All the State enterprises in the U.S.S.R., and the trusts and syndicates have their centre in the Supreme Economic Council. Through that centre the State directs and administers all State industry. In addition to the State industry the railways, a

[1] The great philosopher Hegel, and after him the founder of Russian Marxism, Plekhanov, cited the following example, which will assist us in the elucidation of the situation in our own case. A youngster begins to show down on his chin. Can one answer the question whether the youngster has a beard by a simple " Yes " or " No " ? Of course not. Neither the one nor the other is true, because the fact of the matter is that the youngster's beard is just in the stage of development.

large share of the trading enterprises of the country, the banks, and so on are also concentrated in the hands of the State. All these spheres of Soviet economy also have their directing staffs in the form of the corresponding People's Commissariats: the People's Commissariat for Ways and Communications, for Trade, and so on.

Contact between these spheres of Soviet economy is realised through the planning organs of the Union—the Council of Labour and Defence and the State Planning Commission (Gosplan) attached to it. It goes without saying that if there were only State production in the U.S.S.R. the question of value as its regulator would not arise at all. But together with State economy in the U.S.S.R. there exist economic enterprises of other types also: the capitalist enterprises of the Nepmen and concessionaires, the enterprises of the handicraft and artisan workers, and finally twenty-two million farms, the preponderating majority of which can be classed as belonging to simple commodity and primitive modes of production.

In regard to those which belong to the type of primitive economy, it is obvious that so long as they are not transformed into commodity producing enterprises they are completely self-contained units, which have no need of regulating relationships among themselves (nor with other economic organisms). Capitalist enterprises and small commodity producers, taken by themselves, naturally could not be regulated in any other way than through the agency of value and the price of production in the sense which we have defined above in dealing with commodity and capitalist economy in general.

That is how the various separate " orders " of our economy would be regulated, if they were to exist in a " pure " form, each isolated one from the other.

But in reality we know that the simple commodity-producer, and the capitalist, and the socialist State enterprises are connected with one another by innumerable threads.

What is the nature of this connection, how is it regulated, and how does it affect the nature of the different modes of production?

Private and State enterprises are connected with one another *through the market*, as we already know.

But it is necessary to observe that despite the relative independence of the State and private enterprises communicating with one another through the market, none the less they cannot be considered as absolutely equal commodity owners, like two capitalists in capitalist society. It would be unsound to consider State economy as a " big " merchant, competing with smaller merchants. There is a distinction here not only in quantity, but in quality. State economy, being the economy of the working class as a whole, is here as a " logically socialist " element in opposition to the elements of simple commodity and capitalist economy. Inasmuch as the State enterprises belong directly to the ruling proletariat, inasmuch as they constitute the " strategic points " of industry, it is not possible to say that the influence of private on State enterprises is equal to the converse influence of State on private enterprises—*the fundamental and characteristic feature of Soviet economy taken as a whole is the leading rôle of State industry*, its predominance in the national economy, which corresponds to the predominance of the proletariat in the political sphere. That predominance of State industry also determines the economic evolution of the country, and its transition to a completely socialist economy.

In order to observe the manner in which the State effects its direction of the whole economic system, we will return to the question of the influence which State enterprises may bring to bear on the most essential sector of private enterprise, namely on peasant production. On the one hand, the State supplies agriculture with the manufactured goods: instruments of labour, agricultural machinery, ploughs, scythes, and so on, and with articles for consumption, cloth and materials, sugar, paraffin, and so on; on the other hand, the State purchases raw materials (cotton, flax, sugar-beet, and so on) from the peasantry for industry, and also foodstuffs (grain, meat, eggs, and so on). The State, which enters the market as the largest supplier of industrial commodities, and in a number of cases as a monopolist, can influence the development of private economy in general, and peasant production in particular, in such a way as to thrust it along the road towards socialism.

It depends first and foremost on the State as to what

commodities are to be manufactured for agriculture and what are to be purchased on its behalf abroad. If the State supplies agriculture with agricultural implements such as harrows, drills, steam ploughs, tractors, and with fertilisers, etc., this conduces to the development of technique and the industrialisation of agriculture, and as we shall see later, to its socialisation. But if, on the other hand, the State restricts itself to supplying agriculture exclusively with articles of consumption, the *tempo* of agricultural development will be greatly retarded, and with it the *tempo* of socialisation.

The question of the distribution of industrial products is of no less importance. Here, in the first place, price policy has to be taken into consideration. If the State exploits its monopolist position to pursue a policy of high prices and thus appropriates a large part of the revenue of the peasantry to itself in the form of monopoly profits, the peasants are then unable to accumulate resources for the development of their husbandry. The industrialisation of agriculture is held up, since the purchasing power of the peasants is reduced, and so the work of socialist construction will suffer. With a policy directed to lowering prices, the opposite results are achieved.

Of no less importance is the question of the distribution of agricultural implements among the various sections of the peasantry. If, for instance, the tractors get into the hands of the kulaks (or rich peasants) this will conduce to the growth of capitalist relationships in the villages, since the "kulaks" will endeavour to use the tractors to exploit and enslave the village poor. On the other hand, if the tractors get into the hands of the middle, and particularly the poor elements of the village, they will be the means of uniting those elements, and will thus be a means towards the socialisation of agriculture. By establishing easy terms for the supply of tractors to the poorer peasants, the State can conduce to the socialist reconstruction of the village.[1] Of no less importance is State policy with regard to the purchase of raw materials and foodstuffs produced in agriculture. The State does not only enter the market as the largest producer and supplier of industrial

[1] The question of the methods of socialist construction in the village will be considered by us in the last part of this book.

products. By a system of regulations it can maintain prices for agricultural products at such a level as will ensure the properly balanced growth of industry and agriculture. Also, by carrying through a definite price policy, the State can stimulate the development of such sections of agriculture as are indispensable from the viewpoint of the interests of socialist construction; thus, it can stimulate the development of cotton-growing, flax-growing, and so on. Further, by concentrating in its hands the great bulk of agricultural produce, and by intelligently manœuvring with its reserves, the State can influence the market prices.

Thus, for example, in the event of an inflation of grain prices on the part of the private traders, the State can increase the supply of grain on to the market from its reserves, and thus cause a fall in prices.

Finally, by a suitable policy the State can directly regulate private trade. When supplying private traders with manufactured goods, the State can make that supply conditional on the obligation to sell at fixed prices; in cases of necessity it can completely deprive private trade of those commodities, and direct the commodity output exclusively through the State and co-operative establishments. In the collection of raw materials by establishing easy terms for the transport of certain commodities by State and co-operative organisations, and higher rates for private trade, the State can direct private trading capital into spheres in which there is no "commodity famine," and concentrate the trade in commodities of which there is a shortage in the hands of State and co-operative establishments, in order to preclude unjustifiably inflated prices for these commodities. Through the same agency the State can stimulate the export of commodities by lowering railway rates on lines through which foreign trade is conducted. But it is not only by this system of economic measures that the State can influence the market; there are also administrative measures which it can take. Thus it can establish fixed prices for commodities, and punish by law those who violate those prices.

All this confirms what we have said above: by its ownership of industry, transport, and a large proportion

of trade, and by its control of the State machinery, the Soviet State has in its hands such a mighty weapon to influence the market that it can in large measure subject them to its own planned direction. In all the cases we have considered the prices of commodities would unquestionably be different if they were left entirely to the operation of the market, and a different direction would be given to the development both of agriculture and of industry, and of Soviet production as a whole.

This is the influence which State direction brings to bear on the private economy of Soviet Russia, and therefore also *on Soviet economy taken as a whole*. This predominance of State control also determines the direction in which the whole economy develops; it determines the line of its transition to completely socialist economy.

But we must not over-simplify the struggle which the Soviet State carries on with the blind forces of the market, etc. In Soviet production the planned element does not mechanically restrict and squeeze out the law of unconscious regulation. We must not give the impression that wherever planning exists the anarchic elements are immediately excluded, and *vice versa*. The mutual relations of the planned and the anarchic elements are far more complex. The Soviet State realises its influence on market relations through *the operation of the blind laws of the market*, and by forcing them to operate along lines desirable to the State.

We will elucidate this by an example.

Let us assume that the Soviet State has found it necessary to extend the production of a certain raw material, flax for instance. Obviously under the conditions of complete socialism such an extension would be easily achieved: the directing centre would simply give the order for production to be extended, and the object would be achieved. Is it possible under present conditions to achieve an extension of the sowing of flax by way of direct orders, by way, for instance, of circulars and appeals, calling on the peasantry to sow more flax? Obviously that is impossible. The extension of flax sowing can be achieved only by raising the price of flax, and so making its production more profitable. *Here also the the distribution of social labour will be achieved through the distribution of articles*, in the present case with the aid of a

rise in the price of flax. Of course the State may deliberately raise the price of flax in order to stimulate an extension of flax cultivation, but obviously this will not be equivalent to the elimination of the law of value, but only an intelligent manipulation of that law by the State.

Thus the deliberate and planned regulation of the Soviet State amounts to its taking into account the law of value and availing itself of it, directing its operation along the way of strengthening and developing the socialist economic elements.

Moreover, it has to be observed that even with the decisive influence of the State in the general system of Soviet economy the " strategic points " cannot but experience the influence of market relationships and also to a certain extent the influence of the law of value.

The State enterprises are frequently compelled to resort to market methods of connection with one another. For example, assume that exchange is going on between such enterprises as are not dependent on the private market either for the realisation of the commodities they produce or in regard to raw materials. We will assume that Gomza (State metal-working factories) is selling a locomotive to the People's Commissariat of Ways and Communications. We know that in this case Gomza, which is working on a business footing, will demand a definite sum of money from the Commissariat in return for the locomotive, and here we have a market form of sale and purchase.

But behind this superficial form of sale and purchase will there be the same productive relationships as are hidden behind value? Of course not. For the Commissariat and Gomza are different enterprises of one and the same State, and not two independent owners; for them the market is by no means the sole form of connection, and therefore it is not possible to speak of value here. But the whole peculiarity of the instance we are considering consists in the very fact that despite the absence of value in its content, the superficial form, the " integument " of value still has a certain real significance in the sale of the locomotive. This " integument" has importance first and foremost in the quantitative determination of the price of the locomotive. It is true that the magnitude of that price may be regulated and to a

certain extent is regulated by the State planning organisations. But can those organisations fix the price of the locomotive arbitrarily? Obviously not. It is obvious that here the influence of the market is felt, though indirectly. For although the locomotive is made of metal obtained in State mines and worked up in State metallurgical works, and although it is sold to a State organisation, neither the production nor the operation of the finished locomotive is by any means isolated from private economy.

In reality the price of the locomotive will largely depend on the wages of the workers, and the level of those wages, even with their deliberate regulation, depends on the prices of articles of prime necessity, on which the anarchy of market exerts great influence. In determining the price of the locomotive the reaction of that price on the cost of transport of commodities sold to the peasantry, and consequently on the price of those commodities, etc., has also to be taken into account.

But we repeat that the influence of value will here be purely superficial and will not strike at the very essence of the relations between the various parts of the Soviet State economy.

Such are the peculiar features which value takes on in the Soviet economy. In so far as planned regulation is still, as we have seen, in large measure regulation by the agency of things, it is still early to speak of the complete elimination of value. But in so far as the law of value is used in Soviet planned regulation, to that extent the essence, the very core, so to speak, of this law is beginning to disintegrate; there begins a process of transformation of the law of value into the law of " expenditure of Labour " of socialistic economy, comparable to the transformation of the grub into the butterfly which goes on inside the cocoon.

The swifter the growth of State economy the stronger its influence on private economy, the more rapidly will this process of the transformation of value into the law of expenditure of labour be consummated, and the relationships between men finally lose the form of relations between things.

38

Profit and the Average Rate of Profit in the U.S.S.R.

We now turn to the question of profit in the U.S.S.R. Does profit exist in Soviet economy, together with all the laws associated with it (the law of average profit, the price of production, and so on) ?

We have already shown that such categories as capital, surplus value, etc., are only the expression of the fact that in capitalist society the capitalists have a monopoly in the instruments of production on the one hand and that the workers sell their labour power on the other. If these features were not present then profit would not exist in the sense in which we understand the word, i.e. as surplus value, created by the workers and appropriated by the capitalists.

In exactly the same way the law of the average rate of profit can be present only in a society where competition exists, where a struggle is going on between individual capitalists, and there is a more or less free flow of capital.

If in addition we recall the description given in previous parts of the relationships which are characteristic of Soviet economy, it will not be difficult to make certain general deductions concerning profit and its laws in the conditions of Soviet economy.

Inasmuch as there can be no thought of surplus value in the socialised State enterprises, there cannot be any thought of profit either.

It is true that if the matter be considered superficially we have something which is very reminiscent of the profit of capitalist enterprises : for a State trust selling its commodities receives a certain surplus over the cost price in the form of a sum of money which is not returned to the individual workers in the form of wages. The trust which produces goloshes at five shillings a pair and which sells them at seven shillings would appear to receive two shillings profit. But this is only the superficial form, arising out of the fact that the market and a monetary system still exist in the Soviet Union. But if we observe what social relationships are concealed behind these two shillings of " profit " we find that

they are not profit in the capitalist sense, since they are placed at the disposal of the State, i.e. of the entire working class, which uses them in the interests of the same working class.

That is why, in speaking of the " profit " of Soviet State enterprises we should continually keep in view the fact that the word is used by us conventionally, while in its essence, in its content, it has nothing in common with capitalist profit.

But if we turn from the State to the capitalist enterprises which also exist in the Soviet Union then, of course, we have to speak of " profit " not conventionally, but in the customary capitalist sense of the word : here that part of surplus value which is transformed into profit is not at the disposal of the working class but of the bourgeoisie, who turn it to their own advantage.

That is the position in regard to profit.

In regard to the law of the average rate of profit, of the transfer of surplus value from spheres with a low organic composition of capital into spheres with a high organic composition of capital, it is obvious that this law also cannot have the application in the Soviet system which it has in the capitalist system.

After what we have said above concerning the directing influence of State industry it is obvious that even among the private capitalistic enterprises the free flow of capital and its trend into spheres with a high rate of profit are impossible in the Soviet Union. Only in rare cases is a levelling of profit among the capitalist enterprises possible. As for the flow of capital from private industry into spheres in the hands of the State, that is a quite obvious impossibility. Still less is there any necessity to speak of a levelling of profit among spheres of various State industry, since by their very nature they cannot base themselves on the pursuit of the highest possible profit.

We will take two State enterprises, the one with a high organic composition of " capital," a locomotive construction works for example, and the other with a lower composition, brewery say. At the present time the breweries are providing the State with an excellent profit. Meantime the locomotive works, like the metallurgical industry generally, frequently

not only do not provide a profit, but even show a deficit on their working.

Thus, from F. Dzherzhinsky's report (*The Fundamental Problems of Industrial Policy*, Moscow, 1925, p. 107) it is evident that for the year 1923 the machinery-construction section of the metallurgical industry alone showed a deficit of 5½ million roubles.

What conclusions would a capitalist draw from this? At the first opportunity the locomotive works would be closed down and all the free capital would be thrown into the opening of breweries, which give large profits. But something quite the contrary occurs in the Soviet State. With all its powers the Soviet State supports the machinery construction industry, affording it assistance financially and thus transferring the profit received from the profitable enterprises into the deficit-bearing metallurgical industry, for the purpose of restoring and extending that industry.

The Soviet State does this because it is not concerned with a simple pursuit of profit but has in view first and foremost the general interests of Soviet economy, to which both locomotives and machinery are extremely necessary.[1]

39

The Significance of Profit in Soviet Economy. Calculation and its Importance to the Economic System of the U.S.S.R.

It by no means follows that because the Soviet State does not observe an unrestricted pursuit of profit as such in its

[1] It may appear to some that the Soviet State might act otherwise: would it not be simpler to open more breweries, obtain a larger profit from them and with that profit purchase locomotives abroad? Then there would be no losses, and in addition locomotives are cheaper in the foreign market. Although this plan would appear to be more advantageous, its fulfilment would result in the Soviet State being placed in greater dependence on foreign capital, owing to the non-existence of its own locomotive and engineering works; in the event of a war or blockade it would be impossible to repair the imported locomotives or machinery.

In this question the policy of the Soviet State again demonstrates that it has in view not simply "monetary interests," but the interests of the working class which is struggling for communism.

enterprises, therefore it is a matter of complete indifference to it whether its enterprises bring it a loss or a profit.

Profit (of course in the conditional sense already defined) is extremely important to the Soviet State.

Without profit the Soviet State would be unable to extend its enterprises, would be unable to increase the socialistic elements in its economic system, within which, as we see in the case of the market, there is scope for anarchy.[1]

If it were to suffer a loss socialist industry would be ruined, and in face of the existence of capitalist enterprises side by side with it, it would inevitably be destroyed.

While the State sometimes maintains unprofitable enterprises, in the interests of the whole system and the struggle for communism, it finds it possible to do so only because other enterprises yield a profit, part of which (as we have already shown) can be sunk in the unprofitable enterprises.

Being thus highly interested in the accumulation of profit, the State takes all necessary measures to make its enterprises profitable. One of the most important ways in which the Soviet State is encouraging the directors in Soviet industry to accumulate profit is the running of enterprises on a business basis. The various enterprises work, as it were, each on its own responsibility, depending first and foremost on their own powers. The means of maintenance, renewals and extension of production are drawn from their own revenues,[2] and the administrators of the enterprises thus become interested in diminishing the expenditure of their enterprise and in increasing its revenues.

At the same time the general direction of all State enterprises remains in the hands of the State, which watches to ensure that individual directors do not overlook the interests of society as a whole in considering their own narrower interests.

In order to safeguard this the State subordinates individual enterprises and their federations to the Supreme Economic Council and to other central economic organs.

In addition the Soviet State gathers a large part of the

[1] This important and interesting problem of socialist accumulation will be considered in more detail later.

[2] Only in special cases can an enterprise (or trust) count on aid from the State in the form of a subsidy.

profits of the trusts into its own hands : " The entire profit of the trust is paid into the State exchequer, with the exception of a sum of not less than 20 per cent. which is set aside as the trust's reserve fund . . . and also a sum for the payment of commission to the members of the administration and remuneration to the workers and employees." (Pat. 45 of the Decree of the Soviet of People's Commissars and the Council for Labour and Defence, dated April 10th, 1923.)

By this system the Soviet State ensures that both individual economic units and their directing organs are interested in the profitability of enterprises and in its increase.

How is that increase achieved? First and foremost by a lowering of the costs of production. And as, from the viewpoint of society as a whole, a lowering of the costs of production amounts to a reduction of expenses on labour power, an increase in the profit yield is achieved mainly by an increase in the productivity of labour. This is achieved by the wages policy of which we have already spoken, and also by improvements in technical equipment, concentration, and the enlargement of enterprises (of which we have also spoken, and which will be dealt with again later). In the struggle to cheapen commodities particular importance is attached to the question of overhead charges, which are frequently bound up with irrational organisation and with bureaucratic burdens on industry and trade.

A reduction in the costs of production, is obviously of importance not merely for the increase of profit. A factor of no less importance is that while increasing the profitability of enterprises, it is possible simultaneously to lower the selling prices of commodities[1] by which means commodities are rendered more accessible to the masses, and thus a fuller satisfaction of the needs of the working class and its ally the peasantry is achieved.

At the same time it is necessary to remind the student once more that while working for the profitability of an enter-

[1] There is nothing strange in the fact that with a cheapening of the cost of production and a reduction (within certain limits) of the prices of commodities the profit obtained by the enterprise may not diminish but may increase; for, as we have seen, this occurs in the capitalist world also.

prise, the Soviet State cannot strive for an increase of profit at any cost. Whilst some years ago, when transferring its enterprises to a paying basis, the State strove to ensure their profitability, at the present time it is no less important to ensure a restriction of profit, to struggle with individual directors who in the pursuit of profit are grossly increasing the prices of commodities, which increase leads to certain economic difficulties, especially in the realm of mutual relationships between town and country.

The further growth in the mass of profit received by state enterprises is possible with a reduction in the cost price and the selling price of commodities, and consequently through improved technique and the rationalisation of production.

But in order to achieve this end, in order to obtain the possibility of cutting down the expenses of production, and by the regulation of prices to carry on production in the interests of the toilers, a strict auditing and balancing of the revenues and expenditures of Soviet enterprises is indispensable; this is the reason why *calculation* takes on an enormous importance in Soviet conditions.

Whilst calculation affords the capitalist the possibility of carrying on a successful struggle with other capitalists, calculation affords the Soviet State the possibility of carrying on its production along the most systematic lines; it affords the possibility of strengthening more and more the socialist elements and subjecting to itself the anarchy of the market.

40

The Price of Production in the Soviet Union.

There remains the last question, does the law of the price of production operate in Soviet economics? That is not difficult to answer, if it be remembered that the price of production is composed of the cost of production plus an average profit.

Although, as we know, the costs of production are of great importance in determining the price of commodities in the Soviet economic system, since the Soviet State is

interested in the making of "profit," i.e. in the sale of commodities at prices higher than their production costs, yet, as we have already seen, the situation in regard to the average rate of profit is not quite that of capitalist society. Whilst in that society there are certain tendencies hindering the levelling of profit, the hindrances to this in the Soviet Union are considerably greater. As a rule there is no such levelling within Soviet State industry; nor is there any occasion to speak of the levelling of profit as between State and private industry in view of the leading rôle played by State industry. And as we have seen, even between private enterprises that levelling can occur only as an exception.

Thus it is obvious that in the Soviet system the operation of the law of the price of production does not operate.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER II (PARS. 37 TO 40)

THEMES AND EXERCISES

1. Study the following Tables I, II and III, which are taken from the Control Figures of the State Planning Commission for the year 1926-27, and answer the following questions:

(*a*) What is the specific weight and tendency of development of socialised and private production in the economic system of the U.S.S.R.?

(*b*) Which spheres of national economy are the basis of the planned and of the anarchic element in the U.S.S.R., and to what extent are they so?

(*c*) From Table No. I it is evident that a large part of the gross output falls to the share of private production in the U.S.S.R. Does this show the preponderating influence of private enterprise?

(*d*) On the basis of a comparison of all three tables what deduction can you draw on the question of the specific weight of the planned and the anarchic elements in Soviet economy?

TABLE I

Gross Production (at pre-war prices) in percentages.

Industry and Agriculture.	State.	Co-operative.	Private.	Total.
1923-24 ..	27·6	1·9	70·5	100 %
1924-25 ..	32·9	2·1	65·0	100 %
1925-26 ..	35·4	2·3	62·3	100 %
1926-27 ..	37·0	2·3	60·7	100 %
Of these :				
(*a*) *Industry*—				
1923-24 ..	70·3	5·0	24·7	100 %
1924-25 ..	74·6	4·6	20·8	100 %
1925-26 ..	77·0	4·9	18·1	100 %
1926-27 ..	77·9	4·8	17·3	100 %
(*b*) *Agriculture*—				
1923-24 ..	11·1	0·7	88·2	100 %
1924-25 ..	10·8	0·8	88·4	100 %
1925-26 ..	9·9	0·8	89·3	100 %
1926-27 ..	9·9	0·8	89·3	100 %

TABLE II

The Commodity Output of all Industry and Agriculture.

Industry and Agriculture.	State.	Co-operative.	Private.	Total.
1923-24 ..	39·4	3·4	57·2	100 %
1924-25 ..	47·1	3·3	49·6	100 %
1925-26 ..	49·3	3·8	46·9	100 %
1926-27 ..	50·6	3·7	45·7	100 %

TABLE III

Trade Turnover.

Industry and Agriculture.	State.	Co-operative.	Private.	Total.
1923-24 ..	31·0	28·2	40·8	100 %
1924-25 ..	35·5	37·5	27·0	100 %
1925-26 ..	34·0	42·3	23·7	100 %
1926-27 ..	34·0	44·5	21·5	100 %

2. Study the following statistics concerning U.S.S.R. trade, taken from the collection of economic tables published by the Agitation and Propaganda Dept. of the C.C. of the C.P.S.U. and the Rationalisation Dept. of the People's Commissariat of Workers' and Peasants' Inspection, and answer the following questions:

(*a*) A growth in trade in the U.S.S.R. is observable from year to year. Why is it not possible on this basis to draw the deduction that the law of value is gaining in importance?

(*b*) Why is it not possible to draw the same conclusion on the basis of the growth of foreign trade?

U.S.S.R. TRADE

(*in million roubles*).

	1923-24.	1924-25.	1925-26.
Turnover of 70 provincial bourses	1,462	3,403	4,460
Turnover of Moscow bourse	1,555	2,990	3,801
Sales of 303 groups Government Combines	1,914	3,204	3,695
Foreign trade	960	1,278	1,405

NOTE.—When answering the above questions, the student is recommended to read Bukharin's speech at the 7th Plenum of the Comintern or at the 15th Moscow Conference (sections dealing with Soviet connections with world economy).

3. Why is it not possible to consider the mutual relationships between the plan element and the law of value in U.S.S.R. economy merely as those of antagonistic elements?

4. In what way does the law of value die out in the U.S.S.R. economy being achieved?

NOTE.—Illustrate your reply by some example.

PART V

MERCHANT CAPITAL AND MERCHANT PROFIT

Chapter I

MERCHANT CAPITAL AND MERCHANT PROFIT IN CAPITALIST ECONOMY

IN the foregoing chapters we have acquainted ourselves with the manner in which surplus value is created, how it is transformed into profit, and how that profit finds its way into the pocket of the industrial capitalist. But the various bourgeois groups existent in capitalist society are not confined to the industrial capitalists. In addition to the industrial capitalists there are trading capitalists, bankers and landowners, of whom no less than of the industrial capitalists it can be said that they are like the lilies of the field, which toil not neither do they spin, yet Solomon in all his glory was not arrayed like one of these.

All these groups are the personification of certain capitalist production relationships. The question arises: what part is played in capitalist economy by the capital represented by these groups, and what is the source of the profit which they receive.

We begin with the question of merchant capital and profit.

41

The Circulation of Capital.

In the section on profits and the price of production we have already indicated that in its circulation capital passes through various stages. We will study this question in rather more detail. In order to begin the process of production the capitalist must have certain monetary resources at his disposal, and with these resources he must purchase on the market all the elements necessary to begin the process of production, namely, on the one hand the means of production: looms, machinery, raw materials, and so on; and on

the other, labour power. This means that at this stage of its circulation capital acts in a monetary form as money capital, and its function consists in being transformed into commodities: into means of production and labour power. This stage may be indicated thus: M – C (the transformation of money into commodities); and as we have already said, this C (commodity) into which money has been transformed consists of MP (means of production) and LP (labour power); in other words, C = MP + LP.

After the capitalist has bought the means of production and labour power on the market, he has to begin the productive exploitation of the commodities he has purchased. The process of production is begun, and capital passes into its second stage, the stage of production capital. This stage can be indicated thus: C – P (process of production) – C.

From the foregoing exposition it ought to be clear that this stage would be robbed of all meaning for the capitalist if, as the result of completing the process of production, he received merely the value of the means of production and labour power into which he had previously transformed his money, even though he received that value in a different commodity form. It is clear that after finishing the process of production, the mass of commodities produced, in addition to the recovery of the value of the means of production and labour power expended in their production, should include surplus value also, in other words, should be indicated thus: C . . . P . . . C′, the dots indicating the break in the process of circulation, P the process of production, and C′ the mass of commodities increased by the total sum of surplus value.

After completing the stage of production industrial capital thus exists in the form of commodity capital, augmented by the total sum of surplus value. The capitalist has had all this mass of commodities produced not for his own consumption, but for sale, consequently he must again turn to the market, this time as a seller of the goods produced. The period of sale, of realisation of these goods, begins, after the completion of which capital must again throw off its commodity habiliments and take on the glittering monetary form in order again to be transformed into means of production and labour power and to begin the same unbroken cycle.

Inasmuch as the commodities into which capital enters after the completion of the process of production contain surplus value (the difference between the value C′ and the value C), so after its transformation into the monetary form it must contain that surplus value. Consequently this third stage in the circulation of capital must be indicated so : C′ – M′.

Thus in its movement capital passes through three stages : the monetary, productive, and commodity stages. The aggregate of all these three stages through which capital passes is called the cycle of capital.

The circulation of capital as a whole can be expressed thus : M – C . . . P . . . C′ – M′.

All three stages in the cycle of capital are absolutely necessary, and the cycle as a whole can function normally only if its metamorphosis from one form into another, i.e. from the monetary into the productive, from the productive into the commodity form, functions unhindered. If we study carefully all these metamorphoses of capital from one form to another, we note that when capital is in its monetary form (M – C) this connotes simply that the industrial capitalist acts on the market as a purchaser of means of production and labour power. When capital is transformed into productive capital, it connotes that the industrial capitalist is passing to the productive use of the commodities he has purchased (the means of production and labour power) ; when capital throws off the productive form and acts in its commodity form, it connotes that the period of sale of the commodities produced has arrived in the industrial capitalist's activities. Thus, all these are various functions in the activity of the industrial capitalist, directed to the achievement of his ultimate aim, to extract surplus value ; or in other words, these are the various forms which industrial capital takes on in the course of its movement.

42

The Concept of Merchant Capital.

Since we have chosen as our first task to consider the question of trading capital and trading profit we must first

interest ourselves in the third stage in the cycle of industrial capital, i.e. that stage in which it takes the form of commodity capital, when the moment of sale arrives, or, in technical language, when the realisation of the commodities produced begins.

The period of realisation of commodities demands the setting apart of a special capital on the part of the industrial capitalist.[1] This capital is formed first and foremost from the value of the whole mass of commodities which are for sale. In addition, the actual process of sale and purchase of commodities involves various expenditures. Among these have to be reckoned expenses on advertising, on the building of warehouses and shops, on the maintenance of the necessary staff of employees, on the keeping of books, on packing, sorting, and transport of the commodities, and so on. But the monetary sums which are obtained by the realisation of the commodities produced are not exhausted by these expenditures. The commodity can be regarded as realised in its entirety only when it reaches the consumer. The road from the point of production of the commodities to the consumer is extremely long. Take cotton goods produced at some textile mill in Moscow; in order to reach the peasant of some distant Siberian village they have to travel thousands of miles by all kinds of means of transport: motor, railway, and cart; they have to pass through dozens of warehouses and trading houses, etc., all of which demands time, even if no delay occurs. But if, in addition, the realisation is effected with certain delays and difficulties, if after all this the purchaser still has to be sought, the time necessary to the realisation of the commodities is increased still more. If the industrial capitalist wishes to ensure that the delay in the realisation of the commodities shall have no reflection in the process of production, he must have a reserve capital which can be sunk in production before the finished commodity is unrealised.

Thus the capitalist must withdraw a large capital from production for the period of realisation of the commodities produced, and this capital is composed of capital necessary in the actual process of circulation plus the reserve capital

[1] For the present we assume that the industrial capitalist is himself occupied in the realisation of his commodities.

required to provide against difficulties in the selling of the commodities. So far we have assumed that the industrial capitalist is himself occupied with the realisation of his commodities. However, it is by no means necessary that the industrial capitalist should himself take his commodities on the market. That function—the function of realising the commodities produced, can be separated from industrial capital and handed to another capitalist. Thus, when the function of realising the commodities produced is removed from industrial capital and becomes a function of a separate capitalist, we have an example of trading capital.

43

The Labour of Salesmen.

Inasmuch as the period of realisation of commodities demands a definite capital, the trading capitalist has to expend that capital. But we know that the aim of every capitalist, irrespective of whether he invests his capital in industry or in trade, is to obtain profit. The source of profit is surplus value. The question arises: does the labour of salesmen create value and surplus value?

In order to find the answer to this question we must review the various forms of labour applicable in the service of commodity circulation. These forms of labour can be divided into two categories: first, labour expended directly on the service of commodity circulation in its simple aspect, and second, labour expended on the transport, packing, sorting, and warehousing of the commodities.

We know that not all commodities require the services of transport, packing, warehousing, etc. Take a house for example. It can be sold innumerable times and pass from one owner to another, i.e. it can participate in commodity circulation, without being moved from its site, or subjected to the packing process, and so on. Thus trade in houses will need only the labour which serves the actual process of commodity circulation—buying and selling: in other words, the labour of the office employees, the solicitor, expenses on advertising, the payment of commission and so on. This example clearly

demonstrates that in the trading process we can distinguish labour expended directly on commodity circulation from any other form of labour. But why is it necessary to make such a distinction? It is necessary because labour expended directly on commodity circulation can create neither value nor surplus value. In the section on "surplus value" we tried to explain the development of surplus value from commodity circulation and came to the conclusion that it is impossible to attribute the origin of surplus value to circulation.

In addition to the reasons and arguments which we then adduced, we can easily demonstrate this fact by the following example. Take a capitalist who is engaged simultaneously both in production and the sale of his commodities. The greater the number of workers engaged in the production of commodities, given of course the existence of the necessary equipment and raw materials, the greater will be the quantity of commodities produced, and the greater will be the capitalist's profit. The situation is quite otherwise in regard to salesmen. An increase in the number of salesmen cannot possibly lead to an increase in the quantity of commodities. On the contrary, the number of employees depends on the quantity of commodities produced and subject to sale. Consequently, just as the capitalist is interested in increasing the number of workers, again within the limits of the existing equipment and raw materials, so he is interested not only in keeping the number of his salesmen from increasing, but in reducing them to the minimum.

In addition, it is necessary to bear in mind that in trade we customarily observe a great lack of correspondence between the number of employees exploited by trading capital and the mass of profit obtained by that capital. The production of commodities demands much more labour than the trade in those commodities. If you take two enterprises with the same amount of capital, one an industrial enterprise, a gold mine say, and the other a commercial enterprise, such as a shop for the sale of gold articles, you will see that the number of employees engaged in the sale of gold articles is absolutely insignificant by comparison with the number of workers engaged in the gold mining enterprise.

Thus, in 1910 in Russia 84,201 workers had a total gold output of 2,618 poods in round figures, i.e. in the course of

the year one worker produced about one pound of gold.[1] One can imagine how much larger a quantity of gold in the form of gold articles may be sold by one shop employee in a year under favourable conditions.

But despite the comparatively insignificant number of employees engaged by him, the trading capitalist, as we shall see from our later exposition, obtains the same amount of profit as does the industrial capitalist given the presence of an equal capital. Thus if we take the view that the labour of salesmen is the source of trading profit, we have to recognise the salesman's ability to create such a colossal value as the most skilled industrial worker is unable to create. However, we have absolutely no justification for such a conclusion. From the section on value we know that only the more complex, more qualified labour is able to create large value, since the more qualified labour demands greater preliminary expenditure of labour in its training and education. Although the labour of a salesman demands a certain preliminary training and study, it is far from being equivalent to that which is demanded in the labour of a professor, for example, or an engineer or even a highly skilled worker. Meantime neither the labour of a professor, nor that of an engineer or indeed the most highly qualified labour in the world is able to create such a high value as the labour of salesmen would have to create if commercial profit had to arise our of their labour.

This enables us to draw the deduction that the labour expended on commodity circulation cannot be the source either of value or of surplus value, and forces us to seek some other explanation of trading profit.

We still have to consider the other forms of labour serving the trading process, labour on the transport of commodities, on their packing, sorting and warehousing. None of these forms of labour is directly connected with commodity circulation as such. That this is so is easy to see from the fact that in communist society, where the distribution of the articles produced will take place without any buying or selling, without any exchange, where all the costs directly connected with trade will be eliminated, the labour costs for the trans-

[1] The figures are taken from Liubimov's *Course of Political Economy*, vol. i, 1923 ed., p. 28. (1 pood equals 36 lb. av.)

port, packing, sorting and warehousing of goods will still remain ; therefore these costs are not peculiar to commodity economy. This all indicates that the labour expended on all these operations cannot be related to the costs of commodity circulation, but rather to costs in the production of the commodities, arising, however, in the process of circulation.

44

The Source of Merchant's Profit

We have seen that if the industrial capitalist were himself to engage in selling his commodities, he would be compelled to withdraw part of his capital from production ; but he has handed this work over to the trading capitalist (merchant) who carries out all the operations both of selling and of supplying the commodity to the consumer in the industrial capitalist's stead. Thanks to this arrangement the industrial capitalist obtains a number of advantages and conveniences.

In the first place, by selling his products to the wholesale trader the industrial capitalist swiftly recovers the capital he has expended, realises his profit and thus obtains the possibility of at once returning to production.

Secondly, he frees himself from all the cares associated with the realisation of the commodities he has produced, and obtains the possibility of concentrating all his attention entirely on production. And we know that in capitalist conditions trade is one of the highly complicated spheres of economics, demanding specialised knowledge and experience, and adaptability to the complex, oft-changing, market situation. Consequently, if the industrial capitalist himself engages in the realisation of his products he must involuntarily divide his attention between the process of production and that of commodity circulation, to the injury of the one or the other or of both.

Thanks to the separation of trading capital from industrial capital, capitalist society achieves a great economy in the costs involved in commodity circulation. This economy is achieved by a great concentration of trading capital and the speeding up of its turnover. If the industrialist himself

carries on trade, he only serves his own production with his capital, whereas the capitalist specially engaged in trade can serve a number of enterprises with the same capital.

Thus we see that industrial capital is interested in handing over the realisation of its commodities to merchant capital.[1] But as we have already said, no capitalist will agree to engage in a business which does not bring him profit. *Consequently, the merchant will only undertake the realisation of the industrial capitalist's commodities provided the latter shares with him a part of the surplus value he has appropriated.*

If we take into account the advantages which the industrial capitalist obtains when the merchant takes the sale of the former's commodities on himself, the former will gladly sacrifice part of his surplus value, if only to free himself from carrying on trading operations and to devote himself entirely to production. In practice this concession is arrived at in the following fashion. Customarily the commodity passes through several stages before it reaches the consumer. From the manufacturer it passes to the wholesale dealer, from the wholesaler to the retailer, and then from the retail trader to the consumer. At each of these stages a certain addition is made to the prices of commodities, and consequently the final price of the commodity is the price at which it is sold to the consumer. If this process be studied superficially the impression is gained that all these additions represent an increase of the price of the commodity over its value. In reality the exact converse is the case. The industrial capitalist selling his commodities to the merchant at factory prices sells them below their value. However, this by no means implies that he sells them at a loss. As we know, the value of a commodity contains not only the value of the means of production and of labour power, but surplus value also. And part of this surplus value is shared by the industrial capitalist with the merchant. On selling the commodity to the consumer at retail prices the merchant sells it at its full value, and thus realises the share of the surplus value which the industrial capitalist has yielded to him.

[1] It is necessary to note that in actual capitalist practice the industrial capitalist does not by any means always transfer his trading functions to a trading capitalist; we can frequently observe a whole network of retail shops belonging to one or another manufacturer.

Thus we come to the conclusion that merchant profit is part of the surplus value which the industrial capitalist concedes to the merchant in exchange for the latter's undertaking the sale of his commodity.

45

The Role of Merchant Capital in Equating the Rate of Profit, and the Level of Merchant Profit.

Thus we have established that the source of merchant profit is the surplus value created by the workers engaged in production.

On what does the extent of merchant profit depend and how is it determined?

From the part on profits and the price of production we already know that as the result of competition among industrial capitalists an average equal rate of profit is established for all spheres of production, irrespective of the mass of surplus value created in each of these spheres separately. Thus we find that surplus value is created in proportion to surplus labour, to expended labour power, but is distributed in proportion to the capital sunk in this or that sphere of production. The merchant is first and foremost a capitalist, and nothing capitalistic is foreign to him. He is not in the least interested in the circumstance that the labour of the salesmen creates neither value nor surplus value. Inasmuch as he sinks a certain capital in trade, like all other capitalists he endeavours to obtain such a rate of profit as will not be below the average rate of profit. If the rate of profit for merchant capital falls below the rate of profit obtained by industrial capital there will be very few capitalists willing to invest their capital in trade, and they will all sink it in production. Thus the merchant is not outside the ruthless competitive struggle which goes on among the industrial capitalists over the division of surplus value, and he makes a strong demand for an equal share in proportion to his capital. In this respect the industrial capitalist is compelled to meet the merchant half way and to recognise him as an equal partner in the division

of surplus value. All this leads to the conclusion that merchant capital participates equally with industrial capital in arriving at the average rate of profit.

We will explain this by an example. Assume that the entire industrial capital of some capitalist country is equal to one hundred million pounds, and the total surplus value created by the workers' labour is equal to ten million pounds. We know that the rate of profit is determined by the relation of the surplus value to the total capital. Consequently, in the given instance the rate of profit will equal $\frac{£10 \text{ millions}}{£100 \text{ millions}}$ or 10 per cent. But we have made this estimate without any estimate of the merchant capital and that part of surplus value which it receives in the form of trading profit. Let us assume that the total merchant capital of the country is £25 millions. Now in order to determine the average rate of profit we must take the relation of surplus value not only to industrial capital, but to industrial plus merchant capital.

Thus the average rate of profit will be

$$\frac{£10 \text{ millions}}{£100 \text{ millions} + £25 \text{ millions}},$$

or 8 per cent. By this example we see that the participation of merchant capital in the distribution of surplus value results in a reduction of the average rate of profit. While the industrial capitalist not only receives his share of surplus value from the general capitalist pot, but also contributes to it the surplus value created by the workers of his enterprise, the merchant only receives and contributes nothing. Thus from the point of view of capitalist society as a whole merchant's profit and the costs of circulation generally are nothing else than a necessary, but absolutely unproductive expense, and unproductive in a double sense at that: first, inasmuch as part of the monetary resources are withdrawn from production and do not create that surplus value which they would create if those resources were expended in production, and secondly, inasmuch as while not creating any value, it none the less receives a part of the value created by industrial capital. Consequently capitalist society is interested in seeing that the sum of merchant

capital, which is a pure charge for commodity circulation, is reduced to the minimum, of course without damage to the realisation of the commodities produced by industrial capital. The sum of merchant capital can be reduced by a speeding up of its circulation. With one and the same £100,000 pounds it is possible to accomplish one or ten turnovers in the year, and in the second case, of course, the merchant capital necessary is ten times less. By reducing the sum of merchant capital, the speeding up of the turnover also reduces the share of the surplus value which industrial capital concedes to merchant capital. Hence the question naturally arises as to how far the class of merchant capitalists is interested in speeding up the turnover of their capital, if that speeding up leads to a reduction of capital, and consequently to a reduction of the mass of profit obtained by them.

From all we have said so far about merchant capital, the conclusion would seem to suggest itself that merchant capital is interested not in speeding up the turnover of its capital, but on the contrary in slowing it down. But this only appears to be so if the question be regarded from the point of view of the entire class of merchants, and not from that of the individual merchant. The individual merchant capitalist is extremely interested in ensuring that his capital shall circulate as swiftly as possible. Here we can draw an exact analogy between the merchant and the industrial capitalist. You remember how the improvement of technique reacts on the rate of profit. With the development of technique the rate of profit falls. Consequently it would appear that the class of capitalists is not interested in the development of technique. But we know that if the technique at any given individual enterprise is higher than the average the capitalist owner of that enterprise will receive super-profits until the technical improvements which are in operation in his factory and ensure him super-profit become universal. All this can be applied to the merchant capitalist also. In every country and in every sphere of trade there is an average speed of capital turnover, and the merchant whose capital turnover is swifter than the average receives trading super-profits. This super-profit drives the merchants into speeding up the circulation of their capital.

46

The Exploitation of Salesmen.

We have established that the labour of salesmen creates neither value nor surplus value. If this is really so can one in that case talk of the exploitation of salesmen by merchant capital. In order to answer this question we must get light upon the rôle of the salesman in the trading process. This consists in the following: The merchant receives a profit according to his capital. But the application of merchant capital is impossible without the labour of salesmen, and the larger the sum of merchant capital the larger must the number of salesmen be also, other things being equal. Thus, although the labour of the salesmen does not create surplus value, none the less it is an indispensable condition of the application of capital to trade, and consequently of the merchant capitalist appropriating part of the surplus value of the industrial capitalist. Needless to say, the merchant capitalist is interested in seeing that this application of capital and appropriation of surplus value should occur at the least possible cost. Consequently it is natural that, like the industrial capitalist, he should not pay the salesman more than is necessary for the reproduction of his labour power, in other words, for the payment of the value of his labour power. But the merchant compels the salesmen to work considerably longer than the necessary time, so as to exploit his labour without payment during the surplus time in order to appropriate a part of industrial capital's surplus value. Thus under capitalism not only the proletariat at the bench is exploited, but also the proletariat at the counter. The difference between the two consists only in the fact that by his labour the worker creates surplus value for the industrial capitalist, while by his labour the salesman ensures to the merchant the possibility of transferring a part of this surplus value to his own pocket.

As capitalism develops the position of the salesman gets worse and worse. This is explained on the one hand by the fact that the division of labour behind the counter becomes more and more perfect, operations are simplified and demand

less and less qualification. On the other hand, the progress in the sphere of popular education makes it more and more possible for large sections of the population to acquire that elementary knowledge which is necessary to work as a salesman. All this largely increases the supply, and intensifies the competition among them, which competition leads to a decrease in their wages.

47

Co-operative Profits.

Hitherto, in considering capitalist trade we have assumed purely capitalistic relationships not only in trade but in industry also. But in reality, even during the period of most highly developed capitalism there exist various forms of small production, artisan, craft and peasant, side by side with large capitalist enterprises. They are all in greater or less degree bound to merchant's capital and dependent on it. This link is formed in varying ways : by the disposal of the commodities produced by these petty producers, and by the purchase of raw materials, and finally by their position as consumers. All petty producers come up against merchant capital, as producers of their own commodities, as purchasers of raw materials, and as purchasers of articles of consumption. When a large industrial capitalist on the one hand and a large merchant on the other come up against each other on the market they come together as equals. As we have already seen, the merchant capitalist claims an equal rate of profit with the industrial capitalist, and under normal conditions the latter is compelled to guarantee him that rate of profit by a concession of part of his surplus value. The situation is different when a large merchant on the one hand and a petty commodity producer on the other come together on the market. The petty producer is much weaker than the merchant economically, and in consequence he is reduced to complete dependence on him. Needless to say, the merchant endeavours to use his position in every possible way to exploit and enslave the petty commodity-producer. By exploiting his continual need of money,

his poor knowledge of the market, and so on, the merchant buys his commodities at cheap prices, supplies him with the means of production and of consumption at artificially inflated prices, and thus reaps a super-profit at the cost of his intensified exploitation. Thus the surplus value of the petty producer is transformed into profit for the merchant.

Hence among the petty commodity producers there develops a natural endeavour to liberate themselves from this slavish dependence on merchant capital at the very least to ease it to some extent. To this end they unite in all kinds of co-operative societies for the sale of their products, the purchase of raw materials and articles of consumption, and so on, and these societies aim at the replacement of merchant capital in the supply of articles of consumption, raw materials and so on to their members, and also the disposal of the articles produced by them at terms more favourable for them. In addition to the petty commodity producers, artisans and peasants, the wage-workers are also interested in co-operation, chiefly in consumers' co-operation.

Thus co-operative societies are organisations of workers and petty producers which have as their aim the defence of their members as consumers or producers from exploitation by merchant capital.

In order the better to understand the social nature of co-operation, we will consider some co-operative, a consumers' co-operative, say. Generally it has the following form of organisation. Membership of the co-operative is conditional on the contribution of a certain membership fee. The governing body of the co-operative is the general meeting of all members, and the executive body is an administration elected at the general meeting. In order to control the activities of the administration an auditing committee is appointed. The profit which the co-operative receives is divided in various ways among the members. In certain cases the co-operatives sell commodities to their members at lower prices; in others the prices are market prices, but at the end of the trading year the members of the co-operative are given dividends in proportion to their purchases, etc.

In connection with our survey of merchants' profit we may ask how we are to regard those profits which the co-operative receives; what is their source and social nature.

Among bourgeois co-operators the opinion is quite widely held that the advantage in the form of a definite sum of money which is obtained by the member of a co-operative cannot be regarded as merchants' profit, but that it is the simple result of economy in purchasing.

Let us see how far this view is correct. Take any consumers' co-operative, and for simplicity's sake we will assume that it trades only in cotton material. In the course of a year the co-operative makes a profit of £2,500 for its thousand members. This profit is distributed thus: £250 is placed to reserve capital, £250 goes for extension of trade, and £2,000 is distributed among the thousand members. Thus every member of the co-operative receives an average of £2, and for our argument it is quite indifferent to us whether they receive this £2 in the form of a discount on the material bought in the co-operative or in the form of a monetary dividend, paid out proportionately to the purchases at the end of the trading year. Can that two pounds be regarded as the result of economy in purchasing, particularly if received in the form of a discount on the commodities purchased in the co-operative? What in reality is this economy the result of; why does the co-operative sell its commodities more cheaply than private merchants? Evidently not because it is selling commodities at a loss. Such a co-operative could not carry on for long. And it is difficult to assume that this cheapness of commodities by comparison with those of private trade is the result of more economical trading organisation in co-operatives. This problem can easily be resolved if it be remembered what is the source of the profit obtained by merchant capital. As we have already established, its source is a part of the surplus value conceded by industrial capital. The co-operative also obtains its commodities from the industrial capitalist, and the latter sells to the co-operative as he does to the merchant capitalist, at rather less than the value of the commodity. The difference consists only in the fact that the private merchant puts this share of the surplus value into his own pocket in the form of profit on the capital he has expended, while the co-operative hands it in one form or another to its members. Thus the source of co-operative profit is still surplus value created by the industrial workers.

Needless to say, all the foregoing has reference to consumers' co-operation and to co-operation for the purchase of raw materials and means of production for petty producers. In regard to co-operation for the sale of articles produced, the advantage which the petty producer obtains from co-operation consists in his avoiding the mediation of merchant capital by selling his products through the co-operative, and thus retaining part of his surplus product.

Returning to the question of consumers' co-operatives, we must say nevertheless that in so far as the surplus value conceded by industrial capital to the co-operative is distributed among the workers and petty commodity producers, its character and social significance is altered. It becomes a means of defending the petty producer from slavery to merchant capital, and a means of effecting at least a certain improvement in the material position of the wage labourers. None the less, capitalism restricts this rôle of defending the workers from the slavery to merchant capital within very narrow limits. Thus for example, the fact that the worker receives commodities at cheaper prices leads under capitalist conditions to a lowering of the value of his labour power. The capitalist can exploit this in order to effect a corresponding reduction in his wages. Consequently the advantage which the worker obtains from the consumers' co-operative can be retained only if in addition to workers' co-operatives there exist strong trade unions or political parties.

On the other hand the various forms of selling or purchasing co-operation uniting the petty commodity producers, artisans and peasants under capitalist conditions have a tendency to be more and more transformed into organisations chiefly serving the most affluent sections of the petty producers, who are forcing a road for themselves to the position of small and middle capitalists. But this question is outside the bounds of our present subject and will be considered in more detail later, when dealing with capitalist accumulation.

MATERIALS FOR STUDY IN CONNECTION WITH CHAPTER I (PARS. 41 TO 47)

THEMES AND EXERCISES

1. What advantage does the industrial capitalist receive from the separation of merchant from industrial capital?
2. Why cannot merchant's profit arise out of circulation?
3. What is the source of merchant's profit?
4. What influence does the speed of turnover have on the level of merchant and industrial capital and on the level of merchant's profit?
5. Can one talk of the exploitation of salesmen by merchant capital, when their labour is incapable of creating surplus value?
6. What is the source of co-operative profit, and why cannot it be explained by economy in purchasing?

Chapter II

THE QUESTION OF MERCHANT CAPITAL AND MERCHANT'S PROFIT IN THE U.S.S.R.

In the previous chapter we have acquainted ourselves with the productive relations hidden under the categories of merchant capital and merchant's profit, and with the laws which govern these relations. To what extent are the categories of merchant capital and merchant's profit applicable to trade within the U.S.S.R. ?

Three forms of trade exist in the U.S.S.R. : State, co-operative and private. The various forms of trade in the Soviet system do not of course exist independently of one another, but are interconnected, and the decisive rôle in this connection is played, as we know, by the circumstances that the strategic points of the system are in the hands of the State. But it goes without saying that the question of the applicability or inapplicability of the categories of merchant capital and merchant's profit to trade in the U.S.S.R. will be decided in various ways for various forms of trade ; and the solution of the question will vary not only according to the innumerable combinations which will arise from the inter-relationships of the various forms of trade among themselves, depending on who produced the commodity sold, and where that commodity goes. It is one thing if, for example, exchange takes place between any two State organs, even if they are trusts, or if the State-trading enterprise realises the products of industry ; it is another question when the State enterprise supplies its commodities to a private merchant for further sale ; a further situation will arise if the capitalist sells his commodities to be resold by the State organisation, and so on.

48

The Inapplicability of the Categories of Merchant Capital and Merchant's Profit to State Trade.

We will first consider State trade and its mutual relationships with the various economic forms existing in the Union. By State trade we mean trade carried on by State organs: the trusts, syndicates, State trading organisations, and so on.

Are the capitalistic categories of merchant capital and merchant's profit applicable to the State trade of the U.S.S.R.?

We shall first consider the case when the product of a State enterprise is realised through State trade. We will assume that the textile syndicate sells to a co-operative store cotton goods manufactured by some textile trust. Here we have relations which superficially appear to be capitalistic ones. In the first place the textile syndicate trading in cotton goods has at its disposal all the elements which enter into the conception of merchant capital: i.e. a definite quantity of commodities, a corresponding trading house, a staff of employees, etc.

Just like any capitalist trading enterprise, the textile syndicate sells cotton goods to the co-operative at a higher rate than that at which it received the commodities from the textile trust.

Like any capitalist trading enterprise, after the sale of the commodities the textile syndicate receives a certain surplus beyond the cost price of the commodities sold—what in capitalist conditions is called merchant's profit. Finally, the textile syndicate, like the capitalist trading enterprise, employs the labour of salesmen, and so on. If to all this it be added that both in daily practice and in scientific literature we apply the terms merchant capital and merchant's profit to our State trade, involuntarily the impression is created that there is a complete similarity between the State trade of the U.S.S.R. and ordinary capitalist trade. None the less, as we have already seen, this superficial resemblance must not lead us astray. We have to see what productive relationships are concealed behind the form of

merchant capital and merchant's profit in capitalist trade and in the State trade of the U.S.S.R.

The category of merchant capital and merchant's profit presupposes the presence of capitalistic relationships in trade, in other words the existence of merchants, who appropriate part of the surplus value of industrial capital in the form of merchant's profit by means of the salesmen exploited by them.

In the chapter on " Surplus value in the U.S.S.R." we elucidated the fact that the non-existence of a class of capitalists in Soviet State industry is one of the basic and decisive indications of its non-capitalist character. All that was then said can be related to State trade between State enterprises, inasmuch as the owners of Soviet State-trading enterprises are not capitalists, but the workers' State. What is the situation in regard to merchant's profit ? We know that the source of merchant's profit is surplus value, created by the workers in industrial enterprises. In the given case behind the form of merchant's profit is hidden the problem of the distribution of surplus value among the different groups of the bourgeoisie : the industrial and the commercial bourgeoisie.

How then are we to regard the surplus which the textile syndicate receives as the result of the sale of the cotton goods turned out by the textile trust ? And first and foremost, what is the source of this surplus ? Its source is part of the surplus product produced by the workers of the enterprises constituting the textile trust, and handed over to the textile syndicate.

Inasmuch as both the textile trust and the textile syndicate are enterprises belonging to the workers' State, that part of the surplus product which is transferred from the textile trust to the textile syndicate does not contain elements of capitalistic exploitation, in contradistinction to the surplus value conceded by the industrial capitalist to the merchant. Also, here we are not faced with the problem of distribution in the capitalist sense of the term, but have a simple distribution of resources from one State pocket into another.

Finally, there is one other characteristic feature of the categories of merchant's profit and merchant capital : the exploitation of the labour of the employees. Although the labour of the salesmen does not create value or surplus value, none

the less it is one of the conditions ensuring to the merchant the possibility of receiving a part of the surplus value of the industrial capitalist. Inasmuch as we are now speaking of a textile syndicate which belongs to the workers' State, i.e. to the working class as a whole, of which the salesmen form a constituent part, here the exploitation concept is inapplicable.

Thus we come to the conclusion that those relationships which exist in Soviet State trade during the realisation of the products of State industry do not contain capitalistic elements. In view of this the merchant capital concept and also that of merchant's profit are inapplicable, and if we are none the less compelled to make use of these terms it is only because we have no terms at our disposal which would correspond better to the actual productive relations existing in the Soviet Union.

As we know from the chapter on " Value in the U.S.S.R.," trade in the hands of the Soviet State is a mighty instrument for systematically influencing the chaotic market relations, and in this sense is also a highly indispensable condition of socialist construction.

However, inasmuch as the chaotic nature of the market still to a great extent penetrates the Soviet organism, through innumerable channels which link the latter with the peasant market, it is impossible, as we have seen, even in adjusting the relations between State enterprises, to change over at the moment to the calculation of cost price not in money, but in labour hours.

State trade has as its function the distribution of the commodities already produced by the various sections of the whole Soviet economy (both socialist and non-socialist) and the regulation of this distribution in the interests of the State; and consequently the whole transitional character of the Soviet economy, in which the old forms are so closely interwoven with the new, is reflected in trade to a much greater extent than in State industry. Hence arise even such abnormal phenomena as competition between individual State enterprises (with which the State persistently struggles, of course), hence the expenditure on advertising, on all forms of agents, commission agents, and middle men. Apart from all the monstrosities and bureaucratic perversions, with

which a struggle is and ought to be conducted, it is impossible to avoid these overhead charges entirely in the transitional period. The very form of merchant's profit, albeit with a different, non-capitalist content, is of great importance to us, since apart from the significance of profit in the work of socialist accumulation, profit in the conditions of market exchange is an indicator of the extent to which the enterprise is being rationally carried on and of what economic result it is giving.

Needless to say, while capitalist society is interested in the reduction of costs of circulation, inasmuch as they are non-productive expenses, this applies with much greater force to the State economy of the U.S.S.R., where the planned elements already have a very great and a continually increasing importance.

With the further growth of State economy and the strengthening of the element of planning, the superficial capitalist forms of State trade will die off, and simultaneously there will go on the process of its transformation into an apparatus for the planned distribution of the products of socialist economy.

49

The Transformation of the Surplus Product of State Industry into Surplus Value by Means of Private Trade and the Appropriation by the Soviet State of Part of the Surplus Value of Private Capital by Means of State trade.

We will now consider the mutual relationships which arise when State industry realises its production not by means of the machinery of State trade, but by means of private trade. We will assume that the same textile trust is selling its goods not through the textile syndicate, but through some private trading enterprise, which we will call " Moneybags and Company." In this case, in order to release itself from the labour of carrying on trading operations, connected with the transfer of goods from the producer to the consumer, the textile trust sells its cotton goods at wholesale rates to " Moneybags and Company," and so sells it below its value, thus conceding

a part of its surplus product to merchant capital. That part of the surplus product created by the workers in State industry which is appropriated by the merchant capitalist is transformed into surplus value. Thus exploitation can penetrate partially into Soviet State industry through the channel of private trade. We have the converse state of things when private capitalist industry disposes of its production through the machinery of State trade. Here part of the surplus value created by the workers in the capitalist enterprise is appropriated by the workers' State; in other words, it goes to meet the needs of the working class as a whole. Inasmuch as in this way the worker in the capitalist enterprise is working for the working class as a whole, of which he is a part, that part of the surplus value of capital which comes into the fund of the proletarian State by way of State trade, changes its social nature and loses the character of surplus value.

50

The Non-capitalist Character of Exchange between State Enterprises and the Petty Commodity-producers who are not exploiting others' Labour.

We will consider the case of peasant enterprises realising their products by means of State trade. In this case the State takes on itself the disposal of the peasant's production, and in the further sale of that product to the consumer it may appropriate to itself a certain part of the product of the peasant in the form of " merchant's profit," provided we are speaking of the middle peasant, or part of the surplus value if we are speaking of the rich peasant. The appropriation of part of the product of the middle peasant cannot be regarded as exploitation of the peasant, since here we do not have two classes with contradictory interests, of which one would have to exist at the cost of the other. On the contrary, despite the existence of certain partial contradictions between the workers and the peasants their permanent basic interests in general coincide, inasmuch as the dictatorship of the working class ensures a non-capitalist road of develop-

ment (as we shall see from our further exposition); while under capitalism, the mass of peasantry is doomed to fall into the ranks of the proletariat, with the exception of that comparatively small section which reaches the position of capitalist farmers.[1] Thus, by yielding part of its product to the workers' State, the peasantry contributes in the first place to the improvement of its own situation, inasmuch as the workers' State expends these resources on social needs, in which the peasantry itself is interested: for example, defence, the development of socialist industry, agriculture, co-operation, public education, and so on; and secondly, they avoid exploitation at the hands of private merchant capital, into whose hands this part of the peasants' product would inevitably fall, if they were not to dispose of their commodities through the apparatus of State trade.

In regard to the appropriation of part of the rich peasant's surplus value by the workers' State through the medium of State trade, here we have the same relationships as we had in the case of the workers' State appropriating part of the surplus value of private industrial capital; and these relationships we have thus already considered.

51

The Nature of Co-operative Profit in the U.S.S.R.

In order to provide an answer to the question of the nature of co-operation and co-operative profit in the U.S.S.R., we have to consider the various forms of co-operation in relation to the social composition of the sections of the population which they serve, and their connection with the State and private enterprises. We will first consider consumers' co-operation. Consumers' co-operation provides services chiefly to the workers, employees and peasants. In capitalist conditions consumers' co-operation realises commodities produced in capitalist enterprises, and appropriates part of the surplus value of those enterprises, dividing it among its members.

[1] This question will be elucidated in more detail in the last section of our book.

In the U.S.S.R. consumers' co-operation realises the production of State enterprises and appropriates part of the surplus product of those enterprises, distributing it among its members. This means that in so far as the members of the consumers' co-operatives are workers, to that extent co-operative profit is distinguished from the merchant's profit of State-trading enterprises only by the fact that the first goes to meet the needs of workers belonging to the co-operative societies, while the second goes for the needs of the workers' State, i.e., of the working class as a whole. A further difference consists in the fact that the co-operative profit, by going into the pockets of the co-operative members, supplements the fund of resources for the individual consumption of the working class, while the merchant profit which comes to the State can go for the further extension of production and for other needs of a social nature.

Thus if consumers' co-operation were to embrace the whole working class of the U.S.S.R. the first distinction would be eliminated, and there would remain only the second.

Can this appropriation, by means of co-operation of part of the surplus product in the form of co-operative profit for the purpose of the individual consumption of those same workers in the State enterprises who created it, be regarded as exploitation? Of course not. The working class cannot exploit itself. But even at the present time, when not all the working class is organised in the co-operative system and enjoying its benefits, one cannot speak of the exploitation of the workers unorganised in co-operative societies by the workers who are so organised. In the first place, no one and nothing hinders any worker in the U.S.S.R. from becoming a co-operator and participating in the distribution of that part of surplus product. In the second place, at the worst, it is possible in this connection to speak of a certain inequality existing within one class, but in no case is it possible to speak of either exploitation or surlpus value, which presupposes the existence of two classes with mutually contradictory interests, of which classes one exists at the expense of the other. Finally, it is necessary to observe that in the U.S.S.R. the fact that the workers belonging to co-operative societies receive a part of their surplus product in the form

of co-operative profit cannot have any reflection in wages, such as we find under capitalism.

If a middle or poor peasant is a member of the co-operative all our conceptions of the nature of consumers' co-operative profit remain in force, as is evident from what we have said so far concerning the mutual relations existing between the working class and the peasantry in the U.S.S.R.

We will now consider the forms of peasant co-operation, apart from the consumers' form which we have just considered, and apart from the productive co-operation which we shall consider later in connection with the problem of capitalist and socialist accumulation.

There remains one form of co-operation—co-operation for the disposal of peasant products and for the purchase of raw materials and instruments of production. What is the nature of this form of agricultural co-operation and of the profit which it yields to its members? After all we have said so far it is easy to see that in order to find the answer to this question we have to take into account the class of the peasantry served by this form of co-operation, and who it is that receives the co-operative profit. The peasantry as a whole do not constitute one class in the U.S.S.R. As we have already pointed out, class relationships exist wherever we have the presence of class antagonists with mutually contradictory interests, arising out of the exploitation of one class by the other. In the Soviet system such a class antagonist, set against the peasantry as a whole, does not exist. And moreover, even the peasantry does not constitute something uniform and homogeneous. It is divided into poor, middle and rich peasants. The poor peasant is a semi-proletarian, who does not possess the necessary quantity of his own instruments and means of production for work on his farm; the rich peasant is a member of the bourgeoisie, who lives by the exploitation of the labour of the agricultural workers and the village poor; while the middle peasant is a petty producer, owning the means of production and living by his own toil; a typical example of simple commodity production. The question of the nature of co-operation and of co-operative profit will be decided in different ways according to which of these sections it is that predominates in that co-operation. When the middle peasant organises the disposal of

his products through agricultural co-operation, eliminating the private middleman, he retains part of his own produce in the form of co-operative profit. Otherwise that produce would go to form the profit of the private trader, if the peasant were to realise his production not through co-operation, but through private trade.

If the rich peasant disposes of his production by means of co-operation, he retains that part of the surplus value which he would have to concede to the private merchant if he sold his commodities not through co-operation, but through private trade.

It is obvious that in the first instance co-operative trade is not of a capitalist nature, while in the second instance it takes on a capitalist character. The kulak who, thanks to the co-operative shop, retains part of his surplus value is hardly distinguished from the industrial capitalist who sells his commodities through his own shop and so preserves part of his surplus value from appropriation by merchant capital.

Thus we see that co-operation can be of a capitalist and of a non-capitalist character, according to the section of the peasantry which it unites. Above we have already noted that in capitalist conditions, from being a means of defending the petty producer from exploitation by merchant capital, co-operation has a tendency to be transformed into a trading organisation of the capitalist farmers.

In the great majority of instances Soviet agricultural co-operation is an organisation of the middle and partially of the poor elements, and consequently is basically of a non-capitalist character; and owing to a number of conditions arising out of the existence of the dictatorship of the working class in the U.S.S.R. it becomes a means of reorganising petty peasant production into large-scale socialist production. We shall consider these conditions when we come to deal with socialist accumulation in the U.S.S.R.

CHAPTER II

THEMES AND EXERCISES

1. Answer the question, What is the specific importance and tendency of development of the various forms of trade in the U.S.S.R.?

2. Are the categories of merchant capital and merchant's profit applicable to Soviet trade?

3. To what elements can we refer Soviet State trade, and what is the tendency of its development?

4. What is the social character of that part of the surplus value of private capital which falls to the fund of the Soviet State through State trade, and that part of the surplus product of State industry which falls into the pocket of the private merchant through private trade?

5. What is the character of co-operation and of co-operative profit in the U.S.S.R.?

PART VI

LOAN CAPITAL AND CREDIT: CREDIT MONEY AND PAPER MONEY

Chapter I

LOAN CAPITAL AND INTEREST

52

Preliminary Remarks.

We will now investigate the process by which that part of the general mass of surplus value is derived which accrues not to the industrial capitalist or the merchant, but to the money capitalist, and is known as interest.

The two forms of profit, or shares of surplus value, which we have already analysed, industrial profit and merchant's profit, correspond, as it were, to two phases in the circuit made by capital, namely, the phases of industrial and commercial capital. The new form, which we are about to examine, corresponds to a third phase, namely, the phase of money capital. In order to understand the nature of interest we must recall what was said in the preceding part concerning the circulation of capital in general, and deal particularly with the part which money-capital plays in that circulation.

Without money, the capitalist, as we have already seen, cannot begin the process of production, for he must have money in order to secure labour power and means of production. But even after the new commodities which embody the surplus value of the workers have been created in the process of production, the capitalist will not have achieved his purpose if the surplus value has not been realised. In the conditions prevailing under capitalism it can be realised only in the form of money. Money is, therefore, a necessary condition not only for the beginning of the process of capitalist production but also for its successful conclusion. In order that the circulation of capital may continue without interruption a free and uninterrupted conversion of other forms of capital into money, and vice versa, is necessary.

To possess money in capitalist society means not only to be able to acquire some other equivalent in exchange for it, but also to have the right to secure profit, to secure surplus value. Money becomes not only the universal form of value, but also the universal form of capital. In addition to its functions in simple commodity economy, money acquires a new function—the function of money capital.

Inasmuch as the search for profit is the main stimulant to the development of capitalist production, this pursuit of profit must be closely bound up with the pursuit of money, i.e. capital in its most universal form.

In order to secure surplus value it suffices for a capitalist to have money capital at his disposal not permanently but for a certain limited time. Having obtained money for temporary use, the capitalist can convert it into industrial capital and, later, after the process of production has been completed, he can obtain money through the sale of his finished commodities. He can thus realise the surplus value produced and reimburse the money he secured for temporary use to its owner.

If a person who has money at his disposal lends it for temporary use to another person, that transaction is called a loan.

Inasmuch as we are investigating the capitalist system of production, we will first of all examine that form of loan transaction which is most characteristic of this system, namely, the form in which money taken on credit plays the rôle of money capital, i.e. as a means for the acquisition of surplus value.

53

The Formation of Unemployed Capital.

Are there in capitalist society free money resources which could be taken for temporary use by their owners? We find that any industrial capitalist may have free money resources at certain moments.

In the part dealing with profit, we have already pointed out that fixed capital transfers after each cycle of production only a part of its value to the commodity. Thus, the sums

secured by the capitalist after the sale of each consignment of goods for the wear and tear of his fixed capital remain inactive until the old machinery is entirely worn out and has to be replaced by new machinery, or until those sums reach such amounts that they can buy new buildings and machines for an expansion of production.

Thus in the course of this interval some of the money belonging to the capitalist lies, as it were, fallow.

Of course, the capitalist can use some of it for the purchase of additional raw material and additional labour power, which can in some cases be utilised even with the old equipment, for instance, through the introduction of an extra shift, etc.; but such possible utilisation of free funds is restricted within comparatively narrow limits, depending upon the free equipment available, and does not exclude the formation of temporary unemployed money.

Temporarily idle funds are formed in the hands of the capitalist not only through the gradual realisation of his fixed capital; they are formed also by his circulating capital. How does this happen? In the part dealing with merchant profit we have already pointed out that a capitalist rarely sells his commodities immediately after the completion of one cycle of production and then buys with the money secured everything that is necessary for the next cycle. Usually he continues with the next cycle without awaiting the realisation of the commodities produced during the first cycle. He must, therefore, have a certain amount of additional capital to ensure the uninterrupted operation of his enterprise and to be able to continue with the new cycle. If the finished commodity is quickly sold, it is sometimes possible that the money secured will lie idle, as the continuation of production for a certain length of time has been secured by the investment of additional capital in the business.

Apart from that, the capitalist can for a time dispose of the wage fund. Wages are actually paid after the capitalist has already utilised the labour power of the workers, and after certain definite intervals at that—once a week, once in two weeks, or once a month. A part of the variable capital laid aside as wages is thus free for some time, brief as that may be.

Finally, the realisation of surplus value produced by the workers is also a source of free money. If the capitalist does not touch this surplus value for the satisfaction of his personal needs, but means to use it in his business, he must wait until he has accumulated considerable amounts of it.

Many other combinations are possible under which some of the capital remains free in the form of money, but we will limit ourselves merely to the cases we have mentioned.[1]

Inasmuch as every capitalist always has some temporarily free money, inasmuch as the term of replacement of fixed capital, the duration of the various cycles of production, the conditions of realisation of commodities, the time and conditions of paying the workers, are not the same with every capitalist, it is possible to make extensive use of these idle sums by means of credit, no matter how short the term may be for which the various sums of the individual capitalists are freed.

54

Interest on Loan Capital.

But one capitalist who has taken money from another for temporary use in the form of credit, receives, as we have already stated, an opportunity to expand his production and to create new surplus value.

It is obvious that this surplus value, secured with the aid of investment of another man's money, cannot remain entirely in the hands of the capitalist who uses that money. It is also obvious that the capitalist who lends money to another capitalist for temporary use does so only if he receives as compensation a certain part of the surplus value squeezed out of the workers with the help of his money. The surplus value which the capitalist who lent the money receives is called interest, and the capital which is given for temporary use is called loan capital.

The owner of money in lending it to others receives interest for the reason that the others use that money, although it would seem that he himself has nothing to

[1] We are so far leaving aside the small money savings of the workers which we will deal with later.

do with the creation of surplus value. For him the process of receiving interest takes the form of M – M′; he has supplied his debtor with a certain amount of money M and after some time he receives from his debtor a sum of money M′ which includes the original M and a certain surplus, let us say plus m. From the narrow subjective viewpoint of the lender it may seem that the surplus has risen from the mere circulation of the money, that money in itself has the property of growing in value when lent to others.

The erroneousness of this idea should be sufficiently clear after what we have said above concerning the sources of surplus value in general and of merchant's profit in particular. There is not the slightest doubt that plus m cannot arise from the mere circulation of money; it is paid to the lender only because the borrower in securing money as a loan secures at the same time the right to utilise that money as capital, as a means of acquisition of surplus value.

55

The Rate of Interest.

The relation of the mass of profit received by the lender to the amount of capital lent is called the rate of interest. What determines this rate? Inasmuch as interest is a part of surplus value created with the aid of loan capital, it is evident that the highest limit of interest will be the surplus value created with the help of that loan capital. For society as a whole the highest limit of interest is the average rate of profit.

In this connection it should be observed that in some individual cases interest may rise above this average rate. If, for instance, the shortage of money (a shortage of means of circulation, for instance) threatens a capitalist with loss of the profit on his own capital, he may agree to pay a very high interest so as to be able to secure at least some profit on his own capital. We can also imagine a capitalist agreeing to pay a part of his profit over and above the average rate for the use of loan capital, if the securing of additional funds promises to bring him super profit.

But it is obvious that such raising of the rate of interest above the rate of profit is possible only in individual cases ; otherwise some of the capital invested in industry would be offered in the form of loan capital and the rate of interest would naturally fall. If we do not take individual cases but the capitalist system as a whole, and over a more or less prolonged period, the maximum limit of the rate of interest will be the average rate of profit.

The rate of interest having the rate of profit as its highest limit is usually below that limit. Except in cases such as we have mentioned above, the capitalist borrows money for temporary use only if he is thereby able to appropriate for himself some of the surplus value produced with the aid of that money, without having to hand it all over to his creditor.

Is there a limit below which the rate of interest cannot fall ?

The absolute minimum, which, as a rule, the rate of interest never reaches, is zero, i.e. a case in which loan capital brings no interest whatever.

What causes the fluctuation in the rate of interest between these two limits ?

The main factor in this fluctuation is the correlation between supply and demand. The higher the supply of unemployed money capital, the lower the rate of interest ; the higher the demand for money capital, the higher the rate of interest.

The fluctuation in the supply and demand of money capital depends upon numerous circumstances which we will deal with later.

It must be remembered that as the average rate of profit is, as a rule, the highest limit for the rate of interest and as with the development of capitalism the average rate of profit tends to fall, the extent of the fluctuation of the rate of interest between the highest and the lowest limits must have a diminishing tendency. Apart from that, inasmuch as the average rate of profit in backward countries is higher, the rate of interest in those countries may also be (and is) higher than in highly developed capitalist countries with a high organic composition of capital.

In every capitalist country, according to the supply and demand of money capital, an average rate of interest can

always be established, and while the average rate of profit merely exists as a level towards which the profit of the individual capitalist tends, the average rate of interest is of a more definite character. This is so because the equalisation of the rate of interest is accomplished much more easily than the equalisation of industrial profits. Whereas the equalisation of profit in the various branches of industry is not affected directly through the competition of finished commodities, but indirectly through the transference of capital from one industry to another, in the realm of money capital there are no different branches—all money, whoever handles it, " smells alike " ; besides, many capitalist organisations, of which later, can ascertain fairly closely the general correlation between the supply and demand of money capital. This helps to establish a more or less definite and uniform rate of interest for certain periods in different countries.

56

Separation of the Functions of Money Capital from Industrial Capital ; Usurer's Capital.

So far, in speaking of loan capital and interest, we have assumed that one industrial capitalist, having in his possession temporarily unemployed money, lends that money directly to another capitalist for temporary use. The industrial capitalist, who usually gets his profit by means of direct exploitation of the workers, also acts in this case as a money capitalist receiving interest on his free capital.

However, it is not actually necessary that one and the same person should act both as an industrial capitalist and as a money capitalist. Just as the functions of merchant capital can, as we have seen, be separated from the functions of industrial capital, so also there may be a separation of the functions of money capital. Any owner of money, wherever he got it from, can make it his speciality to give credit on interest. Just like the merchant bourgeoisie, there arises a special " money bourgeoisie," a group of so-called rentier capitalists who do not possess any industrial

enterprises but supply money capital to others and receive interest.

Just as historically merchant capital appeared before industrial capital, so the appearance of money capital as such preceded the appearance of industrial capital.

It was connected with the development of commodity-money relations.

Inasmuch as money existed prior to the development of the capitalist mode of production and was used not only as a means of circulation but, as we know, also hoarded, it was possible to accumulate a certain amount of money in the hands of individuals. When these individuals lent money to those who needed it, they received a certain " compensation " for it, and in this manner their money turned into interest-bearing capital. In contradistinction to loan capital, of which we have spoken hitherto in connection with developed capitalist society, this form of capital, known as usurer's capital, is primarily a means of exploitation of small peasant and artisan commodity producers. Utilising the economic weakness of these producers and their dire need of money, usurer's capital, in granting them loans, extorted in the form of interest not only the whole of their surplus product, but also a part of the necessary product.

The usurer lent his money also to the feudal lords—the big landowners, for their own personal requirements. It is evident that such loans also led to the exploitation of the peasants who were under the rule of the feudal lords, for the latter transferred the burden of interest to the peasants.

Thus, the appearance of capitalist relations found interest bearing capital already in existence.

However, under the conditions of predominant capitalist relations the very nature of this capital has radically changed. Instead of serving, like usurer's capital, as a means for the exploitation of small commodity producers, instead of serving as a factor helping to ruin these producers, loan capital becomes a means of exploitation of the wage worker and expansion of capitalist production; and whereas usurer's capital appropriated the whole of the surplus product of the small commodity producers, and often even

a part of the necessary product, loan capital, as a rule, now brings its owner only a part of the surplus value produced by the worker, while a part of it must go to the industrial capitalist.[1]

We must, therefore, not confuse the pre-capitalist usurer with the modern money capitalist.

57

The Separation of Profit of Enterprise from Interest.

The money capitalist who does not own an industrial enterprise but lends money to others, receives, as we have already stated, interest only. The difference between the total profit and the interest goes to the industrial capitalist in the form of what is termed profit of enterprise.

Since under these conditions money as such apparently brings its owner a profit, independently of its investment in a capitalist enterprise, the industrial capitalist begins to divide the surplus value which he receives from his own capital into two parts—manufacturers' profit, and interest on capital. If, let us say, the average rate of interest on capital is 5% and a capitalist made on a capital of 100,000 pounds 15,000 pounds profit, he would argue as follows: "If I were not a manufacturer I should have received on my 100,000 pounds 5% interest, i.e. I should have made 5,000 pounds as a money capitalist; but I have made 15,000 and not 5,000 pounds. Where have the extra 10,000 pounds come from? I made them because I invested my money in manufacture; these 10,000 pounds are, therefore, my profit of enterprise; my capital has brought me 5% interest and 10% profit of enterprise."

We know that the 5% interest and the 10% profit of enterprise are merely parts of one and the same surplus value. However, such division has in a certain sense its justification, for although the 5% interest could not, in general, have arisen without the production of surplus value, it is evident to every individual capitalist that he

[1] It goes without saying that usurer's capital, like many other pre-capitalist survivals, continues to exist in capitalist society.

could receive 5% interest on his capital without undertaking the organisation of any capitalist production.

Thus, the separation of the functions of money capital from the functions of industrial capital leads to a separation of interest from profit of enterprise, even though the money capitalist and the industrial capitalist are one and the same individual.

Chapter II

CREDIT AND BANKS

58

Bank and Commercial Credit.

WE have thus seen how the capitalist is enabled to expand his enterprise by investing unemployed capital. Were it not for this form of credit the process of transformation of money capital into industrial capital would have to proceed with interruptions and long intervals—a part of the available money, let us say, would lie fallow for a considerable length of time until it could be transformed into machinery, buildings, etc. But the credit system does not permit this money to lie idle, and if it cannot be immediately converted into industrial capital in one factory, it is transferred for that purpose to another factory.

But without the assistance of credit, interference in the circulation of capital may take place not only on the basis of unemployed capital, of a temporary inability to transform money capital into industrial capital—interference would be inevitable because after the process of production capital would have to remain for a certain time in the form of commodities, i.e. it would be unable to transform itself from commodity capital into money capital freely.

As a matter of fact, we know that in order to secure continuity in the circulation of capital it is necessary that after the completion of a process of production the capitalist should immediately sell his finished commodities and purchase for the money secured everything necessary for the next cycle of production. If that is impossible, if it takes some time between the end of the period of production of commodities and the end of the process of circulation of these commodities, the capitalist, to ensure continuity in his

production, must have additional capital, an extra amount of money, to be able to continue with his production before the old commodities are sold. So long as his finished commodities are unrealised, they constitute dead capital. The sooner they are sold, the less additional capital does the capitalist need and the more possibilities he has of creating surplus value with the help of his capital.

Here again credit, which shortens the period of circulation of commodities and hastens their realisation, comes to the capitalist's assistance.

How does this happen?

Supposing a capitalist, let us say, a textile manufacturer, has a stock of finished commodities, for instance calico. Why can he not sell it at once?

There may be many reasons. First of all, a textile mill works more or less regularly and steadily throughout the year, while the demand for calico is far from being regular—in the winter it is small and towards the summer it increases; there may be a considerable demand for calico in the rural areas in autumn when the peasants have money available from the sale of the new harvest. Apart from the seasonal fluctuations in the demand for commodities, a retardation in the period of circulation of commodities may be due to the fact that those commodities have to travel from the point of production for a considerable time before they reach the point where they can be sold. There may be still other reasons.

Suppose, then, that a textile manufacturer has accumulated a certain amount of calico during the winter which he can sell only in the spring and that he has to buy, let us say, coal in the winter so as to be able to continue the process of production. His money is all invested in his stock, which cannot be sold, and he has no money with which to buy coal. The coalowner in his turn cannot sell his commodity as the textile manufacturer has no money with which to pay for it. At one pole there is one commodity C_1 and at the other there is another commodity C_2, but the exchange cannot take place between them because of the absence of the missing link M.

But the textile manufacturer is not entirely without resources. He can sell his calico in the spring and secure

money with which to pay the owner of the coal, and if the owner of the coal would agree to wait for the money until spring, the transaction could take place at once.

Payment in cash is thus displaced by an obligation to pay the money after a certain period, and in this way the time of circulation of commodities is reduced, and the need for additional industrial capital to secure continuity of production without the aid of credit is eliminated.

This form of credit, which facilitates the circulation of commodities and eliminates the obstacles in the circulation of capital which arise from the clogging up of capital in the form of commodities, is termed commercial credit.

The form which we analysed above, i.e. credit which eliminates the clogging up of capital in the form of money and helps to convert fallow capital into active capital, is termed bank credit.

59

The Bill of Exchange as Security.

One capitalist may give credit to another on the basis of personal trust.

A capitalist who owns coal may sell it to a textile manufacturer in the winter on promise that he will pay for it, let us say, in the spring. The same may be the case of a capitalist creditor who has surplus sums of money. He may lend these sums simply on trust to the borrower, i.e., the person who resorts to credit.

But usually the lender demands from the borrower a written engagement.

The most common form of such engagement is the bill of exchange. If the borrower gives the lender a written promise that he will pay the latter the specified sum of money at a given time, such promise is termed a simple bill of exchange. If in the above example the textile manufacturer signs a promise stating that he will pay the money on a certain date in the spring to the coalowner, or to his order, that will be a simple bill of exchange.

Apart from simple bills of exchange, there are also drafts.

Supposing the textile manufacturer not only took 10,000 pounds credit in the form of coal, but also sold 10,000 pounds worth of calico to a merchant on credit. Instead of the merchant giving the textile manufacturer one bill of exchange and the textile manufacturer giving the coalowner another, the textile manufacturer can transfer to the coalowner his draft for 10,000 pounds and thus transfer to the merchant the payment of his debt ; at the end of the term the latter can pay the 10,000 pounds direct to the coal manufacturer and cancel thereby both credit operations at once.

A bill of exchange in which the debtor does not promise to pay himself, but transfers that obligation to another, is termed a draft.

The person who gives the draft (in our example, the textile manufacturer) is called the drawer, and the person on whom it is drawn and who will have to pay the bill is called the drawee (in our example the drawee will be the merchant) ; finally, the person who is the receiver of the money on the draft (the coal manufacturer) is called the payee.

The draft comes into force as security if the drawee puts his signature to it and thereby declares his consent to pay the bill. Hence, if in the simple bill of exchange there must be at least two parties involved, in the draft there must be at least three.

But the number of people involved in a bill of exchange or a draft may be increased. If the coal manufacturer when he accepts the bill of exchange from the textile manufacturer wants to purchase on credit equipment for his mines, for instance on the security of the bill in his possession, he can transfer the bill of the textile manufacturer to the machine manufacturer instead of giving a new bill of exchange. In doing so he must endorse the bill ; the machine manufacturer can transfer the bill of exchange with his own endorsement to a fourth person, etc. In cases like these all endorsers are equally responsible for the bill should the person who is supposed to pay not do so when the bill matures.

A bill of exchange is written on certain paper in established form, and the Government, by means of legal regulations, helps to collect from the debtor the sum indicated in it. It is characteristic of a bill of exchange that the court in

passing judgment is not concerned as to whether the person who has undertaken to pay on it has received any goods or money when signing the bill; once it is established that he signed the bill he must pay on it. This greatly facilitates the procedure of collecting the money on a bill of exchange although, of course, it may lead to an abuse of the so-called accommodation bill of exchange—one person may give another a bill of exchange for any sum, although the drawee received neither money nor goods on credit: the person accepting the bill of exchange may receive on its security credit in the form of goods or money by means of endorsing it; when the bill matures, it may be found that the drawee cannot pay. The capitalist, therefore, in accepting the bill of exchange must be on guard against accommodation bills.

The importance of a bill of exchange as one of the chief forms of credit is enormous. Facilitating the circulation of capital, the bill of exchange simplifies the clearing of accounts of individual capitalists and often eliminates the need for cash.

60

Discounting of Bills of Exchange: Discount Interest.

If a capitalist has a bill of exchange, the payment of which is not yet due and for some reason or other he is in need of money, he can apply to another capitalist who has money and, by giving him the endorsed bill of exchange, obtain money from him. The capitalist accepting the bill of exchange will collect the money when it matures. This operation in which the holder of a bill of exchange receives money on it before it is due is called discounting.

It goes without saying that the money capitalist on accepting the bill of exchange will not pay to the holder the total sum indicated, he will deduct a certain amount known as discount interest. In this operation he lends to the holder of the bill a certain sum of money for a specified length of time, and the discounting of the bill is merely a special form of credit operation. A loan is given to the holder of

the bill of exchange which is reimbursed after some time by the person who is supposed to pay on that bill of exchange.

But not only a third capitalist can discount the bill of exchange; it can be done also by the person who originally issued it. If, let us say, the textile manufacturer agreed to pay on the bill on the 1st of May and he is able to pay on the 1st of March, he can go to the coal manufacturer, pay his debt, and withdraw his bill of exchange (or destroy it). But the textile manufacturer, who can, and has the right to, dispose of the money up to the specified term of payment, the 1st of May, will pay the coal manufacturer before that date only if the latter will return to him in the form of discount interest the amount of interest which he would receive if the debt were not paid two months in advance. Assuming that the bill of exchange was issued, as we said, for 10,000 pounds, and assuming that the average annual discount equals 6%, and assuming further that the bill of exchange is discounted two months ahead of time, the discount interest on 10,000 pounds will be $\frac{10{,}000 \times 6 \times 2}{100 \times 12} = 100$ pounds; it is evident that in discounting the bill of exchange on the 1st March, the textile manufacturer would have to pay not the full 10,000 pounds but 10,000 – 100, i.e. 9,900 pounds.

The discounting of bills of exchange broadens in this way the limits of credit itself, linking up bank credit with commercial credit and making it more flexible.

61

The General Concept of Banks.

In speaking of credit we assumed that credit operations are carried out directly between a capitalist who is in need of credit and a capitalist who possesses free money or commodities and can grant that credit.

However, such direct service from one capitalist to another is by no means always possible.

This applies in the first place to loan credit. Supposing an industrial capitalist needs a certain amount of money as

credit for the purchase of new machinery. Is it easy to fin another industrial capitalist possessing a sufficient amour of money and being in a position to lend it for the ter needed by the first capitalist ?

It is quite obvious that such happy combinations ar possible only in exceptional cases.

The amortisation sums accumulated by one capitalis may not be sufficient to satisfy the needs of another capit list ; the wage fund which, as we have seen, may lie fallo in the hands of the capitalist is free only for such a negligibl period that the possibilities of lending it away to anothe are very limited.

A way out of the difficulties in the way of direct grantin of credit is the organisation of credit through the mediu of special credit institutions—banks.

The capitalist who has sums to dispose of need not loo for a borrower to take his money for the time and to th amount that he can spare it. The bank as the broke between all lenders and borrowers takes into its hands th free resources not only of one but of many capitalists.

Each individual capitalist may have but insignifican amounts of idle money, and only for a very short term But once that money is concentrated in one place, i.e. i the bank, it forms large sums which can be lent by the banl for a long period, inasmuch as the various capitalists wh place their money at its disposal will not all demand i back for their own use at the same time.

The capitalist who is in need of money need not seek ou the capitalist who could actually give him the loan, he ca go to the bank.

The bank is thus the broker between the capitalists wh have unemployed money and the capitalists who are i need of that money. All transactions of the bank in gather ing in the available money are called passive bank opera tions, while the acts of disbursement of these sums amon the borrowers, the people in need of money, are calle active operations.

62

Passive Bank Operations.

What are the main passive bank operations, or, in other words, where does the bank secure money to be able to grant credit ?

Here the capital belonging to the bank itself must be taken into account. People organising a bank cannot simply put out a sign that they accept money from individual capitalists, and collect the capital of others without having any of their own. No one would trust them with his money if they had no capital of their own to insure their clients against possible losses.

The money belonging to the owners of the bank is usually called the basic capital of the bank. It is also called bank stock if it is made up of stocks held by several capitalists.

Apart from the basic capital or stock there is also the reserve capital of the bank which is comprised of that part of the annual profit which the owners or stock holders of the bank leave in the bank for its further expansion.

Just as it is possible by throwing solid crystal into a glassful of dissolved salt to gather many other crystals, so a bank attracts with the help of its own capital other available sums of money, which it can later put into circulation.

Such gathering of idle capital is effected primarily in the form of deposits.

If a person puts his free money in the bank with the understanding that he can get it back at will, his is an undated deposit ; if the depositor gives a definite date before which he agrees not to demand the money, that deposit is called a dated deposit.

It stands to reason that with a dated deposit the bank can dispose of the money freely up to the specified date as it is certain that it will not be called for before that date. It is another matter with undated deposits. The bank must always keep ready a considerable part of these deposits as the depositors may come at any moment and demand their money. It is obvious therefore that in paying interest to

the depositor for the use of his money, the bank will pay a higher rate on dated than on undated deposits.

Undated deposits are very much in vogue in the form of current accounts.

A person opening a current account in a bank can, in case of need, withdraw from the bank a part or the whole of his deposit, or add more to it. Usually a person having a current account has a cheque book and can write out cheques. The depositor in specifying a certain sum on a cheque and putting his signature to it can thereby either receive part or the whole of his deposit or give that cheque to another person to receive that money. Thanks to this system, the capitalist can keep his money in the bank and not carry a cent in his pocket. When buying goods from another capitalist, there is no need for him to go to the bank for money, all he has to do is to write out a cheque. If the capitalist who sells him the goods also has a current account at the bank, when he presents the cheque of the first capitalist at his bank, he can enter the specified sum in his own name instead of drawing the money. In this manner a whole series of transactions can be carried out without the aid of cash, merely by transferring sums from the current account of one depositor to that of another.

If capitalists have their current accounts in different banks it is also possible to effect a settling of accounts between them by means of cheques. This is accomplished through mutual agreements between the various banks, which accept each others' cheques and settle their respective accounts after certain intervals.

By means of deposits the banks gather not only free sums in the possession of individual capitalists. It is a known fact that the workers have certain savings. The worker or employee by denying himself some of his vital needs often tries to save some money for a rainy day; or he may want to buy some household articles or expensive clothes, etc., for which he has to save up money. The farmer who wants to buy a horse or build a new house must also save money.

The pennies saved by thousands and millions of workers, when put together, make thousands and hundreds of thousands of pounds which can be utilised by the capitalists.

This business of bringing out pennies from boxes and

stockings is accomplished by the same banks ; they pay the workers also a certain interest for using their pennies.

One may get the impression here that workers who put their money in the bank also become capitalists, that the worker can have an income on his wages just as the capitalist has on his capital. But the absurdity of this is obvious. Apart from the fact that the interest which a worker receives on his deposit is insignificant, it is easy to understand that the increment on his deposit cannot be the main source of his income, since he receives from his employer only the value of his labour power, and can deposit money only for a short time, often by denying himself what is most vital to him. For the capitalist, surplus value is the only source of profit. The worker, by putting money in the bank, gives the capitalist a great advantage, but the capitalist throws to the worker a miserable crumb from the profit which he makes with the help of the worker's money. The pennies of the poor make fortunes for the rich.

63

Active Bank Operations.

In what manner does the bank disburse the money which it accumulates ?

It is obvious that the bank cannot put its money at the disposal of the first capitalist simply for the sake of his good looks. It must have a definite guarantee that the money will be returned, and a simple promise that it will be returned is insufficient if the bank does not feel certain that there are reasons to believe that the promise can really be fulfilled.

What is the security upon which the active credit operations of the banks must be based ?

It will not be difficult to answer this question if we look into the different types of such operations.

First of all there is the accounting of bills of exchange which we have already mentioned. A capitalist holding a bill of exchange of another may receive in the bank on the security of that bill of exchange a sum specified in it, minus

the discounting interest, and the right to collect on the bill when it matures goes over to the bank. On the face of it, this is an operation of purchase and sale of the bill of exchange—the capitalist sells his bill of exchange before it is due and the bank pays for it a definite sum. But we have already seen that behind this external form there is a credit operation in which the holder of the bill of exchange receives a loan, the payment of which is transferred to the original drawee of the bill of exchange.

Thus the security of the active credit operation of the bank in this case is the bill of exchange. But a bill of exchange, in its turn, must have a sure foundation behind it, and the bank will be interested in knowing who signed it and on what security. It stands to reason that accommodation bills of exchange, of which we have spoken above, are not considered as good security.

It is difficult for an inexperienced person to distinguish an accommodation bill of exchange from a real one, but this is not so difficult for the bank. The numerous threads which connect the bank with the mass of individual capitalists here come to its assistance.

If the bill of exchange is not paid when it matures, the commodities which the original issuer of the bill of exchange received on it and also the commodities secured by the capitalist who had his bill of exchange discounted (as by indorsing that bill he has taken responsibility for it) serve as a basis for collecting the debt.

Another form of active operations is loans on the pawn system.

Here, in order to secure its loan, the bank receives from the borrower certain valuable objects which are returned when the debt is paid.

The articles of value on which loans were granted in the days of usury included gold, precious stones, etc.; now, all kinds of valuable papers, stocks, bonds, etc., are much more important. A loan can be given on the security of a bill of exchange, in which case, apart from the accounting operation, the borrower does not give up entirely his claim on the bill of exchange, but receives it back when he returns the money. Only if he does not repay the loan has the bank the right to collect the sum indicated in the bill from its original drawee.

Loans may be given also on the security of commodities, in which case the bank need not necessarily keep those commodities in its own premises. The borrower can leave his commodities in a warehouse which gives him a warrant without which the warehouse will not return his commodities. The owner of the commodities on presenting the warranty at the bank receives a loan on its security.

Loans may equally well be given on the security of commodities which are *en route*. Railway or shipping agencies, when they accept commodities for transport, issue waybills or bills of lading which must be produced when the commodities are claimed at their destination. These documents, just like the warehouse warrants, may serve as security.

Loans may be given not only on the security of movable but also of immovable property, particularly land and buildings.

Such are the main forms of active credit operations.

A few words concerning the brokerage or commission operations of a bank which, strictly speaking, cannot be included either among the active or the passive operations. Such operations cover all kinds of commissions given by one capitalist to pay to or collect money from another, which a bank takes from its clients : for instance, it transfers money from one town to another, collects money from one capitalist for another for commodities bought on credit, etc. For carrying out such operations the bank receives from its clients a certain percentage of the sum involved, known as commission.

64

Banks, Profits on Credit.

Now that we have become acquainted with the essence of the active and passive operations of the bank, we must make an important addition to what we have already said with regard to interest.

What new factors in interest are introduced by the bank ?

A bank in collecting capital by means of deposits pays its depositors a certain interest, but in disbursing loans the bank also takes a definite percentage as interest.

It is obvious that the extent of the one percentage and the other cannot be the same. If these operations mean anything at all, the bank must make a certain profit, hence the percentage which the bank pays on its passive operations is lower than the percentage it takes on its active operations. The part of the interest which constitutes the difference between the rate of the one and the other, forms what is called the bank's profit on credit.

The proportion of the bank's profit on credit to its own capital forms the rate of profit on credit.

The rate of profit on credit must on the whole be close to the general average rate of profit because otherwise the owner of the bank would rather invest his capital in industry.

Chapter III

CREDIT NOTES AND PAPER MONEY

65

The General Concept of Credit Notes.

In speaking of credit in the foregoing chapter we have seen how credit operations can displace cash accounts. A coal mining capitalist, on receiving a bill of exchange from a textile manufacturer, can, when purchasing machines from a third capitalist, transfer the textile manufacturer's bill with his own indorsement. The machine manufacturer in his turn can, when buying raw material, transfer that bill of exchange to a fourth capitalist instead of paying money, etc. One bill of exchange can take the place of money as a means of circulation in the course of a whole series of transactions. Money can in the same way be replaced also by another document; namely, a cheque. One capitalist having received a cheque from another can transfer that cheque to a third capitalist in settlement of his accounts, the third to a fourth, and so on. A cheque as well as a bill of exchange can take the place of money. On the bill of exchange the drawee has to pay when it has matured, and on the cheque the bank has to do it. In so far as a bill of exchange is reliable any capitalist will gladly take it instead of money.

The guarantee of a cheque, as we have seen, is, on the one hand, that the capitalist really has money in the bank and, on the other, that the bank undertakes to cash the cheque when it is presented.

But just as the capitalist can operate with a cheque instead of cash, the bank having at its disposal definite quantities of money can also give its clients credit notes which the bank undertakes to cash at any moment, instead

of money. For the capitalist who comes to the bank for money such an obligation, such an undated bill of exchange of the bank, is not worse than a cheque which he may receive from another capitalist, inasmuch as both the cheque and the promissory note can be cashed at any moment if, of course, they are not fictitious. This promissory note, given by the bank to its clients and bearing the title of a banknote, can pass on from hand to hand in place of money just like a cheque, until it returns to the bank to be exchanged for cash.

Any kind of active operation of the bank must, as we have already pointed out, normally have certain security behind it. A bank in lending money must receive from the borrower a bill of exchange (as security or for discounting), commodities, or immovable property, etc. Granting loans not in cash but in banknotes, the bank must also receive certain security. Usually in issuing a banknote the bank receives from the borrower a bill of exchange or some other security, at least to the amount of the banknote.

But as a banknote on leaving the bank and falling into circulation may pass on for a long time from hand to hand, it is obvious that the bank need not always have available all money, bills of exchange and valuable papers on the security of which the banknotes were issued. Considering that only a part of the banknotes are cashed daily, the remaining money and bills of exchange, etc., can be temporarily utilised by the bank. This constitutes, so to speak, an extra loan which the bank has received without interest on the basis of the uncashed banknotes. Therein lies the chief advantage which the bank gains from issuing banknotes.

If a bank can give more obligations than it has actually money in hand, the extent of the credit which it gives to individual capitalists can be much greater than the amount of money capital which it has at its disposal. Daily experience shows approximately how many banknotes are normally being cashed and a correlation between the money deposits of the bank and the amount of banknotes issued is established accordingly.

That the bank may not issue more banknotes than it can cash, that the misuse of the right to issue banknotes may not cause difficulties in the national economic system (of

which we will speak later), a strict regulation of banknote issues is necessary.

> " The necessity to regulate the circulation of money and the desire of the government to utilise the advantage accruing from the issuing of paper money, has led to the issuing of banknotes becoming in most states the privilege of one or a few central banks which are state concessionaires and which alone have the right to issue banknotes and operate with them. The income on these operations they share with the government.
>
> " Their operations are regulated and controlled by the state. The latter fixes the maximum limit of banknotes to be issued and the relative amount of the gold reserve the banks must possess "[1]

Banks whose special business it is to issue banknotes are called issuing banks, and the right to issue banknotes regulated by the state is termed issuing right.

66

To what Extent can Banknotes Replace Actual Money?

Banknotes constitute the basic form of credit notes which can take the place of actual money. From what has been said about credit notes it is clear that such notes cannot perform all the functions of actual money (gold) but only some of them. What are they?

Let us recall what we have said about money in the part dealing with value. There we pointed out that (1) money serves as a measure of value, (2) as a means of circulation of commodities, (3) as a means of payment, (4) as a hoard. It is evident that credit notes can replace real money primarily as a means of payment and as a medium of circulation of commodities. A capitalist who disposes of commodities to another can agree to accept a banknote instead of cash inasmuch as he is certain that he can exchange it for gold. The holder of a bill of exchange in discounting it or in submitting it to the payee for payment will also accept

[1] Kautsky, *Money and its Circulation in the Light of Marxism.*

a banknote because, in buying other commodities, or in settling accounts with his creditors he will be able to use the banknotes just as well as cash.

Thus, in replacing cash as a means of circulation and payment, the banknote performs functions of money capital and takes the place of money as one of the necessary links in the process of production of surplus value.

But can a banknote in itself serve as a measure of value? Apparently not. A banknote has no existence in itself, it merely represents money, commodities, or real bills of exchange (i.e. money or commodities hidden behind the bills of exchange); obviously it is not by the quality of the paper upon which the banknote is printed, not by the amount of labour spent in the " production " of that banknote and not by the arbitrary will of those who issued it that the value represented by the banknote is determined. A banknote is a substitute, a temporary representative of real values. Hence, the banknote itself cannot fix the value of other commodities, but, on the contrary, the value of the commodities which it represents determines its own value. Banknotes cannot displace money as a measure of value, and inasmuch as the value of all commodities is measured by the value of gold, the buying power of a banknote, which is a temporary representative of commodities or gold, is also determined by the value of gold.

Even less can banknotes replace money as a hoard. The client of a bank accepts its banknote because he can immediately receive commodities for it or make delayed payments with it, because he needs it temporarily as a means of circulation or as a means of payment. But if he needs money to keep as a hoard, it is clear that he will prefer real money rather than a warrant that he can receive money from the bank.

67

Paper Money and its Distinction from Credit Notes.

A banknote as the temporary substitute for money can act, as we have already pointed out, only as the representative of real value. It is not merely that the bank has a

definite reserve of cash with which it can exchange all banknotes on presentation ; what is of equal importance is that a bank issues its banknotes only in exchange for commodities, paper security or bills of exchange of corresponding denominations, because the bank regards the issuing of a banknote as credit granted to the recipient and therefore demands a corresponding security from him.

But in contemporary capitalist states we have side by side with banknotes also another form of " substitute " in circulation, namely, paper money. We referred to this in the part dealing with value, but only in passing. Now we must deal with the subject at greater length and acquaint ourselves with the essential features of paper money and its distinction from credit notes.

Banknotes are issued, as we have pointed out, by banks, and although the issue is controlled by the State, it is not always obligatory for the issuing bank to be a State bank.

Paper money, on the other hand, is issued by the State itself, and constitutes a government note for a specified sum. But whereas a banknote is a note issued by a bank in exchange for which the latter receives security in the form of bills of exchange, etc., from its clients, paper money constitutes State notes in exchange for which the State receives no obligations from others whatsoever. Paper money serves the State as a means of payment if it has not enough gold, especially in time of war, revolution, crises, etc.

The acceptance of banknotes may be absolutely optional (although this is not always the case) ; inasmuch as the obligation of the bank is backed by a valid obligation of other people there is no reason to doubt the bank's ability to cash its banknotes or to give some other credit note for it. But the circulation of paper money is always of a compulsory character, regardless of whether the State agrees to exchange it for cash or not, and in most cases there is no such exchange.

" Comparing and combining all that has been said about paper money and banknotes, we arrive at the following conclusion :

" Banknotes are issued by banks as loans in their regular commercial operations ; they are exchangeable and are not subject to compulsory circulation (i.e. are not legal tender).

" Paper money is issued by the State in payment of its engagements, serving as a means of revenue of the State treasury; ordinarily it is unexchangeable and is legal tender (subject to compulsory circulation)."[1]

68

The Buying Power of Paper Money.

The peculiarities of paper money give rise to a whole series of important points upon which we must dwell, again comparing it with credit notes.

Is the emission of credit notes limited, and by what?

Obviously there is a limit, determined by the amount of real security which the bank receives in exchange for the issued banknotes. If banknotes are issued to the additional amount of 10,000,000 pounds it means that the bank has received additional bills of exchange to the same amount, and if these bills of exchange are real, it means that the circulation of commodities in the country has also increased to the same amount. The issuing of banknotes is thus regulated by the general economic situation, by the demand for money in the process of circulation of commodities.

That, as we have pointed out, is precisely why the exchange of credit notes for gold is guaranteed, and that is precisely why the buying power of credit notes is, on the whole, determined by the buying power of gold, i.e., even if the banknote is not exchanged for gold it will purchase commodities to the same amount as the gold which it nominally represents.

It is different with paper money. This is issued by the State regardless of the actual requirements of the circulation of commodities; its issue depends on the requirements of the State whenever its expenses exceed its revenue.

Can the buying capacity of paper money, under such conditions, be equal to that of gold?

This depends on the amount of paper money issued and on the need of money as a means of circulation.

We already know that the amount of money needed for

[1] Trachtenberg, *Paper Money*.

circulation in a country at a given moment is of a definite magnitude. It depends first of all upon the value of all commodities circulating on the market and on the rate of circulation of money or its substitutes. The higher the value of the commodities in circulation, the more money is needed; the faster the circulation of money, the less money is needed.

But to determine the amount of money required to be in circulation at a given moment, the price of the commodities sold on credit must be deducted from the value of all commodities in circulation.

Inasmuch as payment on obligations may fall due at the given moment, it is obvious that the amount of these payments has to be added to the amount of cash in circulation required, excepting those payments which may be cancelled by a mutual clearing of accounts without the use of money.

We already know what happens if the amount of available money is higher than the amount needed in circulation—the surplus gold money will accumulate as a hoard or will be melted into other gold articles.

What happens if there is paper money in circulation side by side with gold money?

Let us take an example. There is at a given moment 100,000,000 pounds of gold money and 100,000,000 pounds of paper money in circulation. If the amount of money needed on the market (the value of circulation) is not less than 200,000,000 pounds, it is obvious that the paper money will circulate on a par with the gold money. But suppose the amount of money needed in circulation is still 200,000,000 pounds while additional paper money is issued to the amount of 100,000,000 pounds, making 200,000,000 pounds in paper money, and a total amount of money in the country of 300,000,000 pounds. It is clear that a part of this money, namely 300 – 200 = 100 million pounds will be superfluous on the market. That sum would, as we know, be converted from a means of circulation into a hoard. Which of the money will then be converted into a hoard?

It is obvious that anyone who puts away money in his vault will prefer to put away gold money. The entire 100,000,000 gold pounds will therefore be gradually withdrawn from

circulation and put into coffers and vaults, etc. Only the 200,000,000 paper pounds will be left in circulation. But as 200,000,000 pounds is needed in circulation, the paper money will successfully perform the functions of gold money and a paper pound will buy as much as a gold pound.

But suppose the need for money in circulation remains constant while the amount of paper money is augmented to 300,000,000 pounds?

If 300,000,000 paper pounds circulate instead of 200,000,000 gold pounds it is obvious that every 3 paper pounds will be able to buy only as much as 2 gold pounds and that the buying power of one piece of paper with the inscription 1 pound will be equal to that of two-thirds of a gold pound.

But perhaps the superfluous 100,000,000 pounds will be withdrawn from circulation just as the superfluous gold pounds are withdrawn? This is impossible, for the simple reason that paper, in contradistinction to gold, cannot be converted into a hoard and that it is doomed to be perpetually in the process of circulation.

While the man in the street who is accustomed to stable currency may put some of his paper tokens away for a rainy day, the big capitalists of course will never do that. Theoretically we can conceive a situation in which the government issues just as much additional paper money as has been put away in small savings, but if a rapid emission of paper money has been in progress in the course of a more or less considerable length of time (to cover war expenditures, for instance), the amount of paper money will greatly exceed the amount of those savings. When the amount of paper money in circulation exceeds the value of circulation, then no compulsion can force anyone to accept it on a par with gold money, and, naturally, the more paper money is issued the lower will be its buying capacity, provided all else remains equal. Under such conditions the savings made in paper money are depreciated and even the man in the street loses his desire to save his paper. The paper money put away for a rainy day is then rapidly thrown out on the market, which still further increases the amount of money in circulation and consequently reduces still further its buying power. Naturally the State, which may sometimes freely exchange

paper money for gold if only a small amount has been issued, always stops that exchange if there is much of it in circulation and its buying capacity is falling.

69

Recapitulation and Conclusions.

Let us recapitulate what we have said about paper money.

(1) Paper money is issued by the State to cover its expenses and is legal tender. Usually it is not exchanged for gold, although such exchange may take place if its rate is stable.

(2) Paper money may replace actual money in the process of circulation only in so far as money does not accumulate as a hoard, but travels from hand to hand and serves as a transitory element in the process of circulation of commodities.

(3) If the amount of paper money does not exceed the value of circulation expressed in gold, its buying capacity is equal to the buying capacity of gold money. If the value of circulation is lower than the nominal price of the paper money on the market, the buying power of the paper money will be just as much below the buying power of gold as the amount of paper money will exceed the value of circulation.

From this we can draw the following conclusions:

(1) One must not think that paper money is circulated only because the state forces the people to accept it. We have seen that in issuing a surplus amount of paper money its buying capacity falls in spite of government compulsion. The economic laws in capitalist society prove stronger than the will of the capitalist State.

(2) It would also be wrong to arrive at the conclusion that paper money can exist without any relation to gold money and that it is all merely a question of the amount of paper money issued and the value of the commodities in circulation. Without any (although distant) relations with gold money, paper money is inconceivable if only for the reason that it cannot be a measure of value. A measure of value must, as already stated, be a commodity which itself possesses a

certain value. Paper money essentially has no value. The labour spent in its production is insignificant and is of no importance in determining its buying capacity. The value of circulation which determines the rate of exchange of paper money depends primarily upon the value of the commodities in circulation. It is characteristic of value that it cannot be expressed directly in hours of labour but in terms of another commodity. How can the value of the commodities in circulation be expressed by paper money if paper money has no value of its own? Evidently it can be expressed only through gold money which has its own value and which serves as a universal measure of value. Therefore, in speaking of the buying power of paper money, we determine it by a comparison with gold and thus establish, for instance, either that it is on a par with gold, or that it is below gold value. Thus, should there be no gold coins (or other real money) there would be no measure by which the value of circulation, and hence the buying power of paper money, could be determined.

The question may be asked, however, whether all this tallies with the actual facts.

Is paper money always related to gold? The fact that paper money was not exchanged for gold in Russia after the outbreak of the war for example did not indicate the absence of any relationship with gold; such relations with the gold rouble, although they were distant, did exist because the rouble of a fixed amount of gold, by which the paper rouble was measured, existed. But how about those States which from the beginning have had no gold unit, but only paper money? Among such countries are, for instance, Poland, which on securing its dependence began to issue paper money in terms of the so-called Polish mark (and subsequently Zloti); among these countries are also Latvia, Lithuania and many other new States. Here too paper bills had an indirect relation with gold. The buying power of the Polish mark was measured by the value of the German gold mark. Latvia compared her currency with the Russian rouble, etc. With the rapid fall in the buying power of paper money and its divorce from gold, the rate of paper money was (and is still) determined in many countries after the war in relation to the American dollar.

All this shows how impossible it is for paper money entirely to displace real money, that its rôle is limited to that of a means of circulation, and that it can never serve as a measure of value.

(3) The third remark we wish to make in summarising what has been said refers to the question of metal coinage which is not of full value, but which in contradistinction to paper money does have some value although this is less than its nominal value In this category are silver, copper, nickel and other coins. Thus, for instance, the Russian silver rouble contained silver approximately to the value of 70 gold kopeks, although it was accepted on a par with the gold rouble. Of still less value, as compared with gold, are copper, brass and nickel coins.

After what has been said about paper money, the circulation of such money on a par with gold needs no special explanation. It replaces gold money in the process of circulation and if its buying power is not lower than that of specie, this again is only possible if the quantity on the market does not exceed the value of circulation or the need of the market. Should it exceed this need, its buying capacity would drop until the value of circulation would be equal to the actual value of the metal contained in the coins. If the value of circulation after that still continued to fall as compared with the mass of money in circulation, the metal coins would meet with the same fate as gold money when the amount exceeded the requirements of circulation ; the silver or copper coins, etc., would be converted into a hoard, melted into other metal articles, etc.

(4) Finally, we must return to the distinction between credit notes and paper money. It should be borne in mind that credit notes are not actually always distinguished from paper money, and it often happens that what was previously a banknote becomes paper money. This was the case with the bills in circulation, side by side with metal coins, prior to the war in Tsarist Russia, which consisted of credit notes of the State Bank freely exchangeable for gold, and largely issued on the security of bills of exchange ; i.e., circulated by the bank in exchange for real security which it received from other persons. At the beginning of the war this currency was converted into ordinary paper money. Its ex-

change for gold was stopped and the bank began to issue it not for real bills of exchange, but for short-term exchequer bonds, as required by the exigencies of the war. The securities of the State exchequer could not be regarded as real bills of exchange, inasmuch as they were not based on real commodity circulation; they were rather in the nature of accommodation bills. It is no wonder, therefore, that the buying power of money declined rapidly as the emission of the State bank increased.

70

Inflation and its Influence on National Economy.

The emission of paper money to an amount greater than the needs of circulation gives rise to what is known as inflation, i.e., a flooding of the market with paper money. We will briefly describe the influence of an excessive emission of paper money on national economy.

We have already shown that an excessive emission of paper money is called forth by the desire of the State to cover expenditure in excess of revenue.

To the extent that the issue of paper money increases and its buying power decreases, the prices of commodities rise. When the issue of paper money is very extensive prices literally rise not daily but hourly. A correct calculation of the value of commodities which, as we have seen, is so important for the capitalist, becomes impossible. For instance, the price of raw material bought to-day will be different to-morrow when the raw material will have turned into a finished commodity, and will have changed still more the day after to-morrow when new raw material will have to be purchased for further production. Everyone who sells a commodity tries to insure himself against the possible fall in the buying power of the money which he receives, and in fixing the price of his commodity he puts on an extra charge for safety's sake.

A constant decline in the buying power of money renders the sale of goods on credit impossible. Payments cannot be postponed for any length of time if it is not known how the money will stand. The lending of money becomes equally

impossible. The almost complete elimination of credit deprives national economy of the important advantages arising from it. It becomes disadvantageous not only to sell commodities on credit, but even to take orders in advance to be paid for on delivery because the price which may be advantageous when the order is taken may become unprofitable at the moment of delivery.

Anyone who possesses money tries to get rid of it as soon as he can and to turn it into commodities, while anyone who has commodities tries to keep them as long as possible in the hope that their price will rise.

Uncertainty as to the morrow, feverish and irregular growth in prices, a desire on the part of everyone to avoid taking chances with depreciating money and to pass it on to others, creates a favourable ground for speculation, for easy profiteering on the part of some people at the expense of others.

Inflation does not have the same influence on all classes of capitalist society. Those who suffer most, of course, are the working sections of the population.

Of all commodities there is one which rises in price more slowly than the rest, and that commodity is labour power. Wages, although they may rise nominally, as a rule lag behind the rise in prices of essential commodities. This alone worsens the position of the working class. Being obliged to spend his wages bit by bit so as to hold out until his next pay-day, the worker loses more than anyone on the fall in the purchasing power of his money. Inflation may cause some difficulties also for the capitalist, as is evident from what has been said above concerning the elimination of credit, the impossibility of calculation, etc. But the capitalist has many ways of insuring himself against the consequences of inflation. He resorts to extra charges on his commodities; he exchanges his money for gold, precious jewelry, real estate, etc. If he cannot do this in his own country, he ships his capital to another country with a stable currency. For a capitalist it may be of great advantage in time of inflation to export his commodities abroad to a country in which there is no inflation; in terms of exchange, his commodity will be cheaper than that of the capitalists in whose country there is a stable currency as, in the first place, the real wages

he pays are lower than those paid with stable money, which gives him a good start as a competitor on the foreign market. Apart from that, receiving stable currency in his dealings with other countries, he is insured against the depreciation of his money.

Apart from speculators, it should be pointed out that large farmers also profit by inflation. They gain more than other employers from the fall in real wages because wages play a very big part in the cost of production of grain. Inflation is particularly profitable for farmers who export their grain. Besides, the depreciation of money is especially advantageous to farmers who have borrowed money in the banks on mortgages (and there are very many such farmers), because with the depreciation of the currency the real extent of the debt which they have to pay to the bank decreases.

But it must not be assumed that the small farmer also gains by depreciation of the currency just like the big farmers. On the contrary, all the advantages of grain export go to the big farmers and grain merchants. The middle farmer, and still more the small farmer, is often in no better position than the worker and he, as well as the worker, must largely bear the brunt of depreciating currency.

With the depreciation of paper money, all the small savings of farmers, workers and urban petty and middle bourgeoisie, depreciate.

Thousands of rentiers living on interest from their capital are ruined.

The capitalist state by issuing paper money seeks to cover its expenditure. In settling its accounts with the population by means of paper money, the state receives real values without giving any value in return. The emission of paper money is thus converted into an item of revenue for the State, a special form of taxation of the people, which, as we have seen, chiefly hits the working masses.

71

The Restoration of a Normal Currency.

The falling rate of paper money may so derange the organism of capitalist production and exchange that the

need for a more or less normal existence imperatively demands a stable currency. How can the normal circulation of money be restored?

It is obvious that the first necessity for this is a State Budget, i.e. a correlation between the expenditure and the revenue of the State, in which the chief item of revenue would be not the issue of paper money but some more reliable source. Such sources may be taxes, internal and foreign loans, profit from State enterprises. In time of war, the stabilisation of currency is, as a rule, impossible, because the expenses of the State are so high that the items of income indicated cannot cover them. The situation is similar when the economic position within a country is unstable, when the system of production is shattered, because under such conditions the amount of taxes and loans that the State can secure within the country is negligible and foreign capitalists prefer to grant loans to more reliable payers.

The monetary system can therefore be stabilised only when the economic conditions of the country improve. The introduction of a stable currency in itself leads to a further improvement of the economic conditions, giving the country confidence in the future and creating a basis for credit, etc.

In a capitalist State it is characteristic that the working masses who suffer most from inflation must bear the burdens of stabilisation; the taxes introduced by the State primarily hit the workers, and the interest on loans is paid by them.

The introduction of stable currency may be effected in the following ways.

(1) By means of nullification, i.e. the cancelling of the old paper money which is declared void and in place of which stable paper money, banknotes, or gold money is issued.

(2) By means of devaluation. The emission of paper money is stopped, whereby the further depreciation of paper money is also stopped. The paper money with low buying power is later exchanged in certain definite proportions for new money.

(3) Finally, deflation (i.e. annulment of inflation) can be accomplished by means of withdrawing a part of the paper money in circulation. The State receives that money as taxes, etc., and does not put it into circulation again, thereby

reducing the amount in circulation and raising its buying power to the level of gold.

Nullification took place, for instance, in the French Revolution, devaluation took place in the recent money reforms in the U.S.S.R., Germany and several other countries; attempts to effect a deflation through the third method are now being made by France; it has already been effected by Great Britain.

72

International Clearing of Accounts.

To round off the analysis of paper money and credit in capitalist society, a few words should be said concerning international accounting.

Paper money circulated within one country or another cannot serve as a means of circulation in the trading relations between the various countries. As a rule, the basic money used in this sphere is gold, and, in exchanging the gold coins of one country for those of another, only the amount of gold, actually contained in the coin, is considered. Fluctuations in the rates cannot exceed the cost of melting down the coins, as we already pointed out in speaking of value.

But commercial transactions between countries may be effected not only on cash payments but also on credit. Here too bills of exchange may take the place of money.

Suppose a French capitalist buys coal in England. The transaction may be effected on credit and the British capitalist may receive from the French capitalist a bill of exchange to the corresponding amount. Suppose that another British capitalist wants to buy in France, say, a consignment of wine. It is evident that instead of giving a bill of exchange or spending money in sending the corresponding amount of gold to France, the British capitalist who bought the wine can do as follows: he can buy from the British coal-owner the French bill of exchange which he holds and send it to the French wine merchant. It costs the latter nothing (provided the bill of exchange is reliable) to collect the money from the drawee of the bill of exchange

who purchased his coal in Britain. This saves the double expense of shipping gold both by the British capitalist who purchased the wine in France and by the French capitalist who purchased the coal in Britain.

Bills of exchange which displace money in international accounting are termed foreign bills of exchange. The more commodities, let us say, France sells to Great Britain, the greater will be the demand for French foreign bills of exchange in Great Britain, and the more people in Great Britain will wish to buy French foreign bills as a means of payment for commodities purchased in France.

What determines the rate of a foreign bill of exchange, i.e., the amount of money for which it can be purchased? If the country on which the bill of exchange is drawn has specie or banknotes in circulation, the rate of the bill cannot be below the rate of specie by more than the cost of shipping money from one country to another. Should the rate rise above that, it would become more profitable to ship the money than to buy bills of exchange. The rate of bills of exchange can fluctuate within the limits of the cost of shipment of money, depending upon the supply of, and demand for, such bills in each country. The more the other countries are indebted to a given country, the greater will be the demand for the foreign bills of that country and the higher will be their quotation (although it cannot exceed the indicated limit). The amount of money which other countries owe to the particular country, and the amount which it owes to the other countries, is very important in determining the rate of its foreign bills of exchange. If the other countries owe it more than it owes them, then we speak of a favourable balance of payment of that country. If the contrary is the case, the balance is called unfavourable.

The character of the balance of payment is largely determined by the balance of trade, i.e., the proportion between the amount of goods a country imports and exports. If the export is greater than the import, if the given country has what is called a favourable balance of trade, the result is that that country receives more money from the other countries than it pays to them. This helps to make a favourable balance of payment. If the contrary is the case, if the country has an unfavourable balance of trade, it gives more money

than it receives, which helps to make an unfavourable balance of payment.

In determining the nature of the balance of payment of a country, not only the trade balance but all kinds of payments on loans which one country receives from another may play an important part.[1]

A favourable balance of payment is of enormous significance not only for the rate of foreign bills of exchange but also for the stability of paper currency within the country. The more favourable the balance of payment, the more foreign gold does the given country receive after the accounts are cleared, and the greater is the possibility for the stability of its currency. An unfavourable balance may on the contrary cause inflation.

We have so far spoken chiefly of accounts between countries with a gold currency. If a country has in circulation coins of minor value, or paper money, a decline in the buying power of that money will be accompanied by a corresponding decline in the rate of the foreign bills of exchange of that country.[2]

LITERATURE RECOMMENDED ON CHAPTERS I, II AND III

A. Loan Capital and Interest.

Marx, *Capital*, vol. iii, pt. ii, ch. 36, p. 412, beginning with "The lender expends his money," and ending with the second paragraph on p. 416.

B. Pre-Capitalist Forms of Credit.

Marx, *Capital*, vol. iii, pt. i, beginning of ch. xxxvi on p. 696, up to p. 700 (end of second sentence of first paragraph); and from last line of p. 362 to end of p. 368.

C. General Characteristics of Banks.

Marx, *Capital*, vol. i, ch. iii, p. 140, to the end of section "C."

[1] We will speak of these loans later in the part dealing with imperialism. There are several other items in the balance of payment which we cannot deal with here.

[2] The quotation of foreign bills of exchange may fluctuate not only under the influence of actual facts, but also under the influence of rumours about an imminent crisis, war, a bad harvest, etc.

QUESTIONS FOR STUDENTS

1. Why is money converted into capital under capitalism?
2. Show the conditions under which money-capital is formed in the hands of the industrial capitalist.
3. Do you think that there may be unemployed money-capital in the hands of a merchant capitalist?
4. Why do capitalists often sell commodities at a lower price if the sales are made on a cash basis?
5. Why is it impossible for the rate of interest to be for any length of time higher than the average rate of profit?
6. Why is it that a usurer is looked at with contempt, while the banker is respected in capitalist society?
7. State briefly the main difference between commercial and bank capital.
8. Point out the importance of credit in capitalist society in general.
9. A capitalist selling his commodities on credit receives a bill of exchange to the amount of 7,000 pounds to be paid on August 25th; he wants to discount the bill on June 25th; how much money will he receive for it if the annual discount rate is 5 per cent.?
10. Look up the balance-sheet of some bank in any journal and explain the individual items of that balance.
11. Show the source of the banker's profit.
12. What is the main difference between banknotes and paper money?
13. The value of circulation equals to 300,000,000 pounds, the value of gold coins in circulation is 75,000,000 pounds. How much paper money can be issued so that its buying power may not fall below that of the gold coins?
14. What functions of money can paper money perform and what functions can it not perform?
15. If the amount of paper money in circulation to-day is as much as is needed for circulation, what are the conditions necessary to keep its buying power constant in the course of a more or less prolonged period?

In answering this question describe what practical measures the State must make if it does not want the purchasing power of its paper money to fall.

16. Do you think it is possible to do away with gold coins in capitalist society through clearing of accounts through the banks and with the help of banknotes and paper money?
17. Why is it that first gold coins and later silver coins and finally copper, bronze and nickel coins disappear from the market when too much paper money is issued?

18. What is the effect of inflation on the rate of circulation of individual coins and what effect has that on the purchasing power of paper money?

19. We have pointed out that inflation renders credit difficult and sometimes even impossible. What influence has this on the buying power of paper money? Does the elimination of credit tend to raise or lower its buying power?

20. The table below shows the total amount of paper money in circulation in Germany for the period of 1913-22 with the corresponding commodity indexes and the quotation of the dollar.

What conclusions can be drawn from this table? How can the difference in the rate of growth of the dollar quotation and the wholesale price index be explained?

TABLE

(Taken from Trachtenberg's book, *Paper Money*.)

Year	Amount of Paper Marks, in millions.	Wholesale Index.	Quotation.
1913	2,743	1	4,198 marks
1918	32,787	2	8·27 ,,
1919	49,479	20	46·78 ,,
1920	81,154	21	63·06 ,,
1921	122,162	42	104·57 ,,
1922	1,298,758	196	1,185·78 ,,

NOTE.—The wholesale price index in the table shows the relation of the wholesale prices of the respective years to the wholesale prices of 1913, which are taken as a unit; thus, if the index of the wholesale prices for 1918 equals 2, it means that the wholesale price of commodities in that year was double the price of 1913.

21. How can the surplus value created by workers of one capitalist country be put at the disposal of capitalists of another country with the help of international credit?

Chapter IV

INTEREST, CREDIT, AND PAPER MONEY IN THE U.S.S.R.

73

Interest in the U.S.S.R.

The question of the nature of interest in the Soviet economic system is not very difficult after what has been said on the question of commercial profit in the U.S.S.R.

Following the method we have already adopted we must analyse this question in the light of the interrelations arising on the basis of credit between the various economic State enterprises, between State industry on the one hand and the millions of peasants and the working class on the other, and, finally, between State industry and private capitalist enterprises. Let us see first what is the nature of the interest paid by the State banks on the deposits of State enterprises and institutions and charged by them on loans given to those enterprises and institutions. Assume that the Serpuchov Trust deposited a certain amount of money in the Industrial Bank. The Industrial Bank, in its turn, lent this money, say, to the Aniline Trust. The Aniline Trust uses the loan from the Industrial Bank for an expansion of its production, as a result of which it receives a surplus product created by the workers in the enterprises under its control. A part of this surplus product it will transfer to the Industrial Bank in the form of interest on the loan. The Industrial Bank will keep one part of the surplus product received in the form of interest from the Aniline Trust, and the other part it will pay in the form of interest to the Serpuchov Trust as compensation for the use of the money which the latter deposited in the bank. Would this be interest in the capitalist sense of that term? Of course not. There is no interest here derived from surplus value, and there is no problem here

of the distribution of surplus value among the various groups of the bourgeoisie. Here it is only a question of distribution of the product among the various economic enterprises which belong to one and the same master, the proletarian State. Thus, behind the external form of interest, there is hidden an entirely different, a non-capitalist, relation. From this it would be natural to deduce that the Soviet State could well do entirely without exacting interest from State enterprises and that it could work on the principle of credit without interest, as far as these enterprises are concerned. However, such a conclusion would be wrong. The preservation of the form of interest is of the same importance here as is the preservation of the form of profit of enterprise, commercial profit, etc., in relation to the State enterprises. Interest is a necessary element in running the concern on a business basis. It compels the industrial and commercial enterprises to carry on their business economically and on a practical foundation.

As to the case in which the State grants credit to the peasantry in the form of products of State enterprises, here it appropriates in the shape of interest a part of the income of the peasantry. If, on the contrary, the peasant deposits his savings in the bank, he receives in the form of interest a part of the surplus product produced by the workers of the State enterprises. In the chapter on commercial profit we have shown that the productive relations arising in all these cases can by no means be regarded as capitalist relations as long as the element of exploitation is absent. This is of course also true of the relations arising when the workers deposit their savings in the State banks or make use of the credit of those institutions.

It is different when the Soviet State grants credit to capitalist enterprises, or uses the resources of those enterprises to provide credit for State industry and trade. In the first case, as we have already shown in the chapter on commercial profit in the U.S.S.R., a part of the surplus product created by the workers of the State enterprises goes into the pockets of the capitalists, and a relation of indirect exploitation of the workers of the State enterprises on the part of the capitalists arises. In this case we have interest which is much like capitalist interest. In the second case, it is the contrary ;

the Soviet State appropriates in the form of interest a part of the surplus value of the capitalist, and by getting it into the fund of the Soviet State this part of surplus value loses its capitalist nature.

74

Credit in the U.S.S.R.

There is no need to show here how free money flows through various channels into the reservoirs of the credit institutions, and how by leaving the reservoirs in the form of loans to the various branches of national economy it helps in their development. All that has been said on this question in the chapter relative to credit under capitalism can also be said about the U.S.S.R. We will deal only with the question of the significance of credit in socialist construction, and with the peculiarities distinguishing Soviet credit from capitalist credit. The importance of credit in Socialist construction in the U.S.S.R. is already quite considerable. Its rôle will be still greater in the future.

The U.S.S.R., as we shall see, is entering upon a phase of large-scale Socialist construction. This will necessitate the construction of a whole series of new enterprises based on the last word in technique. Considering the technical level already attained by capitalist countries, the organisation of a more or less important enterprise is inconceivable without the aid of credit, because every such enterprise requires the investment of an enormous amount of capital. The advantage of capitalist enterprise in bourgeois countries, as compared with Soviet enterprise, is that the former enjoys the credit not only of the credit institutions of the home country, but has at its disposal also the credit institutions of other capitalist countries, while the U.S.S.R. in this respect is left to itself.

Under these conditions, every bit of money in the country, freed even for only a short period, all savings, must be drawn into the reservoirs of the credit institutions of the Union and utilised in Socialist construction.

To collect the resources of government and co-operative enterprises and institutions in the U.S.S.R. is no difficult

task for the banks, inasmuch as almost the whole of large scale industry, and a considerable part of trade, in the U.S.S.R. is in the hands of the State. At the worst it suffices for the government authorities concerned to issue instructions that all idle money should be concentrated in the hands of the credit institutions or banks of the union. The capital of the State enterprises and institutions constitutes at the present time the greatest part of the money at the disposal of the banks.

It is not so with the resources and savings of the new bourgeoisie, the peasantry and the workers and employees. No decree or decision can compel these people to bring their money to the bank. Their money can be attracted only by giving them certain commercial advantages and technical facilities for safe-keeping, mutual clearing of accounts, etc., which the banks may offer to their depositors. In the U.S.S.R., where there is an acute stringency in government resources, and an absence of foreign credits, the attraction of private savings is very important. No matter how insignificant the savings of each individual peasant, worker or employee may seem, they constitute a powerful flood of money when put together. Side by side with the question of concentration of money in the banks, there is also the no less important question of the utilisation of the money which accumulates in their reservoirs.

What distinguishes Soviet credit from capitalist credit is the fact that it makes it possible to utilise the available money on a planned system. In capitalist countries the credit institutions know no other principle except the principle of profit. They give credit wherever it is most profitable. No consideration is given to the usefulness of any enterprise for the State, or to its social significance. Inasmuch as loans are most advantageously invested when advanced to the most reliable concerns, the blessings of credit are heaped chiefly upon the big capitalist firms. The credit policy of the U.S.S.R., however, is guided by the principle of a systematic use of the available resources in the interests of Socialist construction. The pursuit of this principle is possible in the U.S.S.R. because all credit institutions of the Soviet Union are concentrated in the hands of one master—the Soviet State.

Disposing thus of vast resources, the Soviet State is guided by a definite policy whereby it can greatly help the strengthening and development of the Socialist elements in the Soviet economic system. It can subsidise enterprises which must be developed in the interests of Socialist construction, even though from the point of view of commercial expedience it would be better to invest those resources in other enterprises.

Thus, for instance, the Soviet government supported and is supporting its heavy industry, which is working at a loss, with the help of the banks, although, from the narrow commercial point of view, it would be more expedient to support light industry which brings in a considerable profit.

By owning the banks, the Soviet State can influence in a certain way not only the development of State enterprises but also private capital. It can utilise the latter to the best advantage from the point of view of Socialist construction. The same may be said of trade. Everybody knows the great importance of credit at the time of a new harvest. Not only the refusal, but even the untimely granting of credit may work havoc in the grain buying campaign. But that is not all. As we shall see, credit will have to play an enormous part in the transformation of peasant agriculture into large-scale Socialist agriculture through co-operation. The State by drawing all the peasants' savings into the banks, will support the Socialist elements in agriculture, and aid thereby in its rebuilding. In brief, no matter what branch of Soviet economics we take, credit can everywhere play a great rôle in strengthening the Socialist elements.

As to the rate of interest, it is quite high in the U.S.S.R. The rate of interest is still higher on the clandestine private exchange. The high rate of interest in the U.S.S.R. is due to the insufficiency of capital, in which there is such a stringency owing to the very rapid development of Socialist construction.

The main credit institution of the U.S.S.R. is the State Bank, the head of the credit system, which consists of the following chief banks: the Industrial Bank, the Agricultural Bank, the Co-operative Bank, the Central Bank of Municipal and Housing Construction, the Foreign Trade Bank, etc.

As the names of the banks show, each of them has its own ɔhere of activity, and serves in only one branch of Soviet ɔconomics.

The Soviet banks engage in the same operations in which ɑpitalist banks engage. There is therefore no need to go into etails about that. But a few words should be said concerning he right of issue, which is in the hands of the State Bank. Iowever, it will be more convenient to deal with this ques- ion in connection with the question of paper money in the J.S.S.R.

75

Paper Money in the U.S.S.R.

Prior to the war the monetary system of Russia was based ɔn gold. The banknotes issued by the State Bank were reely exchanged for gold. With the outbreak of the war that ɔxchange was stopped and banknotes were issued with the ɔbject of filling the gaps formed in the State Budget owing ɔ the great war expenditures. In this manner, the bank- ɔotes became paper money. The war exhausted the State unds from year to year and month to month, and the State was compelled to resort ever more frequently to the printing nachine to meet its deficits. With the growing quantities ɔf paper money in circulation, its buying capacity was falling, which, in turn, necessitated the issue of still larger quantities ɔf money, as the State was able to buy constantly less for the same amount of paper.

By the beginning of the February Revolution the amount ɔf paper money had risen sevenfold. The February Revolu- tion not only failed to stop the rapid increase in the amount of paper money but even accelerated it. The Provisional Government, which was brought to power by the February Revolution, issued in the course of its eight months of existence more paper money than the Tsarist government did in the course of two and a half years of war. The Soviet government, which superseded the Provisional government, was also compelled to continue this policy owing to the enormous expenditure involved in the civil war. A continu- ous flood of paper money ensued. To the extent that this

flood increased, the buying capacity of paper money was catastrophically falling. At the beginning of 1922 a pre-war rouble was equal to 288,000 Soviet roubles. Everybody was a multi-millionaire or billionaire. But, on the other hand, an article which before the war cost a few roubles, in 1922 cost many millions. The figures used in counting money in 1922 were known before the war only in measuring the distance between stars. This gave rise to technical inconveniences as a result of which the Soviet Government resorted to a new denomination of its money tokens, i.e., to their renaming, calling every 100 roubles of the 1922 issue, 1 rouble of the 1923 issue. But this technical operation, which eased the counting of money, did not in any way stop its further depreciation.

This catastrophic depreciation of paper tokens had a very bad effect on all phases of economic life. It greatly hampered the proper valuation of goods, it interfered with the development of industry and trade, and as an emission tax it was a heavy burden on the shoulders of the workers and peasants, etc. The question arose of the need to liquidate the inflation of paper money and to carry out a money reform. The necessary conditions for it had already to a certain extent arisen. During the few years of N.E.P. which preceded the money reform of 1924, the Soviet economic position had become stronger. Industry and agriculture were being rapidly restored, trade was developing, the banks were growing and consolidating. The main cause of the abnormal emission of paper money, the deficit in the budget, had by the time of the reform been reduced to a level which could no longer shake the stability of the new currency. Finally, a favourable trade balance was recorded prior to the reform in 1923-24. Thus there was ground for confidence that the new currency would be more or less stable on the world market. When all these necessary conditions were present, the reform was enacted.

Properly speaking, the money reform, which was fully enforced in 1924, began with the issue of stable currency by the State Bank in the form of the chervonetz in 1922. We have already mentioned that the State Bank has the right of issue in the U.S.S.R. The chervonetz issued by the State Bank in 1922 in virtue of this right, was essentially not paper money, but a banknote. It had a 25 per cent.

gold security and stable foreign currency behind it, while the rest was secured on bills of exchange and commodities. The issue of the chervonetz could not be utilised as a means of covering the deficits of the State Budget. That deficit was still covered as before by the emission of paper money which was depreciating at an even more rapid rate than before.

Although the gold exchange of the chervonetz had not been restored, the decree with regard to its issue laid down that in due time, when the government found it possible and necessary, this exchange would be restored. We know that a free and unobstructed exchange of banknotes for gold provides a mechanical regulator of the circulation of banknotes. As soon as the amount of banknotes on the market exceeds the requirements of commodity circulation, the superfluous banknotes are returned to the banks to be exchanged for gold. The banknotes, in this manner, are brought into the banks and the gold is withdrawn and goes into private vaults. But as the chervonetz is not exchanged for gold, its stability is maintained by the Government keeping its issue within the limits that the available gold, foreign currency, or bills of exchange can support. The stability of the chervonetz is maintained largely also by the favourable trade balance. After the chervonetz had proved that it could hold its ground, thus providing the stable currency so necessary for the development of Soviet national economy, the paper rouble could be abolished. This was actually accomplished on February 5th, 1924, when a decree was published with regard to the issue of treasury notes.

The difference between the chervonetz and the treasury notes lies in the following:

(1) The chervonetz is issued in 10 rouble denominations while the treasury notes are of 1, 3, and 5 rouble denominations.

(2) The chervonetz is issued by the State Bank, and treasury notes are issued, as the name implies, by the State Treasury.

(3) Finally, the chervonetz is backed by gold and stable foreign currency, etc., while the treasury notes have no such security.

It may seem curious that the treasury notes remain stable

under these conditions. But their stability is maintained firstly by the fact that the State undertakes to accept them at the rate of the chervonetz (one chervonetz being equal to 10 treasury notes) and to exchange the chervonetz for treasury notes. Apart from that, it issues treasury notes only to the amount necessary for changing the chervonetz.

Side by side with the issue of treasury notes the minting of silver and copper coins was established by decree. Silver coins are minted in denominations of 1 rouble, 50 kopeks, 20 kopeks, 15 kopeks and 10 kopeks, and copper coins in denominations of 5 kopeks, 3 kopeks, 2 kopeks and 1 kopek; there is a difference between the quality of the silver coins of the rouble and 50 kopek denomination and the silver of the smaller coins.

After all these measures had been taken the issue of paper money was stopped, and the paper in circulation was exchanged for treasury notes at the rate of 50,000,000,000 roubles per treasury note of one rouble. The money reform had been achieved, the Soviet paper rouble expired and the Soviet economic system henceforth had a firm and stable currency.

QUESTIONS FOR STUDENTS

1. Show the essence of the productive relations concealed behind the concept of interest in Soviet economics.
2. What part does credit play in Socialist construction?
3. By what method was the inflation of paper money liquidated in the U.S.S.R.?
4. Banknotes are, as a rule, freely exchanged for gold. The Soviet Chervonetz is not exchanged for gold. Wherein lies the secret of its stability?
5. What is the difference between the chervonetz, the treasury note, and the metal coins now circulating in the U.S.S.R.?

PART VII

GROUND RENT

Chapter I

GROUND RENT IN CAPITALIST SOCIETY

76

The General Significance of Ground Rent.

THE question of banknotes and paper money led us somewhat away from the main problem of distribution of surplus value which we are considering. We must now return to this problem.

Every capitalist who wants to start a capitalist enterprise must have at his disposal not only machines, buildings, raw material and labour power, but also land on which to build.

Land as a means of production is of even greater significance in agriculture and in the raw material industries, especially mining, than in the manufacturing industries.

Land in itself, if we leave out of consideration the labour that has been put into it, is, as it were, a free gift of nature, and it would seem that it should be easy for a capitalist to get the necessary land just as he can get, say, air, sunshine, etc. In reality, however, it is not so. While there is an unlimited quantity of air, sunshine, etc., on our globe, the area of land is limited and in most countries all land was the property of private landowners, even before the rise of the capitalist mode of production. It is evident that if a capitalist needs land, he cannot just take it but must ask the landowner for permission to use it.

The landowner takes advantage of the fact that the land is his property and that there is but a limited amount of it, and exacts from the capitalist what is called rent for use of his land. Rent is made up of two parts. Firstly, it consists of payment for the use of the capital which was previously

invested in the land in the form of improvement, irrigation, drainage, buildings, etc. Secondly, rent consists of a definite sum of money which the landowner takes not for his investment of capital in the land but for giving the capitalist the right to use that land. It is this second part of rent which is known in political economy as ground rent.

We will now examine this question of ground rent. In doing so we will assume that ground rent is paid to the landlord by a person who is running a capitalist farm and is exploiting wage labour.

For the present we do not propose to deal with cases in which the land is taken on lease from the landlord by someone who intends to cultivate that land by himself, or cases in which the farmer does not lease the land, but buys it and becomes the owner of land as well as a capitalist. After analysing the first case in its pure form we shall return to the other cases.

Thus, a capitalist leases land from a landowner and starts a capitalist farm on it. In our discussion we shall consider chiefly farms, as land and ground rent are of the greatest importance to them. In what circumstances will a capitalist agree to pay ground rent to the landowner? Obviously, only if his farm yields him, after paying the rent, at least an average rate of profit. If he could not get this average rate of profit, he would not hesitate to withdraw his capital from agriculture and invest it in some industry which would guarantee him an average rate of profit. As a result of such an exodus of capital from agriculture to industry, agricultural products would become dearer, rising to such a level as would guarantee an average rate of profit to the capitalist. Thus, under normal conditions of capitalist enterprise, ground rent can be conceived only as a surplus profit over and above the average rate of profit, a form of differential profit.

How is this surplus made, and where does it come from? We will now examine this question.

77

Differential Rent.

In the course of the present study we have already met with cases in which one capitalist or another received an extra profit over and above the average level. This happened in cases where the technique used in one enterprise was above the average and the cost of production below the average. The difference between the lower individual value of a commodity produced in the given enterprise and the price of production, which is determined by the average cost of production, constituted in those cases the surplus, or what is called differential profit.

Is is not from the same source that ground rent is derived?

We know that the quality of land is not all alike, that there is more fertile and less fertile soil, that there is land rich in coal, oil, or gold, and that there are, on the other hand, vast stretches of land covered with sand on which nothing can grow and through which one may travel for tens and hundreds of miles and not find a single plant. Naturally, labour invested in fertile soil will, under equal conditions, always give better results than the labour invested in desert land.

Let us take three kinds of land of various fertility. Assume that an equal investment of capital of 10 pounds or 200 shillings in each unit will yield on:

A. 200 quarters of grain
B. 150 „ „ „
C. 100 „ „ „

Assuming further that the average rate of profit equals 20 per cent., what will be the individual price of production of 1 quarter of grain on everyone of these units of land? The price of production is determined, as we know, by the cost of production plus the average rate of profit. We know the amount of grain that each unit of land yields, the amount of capital invested, and the average rate of profit. In order to find the individual price of production of a quarter of grain on each piece of land, it will be necessary to divide the price of

production of the grain of each of the units by the total number of quarters. This will give the following picture :

Unit.	Quantity of grain produced.	Cost of total production.	Average rate of profit.	Individual price of production of total quantity of Grain.	Individual price of production per quarter (approximately)
A	200 qrtrs	200 s.	40 s.	240 s.	240-200s. = 1s 3d.
B	150 ,,	200 s.	40 s.	240 s.	240-150s. = 1s. 8d.
C	100 ,,	200 s.	40 s.	240 s.	240-100s. = 2s. 6d.
TOTAL	450 qrtrs.	600 s.	120 s.	720 s.	

Thus the individual price of production per quarter of grain on the first unit will be 1s. 3d., on the second unit 1s. 8d., and on the third unit 2s. 6d. But how is the general price of production per quarter determined? We know that in industry the average price of production is determined by the average cost of production. Suppose for a moment that the average price of production in agriculture is determined as in industry by the average cost of production. What will be the result? It is obvious that the average price of production will be equal to the total of the individual prices of production of all units divided by the total number of quarters from all units, i.e., $\frac{720}{450}$ equals 1s. 8d. This average price of production corresponds with the individual price of production on the second unit, which is also 1s. 8d. per quarter. Thus the tenant of the first unit who sells his grain for 1s. 8d. per quarter receives an extra profit of 5d. per quarter, while the tenant of the second unit has to be content with an average rate of profit. What will be the behaviour of the tenant on the third unit in this case? If we were dealing not with agriculture but with industry, there will be no difficulty in answering this question. In industry, as we have seen, differences in profit are possible, and one capitalist may receive a differential profit if the technique and the productivity of labour in his enterprise is higher than the average technique and the average productivity of labour. But under free competition such differential profit will be temporary because other

capitalists will introduce the same technical improvements and thereby reduce the socially necessary time for the production of the given commodity. For capitalists possessing a technique which is lower than the average there will be only one way out, and that is to raise the level of their technique, lest they perish in an unequal battle. Can the tenant of the third unit of land in our example do the same as a capitalist would do if his technique were lower than the average? No, he cannot. This road is absolutely closed to him. Let us see where the tenant of the first unit received an extra profit and why the tenant of the third unit had a lower profit. The difference in the amount of their profit is not a result of a difference in technique but of a difference in the fertility of the soil. Fertility is the natural property of certain land. Capital invested in fertile soil will, if other conditions remain equal, always give a better result than capital invested in poor soil. Hence, if the price of agricultural products were determined by the average cost of production, the tenant of the third unit would for ever be doomed to receive a profit lower than the average, and there would be very few capitalists willing to invest their capital in land which was known to give a profit below the average. The third unit would under such conditions have to lie fallow. That would actually happen if the market demand for grain could be covered by the grain produced on the first two units. But what happens if the demand for grain increases so much that the first two units are unable to meet it? It is evident that the price of grain will rise. How much? Up to 2s. 6d., i.e., to the price of production of the third, or worst area.

It then becomes profitable to cultivate the third unit, because if the price of grain has risen to 2s. 6d. per quarter, the tenant of the third unit is able to cover his cost of production (2s.) and receive an average rate of profit, i.e. 5d.

From this it is clear that the price of production of agricultural products cannot be determined by the average cost of production as is the case in industry. That would be possible if, as we have said, the advantages of more fertile areas were just as temporary and as easy to eliminate as technical improvements in industry, or if the area of fertile soil could be increased at will, as happens in industry when the demand

is greater than the supply. But inasmuch as the natural properties of land are not temporary, but constant and cannot be eliminated by the interference of man, and inasmuch as the amount of good land is limited and cannot be increased at will, the price of production of agricultural products is determined not by the average cost of production but by the cost of production of the worst areas under cultivation.

" The limited amount of land," says Lenin, " gives rise to a form of monopoly, which means that in view of the fact that the whole of the land is occupied by farmers, and in view of the fact that there is a demand for the whole of the grain produced on this land, including the worst areas and the areas situated the furthest away from the market, it is clear that the price of grain is determined by the price of production on the worst areas (or the price of production of the least productive investment of capital)." (*Lenin*, vol. ix, pp. 59-60, Russian edition.)

Thus we reach the conclusion that the price of production of agricultural products is determined by the conditions of production not of the average, nor of the best, but of the worst soil under cultivation. Hence the individual price of production of agricultural products produced on the best soil is considerably lower than the price at which they are sold on the market, which is determined by the conditions of production on the worst areas. As a result, the better areas will yield a certain surplus as compared with the worst areas, amounting to the difference between their individual price of production and the price of production on the worst soil.

Coming back to our example we shall find that, not withstanding the fact that the individual price of production on the first unit equals 1s. 3d., the second unit 1s. 8d., and the third unit 2s. 6d. per quarter, the grain sells on the market at the price of production of the worst soil, i.e. 2s. 6d. per quarter, regardless of the area on which it had been produced or the individual cost of its production. If the price of grain is 2s. 6d. per quarter, the tenant of the first unit will receive 480s., the tenant of the second unit 360s., and the tenant of the third unit 240s. for his grain, which will be divided as follows :

Unit.	Amount received for the grain.	Return of invested capital.	Average profit.	Surplus as compared with C.
A	480 s.	200 s.	40 s.	240 s.
B	360 s.	200 s.	40 s.	120 s.
C	240 s.	200 s.	40 s.	—

Thus the difference in the fertility of the soil gives the tenant of the first unit 240s. and the tenant of the second unit 120s. more than the tenant of the third unit, and, apart from this, the tenant of each of the three units receives 40s. profit on the invested capital.

It is clear that under such conditions the owners of the first two units will only agree to lease them if the tenants agree to pay them the entire surplus resulting from the better fertility of their soil. In their turn the tenants will agree to pay this surplus because after paying it they will still have an average profit on their invested capital. Thus the extra, or differential, profit accruing from the better areas of land will become ground rent. This form of rent taken from the best areas under cultivation is termed differential rent. In our example the first two areas (the first to a greater and the second to a less extent) will give a differential rent ; the third will give no differential rent.

However, if the demand for grain increases to such an extent that the grain produced on the three areas is insufficient to meet the demand of the market and some fourth area which is even less fertile than the third is put under cultivation, the third will also yield a differential rent.

In these cases, differential rent is a result of the unequal fertility of the soil. But differential ground rent may also arise from difference in situation. The distance of land from the market is of tremendous significance in agriculture, much more so than in industry. This is so because raw material, and agricultural produce in general, is in itself usually of comparatively low value, the result being that transport expenses constitute a considerable part of that value. Let us again take an example of three areas of land of which:

The first is situated near the market, so that the value of

transportation of a waggonload of any of its products is equal to, say, 1s.;

The second is ten miles away from the market, and the delivery of a waggonload of grain to the market cost 4s.;

The third is twenty miles away, and the delivery of a waggonload of grain to the market costs 8s.

If the market demand for grain cannot be covered by the first two and a demand arises for grain produced on the third area, the market price will have to rise so as to cover the cost of transport of grain from the third unit which is twenty miles away from the market. Thus the cost of transportation of grain on the first unit will be 7s. and on the second unit 3s. per load less than on the third unit. But the grain on the market will all be sold according to the price of the third unit, without regard to the area on which it has been produced. As a result, the first two units will give a differential rent—the first to the amount of 7s. per load and the second to the amount of 3s. per load.

The situation of land in modern towns is very important in giving rise to differential rent. Land situated close to the centre of a town, in streets where shops, banks, institutions, etc., are concentrated, or where there is a tramway line, etc., brings its owners an enormous income in the form of differential rent determined by locality as obviously fertility has nothing to do with it.

78

Second Form of Differential Rent.

Apart from the differences in fertility and locality of land there is another situation in which differential rent may arise.

This is possible when several successive investments of capital are made in one and the same piece of land. Let us assume that 200s. was at first invested in a given piece of land, which yielded 200 quarters of grain; further, that another investment was made on top of the first either in the form of better apparatus, or in the form of labour power, fertilisers, etc.; suppose that the second investment also amounted to 200s. and increased the yield by another 150

quarters; and further that the second investment was followed by a third, also amounting to 200s., which raised the yield by another 100 quarters. We thus have:

	Investment		Yield
1st	200 shillings	..	200 quarters
2nd	200 ,,	..	150 ,,
3rd	200 ,,	..	100 ,,

Let the average rate of profit be 20 per cent. The individual price of production per quarter will then be:

Investment.	Yield.	Cost of production of total amount of grain.	Average profit.	Price of production of total amount of grain.	Individual price of production per pood.
1st	200 qtrs	200 s	40 s.	240 s.	240 : 200 = 1s. 3d.
2nd	150 ,,	200 s.	40 s.	240 s.	240 : 150 = 1s. 8d.
3rd	100 ,,	200 s	40 s.	240 s.	240 : 100 = 2s. 6d.

Thus the individual price of production per quarter of grain in the first investment is 1s. 3d., in the second investment 1s. 8d., and in the third investment 2s. 6d. Since the prices of agricultural products, as we have just established, is determined by the cost of production under the worst conditions, it is clear that in this case, too, it will have to be determined by the cost of production of the least productive investment of capital. In the given case the least productive investment of capital is the third one. Thus rye will sell on the market at 2s. 6d. per quarter, as a result of which the capitalist tenant will receive from the first investment 480s., the second investment 360s., and the third investment 240s. The amount received will be divided as follows:

Investment.	Received for grain.	Return of invested capital.	Average profit.	Rent.
1st	480 s.	200 s.	40 s.	240 s.
2nd	360 s.	200 s.	40 s.	120 s.
3rd	240 s.	200 s.	40 s.	—

The first investment compared with the last gives a rental of 240s., and the second gives a rental of 120s. The last, and the least productive, investment of capital gives no differential rent in this case whatever.

Thus differential rent may arise not only from differences in the fertility and situation of land, but also as a result of the different productivity of capital investments in the same piece of land. This last form of rent Marx calls Differential Rent No. II in contradistinction to differential rent arising from fertility and locality which he terms Differential Rent No. I.

In analysing the first form of differential rent we have assumed that the sequence of land brought under cultivation proceeds from better to poorer soil. But actually the sequence is often the other way round. This happens when for some reason the more fertile soil cannot be cultivated, either because it is under forests or because it is very far from the market, etc. The clearing of the forests, or the building of a railway somewhere in the vicinity, may make that land available for cultivation and, thanks to its natural fertility, it may then occupy a first place in agriculture and yield a differential rent.

The same is true of the second form of differential rent. In our example we assumed that the successive investment of capital in one and the same piece of land is accompanied by a falling productivity. However, successive capital investments are not always accompanied by a diminishing productivity. Successive investments may even give a better yield. But this does not change the general position; investments with diminishing productivity are inevitable, and the price of grain must be determined by such investment, thus giving rise to the second form of differential rent.

All this goes to show that differential ground rent does not necessarily depend upon the order in which land of different quality is put under cultivation, nor upon the falling productivity of successive capital investments in one and the same piece of land. All that is required is a difference either in the fertility or situation of the land, or in the productivity of successive investments of capital. Anything that causes these differences to increase helps also to

augment the differential rent, and, vice versa, anything that tends to diminish these differences diminishes the differential rent.

79

The Source of Differential Rent.

We have become familiar with several forms of differential rent, and some of us may have got the impression that the source of differential rent is nothing but the natural property of land itself, regardless of social relations. However, such an impression would be wrong. No matter how fertile a piece of land may be, or how close it may be to the market, it would create no rent without the application of human labour. The natural qualities of the more fertile or the more favourably situated soil may only make that labour more productive, i.e. an equal expenditure of labour power may yield a greater quantity of use values. But the human labour and the values which it produces, and also the mode of distribution through which some of the surplus values fall into the pockets of the landowners in the form of rent, belong to the sphere of social relations. It is therefore not in the natural qualities of the soil, but in the social or, more correctly, productive relations of capitalist society that we must find the source of differential rent. What then is that source?

We have just established that differential rent arises from the greater productivity of labour on more fertile soil or on soil more advantageously situated (or from the greater productivity of some capital investments). However, as it is a question of capitalist agriculture, the capitalist tenant cultivates the land not with his own labour but with the labour of hired workers. Hence, ground rent, which constitutes an extra profit over and above the average profit, is created by the higher productivity of the workers employed on better soil, e.g. it represents a part of the surplus value created by the workers. This additional surplus value created by the workers owing to the higher productivity of their labour on better soil constitutes a source of extra profits for the tenant.

From this it is clear that the tenant, who receives an extra profit as a result of the higher productivity of the labour of the agricultural workers exploited by him, can keep the average profit for himself and give the surplus to the landlord in the form of rent.

80

Absolute Rent.

In our discussion of differential rent there was an omission which should have been noticed by any attentive reader. In speaking of differential rent, we have frequently pointed out that the landowner will not agree to let his land to a capitalist if the latter will not pay him rent. On the other hand, we also said that the tenant will only agree to lease the land if, after paying his rent, he can be sure of an average profit on his investments ; and we gave an example of three different areas, of which the first two yield a differential rent while the third does not. But does this mean that the third piece of land gives no rent whatever ? What would happen if a capitalist wanted to cultivate the third piece of land ? It is evident that either the owner would have to let him use it gratis, which is not in his nature, or the tenant would have to sacrifice a part of his profit in favour of the landowner and be satisfied with a smaller profit than that made by other capitalists. Of course, it may happen that a landowner will allow his land to be used free of charge, or even give it away altogether. It also sometimes happens that, for one reason or another, a capitalist does not receive an average profit. But these are isolated cases which are not characteristic of capitalist relations. In the overwhelming majority of cases, the landowner will leave his land lying fallow rather than let his tenant use it free of charge, no matter how poor it may be. On the other hand, no tenant wants to share his average profit with the landlord.

Naturally, if the owner of poor land which yields no differential rent will only let the tenant use that land at a charge, and the tenant will not agree to pay for it at the expense of his average profit, such land will lie idle, as a result

of which the production of grain will diminish. Unless there is a simultaneous diminution in the demand for grain on the market, it will invariably cause a rise in the price of grain. This rise in price will continue until it reaches a level which will guarantee to the tenant of the poorest soil, which at present yields no differential rent, an opportunity of receiving an average profit, and paying rent to the landowner.

Thus we come to the conclusion that even the worst land under cultivation must bring rent. But this rent is not the result of varied productivity of labour on land of different fertility, situation, etc., but the result of private property and the limited areas of land. This rent extorted by the landowners even from the poorest land through their right of private property and the limited areas of land is what Marx calls absolute rent.

81

The Source of Absolute Rent.

The question arises, what is the source of absolute rent? This question is closely bound up with the prevailing lower organic composition of capital in agriculture. We know from the part dealing with surplus value, that surplus value is created by labour power, or by variable capital. The rate of profit is always higher where the organic composition of capital is lower, i.e. where less machinery and more labour power is employed. However, competition among capitalists causes a part of the surplus value produced in the industries with a low organic composition of capital to be transferred to the industries with a high organic composition of capital, as a result of which an average rate of profit is established for all. In its organic composition of capital agriculture stands below industry. The technique employed in agriculture is considerably lower than that employed in industry; in agriculture less machines and less raw material are employed, while the raw material that is employed is less valuable, etc. As a result, the variable capital employed in agriculture is relatively much greater than in industry, and the rate of profit, i.e. the relation of

surplus value to the entire capital $\frac{s}{c+v}$ is higher in agriculture than in industry. This extra surplus value created in agriculture by the workers constitutes the source of absolute rent.

Why does this extra profit remain in agriculture, why does it not enter the general fund for distribution among all branches of capitalist production in proportion to the amount of capital invested? As a matter of fact there are also industries with a low organic composition of capital; but there the capitalists cannot receive a rate of profit higher than the average because the extra surplus value produced in those industries goes for general distribution in the process of transfusion of capital.

Is a free flow of capital possible from industry to agriculture? If the amount of land were not limited, and if there were no private property in land, nothing could prevent the migration of capital into agriculture, and thus the more or less constant excess over the average rate of profit would disappear. But this does not happen, because the amount of land is limited and all of it is the private property of the landowning class. The capitalist cannot freely transfer his capital to, and force down the surplus profits in agriculture, and the landowner, through his right of property in the soil, appropriates this surplus in the form of absolute rent.

Absolute rent is exacted, as we pointed out, from the poorest land; but not from that land only. Absolute rent is taken also from better land, side by side with differential rent.

If the owner of a good piece of land receives, say 20s. in rent, it means that a corresponding sum enters the price of the agricultural product produced on that land. The fact that the owners of better soil receive a differential rent does not induce the tenants of that soil to sell their products at prices lower than those for which the products of the poorer soil are sold. It is clear that they sell their products at the prices of products of the worst soil, which are also the market prices, and include absolute rent. From this it is clear that the best soil must also yield absolute rent side by side with differential rent.

Let us illustrate this. We will again take three pieces of land.

With an equal investment of capital of 200s.:

A yields a differential rent of 240s.;
B yields a differential rent of 120s.;
C yields no differential rent.

Let us now assume that C yields an absolute rent of 20s., as a result of which the rent of A and B increases by the same amount. This will give us the following picture:

A	yields	240 s.	diff. rent	+	20 s.	abs. rent,	a total of	260 s.
B	,,	120 s.	,,	+	20 s.	,,	,,	140 s.
C	,,	—	,,	+	20 s.	,,	,,	20 s.

Thus we see that whereas A and B yield both differential and absolute rent, C yields absolute rent only.

In conclusion it should be recalled that in examining various forms of ground rent we had in view only rent from land used in agriculture, but this does not mean that agricultural land alone yields ground rent.

In our introduction to the question of ground rent we pointed out that ground rent is paid not only by the capitalist engaged in agriculture, but also by the manufacturer, the merchant, the banker, etc, inasmuch as all of them need land as sites for their enterprises.

Land consists not only of ground necessary for industrial, commercial and all other kinds of enterprises, houses, etc.; it is not only the first essential of agriculture; it holds within its bowels inexhaustible wealth in the form of iron ore, coal, oil, gold and other valuables which, at a certain stage of technical development, are a basis for the existence and development of capitalist industry.

Electricity, as the most convenient and least expensive form of energy, makes ever new strides in serving the social requirements of capitalist society as well as in supplying energy to capitalist industry. In connection with this victorious advance of electrical technique, the problem of so-called white coal, i.e. the utilisation of water-falls and rivers, etc., for electric stations, is assuming ever greater significance.

All this wealth, stored up in the depths of the earth and available on its surface, constitutes for the fortunate owners a source of rent of enormous dimensions, much greater than is found even in agriculture.

82

Ground Rent and Prices of Agricultural Products.

We know from what has been said above that the point around which the prices of commodities in capitalist society fluctuate is the price of production, i.e. the cost of production plus the average profit. This, of course, is true with regard to any branch of industry in which a free migration of capital and an equalisation of the rate of profit is possible.

But how does it stand with agricultural products?

Inasmuch as in agriculture, under the conditions of private property in land, there can be no free migration of capital, the prices of agricultural products include not only an average profit, but also a certain surplus determined by the low organic composition of agriculture. This surplus, constituting the difference between the entire surplus value contained in the product and the average profit, is, as we already know, precisely what constitutes absolute rent. It can therefore be laid down that the prices of agricultural products are determined by the cost of production on the worst soil under cultivation, plus an average profit, plus absolute rent.[1]

This is what Lenin says on this question:

"Absolute rent arises from private property in land. It contains an element of monopoly—monopoly prices. Private property in land interferes with free competition, interferes with the equalisation of profit, with the formation of an average profit in agricultural and non-agricultural enterprises. And inasmuch as technique in agriculture is lower than in industry, and the composition of capital is distinguished by a greater share of variable capital as compared with constant capital, the individual value of an agricultural product is, therefore, above the average. Private property in land, therefore, while interfering with a free equalisation of the profit of agricultural enterprises, makes it possible for agricultural products to be sold not merely at the highest

[1] It is obvious that this will be the point around which the prices of agricultural products will fluctuate under the influence of supply and demand.

price of production, but at the still higher individual value of the product."—(*Lenin*, vol. ix, p. 492, Russian edition.)

If private property in land were abolished, even in capitalist society, and the land were handed over to the capitalist state, interference with the free migration of capital to agriculture would fall away and the surplus value produced by the agricultural workers would enter the general fund of surplus value for distribution among all capitalists alike, just as is the case with the surplus value created in other branches of capitalist production. The price of production of agricultural products would then include only the cost of production on the worst soil, plus an average profit, as absolute rent would disappear.

Thus absolute rent raises the prices of agricultural products.

As to the influence of differential rent on the prices of agricultural products, it is clear that inasmuch as these prices are determined chiefly by the cost of production on the poorest soil, and inasmuch as this soil yields no differential rent, the latter cannot influence the prices of agricultural products.

83

The Price of Land.

Land is one of the most easily sold commodities on the capitalist market. This is due to many causes. First of all, it is due to the fact that the possession of land gives a more or less solid and guaranteed income in the form of ground rent. In addition to that, land is wanted as building estates for the construction of industrial, commerical and other enterprises. Land is also needed for agricultural production, the demand for which, as we have shown, is steadily increasing with the development of capitalism. Finally, the possession of land is still bound up with many advantages and privileges from the point of view of the franchise, etc., in a number of countries.

How is the price of land determined on the market ?

We know that prices of commodities are determined in

capitalist society by their value. The value of a commodity is determined by the socially necessary amount of labour spent in its production. In this respect land in no way resembles other commodities. No labour has been spent in its production and it can, therefore, have no value. Land is just as much a free gift of nature as air, sunshine, etc., and its price cannot be determined by its value ; the determining factor must be sought elsewhere.

Let us see, first of all, the mentality of the landowner when he sets a certain price on the land which he is selling. The landowner is interested in his land first of all in so far as its possession enables him to appropriate ground rent without putting in any labour of his own. Consequently, in selling his land he will first of all calculate his price on the basis of his income from that land in the form of rent.

Assuming that the landowner receives 500 pounds rent annually. Naturally, he will expect this income to remain intact after the sale of his land. This is possible if the landowner after selling his land, puts his money in the bank and receives interest on it. How much must he get for his land in order to retain his full income ? He will have to sell it for an amount which, when deposited at the bank, will bring him an annual income in the form of interest equal to that which he received as the owner of the land in the form of rent.

If the bank pays five per cent. interest on deposits, or 5 pounds on each hundred per annum, the landowner, to have an income of 500 pounds, will have to sell his land for 10,000 pounds. The price of land therefore is capitalised rent, e.g. rent converted into money capital bearing surplus value in the form of interest. This amount is paid not for some real value, inasmuch as land has no value of its own, but for the right to draw an income on it in the future. The price of land thus depends on two conditions : (1) the amount of the ground rent which it brings to the landowner and (2) the interest which the bank pays to its depositors. It is not difficult to put this in the form of a mathematical formula if the figures mentioned above are represented by letters. We will assume that a piece of land brings its owner P pounds in rent, and the bank pays I, interest on capital. We will assume further that the price

of land equals A. It is obvious that capital A, deposited in the bank on interest I, must bring P pounds profit a year :

$$A \frac{I}{100} = P$$

Hence the price of land A is

$$A = \frac{P100}{I}$$

The higher the rate of ground rent (P) and the lower the rate of interest (I), the higher will be the price of land, and vice versa ; the lower the rate of ground rent and the higher the rate of interest, the lower will be the price of land. And this is quite obvious because the more rent the owner receives on the land which he is selling, the higher the price he will ask for it, and, on the contrary, the lower the rate of interest the bigger will be the amount he must get in order to secure the income he receives in the form of ground rent.

84

The Tendency of Ground Rent to rise with the Development of Capitalism.

In the preceding paragraphs we have become acquainted with the essence of ground rent and its various forms. From this review it is clear that ground rent plays a very important rôle under capitalism and closely affects the interests of the different classes in capitalist society. The question of the tendencies of its development becomes, therefore, a very significant and important question. Thus, what is the line of development of ground rent under developing capitalism ; is it upward or downward ? To answer this question, we must make a careful study of the conditions which accompany the development of capitalism. The development of capitalism constantly broadens the market for agricultural products. On the one hand there is a growing demand for raw material such as cotton, flax, etc., owing to the rapid development of capitalist industry, and, on the other hand, the demand for agri-

cultural products such as bread, butter, etc., increases, owing to the absolute growth in the number of industrial workers. As long as there is private property in land this increasing demand for agricultural produce leads to a rise in prices, and the rise in prices invariably leads to higher rates of ground rent in all its forms. First of all, differential rent arising from more fertile soil increases because, owing to the increasing demand for agricultural products and the corresponding rise in agricultural prices, it becomes profitable to put under cultivation the least fertile soil, soil which could not be profitably cultivated before. There is a still greater increase in the rate of differential rent on land favourably situated. We have already pointed out the important place occupied by the cost of transportation in the value of agricultural products. Distance is often of decisive importance in determining the profitableness of agricultural products. Many of the richest agricultural districts do not enter the world market simply because of their remote situation. The increasing demand for agricultural products on the part of developing capitalism, and the accompanying rise in prices, attracts the remotest districts and countries into the arena of world trade, as the high prices make it profitable for them to transport their products to distant markets. It is true that the tendency to increasing differential ground rent on the basis of locality is counteracted by the development of means of communication and the consequent reduction in the cost of transport, but it does not neutralise this tendency entirely. A feverish rise in differential rent based on situation is to be observed in towns and thickly populated commercial and industrial centres.

The second form of differential rent rises even faster than the first. Differential rent No. II, as we already know, is derived from a difference in the productivity of successive capital investments in land. Hence, it is directly bound up with the development of technique in agriculture. Here again the demand for agricultural products with its accompanying rise in prices on the one hand, and the limited amount of land on the other, results in increasing additional investments of capital in land already under cultivation. Thus we arrive at the conclusion that with the development of capitalism, differential rent in all its forms has a rising tendency.

How does it stand with absolute rent? We already know that the source of absolute rent is private property in land and the lower organic composition of capital in agriculture as compared with industry. It would appear that, with the development of capitalism and the accompanying rise in agricultural technique, absolute rent must fall. This, however, would be the case only if the rate of technical development in industry lagged behind the development of agricultural technique. Only in this case would the difference in the organic composition of capital between industry and agriculture diminish. In reality, however, we find quite the reverse. The rate of technical development, and consequently the development in the organic composition of capital in industry, not only keeps pace with the rate of technical development in agriculture, but greatly surpasses it, the result being that the difference in the organic composition of capital in industry and agriculture does not diminish but, on the contrary, becomes still greater, and this marks a further steady rise of absolute rent.

Thus the development of capitalism is accompanied by a systematic and constant rise of ground rent in all its forms. The result is that the share paid by capitalist society to the landowning class is constantly increasing and is becoming an ever greater burden upon it.

85

The Social Significance of Ground Rent.

Now that we already know that with the development of capitalism the tendency of ground rent is to rise, we shall go into greater detail as to the effect of the rise of ground rent on the different classes in capitalist society.

Let us begin with the capitalist tenants who lease land from the landowners. Every capitalist, whether he is a manufacturer, a merchant or a farmer, needs a certain amount of land for his enterprise. He can get that land, as we already know, by allowing a part of his surplus value to go to the landowner. Thus private property in land results in a diminution of the fund of surplus value distributed among

the different groups of capitalists, because a part of it goes into the pockets of the landlords in the form of rent. Furthermore, if a capitalist seeks to free himself from paying rent to the landlord by buying the land, he must invest very large sums and the money which he thus invests can by no means be regarded as an investment in agricultural production, because it has no relation whatever to the process of agricultural production. Apart from the capital which the capitalist pays to the landowner for the title to the land, he must invest a definite amount of capital to establish his enterprise ; but his income from the enterprise will not be a result of the capital he paid to the former landowner, but a result of the capital which he invested directly in his enterprise.

From this it is clear that, the more money the capitalist invests in the purchase of land, the more money will be divorced from the sphere of production. Further, the landowner in setting the price of his land calculates on the possible rise in rent.

We thus reach the conclusion that the existence of ground rent is doubly inimical to the capitalist mode of production, firstly, because it reduces the fund of surplus value which is to be distributed among the capitalists, and, secondly, because it reduces the capital which might otherwise serve in agricultural production and the creation of surplus value.

But this does not yet exhaust the harm done to capitalist production by private property in land and ground rent. Private property in land is becoming an obstacle in the development of the productive forces in agriculture. The capitalist tenant who leases land from the landowner for a fixed period must give up the land to the landlord when the term is over. If the differential or absolute rent increases during that period, it goes into the pockets of the tenant. Such increase in the ground rent may be due to additional capital investments in the land as well as to numerous other causes. The additional investment of capital depends upon the tenant. How much is the tenant interested in making additional investments in land and in raising the level of agricultural technique ? He is only interested in such capital investments and technical improvements as can bring fairly rapid results, so that he himself may benefit by them and, if possible, utilise them fully before his lease expires, because, after that, it is the

landowner who reaps the fruits of the technical improvements, and raises his rent. Thus many technical improvements, which under different conditions might be made in agriculture, are not made for the sole reason that there is private property in land. It will be still clearer to us how great an obstacle ground rent is to the development of the productive forces in agriculture if we recall that the main stimulant of technical progress in industry under capitalism is the desire of the capitalist to make the extra profit which he can invariably make, if his technique is above the average. This, as we have already frequently pointed out, explains the rapid growth in the productivity of labour which is so characteristic of the development of capitalism. The quest for the now rising, now declining, extra profit is what drives the capitalist along the road of continuous technical improvement. In agriculture all extra profit is appropriated by the landowner in the form of ground rent, as a result of which this stimulant loses much of its force, and is in some cases entirely destroyed.

So far we have spoken only of the harm done by private property in land to the capitalist. But the workers suffer from private property in land to an even higher degree. We have seen that absolute rent is derived from the values of agricultural products which are greater than their price. Thus private property in land, and the consequent absolute ground rent, leads to a rise in prices of agricultural products to make up the absolute ground rent. From the paragraph on the developmental tendencies of rent, we already know that the development of capitalism is accompanied by a steady rise in all forms of ground rent, including absolute rent. This must result in a rise in the prices of agricultural products. This rise in prices of agricultural products falls like a scourge on the working class. It is true that from the point of view of the general law of the value of labour power established in the part dealing with surplus value, it would seem that this cannot be the case. According to that law, a rise in prices of the workers' means of consumption must result in a rise in the value of labour power, and the greater value of labour power must result in higher wages. But under actual capitalism, as we know, labour power is not always sold at its value. Owing to a number of causes, of which some have already

been pointed out in connection with wages, and others will be dealt with in analysing capitalist accumulation, the workers are very often compelled to sell their labour power below its value. If they do succeed in increasing their wages to meet the increasing prices of products, this never happens all at once, but in the course of a long period of persistent and exhausting struggle against the capitalists, and always falls short of the rise in the prices of agricultural products. When the prices of agricultural products are constantly rising, wages, as a rule, lag behind the increase in the cost of living, in which case ground rent is paid not only out of the capitalists' surplus value but, to a very large extent, out of the workers' wages. Finally, we must consider the small tenant farmers, the exploitation of whom, by the landlords, goes far beyond the limits of ground rent. The small farmer who leases land from a landlord, unlike the capitalist tenant, does not look for profits; he is even willing to sacrifice a part of his "wages" if only he can rent a piece of land. The landlord, therefore, in letting his land to tenant farmers actually fleeces them, exacting from them, in the form of rent, a considerable part of their necessary earnings. We will speak of this in greater detail later and will show the forms which this grinding exploitation of the small tenant farmers on the part of the landlords assumes.[1]

86

Nationalisation of Land and Rent.

We have seen that private property in land affects in various degrees the interests of different classes and that it hampers the development of the productive forces of capitalist society. It is therefore no wonder that many capitalists are opposed to private property in land and advocate all kinds of schemes of nationalisation of the land. The essence

[1] What has been said here about the social significance of ground rent in agriculture, can be applied to a no less degree to the other branches of production, which we already mentioned. Private property in land deprives modern society of an enormous share of the advantages which it could enjoy from the extracting industries, the enormous supplies of water power, etc.

of such nationalisation would be the transference of landed property to the hands of the State. What would be the effect of nationalisation of land on the various forms of ground rent? We know that differential rent presupposes, firstly, the existence of capitalist relations and, secondly, a difference in the productivity of labour on different areas of land, depending upon fertility and situation. Nationalisation of land, of course, cannot eliminate the natural causes which give rise to a higher productivity of labour on better soil. These causes would retain their significance after nationalisation. Nationalisation of land would not do away with the capitalist relations in agriculture either. On the contrary, if we recall the obstacles created by private property in land to the free development of the productive forces in agriculture, it will be clear to us that the abolition of private property in land would only free the development of capitalism from the unnecessary fetters of private property in land. Since the amount of good soil is limited, and poor soils must also be cultivated, it is evident that even after nationalisation the prices of agricultural products would be determined by the cost of production on the worst soil, and that good soils would yield a profit above the average. Nationalisation of land under capitalism, therefore, does not abolish differential rent, but merely transfers it to the capitalist State, which will receive differential rent just like the landowners by leasing the land to tenant capitalists and farmers.

It would be otherwise with absolute rent after nationalisation. Absolute rent is a result of private property in land and the lower organic composition of capital in agriculture. Owing to private property in land, the higher rate of surplus value produced in agriculture because of its low organic composition of capital is not passed on for general distribution among the capitalists, but is appropriated by the landlords in the form of absolute rent. The nationalisation of land, by abolishing private property in land, also does away with the obstacle which keeps the extra surplus value produced in agriculture from going over to industry where the organic composition of capital is higher, and thereby abolishes absolute ground rent.

The abolition of private property in land is therefore in the interests of a freer development of capitalism in agriculture.

It frees the capitalist tenant from paying that part of rent which he must pay to the landlord in the form of absolute rent ; it frees for productive employment the capital which is now wasted in the purchase of land ; it leads to a reduction in the prices of agricultural products and thereby frees the workers from the toll which they must pay to the landlords ; finally, it abolishes the pre-capitalist forms of exploitation of the farmers by the landlords.

But we should be very wrong if we concluded from this that the nationalisation of land is a Socialist measure. Nationalisation of land, as we have already said, is a measure which clears the road for the freer development of capitalist relations in agriculture.

Notwithstanding the advantages accruing to capitalist society from the abolition of private property in land, the capitalists do not commit themselves to it, although it is not a Socialist measure ; private property in land continues to flourish in all capitalist countries, and it is very unlikely that it will be abolished before the social revolution, which will abolish all private ownership in the means of production.

There are two circumstances obstructing such nationalisation. First, many, if not most, of the capitalists have land of their own and are therefore not interested in its nationalisation. Secondly, the capitalists are afraid to abolish private property in land for fear that it would destroy the general principle of private ownership of the means of production, which is the foundation of capitalist society. The growth of the revolutionary movement, which rallies ever larger sections of the working class and small farmers, makes the bourgeoisie constantly more cowardly and conservative and thus assures the landlords that their possession of the land will not be violated until the victory of the social revolution.

Chapter II

PRE-CAPITALIST FORMS OF RENT AND THE QUESTION OF RENT IN SMALL PEASANT AGRICULTURE

87

Pre-Capitalist Forms of Rent.

So far, in analysing the question of rent, we have always assumed the existence of capitalist relations in agriculture. But we know that if we take even the most highly developed capitalist countries we are sure to find, side by side with capitalist agriculture, numerous small peasant enterprises which can be classified partly as semi-self-sufficing enterprises, partly as simple commodity enterprises ; and in many of the most backward countries we can even find remnants of semi-feudal relations which have survived from the days of feudalism. This compels us to deal in greater detail with the characteristics of these relations, from the point of view of the theory of ground rent which we have laid down. To have a clear idea of the social significance of pre-capitalist survivals still prevailing in the agriculture of capitalist countries, we must analyse pre-capitalist relations in their pure form. We shall therefore, first of all, deal with the characteristics of feudal relations, out of which, as we know, the capitalist order arose, and then compare them with capitalist relations in agriculture.

Lenin gives the following description of feudal relations in agriculture :

" Everybody knows what feudalism was from its juridical, administrative and social aspect. But people rarely inquire as to the essence of the economic relations between the feudal lords and their serfs under feudalism. The feudal landlords gave land to the peasants and sometimes other means of production also, such as, for instance, timber, cattle, etc. Of

what significance was this granting of land to the peasants? The land that was given to the peasants was given as wages, to use a modern term. In capitalist production the workers receive wages in money; capitalist profit is also realised in money. The necessary and surplus labour (e.g. the labour which pays for the upkeep of the worker and the labour which produces unpaid surplus value for the capitalist) is all combined in one labour process in the factory, in one factory working day, etc. It is otherwise under feudalism. Necessary and surplus labour exist there also, as well as under slavery. But these two forms of labour are separated in time and space. The serf works three days for the lord and three days for himself. For the lord he works on the lord's land or crop. For himself he works on the land which is given to him, and produces for himself and his family the bread necessary for the upkeep of his labour power for the lord.

" The feudal economic system is therefore the same as the capitalist system in the sense that in both cases the worker receives only the product of his necessary labour and gives away gratis the product of his surplus labour to the owner of the means of production. But it differs from the capitalist system in the three following respects. Firstly, the feudal system is a self-sufficing system, while the capitalist system is based on money. Secondly, in feudal society the attachment of the worker to the land is a means of exploitation of the worker, while under capitalism the worker is freed from the land. The feudal lord, in order to have an income (i.e. surplus products), must have on his land a peasant who possesses a piece of land, tools and cattle for himself. The landless peasant who has no horse and no household is not good material for feudal exploitation. The capitalist, in order to secure an income (profit), requires precisely a worker who has no land and no means of production, but who is compelled to sell his labour power on the free labour market. Thirdly, the peasant who holds a piece of land must be personally dependent upon the feudal lord because if he owned his land he would work for the feudal lord only under compulsion. The economic system gives rise here to ' non-economic compulsion,' serfdom, juridical dependence, unequal rights, etc. On the other hand, ' ideal ' capitalism gives full freedom of contract between the capitalist and the worker on

the free market." (*Lenin*, vol. ix, pp. 613-4, Russian edition.)

Such are the main economic features of feudalism. How are we to regard the income (surplus product) which the feudal lord receives from his serf? Can it be considered as ground rent in the capitalist sense of that term? No, it cannot. Capitalist ground rent is extra surplus value received by the capitalist tenant farmer over and above his average profit and paid by him to the landowner for the right to use his land. Capitalist rent presupposes, therefore, the existence of three classes: (1) A landowning class which receives rent for granting the capitalist tenant the right to use the land. (2) A class of capitalist tenants who exploit wage-workers, the producers of surplus value, and transfer to the landlords a part of that surplus value in the form of rent, and while keeping part for themselves as profit. (3) A class of wage-workers who own no means of production or means of livelihood and are consequently compelled to sell their labour-power to the capitalists. Pre-capitalist rent, as distinct from capitalist rent, is not part of the income derived from the exploitation of labour in agriculture, but the whole of it. It is nothing but a form in which the landlord appropriates the whole of the surplus labour of the serf. Furthermore, pre-capitalist ground rent presupposes the existence of two classes: (1) A landowning class which possesses the land and appropriates the surplus product of the peasants and (2) A peasant class which, in contradistinction to wage-workers or slaves, consists of people who have their own means of production and their own households, as a result of which exploitation cannot take the form of a "free" purchase and sale of labour-power, but must appear in a more open form. The necessary labour (or necessary product) of the peasant is here sharply separated from the surplus labour (or product) which he gives to the lord. The productive relations which are thus hidden behind the conception of capitalist ground rent, are sharply distinguished from those existing under pre-capitalist conditions and it would be the greatest mistake to confuse these two forms of rent.

Marx distinguishes the following three phases of development of pre-capitalist rent: Labour rent, rent in kind, and money rent. Labour rent is paid when the peasant works a

part of his time on his own land for the satisfaction of his own needs and those of his family, and a part of his time on the landlord's land for the benefit of the landlord. The distinction between necessary and surplus labour assumes here the purest and most open form.

Rent in kind is nothing but a converted form of labour rent. The difference between the two is that the peasant in the second case does not give away his surplus labour to the landlord in the form of direct labour, but in the form of products. This in turn leads to certain changes in the relations between the feudal lords and the peasant serfs, and marks a higher level of development of productive forces. These changes in the relations between landlord and serf consist in the fact that the former no longer has to watch the latter at work, as is the case when the peasant pays the landlord directly by his labour and works on certain days on the landlord's land. Rent in kind, therefore, gives the peasant a greater measure of independence.

Money rent is nothing but a modified form of rent in kind. The difference between the two is that money rent is paid to the lord not in the form of products but in the form of a fixed amount of money.

The essence of pre-capitalist rent is not changed by the fact that rent is paid in the form of money, because in this case, too, the landlord appropriates the whole of the peasant's surplus products in the form of rent. But what is characteristic here is that money rent presupposes not only the production of a surplus product, but also its sale on the market. We know that feudalism is at bottom a self-sufficing system ; we also know that money rent is possible only when exchange relations have developed. Therefore, inasmuch as money rent is inseparably bound up with the development of exchange relations, it is a form of decomposition of pre-capitalist rent. Its further development leads either to capitalist agriculture and consequently to capitalist rent, or to small peasant agriculture freed from feudal fetters and based on private property in land.

88

Differential Rent and Small Peasant Agriculture.

All forms of pre-capitalist rent which we have so far analysed presupposed the existence of feudal relations in agriculture. In their pure form these relations have long since become a thing of the past and are preserved in some of the more backward countries only as relics of antiquity. But whereas semi-feudal relations in agriculture are counting their last days merely as a survival of the past, small peasant production (simple commodity production) is very widespread in all capitalist countries side by side with large estates worked on a purely capitalist basis.

It is true that, as we shall see later, capitalism undermines these small farms by various means and from different directions, converting some of the more well-to-do peasants into rich farmers and later into middle and big capitalists, and the mass of smaller peasants into proletarians who are without land, means of production and means of subsistence. But this process of decomposition of small farms has not yet gone nearly so far as in industry, and small peasant farming is still of great importance in all capitalist countries.

Small peasant farming differs from feudal agriculture in the fact that the peasant is a free owner of land and of means of production. This fact, on the other hand, distinguishes the peasant from the worker, who, while he is also free, is deprived of all means of production and means of subsistence and is therefore compelled to sell his labour-power to the capitalist. The question naturally arises, to what extent are the laws of capitalist ground rent applicable to independent small peasant farming.

We will begin with differential rent. Differential rent arises from a difference in the productivity of labour on land of different fertility and situation. It is a part of the surplus value created by agricultural labourers for the benefit of the capitalist tenant and given by the latter to the landowner.

Can we speak of differential rent with reference to small independent peasant producers of commodities? Inasmuch as the difference in fertility and position of different pieces of

land depends upon natural and permanent qualities of the soil, the small independent farmer who owns more fertile and more favourably situated land will have a surplus product which, in commodity production, is turned into extra values. But we have already pointed out that differential rent, although it is linked up with certain natural properties of land (fertility and situation), is, nevertheless, a social category, like all categories of political economy, concealing behind it certain productive relations.

What is the difference between the productive relations concealed behind the concept of differential rent in capitalist society and the productive relations existing in simple peasant production? The independent peasant, the owner of the better soil, cultivates it with his own labour, and the labour of his family, as a result of which the entire surplus product resulting from the higher productivity of labour on that soil remains entirely his own. Inasmuch as there are no hired workers here to produce surplus value, and no capitalist tenants or landowners to share that surplus value between themselves, there is also no ground rent (that part of surplus value which goes to the landowner). Thus, if we take simple peasant agriculture in its pure form, independent of its capitalist environment, the category of differential rent will not be applicable to it.

Let us now see how the question of differential rent will be affected if we consider the influence of capitalist rent on the small farmer. Marx says:

"On the basis of capitalist competition it becomes so much a matter of course to separate the value, in which the newly added labour is represented, into the forms of revenue known as wages, profit and ground rent, that this method is applied (not to mention past stages of history, of which we gave illustrations under the heading of ground rent) even in cases in which the conditions required for these forms of revenue are missing. In other words, everything is classified under these heads by analogy.

"If an independent labourer—for instance, a small farmer, in whose case all three forms of revenue may be used—works for himself and sells his own product, he is, in the first place, considered as his own employer (capitalist), who employs himself as a labourer, and as his own landlord, who employs

himself as his own tenant. To himself as a wage worker he pays his wages, to himself as a capitalist he turns over his profit, and to himself as a landlord he pays his rent. Assuming the capitalist mode of production and the conditions corresponding to it to be the general basis of society, this conception is correct, in so far as he does not owe it to his labour, but to his ownership of the means of production —which have here assumed the general form of capital —that he is able to appropriate his own surplus labour. And furthermore, to the extent that he creates his own product in the shape of commodities, and thus depends upon its price (and even if he does not depend upon it, this price can be estimated), the quantity of surplus labour, which he can realise, does not depend upon its own size, but upon the general rate of profit ; and in like manner any surplus above the amount of surplus value allowed by the general rate of profit is not determined by the quantity of labour performed by himself, but can be appropriated by him only because he is the owner of the land. Because a form of production not corresponding to the capitalist mode of production may thus be brought in line with its forms of revenue—and to a certain extent not incorrectly the illusion is strengthened so much the more that capitalist conditions are the natural conditions of any mode of production." (Marx, *Capital*, vol. iii, pp. 1020-21, Kerr edition.)

We will try to explain what Marx meant here. Firstly, he shows that the productive relations in independent small farming are not capitalist relations ; in small farming, to use Marx's words, the very prerequisites for capitalist forms of income are absent. Secondly, Marx points out that notwithstanding the difference, non-capitalist forms of revenue (including the income of small farmers) can by analogy be classified as capitalist income if the capitalist mode of production prevails as the " universal social basis."

In Rome one must do as the Romans do. Although the nature of small farming is essentially different from capitalist agriculture, under the capitalist mode of production the small farmer must paint the price of his product in capitalist colours, divide that price into " wages " which he pays to himself as a worker, an " average rate of profit " which he pays to himself as an owner of the means of production (a

" capitalist "), and " ground rent " which he pays to himself as an owner of land.

Such application of the category of purely capitalist agriculture to small farming is to a certain extent correct, firstly, because the independent peasant can appropriate the product of his labour only because he is the owner of the means of production which under capitalism assumes the form of capital ; secondly, inasmuch as the peasant produces a commodity, he depends on the price of that commodity (and, under capitalism, the price of a commodity does not depend on its own individual value, but on the general rate of profit), so that when the peasant sells the product of his labour on the market, he falls under the general action of the laws of the capitalist system, although his production was not carried out by capitalist means ; thirdly, and finally, the extra value which the peasant receives as a result of the higher productivity of labour on better soil can under the capitalist mode of production be appropriated by him not so much because he cultivates the soil with his own hands, as because he is the owner of it.

If we now put the question whether we can speak of differential rent in relation to small peasant farming in capitalist surroundings, the answer must be that, in a certain restricted and conditional sense, we can speak of differential rent in relation to small peasant farming, but only in so far as the realisation of the extra values resulting from the higher productivity of labour on better soil depends upon the capitalist market, and in so far as the latter is regulated by the price of production, while the appropriation of the surplus by the peasant is not bound up with his labour, but with his ownership of the land and the means of production, which, under capitalism, assume the form of capital.

89

Absolute Rent and Small Peasant Agriculture.

Let us now see the extent to which the conception of absolute rent is applicable to small independent peasant farming.

If we take peasant farming in its pure form, independent of its capitalist environment, there is no occasion to speak of absolute rent.

But how will it be with the question of absolute rent if we take peasant farming in connection with its capitalist surroundings? Do we not find here the same adoption of capitalist colours as we have seen with regard to differential rent? Can we not speak here, too, in a limited sense, of absolute rent?

At first it may seem that we can. In reality, however, this is not so.

The capitalist tenant will run his farm only if it gives him his average rate of profit. The landowner will part with his land, even if it is the worst land, only on condition that the tenant pays him absolute rent. Without this, the land will lie idle and not be cultivated. It is different with the small farmer. The small farmer's aim is not the making of profit, but the satisfaction of his needs.

Will the small farmer absolutely insist on an average rate of profit and also on absolute rent over and above the average profit? It is obvious that neither the full value of the product nor the price of production serves as the limit below which the peasant refuses to sell the product of his labour. At most he may want the full value of his labour power when selling his product.

"For the small farmer the limit of exploitation is not set by the average profit of the capital, if he is a small capitalist, nor by the necessity of making a rent, if he is a landowner. Nothing appears as an absolute limit for him, as a small capitalist, but the wages which he pays to himself, after deducting his actual costs. So long as the price of the product covers these wages, he will cultivate his land, and will do so often down to the physical minimum of his wages." (Marx, *Capital*, vol. iii, p. 936, Kerr edition.)

From this it does not follow that the consumer of grain may be able to buy it at a price which would exclude the value of the surplus peasant labour invested in it. Actually, the surplus product of the small farmer does not remain unrealised; it merely falls into the hands of various middlemen who stand between him and the consumer, such as the more well-to-do farmer who buys grain, the merchant,

etc. A part of the small farmer's surplus labour goes in taxes.

We can conceive a case in which the small farmer, if the relation of supply and demand is favourable, may receive a surplus above the absolute limit. That surplus may amount to the average rate of profit and sometimes even to the limit of absolute rent.

But under conditions in which the capitalist mode of production predominates and millions of small farmers are being ruined, Marx's " absolute limit " which excludes all absolute rent, even if in a conditional sense, is more real.

MATERIALS ON CHAPTERS I AND II

QUESTIONS AND TASKS

1. Describe the productive relations existing in capitalist agriculture.

2. Why cannot the price of production in agriculture be determined by the average cost of production?

3. Let us take two units of the worst land under cultivation, one of which is cultivated with the help of better implements than the other. Will the price of agricultural products be determined by the cost of production on the worst land employing the worst implements?

4. Under what social and natural conditions does differential rent arise?

5. Let us take two units of land:

   (*a*) With an investment of capital of 200 shillings and a yield of 50 quarters of grain; and

   (*b*) With an investment of capital of 400 shillings and a yield of 75 quarters of grain.

Which of these units will yield a differential rent, and to what extent, if the average rate of profit in industry equals 10 per cent.?

6. Why does the difference in productivity of successive investments of capital in one and the same piece of land give rise to the second form of differential rent?

7. What are the causes giving rise to absolute rent and from what source is it derived?

8. Assume that constant capital in agriculture is equal to 2,000,000 pounds and variable capital to 3,000,000 pounds; the rate of exploitation is 50 per cent. What will be the mass

of absolute rent in the whole of agriculture, if the average rate of profit in industry equals 10 per cent.?

9. Has land any value and how is its price determined?

10. (*a*) A unit of land A yields a differential rent of 25 pounds and an absolute rent of 5 pounds. The rate of interest is 5 per cent. What will be the price of that land?

(*b*) What will happen to the price of land A if the differential rent remains constant and the absolute rent increases to 7 pounds, while the rate of interest drops to 3 per cent.?

(*c*) Assuming that the entire capital invested in land B in the form of buildings, tools, improvements, etc., equals 500 pounds; the annual rent yielded equals 20 pounds; the rate of interest is 5 per cent.; what will be its price?

11. According to Lenin (vol. ix, on the United States of America):

	1900.	1910.	Increase.
The Price of all Farm Property rose from	20,440 to	40,999	+20,559 or 100·5%
The Price of all Grain rose from ...	1,483 to	2,665	+79·8%
The Harvest in mill. of bushels rose from	4,439 to	4,513	+ 1·7%

From the amount of 20,559 to which the price of all farm property rose, 15,000 falls to the price of land and 5,000 to the buildings, live stock, and tools.

Try to find on the basis of the figures given the causes of such an enormous growth in the price of the harvested grain, although the increase in quantity was comparatively insignificant.

12. What is the tendency of development of the various forms of ground rent, and how does it influence the position of the various classes in capitalist society?

13. What difference is there between differential and absolute rent, and what would be the effect on each of them if land were nationalised?

14. What is the difference between capitalist and pre-capitalist ground rent?

15. Can the terms differential and absolute ground rent be applied to small peasant agriculture?

Chapter III

GROUND RENT IN SOVIET ECONOMY

90

The Difference between Soviet and Capitalist Agriculture.

WE have now to answer the question how far the laws of capitalist ground rent are applicable to Soviet economics.

To do this we must give a description of Soviet agriculture and compare it with capitalist agriculture.

We already know that the distinguishing features of capitalist agriculture are: (1) the existence of private property in land, and (2) the existence of capitalist relations. What distinguishes Soviet agriculture from agriculture in capitalist countries? First of all, the principle of private property in land is absent in the U.S.S.R. "All land within the boundaries of the R.S.F.S.R., no matter in whose possession it may be, is the property of the Workers' and Peasants' State" —says Article 2 of the Land Code of the R.S.F.S.R.

Nationalised land is given for permanent and free use to the peasants and, according to Article 27 of the Constitution, the purchase, sale, bequeathing, bestowing and mortgaging of land is prohibited and all transactions in violation of this decree are null and void, and people guilty of such violation are deprived of their right to use the land and punished in accordance with the Criminal Code.

The second distinction of Soviet agriculture arises from the existence of the proletarian dictatorship in the U.S.S.R.

We have already stated that the fact of nationalisation of land in itself is not a measure fundamentally opposed to the capitalist mode of production. Quite the contrary, nationalisation eliminates the obstacles to capitalist development and thereby hastens its progress. However, this measure, progressive as it is from the point of view of capitalism, is more

than the contemporary bourgeoisie, which has itself become the proprietor of land and trembles before the developing world proletarian revolution (the sworn enemy of private property in the means of production), is able to accomplish ; in the present phase of capitalist development, the realisation of the principle of nationalisation of land, which is essentially a progressive capitalist measure, is a measure which only a proletarian government can undertake. But if we assume the impossible, if we assume that the bourgeoisie of some capitalist country could go against its own interests as the owner of land, overcome its fear of shattering the very principle of private property, and nationalise the land, such nationalisation effected in a capitalist country by a bourgeois state would still radically differ from the nationalisation of land in the Soviet Union. Nationalisation in the Soviet Union is not a measure of bourgeois progress helping the development of capitalist relations in agriculture, as would be the case in the event of capitalist nationalisation, but on the contrary, it is a powerful means of struggle against the development of capitalism in agriculture and at the same time an instrument of Socialist transformation of agriculture.

Nationalisation of land as carried out by the Soviet State does not limit itself merely to the transference of ownership to the hands of the State. It is accompanied by a complete destruction of feudal and capitalist agriculture, the expropriation of the means of production of the feudal landowners and the rich farmers.

A big part was played in the expropriation of the wealthy rural sections by the poor peasant committees, one of whose tasks was to provide the rural poor with bread, means of subsistence and agricultural implements.

As a result, a certain equalisation took place in Soviet rural areas during the first years after the October Revolution. On the one hand the rich farmers were expropriated, and, on the other, the poor peasants were put on their feet because the land taken from the feudal lords and the wealthy farmers increased the lots of the poor, who also received the necessary tools for the cultivation of land. True, with the development of the New Economic Policy a process of differentiation in rural areas has again set in, but that process is very slow owing to the laws and economic regulations of the

Soviet State. In the future, as we shall see in the chapter on Socialist accumulation, it will have to stop entirely, and as co-operation and industrialisation in the Soviet Union become stronger and more developed, the elements of Socialist production must also predominate in agriculture.

What restricts the development of capitalist relations in agriculture in the U.S.S.R. ? Such restriction is first of all expressed in the usufruct of land, the essence of which is that only he has a right to land who cultivates it with his own labour. Further, there is a whole series of restrictions with regard to land tenure. The leasing out of land is not recognised by Soviet legislation as a normal state of affairs, and only small farmers who at given moments are not in a position to cultivate themselves are allowed to resort to it, but only for a limited time.

Finally, Soviet legislation restricts the employment of hired labour in agriculture.

Soviet law allows such employment only as help on small farms.

In addition to these restrictions the entire economic policy of the Soviet Government is bent on prohibiting the development of capitalist relations in agriculture.

As already stated, we shall go into greater detail on this question in the last part of our course, where we shall deal with the tendencies of the whole Soviet economic system, and particularly of agriculture.

The facts mentioned retard the process of differentiation in the Soviet village, and the overwhelming majority of farmers are middle peasants, i.e. small commodity producers who do not exploit the labour of others.

Thus we see that of the two main distinguishing features of capitalist agriculture, namely, private property in land and the existence of capitalist productive relations, the first is entirely absent in Soviet agriculture and the second is almost negligible and has very little chance of development.

91

The Question of Absolute Rent in Small Peasant Agriculture in the U.S.S.R.

Now that we have already established the difference between agriculture in capitalist countries and agriculture in the U.S.S.R., it will not be so difficult for us to answer the question of the applicability or inapplicability of the category of ground rent to Soviet agriculture.

Let us begin with absolute rent. Is the category of absolute rent applicable to Soviet agriculture? Absolute rent, as has already been several times pointed out, is an excess of surplus value created by agricultural workers owing to the lower organic composition of capital in agriculture as compared with industry, which, thanks to private property in land, is not distributed among the capitalists, but passes over to the landowner. Absolute rent, therefore, presupposes the existence of three conditions: (1) A lower organic composition of capital in agriculture than in industry; (2) Capitalist productive relations in agriculture; and (3) private property in land. Which of these three conditions exist in Soviet agriculture? The first condition, i.e. the lower organic composition of capital as compared with industry, exists and will continue to exist for a long time in the U.S.S.R. The second condition, i.e. the existence of capitalist productive relations in agriculture, is present only to a very limited degree; in the main, productive relations in Soviet agriculture, as we have already stated, are not capitalist but simple commodity relations. Finally, the third condition, private property in land, is absent in Soviet agriculture. When we examined the question how the nationalisation of land would affect absolute rent under capitalism we arrived at the conclusion that even under capitalism nationalisation would eliminate absolute rent, although the first two conditions would still remain in full force; but in Soviet agriculture, the second condition, the existence of capitalist relations, is almost entirely absent; hence, if we were to assume for a moment the impossible, i.e. the restoration of the principle of private property in land in the U.S.S.R., we should still

be able to speak of absolute rent only in respect of a very limited number of concessionaire and rich peasant farms run on capitalist lines. But as long as the land is nationalised there can be no question of absolute rent.

92

The Question of Differential Rent in Small Peasant Agriculture in the U.S.S.R.

We will now consider the question of the applicability of the category of differential rent to Soviet agriculture. Differential rent is an excess of surplus value over and above the average rate of profit created by agricultural workers as a result of the higher productivity of their labour on more fertile and better situated land, and given away by the tenants to the landowners for the right to use the land.

Differential rent therefore presupposes the existence of two conditions: First, a difference in the productivity of labour bound up with the different natural qualities of land, i.e. differences in fertility and position (or a different productivity of successive capital investments known as the second form of differential rent), and, secondly, the existence of capitalist relations.

Differential rent, therefore, is not immediately connected with private property in land, as is the case with absolute rent. Therein lies the main difference between the two.

That absolute rent may disappear it suffices to abolish private property in land, to nationalise the land. That differential rent may disappear, this is not enough. Lenin says that:

"Differential rent is invariably formed in capitalist agriculture, even if private property in land is entirely abolished. When private property in land exists, this rent goes to the landowner, for the competition between the different capitals forces the tenant farmer to be contented with an average rate of profit. With the abolition of private property in land this rent goes to the State. This rent cannot be abolished so long as the capitalist mode of production prevails."

Nationalisation of land does not abolish differential rent,

as is the case with absolute rent. It merely changes the receiver of that rent. Lenin emphasises the idea that as long as the capitalist mode of production exists, differential rent cannot be abolished. From this it is natural to conclude that its abolition will be possible in the absence of the capitalist mode of production. There is, however, a very widespread opinion, which has become almost an established prejudice, that differential rent is a category not only of capitalist economics. This opinion is generally backed by the argument that differential rent is a result of the difference in the productivity of labour on land of different fertility or situation. These differences exist apart from the form of productive relations. The labour applied to more fertile or better situated soil will always give a greater result. There are, of course, differences in the fertility and situation of different units of land in the U.S.S.R. From this it is argued that there is differential rent in the U.S.S.R. Where is the fundamental error of this theory? Its adherents forget that political economy does not study the natural qualities of things, but the productive relations among men, and not all productive relations, but merely the productive relations of commodity production under capitalism. The natural qualities of matter will, under Communism, be the same as under capitalism. Machines will not cease to be tools of production simply because capitalist productive relations will be replaced by Socialist relations. But they are capital or instruments for the extraction of surplus value only when capitalist productive relations exist. Under any system of productive relations, except perhaps in the most primitive stages of social development, human labour can produce a certain surplus over and above the products which go to the immediate gratification of the individual's requirements. But it is only under capitalist relations that this surplus assumes the nature of surplus value. The same may be said with regard to the natural qualities of land, and particularly its fertility, etc. Labour applied to more fertile soil will produce a certain excess as compared with labour applied to less fertile soil under any form of productive relations. However, differential ground rent as a part of surplus value which goes to the landowner, or, in the case of nationalised land, to the capitalist state, is created only if capitalist relations exist in

agriculture. The different units of land may give different results from the same amount of labour under Communism. But can we speak of differential rent under Communism, once the products of all land, whether good or bad, are placed at the disposal of the whole of society ? The difference in the productivity of labour on soil of various fertility, etc., in no way answers the question as to the applicability or inapplicability of the category of differential rent to Soviet agriculture. Of decisive importance, therefore, on the question of differential ground rent is the existence of capitalist relations in agriculture.

In pointing out the difference between Soviet and capitalist agriculture, we established that, in the main, Soviet agriculture consists of simple commodity production, in which capitalist elements are comparatively insignificant. Apart from that, in analysing the question of differential rent with respect to small-scale farming, we came to the conclusion that we can only speak conditionally of differential ground rent in relation to that type of agriculture, inasmuch as it depends upon the capitalist surroundings in the midst of which it has to exist and struggle. This dependence is expressed, firstly, by the fact that the realisation of the products produced by small farmers depends upon the capitalist market, which is regulated by the price of production ; secondly, by the fact that the small farmer's appropriation of the products of his own labour is bound up not with his labour, but with his ownership of land and the means of production which, under capitalism, assume the form of capital. If we approach the question of small peasant agriculture in the U.S.S.R. from this angle, it will become clear that the application of the category of differential rent to it is impossible, even in the restricted sense in which we applied it to small peasant agriculture operating in capitalist surroundings. We have already pointed out that the relative strength of the capitalist elements in Soviet agriculture is comparatively insignificant. Hence, there can be no question of a more or less considerable influence of capitalist surroundings on small peasant agriculture in the U.S.S.R. Furthermore, from the chapter devoted to the question of the regulator in Soviet economy, we know that the capitalist law of the average rate of profit and the price of production does not operate in Soviet economics,

and that small peasant agriculture in the U.S.S.R. instead of being influenced by capitalist surroundings, is greatly and increasingly influenced by State economy, and especially by Socialist industry. Hence, inasmuch as the predominant type of agriculture in the U.S.S.R. is that of small farming, the category of differential rent is inapplicable.

93

The Question of Differential Rent in Concessionaire and Rich Peasant Farms.

But what is the position of those elements of capitalist agriculture which still exist in Soviet Society? Among these elements belong the concession farms, rich peasants' farms, etc. We know that differential rent can exist under two conditions: (1) Different productivity of labour on soil of different fertility or situation, and (2) the existence of capitalist relations. In the case under discussion, these two conditions are present. As far as the nationalisation of land is concerned, we have already quoted Lenin to show that the nationalisation of land does not do away with differential rent, but merely transfers it to the hands of the State. All this, it would seem, goes to show that at last we have found the capitalist corner in Soviet agriculture where differential rent can be hidden. Let us see whether this is actually so. There are two variants possible here. The first variant: the excessive surplus value created on the rich peasant or concessionaire farm by the agricultural labourer, owing to the higher productivity of his labour on more fertile or more suitably located soil, is taken by the Soviet State; the second variant: the excessive surplus value remains in the pocket of the concessionaire or the rich farmer.

Let us analyse the first variant. When Lenin said that the nationalisation of land does not eliminate differential rent, but merely transfers it to the hands of the state, he had in view not the Soviet but a capitalist State. As far as the capitalist State is concerned, he was absolutely right. After all, in view of the fact that that part of the surplus value of agricultural workers, which arises as a result of the higher productivity of labour on better soil and constitutes differential

ground rent, falls into the pockets of the capitalist State instead of into the pockets of the landowner or the capitalist farmer, the nature of the relations which are hidden behind differential rent are fundamentally unchanged.

It is quite otherwise, however, if differential rent is pocketed by the Soviet State. Here we meet with the same phenomenon which has been made clear in the chapter on commercial profit in the U.S.S.R., where we examined a case in which part of the surplus value of the capitalist or the farmer falls into the fund of the Soviet State through the channel of government trade. We established then that inasmuch as that part of surplus value falls into the funds of the Soviet State, it changes its social nature and loses the character of surplus value. The same holds good with regard to differential rent. Differential rent is an excess of surplus value created by agricultural workers on good soil. Inasmuch as this excess does not go into the pockets of a capitalist or into those of a capitalist State, but into the pockets of the Soviet State, inasmuch as it goes to meet the requirements of the whole working class, of which the agricultural labourers who produced that surplus constitute a component part, the appropriation of this surplus by the State is not simply a division of surplus value, but a return to the working class of a part of its surplus product.

Exploitation, therefore, is absent here and the category of differential rent is inapplicable. As for the second variant, i.e. the case in which the excess surplus value created by the agricultural workers on superior soil remains in the pocket of the concessionaire or the big farmer, that surplus may be regarded as one of the forms of capitalist differential profit which has some features resembling differential rent, but is also different from it, inasmuch as the surplus is appropriated not by the owner of the land, but by one who holds it for temporary use.

94

Soviet Relations with the World Market, and Ground Rent.

So far we have analysed the question of ground rent in the U.S.S.R. irrespective of the relations which the Soviet Union

has with the capitalist world abroad. However, the Soviet Union is surrounded by capitalist States and it has certain trade relations with them. One of the chief items of Soviet foreign trade is the export of grain. In exporting grain, the Soviet State sells it at the prices prevailing on the world market. These prices include ground rent.

Does it not follow from this that the category of absolute rent applies to Soviet agriculture?

Even if, owing to technical backwardness, the cost of production of grain in the U.S.S.R. is so high that its export is unprofitable, or brings a deficit, we can theoretically conceive that the Soviet State may realise on the world market the extra value which, under capitalism, constitutes absolute rent. But from this it does not follow that the surplus value realised would preserve its social nature in the hands of the Soviet State.

If, as we have just established, differential rent, by passing from the pocket of the concessionaire or the big farmer into the funds of the Soviet State, changes its social nature and can no longer be regarded as differential rent as understood by Marx and Lenin, it is clear that absolute rent, too, when through commercial relations with the world market it passes into the funds of the Soviet State, suffers the same fate. Even if the Soviet State gave a part of this realised " absolute rent " to the peasant, its social nature would be preserved only if it went to the wealthier sections. But if it goes to the middle or poor peasants it loses its capitalist nature and cannot be classified in the category of absolute ground rent.

95

Rent and the Agricultural Tax.

We have analysed the question of ground rent in the U.S.S.R. and come to the conclusion that the category of ground rent, both absolute and differential, does not apply to the productive relations existing in Soviet agriculture, except for the few concessions and big farms. But the labour applied to superior soil in the U.S.S.R. also gives a greater result than that applied to poor soil. That differential result

is requisitioned by the State in the way of taxes. Some of the forms of taxation are the agricultural tax and the building lot rent.

What are these taxes from the point of view of our theory of ground rent ?

Let us first take the question of the agricultural tax. We often hear heated arguments on the question whether the agricultural tax is differential rent or not. But from what we have already said about ground rent, it is quite clear that the very raising of this question is wrong. True, the Soviet State appropriates through the agricultural tax a part of the peasant's differential income from the greater productivity of his labour on superior soil, but we have already shown that the natural quality of land, its fertility or situation, cannot in themselves create any rent. Ground rent may emanate from them only if capitalist relations prevail in agriculture. Moreover, we have established that even if it is a question of rich farmers or concessionaires, the extra surplus value produced by them loses its nature of differential rent when it falls into the funds of the Soviet State.

All this shows that the agricultural tax in the Soviet Union must on no account be confused with ground rent. But if the peasant's extra income from the higher productivity of his labour on more fertile or better situated soil cannot be regarded as ground rent, does this mean that the Soviet State, in introducing the agricultural tax, seeks to get that surplus ? The taxation policy of the Soviet Government in the rural areas is based on the whole income of the peasant, regardless of its source. This includes everything : the ploughed field, the crop, hay, livestock, fruit, tobacco, incidental earnings, etc. In addition to that, the social group to which the peasant belongs is taken into consideration in fixing that tax—there are poor, middle and rich peasants. The poor peasants are entirely freed from the agricultural tax and the Government is trying to put the whole burden of taxation on the rich peasant. The soil cultivated by a poor peasant may be very fertile and nevertheless be freed from taxes, while the rich peasant has to pay the highest taxes although his land may be very poor from the point of view of fertility. This goes to show that the agricultural tax cannot be identified with ground rent ; it is not a tax for the use of

the land as such, but an income tax. The social category of the peasant is the basic criterion in fixing taxes ; the land and its quality is taken into account only as one of the many factors which determine the income.

96

The Question of Building Lot Rent in the Cities.

A few remarks have yet to be made on building lot rent. Rent for building lots in the U.S.S.R. is taken in two forms : basic and supplementary rent. Basic rent is collected from all lots in equal measure and is an item of revenue of the Government of the Union of Soviet Socialist Republics.

" Apart from that, according to the income of the lots, which is determined by location or other conditions, a supplementary rent is taken for the local budgets of the particular cities." (Article 2, from the Decree on Building Lot and Railway Rent.)

Rent differs therefore from the agricultural tax, in that the latter depends on the general income of the peasant, no matter what the source of that income may be, whereas building lot rent is a special income tax depending chiefly on the location of lots in cities or commercial or industrial centres. The more thickly populated cities and commercial and industrial centres are taxed more highly than the less populated cities, which are not important from the commercial or industrial point of view. The rate of rent in Moscow, for instance, is 3 kopeks per sq. sazhen, and in Murmansk only 0.1 kopeks per sq. sazhen.

This rental taxation of building lots suggests a comparison with both forms of capitalist ground rent, the basic rent resembling absolute rent, and the supplementary rent resembling differential rent.

However, after what we have said on the question of ground rent in the U.S.S.R. it is hardly necessary to explain further that essentially these forms of taxation are not differential rent in the sense that we understand it.

All that we have said in relation to the agricultural tax applies here too, except that the special object of building

lot rent, which distinguishes it from the agricultural tax, is that the State may get part of the income arising from the more favourable location of lots. However, Soviet legislation and the Commissariat of Finance do not very rigidly enforce this apparently vital distinction.

Many institutions and establishments living on the State budget, and also trade union, cultural, educational and many other organisations, for example, are absolutely freed from building lot rent.

In addition, the class principle is applied in fixing the rates of supplementary rent, and the social and property status of the rent payer is taken into consideration. It follows that here, too, land which gives a smaller income, but which belongs to a bourgeois, may be taxed at a higher rate than land with a higher income, but which is occupied, say, by a proletarian housing co-operative.

Thus we come to the conclusion that the Soviet State, by means of the agricultural tax and building lot rent, appropriates part of the excess income arising from higher fertility and better situation of land, but their social nature is not the same as that of differential ground rent.

QUESTIONS ON CHAPTER III

1. What is the difference between capitalist and Soviet agriculture?
2. Why is the category of absolute rent inapplicable in relation to the Soviet system?
3. Why is it wrong to classify the middle and small farms of the U.S.S.R. as enterprises receiving differential rent?
4. Why cannot the agricultural tax be regarded as ground rent?
5. What is the difference between the agricultural tax and building lot rent, and why cannot the latter be regarded as a form of differential rent?
6. Give an independent answer to the question whether the category of absolute and differential rent is applicable to State and collective farms in the U.S.S.R.

PART VIII

Chapter I

ACCUMULATION OF CAPITAL AND THE REPRODUCTION OF CAPITALIST RELATIONS

97

Primitive Accumulation of Capital.

In the preceding parts of this book we have analysed the question of regulation in capitalist society, the essence of capitalist exploitation, and the manner in which surplus value is divided among the different groups of the ruling class.

In dealing with these questions we could not treat capitalism as a system suddenly come to earth, where it remained rigid and unchanged. We saw that capitalism superseded earlier economic systems (feudalism, simple commodity production) and that old pre-capitalist relations still make themselves felt even in advanced capitalism. We saw how capitalism itself is developing, how in the process of that development the organic composition of capital is rising, its rate of circulation slowing down, its rate of profit diminishing, etc.

But we have not yet fully discussed the following questions: (1) How did the capitalist system originate and grow out of the pre-capitalist relations? (2) How is the capitalist system as a whole developing and where is it going?

Let us start with the first question.

How has capitalism originated and developed?

Capitalism, as we have already said, developed out of the dissolving relations of the feudal order and out of simple commodity production.

The conditions necessary for the development of a new type of relations were created in the epoch of what is known as primitive accumulation of capital.

The historical significance of primitive accumulation of capital is chiefly that it prepared the conditions necessary for capitalist exploitation, e.g. on the one hand it led to the concentration of the means of production in the hands of a

handful of capitalists, and, on the other, it freed the serfs from bodily dependence and the artisans from their means of production and subsistence, and converted them into " free " proletarians.

The decline of the feudal order was a very painful process. Feudalism was fundamentally a self-sufficing system. The feudal lord, with his numerous servants and peasants who depended upon him, lived chiefly on the products of the feudal estate. Exchange affected chiefly articles of luxury which were in demand among the feudal lords, but not articles of first necessity. The self-sufficing relations which prevailed under feudalism largely explain the luxurious life of the feudal lords, the upkeep of their feudal retainers and big armies, their " hospitality " and their disdainful attitude towards money, etc. As long as exchange relations did not force themselves into the feudal system and as long as the object of production was use value and not exchange value, the exploitation of the peasant by the feudal lord was kept within more or less narrow limits. Marx says that labour becomes unbearable in early society whenever it is a question of production of exchange value. Labour which wears out the labourer becomes here the official form of surplus labour.

The development of trade undermined the self-sufficing character of feudalism, and has ruthlessly torn asunder the motley feudal ties that bound men to their " natural superiors " ; it has left no other bond betwixt man and man but crude self-interest and unfeeling cash payment " (the Communist Manifesto). The object of production is no longer to provide for consumption, but to create exchange value; idyllic hospitality leaves room for egotistical calculation, labour rent and rent in kind are superseded by money rent, and the exploitation of the peasant by the feudal lord assumes unheard-of dimensions.

The upkeep of bands of retainers and huge armies becomes costly and unnecessary and must therefore be discontinued.

The process of primitive accumulation of capital was particularly painful in England, where, thanks to the development of the woollen industry, the demand for wool increased tremendously and drove the feudal lords to turn the fields into pastures. Utilising all means at their disposal, naked violence, the law, economic pressure, they evicted the

peasants and small farmers from their land and replaced them by tens and hundreds of thousands of sheep. This breaking up of feudal relations, terrific exploitation of the peasantry, disbandment of feudal retainers and armies, exploitation and eviction of the small farmers, created a class of large numbers of " free " proletarians.

On the other hand, a process of decline of domestic production took place. The rich artisans enlarged their number of apprentices and journeymen, disregarding the limitations which were then enforced by the guilds. The antagonisms between the masters on the one hand and the journeymen and apprentices on the other, were constantly increasing. The guilds were becoming more and more organisations of the master class. To the extent that exchange relations developed and the market widened, the necessity arose for tradesmen to establish exchange connections, as the limitations of the market increased so much that it became absolutely impossible for the artisans to establish direct contact with the consumers of their products. The penetration of merchant capital into handicraft production led to the subordination and gradual enslavement of the latter to merchant capital. As trade relations developed, and the market for commodities of handicraft production grew, handicraft, in view of its technical backwardness, became less and less able to meet the growing demand. This prompted the merchant capitalist to interfere more and more in the process of handicraft production. Exploitation of the handicraft workers by merchant capital increased and many artisans were ruined and also converted into free proletarians.

The feudal village and the artisan town thus experienced a process of expropriation of the small producer. Under the influence of these two factors a class of "free" proletarians came into existence with agonising birth-pangs. In the divorce of the producer from the means of production lies the essence of the process of primitive accumulation of capital.

This process of development gives rise to an as yet unheard-of commodity on the market, namely, labour power. This same process gives rise also to the big industrial capitalists. The means of production which are snatched away from the ruined artisans are concentrated in the hands of the merchant

capitalist. Exploitation of the artisans gives him enormous profits. To this may be added colonial trade which borders on plunder and robbery of the colonial population, the slave trade, etc., etc. Much capital is concentrated in the hands of the merchant capitalist as a result of the double exploitation of the producer and the consumer.

The conditions necessary for the appearance of large-scale capitalist production are thus created.

98

The Concept of Reproduction.

Having examined the first of our questions (the origin of capitalist relations), we must proceed with an examination of the second question—the question how capitalist production as a whole develops and whither it is going.

But before dealing with this most vital question we must make a few preliminary remarks on the development of society in general.

All products with the help of which human society satisfies its diverse requirements are produced by man in the labour process.

Since the articles produced can satisfy our needs only for a comparatively short period, after which other articles must be obtained, a necessary condition for the regular supply of the material needs of society is therefore the constant renewal and repetition of the process of production.

But the process of production is carried on with the help of artificially produced instruments of production. It follows that to be able to renew the process of production regularly it is necessary not only to produce the articles which can directly satisfy the needs of society, but also to devote a part of social labour to the regular production of instruments of production.

The renewal and repetition of the process of production (both of means of consumption and of means of production) is known in political economy as reproduction.

Marx says :

" When viewed therefore, as a connected whole, and as

flowing on with incessant renewal, every social process of production is, at the same time, a process of reproduction." (*Capital*, vol. i, p. 620.)

Reproduction may be (1) simple, (2) progressively increasing, (3) diminishing.

Simple reproduction we have in the case when the process of production repeats itself year in and year out on the same level. Simple reproduction can most frequently be observed where the development of technique is low. It may be found, for instance, in primitive rural communes, and in small handicraft production which exists in many countries even to-day.

Technical stagnation, traditional methods of production, resistance to anything that is new, respect for tradition—such are the characteristics of backward economic forms. Simple reproduction excludes, therefore, all development and progress.

Progressively increasing reproduction is found when the process of production repeats itself on an increasing scale. Increasing reproduction is characteristic of economic forms which are rapidly developing their productive forces. It is to be found wherever development or progress can be observed.

Finally, diminishing reproduction we have in cases in which the process of production repeats itself on a diminishing scale. If this process continues for any length of time, it leads to the ruin and decline of the particular society. That is how ancient Greece, Rome, etc., declined.

In certain periods, as a temporary phenomenon, it may take place under any mode of production. We had a most striking example of diminishing reproduction in Soviet Russia during the civil war.

We thus reach the conclusion that progressively increasing reproduction is the basis of development of the productive forces of any society, regardless of the forms of its productive relations, of whether it is a primitive Indian commune, a feudal village, an artisan's workshop or a capitalist factory. However, in the process of production, not only instruments of labour, raw material, articles of consumption, etc., are produced, but certain productive relations arise among men. It can, therefore, be inferred that side by side with the repro-

duction of things there is also a reproduction of relations among men arising in the process of production.

Feudal society, for instance, reproduced annually not merely a certain quantity of bread, timber and instruments of labour ; it reproduced them in such a way that the peasant producer received a part of the products of his labour, sufficient for his upkeep ; the lord, on the other hand, received a part which not only enabled him to live in luxury, but to keep retainers and troops which enabled him to maintain and consolidate his power over the peasants.

From the human relations in the process of production, there arises, therefore, a distribution of the products which guarantees the ruling class a dominant position for the future and, as it were, keeps the oppressed class in its subordinate position.

Therein lies the essence of the reproduction of productive relations in a given society, which continues until that system of society is destroyed and replaced by a new system.

With the rise of a new order the process of reproduction is at the same time a process of reproduction of new productive relations.

99

Simple Capitalist Reproduction.

After these general remarks, we will proceed with our task of analysing reproduction under capitalism.

Capitalist reproduction, as well as any other reproduction, may be simple, progressively increasing, or diminishing. We will start with simple capitalist reproduction. What is it that distinguishes simple capitalist reproduction from simple reproduction in pre-capitalist society, as compared with slavery, feudalism, simple commodity production, etc. ? This distinction must, naturally, follow the difference in the productive relations peculiar to the respective modes of production.

The capitalist mode of production, as we know, has the following characteristics: (1) the means of production are the private property of capitalists; (2) the worker,

unlike the slave and the serf, is juridically free, but, unlike the artisan, possesses no means of production and is therefore compelled to sell his labour-power to the capitalist; (3) the exploitation of the worker by the capitalist assumes the form of acquisition of surplus value, which constitutes the aim of capitalist production.

All these specifically capitalist relations, once they rise out of the ruins of pre-capitalist, feudal and handicraft relations, must be constantly reproduced.

But how does the reproduction of capitalist relations proceed? As far as the worker is concerned, his position, as the seller of labour-power who is deprived of his own means of production, is reproduced after the process of production by the fact that at best his wages will permit him to maintain his labour power as a commodity fit for sale, i.e. in working order, and to support an average family, but no more. If for any length of time wages were to exceed the value of labour-power and go beyond the limits necessary to ensure capitalist exploitation, the worker would be able to accumulate some money and to set himself free from the power of capital.

But this, as a rule, does not happen, and the worker, even if the value of his labour-power is paid in full, has nothing left but the chance to sell his labour-power to the capitalist over again, and again to submit to capitalist exploitation.

As far as the capitalist is concerned, the reproduction of his dominant position in the process of production is possible only if he owns capital for the recurring process of reproduction, for the purchase of labour-power, which, when applied to his means of production, creates surplus value.

How can this happen under simple reproduction?

In selling his commodity, the capitalist returns to himself the value of his capital and, in addition, realises the surplus value.

In selling his commodities, the capitalist, generally speaking, can use his realised surplus value either for the gratification of his personal wants or as a means of reproduction.

It is obvious that, inasmuch as simple reproduction presupposes a systematic repetition of the process of production on the same scale, the capitalist, to continue his simple reproduction, must return to industry only the capital which he originally invested. The surplus value need not be invested

and can be used entirely for the personal needs of the capitalist.

By simple capitalist reproduction we, therefore, mean reproduction in which the capitalist spends for his personal needs all the surplus value acquired through the exploitation of his workers.

We said that simple reproduction is nothing but a repetition of the process of production on the same scale. However, the simple repetition of the process of production on the same scale assumes certain new features under capitalism. Suppose a capitalist to have originally invested 10,000 pounds in industry, 8,000 of which he invested in constant capital, and 2,000 in variable capital. If we further assume that the rate of surplus value, or the rate of exploitation, is 100 per cent., the variable capital of 2,000 pounds will produce a surplus value of 2,000 pounds. The capitalist will thus annually invest 10,000 pounds in production which will give him a return of 2,000 pounds in surplus value. These 2,000 pounds he will spend for his own requirements.

This would give the impression that the capitalist runs his establishment always with the same 10,000 pounds that he originally invested. If we suppose for a moment that the capitalist accumulated the 10,000 pounds by his own labour or received them as an inheritance, would he not have the right to say that the capital invested in his establishment is not the result of exploitation, but is hard-earned money, as the capitalists are wont to say? He would not! We know that a working man, owing to the dual nature of his labour, on the one hand transfers to the newly produced commodity the value which had been invested in the constant capital, i.e. in buildings, machines, raw material and accessories; and, on the other, creates new value, a part of which goes to wages and another constitutes surplus value. The value of the constant and variable capital is not lost to the capitalist, but is embodied in the finished product and is returned to him on completion of the process of production. The surplus value, if spent by the capitalist for his personal needs, does not come back to him in the value of a new product, but constitutes pure expenditure. Hence, in simple reproduction, a part of the capital of 10,000 pounds originally advanced by the capitalist will, after each turnover of 2,000 pounds, be

replaced by the labour of the workers exploited by it, and at the end of five turnovers, there will be not a penny left of the original capital; although these 10,000 pounds had perhaps once been made by his own labour, the money he owns now will be exclusively a result of the exploitation of other man's labour.

Apart from the facts pointed out in the paragraph dealing with primitive capitalist accumulation, where we saw how, in the great majority of cases, capitalist property originates, we find that even in the case where a capitalist starts his business with honestly earned capital, it is absurd to think that that capital remains " hard earned " and " innocent " in the course of the whole period of capitalist production. This becomes especially clear to us when we analyse the process of production from the point of view of its continuity and renewal, i.e. from the point of view of reproduction. This must be our first conclusion. The second conclusion is that when we examine only one turnover of capital, independent of the other turnovers, as if the process of production happened only once and did not repeat itself, the result is that the capitalist, when he pays wages to the workers before his commodities are sold on the market, does so apparently out of his own funds. It is quite different if we approach that question from the point of view of reproduction. Here each turnover of capital is examined not in isolation from the other turnovers, but in its inseparable connection with them, and it is quite clear that the capitalist pays out wages not from some other source, but from the money received by him in realising the values produced by the workers during the preceding process of production.

The third conclusion we have to draw from our analysis of simple reproduction relates to the question of the importance of labour-power for capitalist reproduction. When a worker uses means of production—machines, raw material, accessories—in the process of production, this happens within the walls of the factory, which belongs not to the worker but to the capitalist; this process is called productive consumption. It is evident that in this process of productive consumption the worker works for the capitalist. It is otherwise with the reproduction of labour-power. The process of reproduction of labour-power consists in satisfying the needs of the

worker for food, clothing, recuperation, newspapers, the upkeep of the family, etc. The worker generally does these things not inside the factory, but at home, so that the satisfaction of the wants of the worker seems to be exclusively his own affair. This, however, is far from being so.

Kautsky says: "As long as we were investigating the process of production as a single, and therefore an isolated, process, we were dealing with the individual capitalist and the individual worker. Here it seems that labour-power and the labourer, who cannot be divorced therefrom, belong to the capitalist only during the time of their productive consumption, during the working-day. The time left over belongs to the worker himself, and his family. If he eats, drinks, sleeps, he does so merely for himself, not for the capitalist.

"But as soon as we consider the capitalist mode of production in its state of movement and its various ramifications, and therefore as a process of reproduction, we are concerned from the outset, not with the individual capitalist and worker, but with the class of capitalists and the class of workers. The process of reproduction of capital requires the perpetuation of the working class, that is to say, the workers must constantly restore the labour-power they have expended and continuously provide for the growth of fresh workers, in order that the process of production may be constantly renewed.

"Capital finds itself in the agreeable situation of being safely able to leave the making of these important arrangements to the self-preservative and propagative instincts of the workers.

"Seemingly the workers live only for themselves outside of labour time; but in reality they live for the capitalist class, even when they are out of work. If after their work is done, they eat, drink, sleep, and so on, they thereby maintain the class of wage workers, and therefore the capitalist mode of production. When the employer pays the worker his wages he only gives him the means of maintaining himself, and to that extent his class, for the benefit of the capitalist class.

"Precisely because the workers consume the means of life which they buy with their wages, they are continuously obliged to offer their labour power for sale.

" Thus from the standpoint of reproduction, the worker is engaged in the interest of capital, not only during his labour time, but also during his ' free ' time. He eats and drinks no longer for himself, but so that he may maintain his labour-power for the capitalist class. It is therefore not a matter of indifference to the capitalist how the worker eats and drinks. If, instead of resting and recuperating his labour-power, the worker gets drunk on Sunday and has a headache on Monday, the capitalist does not regard this as an injury to the worker's own interests, but as an offence against capital, an embezzlement of the labour-power that is due to capital." (Kauktsy, *Economic Doctrines of Karl Marx*, pp. 202-3, English edition.)

We already know the characteristics of simple reproduction. Simple reproduction, as we shall now see, may take place, but never as a permanent phenomenon. It is more in the nature of a theoretical supposition, an abstraction, than an actual reality. However, such abstraction is necessary because it facilitates the study of the mechanism of capitalist reproduction.

100

Capitalist Reproduction on a Progressively Increasing Scale.

Let us now analyse the process of capitalist reproduction on a progressively increasing scale. We will start with an analysis of the specific features of increasing capitalist reproduction as compared with increasing pre-capitalist reproduction. A distinguishing feature of pre-capitalist reproduction is the fact that its aim is consumption. The aim of the small commodity producer (the artisan, for instance) is to attain a certain standard of living.

The aim of slavery and of feudal society is to extract a surplus product from the slaves and serfs so as to make possible a luxurious and full life for the slave-owner or the feudal lord ; in other words, to provide for the consumption of the slave-owners and the feudal lords.

The aim of increasing reproduction is quite different in capitalist society. It is an incessant search for surplus value. This aim can be realised under capitalism in the process of

production. The quest for profit stimulates an endless expansion of production.

The individual capitalist is also driven to increase his production by the competition of other capitalists.

For that reason simple capitalist reproduction is rare in actual capitalist society.

It is already clear to us that progressively increasing reproduction is possible only if the capitalist does not use up for personal needs the whole of the surplus value (as is the case in simple reproduction), but uses a part of it in the extension of his enterprise, i.e. for the purchase of additional machines, raw material, accessories, and labour-power, converting it in this way into additional capital which will produce more surplus value.

It is from this that the process of increasing capitalist reproduction acquires the name of accumulation of capital. Marx says that:

" Employing surplus value as capital, reconverting it into capital, is called accumulation of capital." (Vol. i, p. 634.)

Hence, not all progressively increasing production can be classified as accumulation of capital, but only such as is based on capitalist relations. From this definition it is clear that capitalist accumulation must not be confused with accumulation, the object of which is simply to save values in their natural or money form. It must also be remembered that if the capitalist does not consume the whole of his surplus value but uses a part of it for the expansion of production, that does not imply any sacrifice on his part. Surplus value accumulates not in proportion to the personal thrift of the capitalist, but in proportion to the amount of labour-power he exploits and in proportion to the intensity of that exploitation. As a result of constantly increasing exploitation of the working class the mass of surplus value is augmented to such an extent that even if the capitalist led a most luxurious life, his increasing personal expenditure would lag behind his growing income and he would be spending for personal use an ever-diminishing part of his profit. The very process of capitalist development relieves the capitalist from the internal struggle between the temptation to consume wealth on the one hand and the passion for its preservation and augmentation on the other.

We thus reach the two following conclusions:

1. We have progressively increasing capitalist reproduction, or capitalist accumulation, when the capitalist does not consume for his personal needs all of his surplus value, but invests a part of it in production and converts it into additional capital.

2. Capitalist accumulation results in an augmentation of capital and an expansion of the production of surplus value.

The capitalist takes no interest in any form of increasing production but the form which secures for him more surplus value. That is the main distinguishing feature of capitalist accumulation.

Increasing reproduction of use values, if it is not accompanied by an increasing mass of surplus value, is not progressively increasing reproduction in the capitalist sense.

101

Concentration and Centralisation of Capital.

We must now examine the question of the direction and tendencies of the development of capitalism.

The first main result of capitalist development is the concentration and centralisation of capital, the rise of large establishments.

We have already pointed out that the quest for profit and the need to compete compels the capitalist to accumulate. But why does accumulation enable him to increase his profits and to hold out in the competitive struggle?

The main reason is that accumulation enables him to enlarge his establishment.

Larger establishments under capitalism are, as a rule, more stable and more profitable.

Let us examine more closely the advantages of modern large enterprises as compared with small ones.

One of the chief weapons in the fierce competitive struggle among capitalists is the cutting of prices. In the Communist Manifesto Marx calls low prices the heavy artillery in the hands of the bourgeoisie.

Large-scale production is better able than production on a small scale to procure all kinds of technical improvements

with the object of reducing prices. It has at its service the achievements of science and technique ; it is in a position to establish laboratories and hire the best engineers and inventors. We also know that an establishment employing more modern technique can produce commodities in less time than is socially necessary, as a result of which it can receive a differential surplus profit even if its commodities are sold below market price.

Large scale production is, in addition to that, much more able to specialise and to establish division of labour, which again leads to a reduction in the cost of production.

Overhead expenses do not increase in proportion to the growth of production, to the increase in exploitation of the establishment, but in a much smaller degree. This is the case with the cost of upkeep of buildings, heating, light, safe-keeping, administration, etc. The greater the extent of production and the more fully the establishment is exploited, the smaller will be the percentage of these expenses falling on each of the commodities produced.

Modern production has also great advantages over small production in the market, both in the sale of its finished products and in the purchase of raw material, accessories, etc. It is in a position to buy in large quantities, which is always cheaper ; it can avoid middlemen, bring more pressure to bear on the sellers, etc.

Finally, modern production inspires more confidence in the commercial world and can secure credits on more favourable terms, and for a longer period.

Large-scale production can develop much faster than small production and withstand all possible shocks, disturbances, and catastrophes, in view of its greater profits.

Owing to these facts the development of capitalism must invariably be accompanied by an increase in large establishments, a concentration and centralisation of production, and a concentration and centralisation of capital.

What do these two terms mean and what is the difference between them ? Marx says :

" Every individual capital is a larger or smaller concentration of means of production, with a corresponding command over a larger or smaller labour army. Every accumulation becomes the means of new accumulation. With the

increasing mass of wealth which functions as capital, accumulation increases the concentration of that wealth in the hands of individual capitalists, and thereby widens the basis of production on a large scale and of the specific methods of capitalist production. The growth of social capital is affected by the growth of many individual capitals. All other circumstances remaining the same, individual capitals, and with them the concentration of the means of production, increase in such proportion as they form aliquot parts of the total social capital. At the same time portions of the original capital disengage themselves and function as new independent capitals. Besides other causes, the division of property, within capitalist families, plays a great part in this. With the accumulation of capital, therefore, the number of capitalists grows to a greater or less extent. Two points characterise this kind of concentration which grows directly out of, or rather is identical with, accumulation." (*Capital*, vol. i, p. 685, Kerr edition.)

Further :

" This splitting up of the total social capital into many individual capitals or the repulsion of its fractions one from another, is counteracted by their attraction. This last does not mean that simple concentration of the means of production and of the command over labour, which is identical with accumulation. It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals. This process differs from the former in this, that it only presupposes a change in the distribution of capital already to hand, and functioning ; its field of action is therefore not limited by the absolute growth of social wealth, by the absolute limits of accumulation Capital grows in one place to a huge mass in a single hand, because it has in another place been lost by many. This is centralisation proper, as distinct from accumulation and concentration." (*Ibid*, p. 686.)

As capitalism develops, the starting of new enterprises and the enlargement of old ones requires the investment of sums of capital which only a very rich capitalist can invest, and the more capitalism develops, the more the minimum capital necessary for the starting of a new establishment increases.

Without the concentration and centralisation of capital, technical development would be impossible under capitalism.

Centralisation of capital, by uniting the scattered capitals in one mighty stream, enables capitalism to start establishments such as individual capitals would be unable to do ; it greatly increases the power and strength of capital and further accelerates accumulation.

102

Tendencies of Development of Capitalist Technique.

Technique plays an enormous part in the development of any society, including capitalist society.

We cannot therefore give a clear idea of the tendencies of capitalist development without showing the tendencies of the development of technique under capitalism.

Capitalism arose on the basis of handicraft and manufacture. The technique of handicraft and manufacture is characterised chiefly by manual labour. The difference in technique between manufacture and handicraft was merely the far-reaching principle of division of labour introduced in manufacture ; while in handicraft production the entire process of producing a commodity from beginning to end is concentrated in the hands of one man (or two or three), in manufacture the material passes through many hands until there is a finished product, and every worker who participates in its production performs merely one small and definite part of the work. Large-scale production, which assembles large numbers of former artisans under one roof, in one big workshop, can restrict the worker for his whole life to the carrying out of a single operation.

A distinguishing feature of both handicraft and manufacture is the element of pure routine, which knows no conscious scientific division of the process of production. The methods of production used in handicraft and manufacture are a result of long experience of the artificer and his progenitors, an experience which accumulates and is perfected, thanks to the constant repetition of one and the same operation and is handed over by inheritance from one generation of artificers to another.

Quite different is the nature of capitalist technique. Its distinguishing feature is the replacing of manual labour by the machine. Manufacture with its fine division of labour, its division of the process of production by routine into a chain of detailed fractional operations, facilitated the invention and perfection of instruments corresponding to these fractional operations, and thereby prepared the ground for the machine.

A machine consists of three component parts—the motor, the transmitting mechanism and the machine proper.

The motor mechanism gives motive power to the whole of the machine. The transmitting mechanism by means of accessory parts, straps, flywheels, etc., regulates, adapts and carries the motive power to the working machine. The machine proper, receiving through the transmitter the necessary motive power, performs with the appropriate instruments all operations which were formerly performed by the worker with the same instruments. Marx says:

"If we now fix our attention on that portion of the machinery employed in the construction of machines, which constitutes the operating tool, we find the manual implements reappearing, but on a cyclopean scale. The operating part of the boring machine is an immense drill driven by a steam engine; without this machine, on the other hand, the cylinders of large steam engines and of hydraulic presses could not be made. The mechanical lathe is only a cyclopean reproduction of the ordinary foot-lathe; the planing machine, an iron carpenter, that works on iron with the same tools that the human carpenter employs on wood; the instrument that, on the London wharves, cuts the veneers, is a gigantic razor; the tools of the shearing machine, which shears iron as easily as tailor's scissors cut cloth, is a monster pair of scissors; and the steam hammer works with an ordinary hammer head, but of such weight that not Thor himself could wield it. These steam hammers are an invention of Nasmyth, and there is one that weighs over 6 tons and strikes with a vertical fall of 7 ft. an anvil weighing 36 tons. It is mere child's play for it to crush a block of granite into powder, yet it is no less capable of driving, with a succession of light taps, a nail into a piece of soft wood." (*Ibid.*, p. 421.)

There was a time when man played the part of the motor, later animals took his place, still later wind and water were

used as motive power. Man and animals can germinate but insufficient energy. The power of the wind is inconstant and unstable ; water ties the development of production to fixed and limited areas.

Only with the development of the steam engine was production freed from all these limits and barriers. The power of the steam engine is not limited by the muscular strength of man or animal—it can be increased at will. The steam engine does not bind production to any area ; it does not attach it to any locality rich with water supplies. Its action is systematic and constant, and is not subject to the capriciousness of the wind.

The machine brings with it the emancipation of production from the psycho-physico properties of the human organism. The strength of man is very limited. Marx says :

" The number of implements that he (man) himself can use simultaneously is limited by the number of his own natural instruments of production, by the number of his bodily organs." (*Ibid.*, p. 408.)

Further :

"Adepts in spinning, who could spin two threads at once, were almost as scarce as two-headed men." (*Ibid.*, p. 408.)

" Thus, the hand spinner was able to handle only one spindle, while the machine has passed on rapidly to tens, hundreds and thousands of spindles. There are now machines with 1,300 spindles." (Ivanov, *Vestnik of the Communist Academy*, No. 14, 1926)

Gigantic automatic cranes guided by the weak hand of a woman can easily lift and carry huge masses of iron and other kinds of material ; workshop railways and other mechanical devices make absolutely unnecessary the muscular power of man and perform the work with an exactness which excels the most capable, accurate and diligent worker. Mechanisation reaches its highest point in the conveyor system, a system of transportation within the factory whereby the raw material goes through an uninterrupted chain of all phases of manufacture, in which the workers perform their operations while it is in transit, so that by the time it reaches the end it appears in the form of a finished product.

The machine made unnecessary not only physical labour,

but also the skill of the artisan, the dexterity of his hands, the keenness of his sight, and the exact measurement by eye acquired in the course of years of training. Weights and measures give such accuracy in production as could not be dreamt of under handicraft and manufacture. The rôle of the labourer is now reduced merely to that of controlling and observing the machine ; but even this work is being increasingly taken over by the machine. The machine is becoming ever more automatic. It is beginning to control and to regulate its own movements. It is able to work ever more accurately, more independently, and with constantly diminishing interference from man.

Technical progress is thus accompanied by the growing application of machines. The machine conquers one branch of capitalist production after another. Factory buildings and machines become ever larger, until they reach a fabulous scale. Each factory building entails complicated co-operation based on a fine division of labour among machines which constitute at the same time a technical unit assembled and linked together in one technical organism. Marx says :

" An organised system of machines, to which motion is communicated by the transmitting mechanism from a central automaton, is the most developed form of production by machinery. Here we have, in the place of an isolated machine, a mechanical monster whose body fills whole factories, and whose demon power, at first veiled under the slow and measured motions of his giant limbs, at length breaks out into the fast and furious whirl of his countless working organs." (Marx, *Capital*, vol. i, pp. 416-17.)

Another feature of the development of capitalist technique, which has of late come to the fore, particularly in American industry, and which we have already mentioned in the part dealing with wages, is standardised production. The substance of standardisation is that it reduces the number of types of commodities. Production does not seek to satisfy the taste of the individual consumer, but to produce the most practical and cheapest article for the use of the general consumer.

Restriction of the number of types of articles necessitates a normalisation of production, i.e. a limitation in the number of types of separate parts of articles, both simple and com-

plex, for instance, bolts and screws, so that one and the same kind of bolt may be used for all kinds of machines. All this greatly reduces the cost of production and increases the productivity of labour.

The development of electricity opens up a new chapter in the development of the productive forces of capitalist society. Electrification makes possible: (1) the transmission of power over very long distances; (2) the utilisation of the cheapest forms of fuel, including water, oil, inferior qualities of coal; (3) the development of industry in places where there is no natural motive power; (4) great economy through the building of stations in localities with rich fuel deposits and the transmission of energy over long distances without any transport of fuel; (5) more hygienic conditions of work; (6) thanks to the ease with which it can be transmitted, the utilisation of electricity in the largest industrial establishments as well as in the smallest, and also for home consumption, cooking, etc.

"The development of capitalist technique tends to replace huge mechanisms by machines requiring a smaller quantity of matter per horse-power. In the course of 45 years (1876-1922), the weight of an engine per unit (1 horse-power) has decreased in some cases 300-fold (from 600 lb. to 2 lb.).

"Transmitting mechanism has become very light (in wireless telegraphy it equals 0).

"The transmission of electricity over long distances is of recent origin (1891). But it has already made such progress that energy is transmitted at a distance of 400 klm., i.e. a sufficiently powerful station would be able to supply with energy an area of 500,000 sq. klm. or a country the size of Germany or France." (Ivanov, *Vestnik of the Communist Academy*, No. 14, 1926.)

The advantage which a large central station has over a small station, owing to its great economy, makes it possible to provide any country with electricity from a few central stations. This opens up the prospect of a further and as yet unparalleled concentration of production. Instead of a factory mechanism consisting of a large number of parts, in the form of separate machines united in one productive mechanism, it becomes possible to have a single technical organism for a whole country, and perhaps several countries, with one

gigantic centre in the form of a colossal electric station and a huge nervous system in the form of a network of endless wires transmitting electricity through infinite space.

Vast technical development which helps to transfer the whole burden of work from the shoulders of man to the " iron shoulders " of machines, ought, it would seem, greatly to have improved the conditions of mankind.

According to S. A. Falkner, the entire world production of to-day could be accomplished in a two-hour day if modern American methods were universally applied.

However, the majority of workers in capitalist countries can still only dream of an eight-hour day.

This is so because in capitalist society all advantages derived from technical improvements are enjoyed not by the whole of society, but only by the capitalist class.

103

Small Industry under Capitalism.

The most characteristic feature of capitalism is that of its large scale industry. The tendency of its development is towards concentration and centralisation of industry.

We know the advantages of large-scale industry, as compared with small establishments, which guarantee its victory in the struggle against the latter. Nevertheless, it must not be assumed that small industry disappears entirely with the development of capitalism. Even in the epoch of most highly developed capitalism it still exists, side by side with large-scale production.

Let us see then what is the position of small industry under capitalism.

The most widespread form of small industry is artisan and handicraft production.

By an artisan we usually mean a small-scale producer who caters for individual customers. Under capitalism this kind of production is rapidly wiped out by handicraft and factory production. It is pushed off the market in the cities much faster than in rural areas. The urban inhabitant is becoming ever more accustomed to buy everything ready-made and

not to have things made to order. The artisan survives chiefly in industries in which it is necessary to satisfy the individual tastes of the consumer, as, for instance, tailoring, etc.

The artisan has a much more favourable field in rural districts than in the cities. He can hold out there, thanks to the supplies of raw material which are given to him to be worked over, and thanks to the very low pay he takes for his work. Artisan production under capitalism therefore means poverty and is mostly developed in villages with insufficient land.

Whereas the distinguishing feature of the artisan is that he works to order, the distinguishing feature of handicraft production is that it produces for the general market. Therein lies the chief difference between them. While the artisan deals directly with his customer, the handicraft worker needs a middleman to buy his products for sale on the market.

Handicraft production usually assumes the following form. At the head of the industry there is a buyer upon whom depend tens and hundreds, even thousands, of handicraft domestic workers, whom he supplies with raw material and from whom he buys their finished products. But the big buyer who disposes of the work of a large number of handicraft workers cannot supply them with the necessary material and purchase all finished products from them directly. This gives rise to a great number of middlemen. These middlemen utilise all possible methods for the most inhuman exploitation of the handicraft workers. Extremely bad conditions arise. Usually in handicraft production payment in kind still exists, a system which has disappeared from the scene of modern capitalist production and which exploits the handicraft producer not only as a producer, but also as a consumer. A very long working day and extremely low wages are the rule, to which the handicraft worker agrees because they are a source of additional income for the members of his family. Women and very young children are employed. Work is carried on in the most unhygienic domestic surroundings. The fact that the handicraft workers are scattered robs them of the opportunity to offer organised resistance to their exploiters. Factory legislation hardly

touches handicraft production under capitalism, firstly because the industry being so scattered and the handicraft workers so undeveloped, it is very difficult to control working conditions; and secondly, because the bourgeois State is not seriously interested in combating the inhuman exploitation of the handicraft worker.

In addition, handicraft production is highly advantageous for the employers, as there is no need to invest any money as fixed capital, and in time of crisis it can rapidly cut down its production by simply leaving the workers unemployed, and, vice versa, in time of prosperity it can easily increase production.

We thus arrive at the conclusion that handicraft production under capitalism is maintained by unlimited exploitation of handicraft labour in lines of production where modern factory production is insufficiently developed and that it is doomed to a painful death.

104

Causes Retarding the Development of Large-Scale Agriculture.

Having analysed the main tendencies of development of industrial capitalism, we must still consider some peculiarities in the development of agriculture under capitalism.

Agriculture in capitalist society is largely distinguished by its comparative technical backwardness. Whereas in industry technique has already accomplished great miracles, agricultural technique is still in a stage which has long been forgotten in industry—the stage of manufacture.

Lenin said:

" In my opinion, Pringsheim made a very true remark in saying that modern agriculture, by its general technical level and economic development, is close to the phase of industrial development which Marx called manufacture. Preponderance of manual labour and simple co-operation, sporadic employment of machines, comparatively small-scale production—these are all symptoms showing that agriculture has not yet reached the stage of modern machine industry as the term is understood by Marx. There is no system in agricul-

ture combined in one productive mechanism as yet." (*Lenin*, vol. ix, p. 73, Russian edition.)

Alongside with its technical backwardness we find in agriculture small-scale production which is but an outcome of this backwardness.

How can this technical backwardness and the prevalence of small-scale production emanating from it be explained? There are two reasons. Firstly, certain technical peculiarities which largely depend on the soil, and secondly, causes of a social character.

Let us make a closer examination of the two.

On this subject Lenin said that:

"Even in industry the law of superiority of large-scale production is not as absolute and as simple as is usually believed. Even there the law can be fully applied only if all other conditions are equal (which is far from being the case). But in agriculture, which is distinguished by incomparably more complex and manifold relations, the full applicability of the law of the superiority of large-scale production, is still more restricted." (*Lenin*, vol. ix, p. 10, Russian edition.)

What are these restrictions limiting the law of the superiority of large-scale production in agriculture?

First of all the employment of machines, which plays such a tremendous part in industry, very often meets in agriculture with many purely technical difficulties. While in industry the machine works in an artificial atmosphere especially created for it, the agricultural machine must be adapted to the conditions of nature under which it has to work, and this is not always possible or profitable.

For instance, a machine in a workshop is fixed in a special place which was especially built for it and from which it is never moved. But a tractor must move; it must be adapted to the unevenness of the land, it must be of light weight, etc. This creates certain difficulties for the employment of machinery in agriculture.

Furthermore, machines in industry can work all the year round without interruption, whereas in agriculture they can work only in certain seasons of the year. Finally, we know that under capitalism machines are introduced only if they are cheaper than the labour-power which they replace. Agriculture is distinguished precisely by the fact of its cheap

labour-power, which also interferes with the employment of machinery.

In addition to the difficulties already mentioned, there are still other retarding factors in the concentration of production in agriculture.

The dependence of agriculture upon the soil limits the magnitude of its scale to a certain extent. Up to a certain limit production in agriculture can be enlarged by means of additional capital investments in the same soil, but beyond that it needs an extension of area. To enlarge a farm means to extend its distance and to increase thereby the expenses involved in the transport of labour-power, material, etc., so that with a given technique there is a certain limit beyond which further expansion becomes unprofitable, because the benefit of concentration does not cover the expenditure involved in widening the limits of the farm.

However, the main difficulties in the way of concentration of agriculture are called forth not by these specific peculiarities of farming; they belong to the difficulties arising from private property in land. These have been dealt with by us in the main when speaking of rent, so that we only have to mention them briefly here. Private property in land means: firstly, that the landowners put a certain tax on all classes of the population; secondly, that considerable amounts of capital are invested in the purchase of land and thereby drawn away from productive consumption; thirdly, that it hampers the development of productive forces by killing the incentive of the tenant farmer; fourthly, private property in land hampers the concentration of agriculture when such concentration means an extension of area beyond the possessions of a particular landowner.

As stated, the concentration of agriculture is invariably restricted when it is a question of an extension of area: it requires one compact territory, which is very difficult, and in some cases impossible to find, if the land is situated in different places and is interspersed with land belonging to other farmers. Not every farmer, whose land it would be desirable to unite with another farm, agrees to sell that land.

Finally, and fifthly, private property in land, particularly in backward countries, helps to preserve the semi-feudal forms of exploitation of the peasantry.

The feudal landowner is not much interested in developing his technique if he can make a large income out of the peasantry, from whom he exacts not only the whole of the surplus product, but even part of the necessary product.

Such are the main causes which hamper the development of large-scale production in agriculture.

105

Advantages of Large-Scale over Small-Scale Farming.

If agricultural technique is backward, if small farming has proved more stable than small-scale production in industry, does this mean that large-scale production in agriculture cannot conquer small-scale agriculture?

It is not difficult to see that, notwithstanding the peculiarities of agriculture already pointed out, large-scale farming has certain advantages over small farming, and concentration, although it is comparatively slow, does take place.

Large-scale farming can economise on the cost of production much more easily than small farming. Let us take ten small farms, and one large one equal to the ten small farms put together, both in relation to area and to the investment of capital, and compare the cost of production. We will begin with the soil. The big farm will not waste any land in dividing the lots, as the small farms must. Many boundary strips and roads constitute not only a waste of land, but a loss in seed which must fall on them at the time of sowing. The big farm also economises greatly in buildings. In the place of ten houses, ten barns, ten stables, etc., on the small farms, the big farm will have only one big house, one barn, and one stable. The construction of one big house, one barn and one stable costs much less than the building of ten houses, ten barns and ten stables of the same capacity. Apart from that, much can be saved in the running expenses of the buildings. Everyone knows from daily experience that it requires much less wood, kerosene, etc., to heat a big building than to heat ten small ones. The same may be said of implements and livestock. A big farm can do with fewer ploughs, harrows, waggons, thrashers, horses, etc., than ten small ones, because

on the large farm each individual instrument can be more fully used than on the small ones.

According to figures for the Province of Poltava (Russia), for example, there were (prior to the revolution) ten ploughs and fifty horses per 100 dessiatines of arable land in small farms with an area of 1 to 3 dessiatines each, and only four ploughs and twenty horses per 100 dessiatines on farms of 50 dessiatines each and over, or two and a half times as many on the small farms. On still larger farms still greater economy can no doubt be made.

Modern agriculture, compared with small farming, has the advantage that it can employ better machinery. Machines greatly augment the productivity of labour in agriculture.

To thrash 1,000 kilograms of grain the following number of hours is necessary:

1. Without machinery—104.
2. With a thrasher drawn by a horse—41·4.
3. With a thrasher driven by an electric engine (20 horse power)—26·4.
4. With a modern electric thrasher (60 horse power)—10·5.

Machinery is beyond the reach of small farmers, firstly, because machines cost a lot of money which a small farmer usually does not possess; secondly, because powerful machines can be profitable only if the farms on which they are used are big enough to utilise them in full.

According to Kraft's theory of farming, implements can be profitably used as follows:

A horse plough	for 75	acres
A seeder, harvester and thrasher	for 170	,,
A steam thrasher	for 600	,,
A steam plough	for 2,500	,,

From this it is quite clear that only big farms can make extensive use of modern machinery.

Large-scale production can also make much better use of labour-power. There are more workers employed on a big farm than a small one and, therefore, there are greater possibilities for division of labour on big farms.

"In harvest time, and many other operations which require that kind of dispatch by throwing many hands

together, the work is better and more expeditiously done; for instance, in harvest, two drivers, two loaders, two pitchers, two rakers, and the rest at the rick, or in the barn, will dispatch double the work that the same number of hands would do if divided into different gangs on different farms." (Marx, *Capital*, vol. i, p. 358, 1926 edition.)

Another great advantage that large-scale production has over small farming is that it can employ highly skilled labour, such as agricultural technicians, agronomists, etc., a thing which the small farmer is absolutely unable to do. It is a known fact that only under the management of a trained agronomist can a farm be put on a rational scientific basis. That the employment of a highly qualified agronomist may be profitable, the size of the farm must be sufficient to make full use of his skill. This is possible only on a big farm, and the size of the farm which can fully utilise the labour-power of an agronomist varies according to the nature of the farming.

Kautsky holds that in Central Europe it takes a farm of 200 to 250 acres, if worked intensively, to make full use of the labour of a specialist; extensive farming can make full use of a specialist on an area of 250-300 acres.

Large-scale farming has no less important advantages in the sphere of trade and credit. A small farmer must buy and sell his goods in small consignments. Trade in small consignments is much more expensive than trade carried on on a large scale. In the chapter on merchant capital and merchant's profit, we dealt extensively with the advantages arising from the concentration of merchant capital. Here we will only emphasise the fact which is most significant in agriculture. We have in mind the great relative importance of transport expenses in the cost of agricultural products. If transport swallows a lion's share of the cost of production in agriculture in general, it is obvious that this share must be incomparably larger in small than in large agriculture. Apart from that, trade in small consignments necessitates a whole chain of middlemen who exploit the economic weakness of the small farmer, his poor knowledge of the market, his need of money, etc., squeeze the greater part of his surplus labour out of him, and very often even a part of his necessary labour.

Large-scale farming can also obtain credit more easily than

a small farmer, and on more favourable terms. A small farmer when in need of money must borrow it from usurers and fall into their hands, while a big farmer can have the service of the banks. This leads to the conclusion that large-scale production has tremendous advantages over small farming.

A process of concentration of production, accompanied by the ruination of the small producers, is therefore constantly going on in agriculture, although at a slower rate than in industry.

106

Concentration of Production in Agriculture and the Position of the Small Farmer.

Concentration of production thus takes place in agriculture and, as stated, it is inevitably accompanied by the disappearance of the small farmers. What, after all, can the small farmer have to counterbalance the advantages which large-scale farming has over him? Only excessive labour, semi-starvation and a most backward and rapacious system of agriculture. That is why the dissolution and decline of small farming is to be observed in all capitalist countries.

The process of decline of small farming can be traced most clearly in the agriculture of pre-revolutionary Russia, which was the most backward both in its technical development and in the development of capitalist relations. In the main, the peasantry, as was pointed out in connection with the question of merchant capital and merchant's profit in the U.S.S.R., can be divided into three classes: (1) the rich peasant who lives on direct and indirect exploitation of labour, or on trade and usury, i.e. on concealed exploitation; (2) the middle peasant who, as a rule, employs no hired labour, lives on the sale of the products of his own labour, has a sufficient supply of his own instruments to be able to apply the labour of the members of his family on his farm and to be in a position to consume the greater part of his product (in natural form or through exchange), and to give up only a small part of his product to the landowner, the rich

peasant and the merchant ; (3) the poor peasant whose own instruments are so negligible that he submits to a systematic exploitation on the part of the rich peasant and landowner (in concealed form when the latter lend him instruments or money, in open form when they hire him as a worker).

According to statistics given by Lenin for twenty-one counties and seven provinces in pre-revolutionary Russia, we find that 20 per cent. of the farmers (rich section) comprised 26·1-30·3 per cent. of the population and possessed 29-36·7 per cent. of the land ; while 50 per cent. (poor farmers) comprised 36·6-44·7 per cent. of the population and possessed 33-37·7 per cent. of the land. It follows that the 20 per cent. of rich farmers had almost as much land as 50 per cent. of poor farmers. Still greater inequality could be found in pre-revolutionary Russia in relation to leased lands. Lenin says :

" We have given figures of the population and land concentrated in 20 per cent. of the more prosperous farms. We may add that the same farms include from 50·8 per cent. to 83·7 per cent. of the leased lands, leaving for the 50 per cent. of farms of the lower groups from 5 to 16 per cent. of all leased lands. The conclusion is clear. If we were asked which kind of land tenure preponderates in Russia, for home use or for the market, for the direct needs of the peasant or for profits of the richer classes, feudal or bourgeois, there could be but one answer.

" With regard to the number of peasants renting land there is no doubt that the majority rent it from necessity. The vast majority of peasants are enslaved by land tenure. With regard to the areas of land leased, there is no doubt but that not less than half is in the hands of the richer farmers, the rural bourgeoisie, the promoters of capitalist agriculture." (*Lenin*, vol. ix, p. 628, Russian edition.)

We have a similar picture in relation to land purchased by peasants.

" Twenty per cent. of the farmers own from 59·7 per cent. to 99 per cent. of the land that has been purchased ; 50 per cent. (the poor farms) have only 0·4 per cent. to 15·4 per cent. of all purchased land."

We get approximately the same results in the distribution of cattle :

The number of peasants owning no horses before the revolution was at least 3,000,000.

The number of peasants possessing one horse each was about 3,500,000.

The total number of poor peasants was therefore 6,500,000.

The number of peasants owning two horses was about 2,000,000.

The number of peasants possessing more than a pair of horses was about 1,500,000.

This means that about one-sixth of the farms had about one-half of the total number of horses.

The figures for farm implements correspond with those on cattle.

Lenin takes two counties of the province of Orlov as an illustration, where on each 100 farms modern agricultural implements were distributed as follows:

Farms with no horses	0·1 units
Farms with one horse each	0·2 ,,
Farms with 2 to 3 horses each	3·5 ,,
Farms with 4 horses each and over ..	36·0 ,,

Approximately the same picture could be seen in other parts of pre-revolutionary Russia.

Finally, the employment of wage-labour is a most important element in dealing with the question of the dissolution of the peasantry. But the Tsarist Government and the local administrations headed by the nobility, were not interested in this question. There are therefore no exact figures on the subject for the whole of Russia. We can give only individual examples. This refers not only to wage-labour, but to other questions as well.

The figures of the Krasno-ufimsky county of the province of Perm, where, according to Lenin, there were statistics not only of the employment of steady wage-labour, but also of the employment of day workers (the form of employment most prevalent in agriculture), give the following picture:

The percentage of farms of various sizes employing wage-workers was:

Farms of 5 acres	0·7
Farms of 5 to 10 acres	4·2
Farms of 10 to 20 acres	17·7

Farms of 20 to 50 acres	50·0
Farms of 50 acres and over	83·1

" From this it follows that the well-to-do peasantry would be unable to exist without an army of millions of agricultural labourers and day workers at their service. And while the figures of the percentage of farms employing wage-labour show considerable fluctuation, the concentration of wage-labour in the upper groups, i.e. the conversion of the well-to-do farmers into employers, is absolutely general. While the big farms comprise 20 per cent. of the farms, the big farms employing wage-labour comprise from 48 to 78 per cent. of the total number of farms employing wage-labour." (*Lenin*, vol. ix, p. 641, Russian edition.)

From whatever direction we approach peasant agriculture in pre-revolutionary Russia, we invariably come to the conclusion that capitalism was systematically and constantly converting a comparatively small group of middle peasants into well-to-do peasants, who eventually became small " capitalists " and, later, regular capitalists. On the other hand, the great mass of middle peasants were being ruined and turned into wage-labourers deprived of all property and compelled to sell their labour-power.

The statistics so far given of the development of capitalist relations in agriculture refer exclusively to pre-revolutionary Russia ; but the same picture, only in more striking form, could be observed in all capitalist countries. In his numerous works on the agrarian problem, constituting a brilliant example of Marxian analysis, Lenin examined the statistics of many countries—Denmark, Germany, the United States, etc. ; and in all cases he arrived at one and the same conclusion :

" On the basis of American statistics we find a remarkable similarity in the evolution of industry and agriculture. The number of medium enterprises which increases at a slower rate than the number of small and large enterprises is relatively decreasing in both cases.

" Both in industry and agriculture, the number of large enterprises increases faster than the small enterprises.

" Both in industry and agriculture the share of the small as well as of the medium enterprises is decreasing and the share of large enterprises is increasing. In other words, both

in industry and agriculture, small production is being superseded by large-scale production.

"As far as the degree of concentration is concerned, agriculture lags very far behind. In industry large establishments comprise 11 per cent. of the total number, holding over eight-ninths of the total production in their hands. The rôle of the small establishments is negligible. They constitute two-thirds of the total number but have only 5·5 per cent. of production in their hands. Agricultural enterprises are relatively still greatly scattered ; 58 per cent. of the farmers have only one-fourth of the total property of all farms ; 18 per cent. of the farms possess about one-half (47 per cent.) of the total farm property. The number of farms is more than twenty times greater than the number of industrial establishments."

These figures confirm the fact that capitalism is constantly penetrating agriculture, although at a slower rate than industry. But slow capitalist development is nevertheless capitalist development, and it entails all the consequences arising from such development.

It is difficult to conceive a position more subservient and unstable than the position of the small farmer under capitalism.

The conditions retarding the development of capitalism in agriculture merely protract the agony of small production.

They give rise to excessive labour, semi-starvation, poverty, and desperate efforts to hold on to some miserable piece of property. This recalls the words of an English writer about the peasants of the Palatinate, which are equally true of the peasants of all capitalist countries: "From early morning to late at night, they toil in the belief that they work for themselves. They exhaust themselves day in and day out, year in and year out ; they are more patient, untiring and enduring than any beast of burden."

107

Co-operation in Agriculture under Capitalism.

We have described the position of the small farmers under capitalism and have found that there are two ways open for

them: a comparatively small section become capitalists, while the great mass fill the ranks of the proletariat, deprived of all means of production and subsistence.

But we can see the advocates of what is known as "co-operative" socialism showing another way out of the situation, namely, co-operation.

In the chapter on merchant capital and merchant's profit, we dealt with the question of agricultural co-operation in the purchase and sale of commodities. We will now take up this question in greater detail.

The most widespread form of co-operation in agriculture is purchasing, selling and credit co-operation.

We have described the advantages of co-operation in the purchase and sale of commodities by small producers in general, and farmers in particular. Credit co-operation is of benefit to the small producer because by supplying him with credit on favourable terms, it frees him from the clutches of the usurer. Purchase, sale and credit co-operation is therefore fairly widespread in agriculture. This is by no means true of productive co-operation. The object of productive co-operation is much deeper. Its object is to organise on co-operative foundations the very process of agricultural production. Productive co-operation, therefore, presupposes the pooling of small units of land, livestock, tools, etc.; in a word, the social organisation of production.

Productive co-operation cannot thrive under capitalism. It cannot compete with private capitalist enterprise. Being founded on the mutual labour of its members, the productive co-operative cannot resort to the forms of exploitation employed by capitalists. In times of crisis, it cannot throw its members, who are both the workers and the masters, overboard, as the capitalist does. A productive co-operative is a clumsy organisation which cannot easily adapt itself to the changing conditions of the capitalist market, the arena of fierce competition among individual capitalists. Ordinarily it cannot command the capital which capitalists, who are in no way restricted in the exploitation of the workers, have at their disposal. The old Russian adage that no castles can be built with the labour of the righteous, certainly holds good here.

Finally, productive co-operation is greatly hampered by the property ideas of the peasantry. The conditions of small

individual production, under the influence of which the farmer's psychology is formed, make him averse to social forms of production. The farmer, no matter how poor he may be, clings desperately to his land and hopes that by holding on to it he may eventually " become a man."

Most of the attempts to organise farming co-operatives therefore end in failure. They break down either under the influence of internal discord or under the blows of competition ; if they do survive on the market, they eventually turn into capitalist corporations exploiting hired labour.

Productive co-operation develops fairly rapidly only on subsidiary lines ; there are, for instance, butter co-operatives, dairy co-operatives, etc., in which the farmer does not have to renounce his property in land and the means of production.

Although co-operative organisations are fairly widespread under capitalism, they cannot lead small agriculture along the path of Socialist development. The advocates of agricultural co-operation under capitalism, who believe such co-operation to be something different from large scale capitalist farming, are absolutely wrong. Co-operation is but a means by which the farmer gets the chance to enjoy the advantages enjoyed by the big farmer. Furthermore, under capitalism not all farmers can get the benefits of co-operation. A co-operative organisation which has to compete with capitalist enterprise seeks to include economically strong members and does not willingly include small farmers.

Co-operation under capitalism therefore has a tendency to become an organisation of rich, chiefly capitalist, farmers.

According to Lenin there were in Germany altogether 140,000 farmers, with 1,100,000 cows, participating in co-operatives for the sale of milk and other dairy products. The number of poor farmers in Germany is estimated at 4,000,000. Only 40,000 of them belong to co-operatives. It follows that only one out of each hundred poor farmers joins the co-operatives. These 40,000 own 100,000 cows. Further, there are 1,000,000 middle class farmers, 50,000 (5 per cent.) of whom belong to co-operatives ; the number of cows they own is 200,000. Finally, the number of rich farmers is one-third of a million, 50,000 (17 per cent.) of whom belong to co-operatives ; the number of cows they possess is 800,000.

It is clear, therefore, that the relative strength of the 50,000 big farmers in the dairy co-operatives is much greater than that of the 50,000 middle farmers and 40,000 poor farmers, because they sell through the co-operatives much more of their dairy products than the poor and middle farmers, although the latter predominate numerically—there are 90,000 poor and middle class farmers in the dairy co-operatives, while the number of their cows is 300,000 ; the number of rich farmers in the co-operatives is 50,000 and the number of cows they own is 800,000. Thanks to their great relative strength, these elements lead the co-operatives, and use them mainly in the direction of modern capitalist farming.

The figures for Germany are characteristic of the situation in all other capitalist countries.

There are, in addition, other conditions which strengthen the capitalist tendencies of co-operation. In many capitalist countries, big farmers and landowners belong to the same organisations as middle class and poor farmers and even agricultural labourers.

For instance, in Germany the chief organisation of this type is the Imperial Rural Union, with a membership of over 2,000,000. The leading rôle in that organisation belongs to the big farmers and capitalists, and to some extent, to manufacturers plus monarchist reactionaries. Former officers and officials are the backbone of this powerful organisation. Let us take France. There the picture is no more encouraging. There are six to seven large organisations in France uniting the small farmers with the big agrarians. All these organisations are headed by agrarian magnates and capitalists. Their organisational composition and methods are interesting. They are the same in all countries. They are usually backed by one or several political parties. They are a type of agricultural organisation uniting agrarian magnates, small farmers, and agricultural labourers. But in the organisation itself there is a certain hierarchy and an apparatus whereby the big capitalist circles manage to get the upper hand. This organisation has its connections with the consumers' and other co-operatives. The latter, in their turn, are economically linked up with the banks.

We thus see that the agricultural co-operatives are capi-

talist organisations not merely through their social composition and leadership; they are under the influence of organisations headed by agrarian magnates, landlords and capitalists, etc. Agricultural co-operation in all its forms is in the clutches of strong capitalist organisations, from the lowest branches to the highest. It rests upon the organisations of agrarian magnates, banks and modern capitalist establishments.

The tendency of the co-operatives to turn into capitalist organisations is clear. All talk about non-capitalist or Socialist development of small agriculture under capitalism is utopian.

" It is absurd," says Kautsky, " to expect the farmer to favour socialised production in present society. This means that under the capitalist mode of production it is impossible to convert the co-operatives into a means of giving the farmer all the advantages of large-scale production, and that it is impossible to brace up small agriculture, this shaking pillar of the modern State. The farmer who can be convinced that socialised agriculture will insure him of his livelihood will inevitably realise that such agriculture is possible only where the proletariat has the power to transform the social relations to suit its own interests." (Kautsky, *The Agrarian Question*.)

108

The General Law of Capitalist Accumulation.

Now that we have settled the question of the peculiarities of agricultural development, we shall return to the general question of capitalist development. The very laws of the capitalist order, as we have seen, compel the capitalist by iron necessity to accumulate. No matter what the " nature " of the individual capitalist may be, even if he is fully satisfied with the conditions under which he lives, and does not seek a better and more luxurious life, he must accumulate if he wants to maintain his position as a capitalist.

" The modern business man," says Sombart, " is drawn into the transmission belts of his establishment and revolves with them. There is no room for his personal virtue because

he himself is in a dependent position. The speed of his establishment determines his own speed. He cannot be lazy any more than the worker employed on a constantly working machine. The force by which the establishment subjugates its master is competition, which drives the establishment along the path of unlimited expansion. There is no point in the development of business at which one could say 'enough.' The business man is confronted with the dilemma, either to grow and expand, or to retrogress and be ruined." (Sombart, *The Bourgeois.*)

The watchword of the capitalist is " accumulation at all costs," and any means that facilitate this accumulation is good enough for him. To increase the mass of surplus value, to increase profits, becomes not only an aim in itself, but a means for further accumulation.

From this viewpoint, the method of extortion of surplus value from the worker, the intensification of his labour, and the raising of his productivity, is very important.

Apart from exploiting the worker, apart from the accumulation of surplus value at the expense of the worker, exploitation of the pre-capitalist forms of production, particularly exploitation of the peasantry, becomes an important factor in capitalist accumulation. Of the forms of this exploitation we have already spoken.

Now we must analyse more closely the question how capitalist accumulation, the process of concentration and centralisation of capital, affects the working class. In this analysis we shall generalise and supplement what we have already said on the subject.

We know that the process of capitalist accumulation is accompanied by a growing productivity of labour, which finds its expression in the increase of constant capital and the relative decrease of variable capital, and that the fixed part of constant capital (the tools of production) increases faster than the circulating part (raw materials).

The relative diminution of variable capital does not mean that the absolute number of workers is decreasing. Variable capital and, consequently, the number of workers drawn into industry increase absolutely. To the extent that capitalism develops, constant and variable capital increase, only the first increases immeasurably faster than the second and the

share of variable capital as compared with constant capital constantly decreases. The relative diminution of variable capital signifies a relative diminution in the demand for labour-power. Hence, the more capitalism develops, the more technique develops, and the smaller becomes the share of variable capital necessary to put in motion the whole mass of means of production. Every step forward in the development of technique dispenses with some part of labour-power. It is true that every technical improvement reduces the cost of production and, consequently, increases consumption, and that the improvement of technique and the extension of the market in one industry, or in one factory, calls forth expanded production in industries, which supply that industry with raw material, accessories, etc. So long as this expansion continues on the same technical basis there is an inevitable increase in the mass of labour-power employed. But, on the whole, the demand for labour-power increases in diminishing proportion to constant capital.

This relative diminution in the demand for labour-power in itself creates extremely unfavourable conditions for the workers and leads to the formation of a reserve army of unemployed.

Furthermore, competition among the capitalists, and concentration and centralisation of production, lead to the ruin of the small and medium capitalists, who also fill the ranks of the reserve army.

Agriculture, where the development of the productive forces under capitalism usually lags behind the growth in the population, and where, as in industry, there is an unequal distribution of products between the different classes, also throws sections of the impoverished and exploited classes into the reserve army of the proletariat.

Finally, the development of capitalist technique is accompanied not only by a diminution in the demand for labour-power, but makes possible an ever more extensive employment of women and children who, in competing with the men, render a certain part of the available labour-power superfluous.

All these factors swell the reserve army which is always ready to be at the service of the capitalist class.

Crises and stagnation, of which we will speak later, deprive

millions of workers of their jobs, further augmenting the army of unemployed.

The reserve army gives rise to favourable conditions for the exploitation of labour-power and the accumulation of capital.

We read in *Capital*:

"Taking them as a whole, the general movements of wages are exclusively regulated by the expansion and contraction of the industrial reserve army, and these again correspond to the periodical changes of the industrial cycle." (Marx, *Capital*, vol. i, p. 699.)

Further:

"The industrial reserve army, during the periods of stagnation and average prosperity, weighs down the active labour army; during the periods of over-production and paroxysm, it holds its pretensions in check. Relative surplus-population is therefore the pivot upon which the law of demand and supply of labour works. It confines the field of action of this law within the limits absolutely convenient to the activity of exploitation and to the domination of capital." (*Ibid.*, vol. i, p. 701.)

From this Marx establishes the following law of capitalist accumulation:

"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. The same causes which develop the expansive power of capital, develop also the labour-power at its disposal. The relative mass of the industrial reserve army increases therefore with the potential energy of wealth. But the greater this reserve army in proportion to the active labour army, the greater is the mass of consolidated surplus population, whose misery is in inverse ratio to its torment of labour. The more extensive, finally, the lazurus-layers of the working class, and the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation.*" (*Ibid.*, p. 707.)

All this results in a decrease in wages as compared with the general amount of values produced by the workers, a diminution in the share of the total "national revenue" received by

the workers, although the wages of the individual worker rise, while the income of the capitalists is constantly increasing.[1]

This does not yet exhaust the effect of capitalist accumulation on the working class.

Concentration and centralisation of production thus augment the ranks of the proletariat by destroying small-scale production and by assembling vast multitudes of proletarians in gigantic factories, it gives rise to conditions enabling them to unite and to become conscious of their class interests.

The constant revolutions in technique called forth by the bourgeoisie, making one group of workers after another unnecessary to production, coupled with the ebbs and flows caused by capitalist crises, make the worker's position insecure and unstable and his future uncertain.

Technical development destroys the distinction between skilled and unskilled labour and constantly equalises the position of the workers and leads to their consolidation as one class.

With its constant fluctuations, periods of prosperity, followed by crises, capitalism often compels workers to migrate from country to country in quest of a living. This brings about a realisation of the uniformity of interests of the whole

[1] That this is not merely a theoretical postulate but an actual fact is shown by the following table on the dynamics of the "national revenue" (i.e. the combined income of the capitalists and the workers) and wages in Great Britain (taken from Suntsev's book, *Wages*):

Year.	National Income in Millions of Pounds.	Wages paid in Millions of Pounds.
1843	515	235
1860	832	392
1884	1,274	521
1903	1,710	655
1908	1,844	703

In 1843 the workers received 235,000,000, i.e., about 45·6 per cent. of the total national income of 515,000,000 pounds; 65 years later they received only 38 per cent. of the national income. The total amount of wages increased during that period threefold, but as the number of workers also increased, the wages of each individual worker increased approximately only twofold. It is not difficult to see that the capital of the individual capitalists increased by far more than double during that period.

working class as such, independent of territory, nationality, religion, or any other distinction.

We read in the Communist Manifesto :

" The progress of industry, which the bourgeoisie involuntarily and passively promotes, substitutes for the isolation of the workers by mutual competition, their revolutionary unification by association. Thus the development of large-scale industry cuts from under the feet of the bourgeoisie the ground upon which capitalism controls production and appropriates the products of labour. Before all, therefore, the bourgeoisie produces its own grave-diggers. Its downfall and the victory of the proletariat are equally inevitable." (Marx and Engels, *The Communist Manifesto*, English edition, 1929.)

109

The Process of Reproduction and the Realisation of the Product.

In considering capitalist reproduction, in general terms, we have omitted a very important item, which is of colossal significance in that process. We left out of consideration the significance of the sale of the finished commodities. We saw in section 41, in speaking of merchant's profit, that the realisation of a commodity, its sale on the market, is one of the most important links in the circulation of capital and, hence, in the process of capitalist reproduction.

In capitalist society it is easier to sell a commodity than to buy one. What are the conditions necessary for the sale of a commodity ?

The need for a commodity alone is evidently no sufficient guarantee that it will be purchased ; what is necessary is that there should be a market demand, i.e. the presence of conditions under which the buyer may sooner or later be able to pay for the commodity.

We cannot say, for instance, that the worker does not buy soft furniture, expensive carpets, pianos, etc., because he has no need for these things and because he does not want to sit on a soft chair and enjoy a good piece of music. He does not buy these things, of course, because he cannot afford to buy them.

To have an equilibrium in capitalist society and to ensure a normal process of reproduction, a certain proportion between the quantity of commodities produced and the market demand for them is necessary.

But how can this proportion be established? We know that no one in capitalist society figures out in advance how much money people have and what they intend to buy with it. No one calculates this, for the simple reason that it is impossible to work this out in advance in the anarchic and haphazard state of capitalist production. Even the prices of commodities, the amount of commodities produced, and the amount that can be bought, are arrived at in capitalist society after the individual owners of the commodities have brought their wares to the market.

We have seen how equilibrium among different parts of capitalist production is spontaneously established by means of an incessant disturbance of that equilibrium. This spontaneous balancing of different parts of capitalist production and exchange simultaneously balances production with the buying capacity of the market (or with consumption, as consumption is kept within the limits of the buying power of the consumer in capitalist society).

Should a capitalist produce more commodities than are demanded by the market, the disproportion between that production and buying capacity will immediately reveal itself in a drop of prices below their value, and the capitalist will stop producing that commodity until its price rises above its value, or until improved technique reduces its value and makes it profitable to sell the article for the prevailing market price.

It is important to note that with the division of labour and the connections existing in capitalist society between the different parts of production, the expansion or contraction of production in one industry will immediately be reflected in all other industries.

For instance, the building of a railway line will increase production in a number of industries connected with that construction. The metallurgical plants will receive orders for rails, engines and cars; the timber mills will receive orders for the timber necessary for sleepers, railroad stations, buildings, etc.; the employment of large numbers of workers

in building the railway greatly increases the demand for articles of consumption, etc. The metallurgical plants, timber mills, and establishments producing articles of consumption, also depend upon other enterprises. The boom in these enterprises is transferred to the others which are connected with them. The contraction of the market is transferred from one to the other in the same way. By expanding or contracting its production each branch of manufacture expands or contracts also its power to purchase goods produced in other industries. In causing an expansion of production of other branches of industry, it simultaneously expands their power to buy its own wares. Thus, the expansion of the metallurgical industry not only calls forth an expansion in the needle industry which produces clothes for the metal workers, but also a demand for machines, that is metal, on the part of the needle industry.

The result is that each industry is a market for the other industries and simultaneously finds a market in the other industries for its own commodities.

From this it is clear why the question of the realisation of commodities in capitalist reproduction, the question of the relations between capitalist production and consumption, cannot be answered from the point of view of an individual capitalist or an individual branch of industry, but only from the point of view of society as a whole.

But it would be just as wrong to fall into the other extreme. In taking capitalist society as a whole it must be remembered that the whole consists of parts which balance each other blindly.

The question of interest to us can therefore be solved only if we regard capitalist society as a whole, the parts of which are closely linked up with each other, although blindly and without organisation.

110

The Conditions Necessary for an Equilibrium of Capitalist Production in Simple Reproduction.

First of all, let us see how an equilibrium can be established between production and consumption in simple reproduction.

Taking capitalist society as a whole, but remembering that it consists of separate parts, we must bear in mind that all branches of production can be divided into two categories: (1) industries occupied with the production of articles necessary for the direct satisfaction of the requirements of man (production of the means of consumption), and (2) industries engaged in the production of instruments and means of production (machines, etc.). In both categories, of course, there is constant and variable capital.

To use the examples given by Marx in the second volume of *Capital*, we will assume that in the industries producing means of production there is a capital of 5,000 pounds, of which 4,000 is constant capital and 1,000 variable capital; in the industries producing means of consumption there is only 2,500 pounds invested; if for the sake of simplicity we assume that the organic composition of capital is alike in both cases (i.e. 4 : 1), 2,000 pounds out of the 2,500 will in this case be constant capital and 500 variable capital.

In order not to complicate the example, we will assume that the rate of exploitation is in both cases 100 per cent., and that the capital makes its circuit in one cycle of production, assuming that the fixed capital also transfers its full value to the value of the finished commodity in the course of one circuit.

As a result we shall have the following picture:

I. Division producing means of production:
4,000c+1,000v+1,000s=6,000.

II. Division producing means of consumption:
2,000c+500v+500s=3,000.

The entire product in Division I is worth 6,000 pounds and consists entirely of means of production—tools, machiness, accessories.

The entire product of Division II equals to 3,000 pounds and consists entirely of means of consumption.

How can the means of production to the value of 6,000 and the means of consumption to the value of 3,000 be realised on the market? We have already pointed out that each industry and each individual establishment is a market for every other industry. We shall therefore note that exchange takes place not only between the two indi-

cated divisions, but also within each of the various industries producing, say, means of production and the individual establishments of those industries. It follows that the first division realises a part of its means of production itself and a part in the second division. The same is true of the second division.

We are still dealing with simple reproduction.

Let us see then how under these conditions the product of the first division to the value of 6,000 pounds and the product of the second division to the value of 3,000 pounds are sold. We will begin with the first division.

First of all, as we have just indicated, the first division itself needs some of the means of production which it produces. On completion of the process of production the whole value of the capital of the first division has been transferred to the product ; all machines, buildings and other elements of constant capital have been worn out and need replacement. It is clear that new machines, buildings and raw material will be taken from the product which the first sub-division itself has produced. And inasmuch as there was only 4,000 pounds of constant capital in the first division, that division in simple reproduction will take for itself wares to the amount of 4,000 pounds from the total output.

The total product of Division I amounts to 6,000 pounds. There are, therefore, means of production left unsold to the value of another 2,000 pounds, half of which, to the value of 1,000 pounds, constitutes the transferred value of labour-power (variable capital), and the other half, to the same amount, constitutes surplus value. The workers of the first division, who had the value of their labour-power paid in the form of wages to the amount of 1,000 pounds, cannot consume the means of production ; they must have means of consumption. The same may be said of the capitalist who acquired the surplus value. Inasmuch as we assume here simple reproduction, the capitalist must spend all his surplus value for his personal wants and not for an expansion of production.

It follows that the means of production to the amount of 2,000 pounds, constituting the value of variable capital and surplus value which remained unsold, cannot be sold within the first division in which they were produced.

These means of production to the value of 2,000 pounds must therefore be sold elsewhere. Where? Obviously in the second division, where they can be exchanged for means of consumption necessary for the satisfaction of the requirements of the workers of the first division on the one hand, and the capitalists on the other, for all means of consumption are concentrated in the second division.

But not only does the first division need the assistance of the second. The capitalists of the second division will not give up their products to the capitalists of the first subdivision simply because the latter need them, and they will not take from them the excessive means of production to the amount of 2,000 pounds simply because they are excessive. Obviously the second division must also be in need of the services of the first. That is actually the case.

There is constant capital also in the second division, the value of which is transferred to the finished product and must be reproduced. New machines, buildings, etc., can be acquired only from the first division, and as the constant capital of the second sub-division equals 2,000 pounds, the capitalists producing means of consumption will in simple reproduction put forward a demand for means of production precisely to the amount of 2,000 pounds.

The products of the first division amounting to 2,000 pounds, which could not be realised within that subdivision, will meet that demand.

It follows that the means of production of the first division to the amount of 2,000 pounds, representing the value of variable capital and surplus value, will be exchanged for the means of consumption of the second division representing the value of the constant capital of that division. The whole product of the first division is sold. We still have unsold means of consumption of the second sub-division to the amount of 1,000 pounds. It is obvious that these will go to meet the requirements of the second division itself. Inasmuch as the workers of that division have received 500 pounds in wages, inasmuch as the capitalists received an equal amount in the form of surplus value, which they will consume, the second division will put up a demand for means of consumption for its own workers and capitalists to the amount represented in the unsold products, for the value

of the variable capital and the surplus value of that division is contained in these unsold products.

The exchange between the two sub-divisions can be expressed in the following formula :

Division I. 4,000c+1,000v+1,000s=6,000.
Division II. 2,000c+500v+500s=3,000.

The first division realises internally its own products to the amount of the value of its constant capital ; the second division realises internally its own products to the amount of its wages and surplus value. An equilibrium between the two divisions, in simple reproduction, is therefore possible if the first division supplies the second division with means of production to the value of the constant capital of the second division, and the second division gives in exchange means of consumption the value of which is equal to the wages and surplus value of the first division. It is clear that to have an equilibrium it is necessary that v+s of the first division should equal C of the second division, i.e. .

$$v1+s1=c2.$$

In our example, taken from Marx, equilibrium is possible because equality prevails. 2c=2,000 pounds, and v1+s1= 1,000+1,000 pounds, i.e. also 2,000 pounds.

The preservation of this equality, we repeat, is a necessary condition for equilibrium in simple reproduction.

III

The Conditions Necessary for Equilibrium in Progressively Increasing Reproduction.

We have seen how the articles produced under conditions of simple reproduction, in which the capitalist spends the whole of the surplus value for his own requirements, and does not invest a penny for the expansion of production, are sold. But we stated that simple reproduction is rather a theoretical category than a real fact. Under actual capitalism it exists only as an irregularity. The basis of capitalist society is progressively increasing reproduction. Let us investigate the

process of realisation under conditions of increasing reproduction.

Progressively increasing reproduction, as we have just stated, presupposes that a part of the surplus value created is turned into capital, i.e. is used not for the personal wants of the capitalist, but for the enlargement of production. To convert surplus value into capital, it is necessary to buy additional machines, raw material, accessories and labour-power on the market. But that this may be done, means of production must be produced to serve as a means of further production. On this point Marx says :

" To accumulate it is necessary to convert a portion of the surplus product into capital. But we cannot, except by a miracle, convert into capital anything but such articles as can be employed in the labour process (i.e. means of production), and such further articles as are suitable for the sustenance of the labourer (i.e. means of subsistence). Consequently, a part of the annual surplus labour must have been applied to the production of additional means of production and subsistence, over and above the quantity of these things required to replace the capital advanced. In one word, surplus value is convertible into capital solely because the surplus product, whose value it is, already comprises the material elements of new capital." (Marx, *Capital*, vol. i, p. 636.)

Besides the additional means of production it is necessary to have additional labour-power. Marx says :

" For this the mechanism of capitalist production provides beforehand, by converting the working class into a class dependent on wages, a class whose ordinary wages suffice, not only for its maintenance, but for its increase. It is only necessary for capital to incorporate this additional labour-power, annually supplied by the working class in the shape of labourers of all ages, with the surplus means of production comprised in the annual produce, and the conversion of surplus value into capital is complete." (*Ibid.*, p. 636.)

Such are the conditions necessary for expanding reproduction. It is necessary for capital to incorporate additional means of production and labour-power.

The outline of simple reproduction which we have given is based on the assumption that the means of production

produced in the first division are sufficient for the restoration of the constant capital already invested in both divisions, and the means of consumption produced in the second division are sufficient to cover the needs of the workers and the capitalists of both sub-divisions. There can be no question of expanding reproduction under such conditions. Even if, say, the capitalists of the first sub-division would make up their mind to utilise a part of their surplus value for an expansion of production, they would be unable under those conditions to do so, as they would be unable to find the necessary additional means of production and labour-power on the market. Evidently certain changes are necessary in our scheme to make possible expanded reproduction. What are these changes?

If the capitalists of the first division want to expand their production, this production must be enough to be able to restore the original constant capital (1c) to meet the requirements for constant capital in the second division (2c), and to have a certain surplus for the extension of production. If that surplus was impossible in our example because 1v+1s equalled 2c, if, in other words, the capitalists of the first division formerly exchanged the whole surplus product for means of subsistence equal to the value of 2c, now they must leave a part of the surplus product for expansion, i.e. v+s in the first division must be greater than 2c in the second sub-division (greater than the amount of products exchanged between the two sub-divisions).

It follows that the formula of progressively increasing reproduction, as distinct from the formula of simple reproduction, must be based on the following inequality:

$$1v+1s>2c.$$

If we take the figures of the first division as our starting point, and assume that the capitalists of the first division use half of their realised surplus value for an extension of production, we shall have the following formula:

I. Division producing means of production:
4,000c+1,000v+1,000s=6,000.

II. Division producing means of consumption:
1,500c+750v+750s=3,000.

The capitalists of the first division will assign half of the

realised surplus value, i.e. 500 pounds, for an expansion of their production. For these 500 pounds they will procure means of production and labour-power, i.e. elements of constant and variable capital.

What the proportion of the new constant and variable capital will be depends upon the level of the organic composition of capital in that division. The ratio of the organic composition of capital in that division is 4,000 : 1,000, i.e. the ratio of constant capital to variable capital is 4 : 1. If we assume that the same proportion will be observed in the expansion, the 500 pounds assigned by the capitalists for it will give 400 pounds for the purchase of means of production and 100 pounds for the purchase of labour-power. Are the necessary means of production to the amount of 400 pounds to be had on the market? According to our formula, they are to be had. Means of production have been produced to the value of 6,000 pounds. Of these 4,000 goes for the restoration of the constant capital of the first division, 1,500 for the restoration of the constant capital of the second division. There is a surplus of means of production to the value of 500 pounds. Of these, means of production to the value of 400 pounds go for a further expansion of production. There is still a surplus of means of production to the value of 100 pounds. It is evident that these unsold means of production must be exchanged for means of consumption necessary for the additional workers engaged in the expanded reproduction, whose wages will amount to 100 pounds.

How will the means of subsistence produced in the second division now be sold? Means of subsistence to the value of 1,500 pounds will go to the first division in exchange for means of production necessary for the restoration of the constant capital of the second division; means of subsistence to the value of 750 pounds will go for the satisfaction of the wants of the workers employed in the second division. We still have unsold means of subsistence to the value of 750 pounds, constituting the surplus value of the capitalists of the second division. A part of these products, to the value of 100 pounds, will go for the satisfaction of the requirements of the additional workers of the first division. In exchange for these 100 pounds embodied in the means of subsistence, the second division will receive additional means of produc-

tion to the same value. These additional means of production make possible an expansion of production also in the second division. However, not much headway can be made with means of production alone. Parallel with additional means of production, it is necessary to procure additional labour-power. The correlation of constant and variable capital in the second division is 2 : 1. Hence, if the means of production in the second division have increased by 100 pounds, the means of subsistence necessary for the newly hired workers must increase by 50 pounds. These additional means must be taken from the 750 pounds which constitute the surplus value of the capitalists of the second division. Thus, out of the 750 pounds, 100 pounds will go into additional investment in means of production, and 50 pounds into additional means of consumption, and 600 pounds will make up the fund which the capitalists will spend for the satisfaction of their personal wants.

Our formula will then take the following form :

I. Division producing means of production.
Original value of produce :
4,000c+1,000v+1,000s=6,000.

Additional means of production and means of subsistence for expanded production secured through the conversion of part of the surplus value into capital : 400c+100v=500.

Value of produce after expansion :
4,400c+1,100v+500s=6,000.

II. Production of the means of consumption :
1,500c+750v+750s=3,000.

Additional means of production and means of subsistence for expanded production through the conversion of part of the surplus value into capital :
100c+50v=150.

Value of produce after expansion :
1,600c+800v+600s=3,000.

What does this formula show and what conclusions can we draw from what we have said?

First of all we see that in simple reproduction an equilibrium is possible if there is proportional development in the different industries; in expanded reproduction the observance of this proportion becomes more complicated. The expansion of one industry in a certain proportion is possible if there is a corresponding expansion in the other industries. We find here in more exact and mathematical formulæ what we stated before about the close interdependence, the chain-like circular inter-connections, existing among the different industries.

In speaking of simple and progressively increasing reproduction, we took very simple examples. For instance, for the sake of simplicity we assumed that the organic composition of capital remains constant in the process of increasing production. If we were to give a more complicated formula, showing that the expansion of production is accompanied by a rise in the organic composition of capital, the proportion between the different industries would become even more complicated. Matters would be still more complicated if we were to show that exchange between the different industries is not a direct exchange of commodities, but an exchange through the medium of money. Reality, as we shall see, is much more complex than rigid formulæ.

The importance of strict proportion in the development of the different parts of capitalist production and exchange is clear. The slightest derangement, over-production or under-production in any of the industries, makes itself felt immediately throughout the entire capitalist system and upsets its equilibrium.

112

Anarchy in Production and Crises.

From what we have said on the conditions necessary for an equilibrium in capitalist society it must be clear that the development of capitalism cannot proceed smoothly, and that it progresses by leaps and jerks with periodical crises which

paralyse for a time the whole of the economic fabric and even shakes world economy as a whole.

Economic disasters and catastrophes were known in pre-capitalist society. They were known to the patriarchate, to feudalism, and to the artisan towns. They were usually caused by the blind forces of nature—droughts, bad harvests, floods, etc.—or by social disturbances such as wars. But these disasters had nothing in common with the periodical crises known to capitalism.

A distinguishing feature of capitalist crises is that they do not arise as a result of under-production and insufficient supplies of commodities, they are not caused by some elemental force, such as a bad harvest, etc., they are a result of over-production. Crises under capitalism are not crises of poverty but of wealth. No form of society but capitalism knows such crises. They arise at periods when the sale of commodities is stopped, when the market refuses to accept them.

Where are the causes of capitalist crises to be sought? An equilibrium can be attained in capitalist production, as we have stated, on two conditions—proportional development of the various branches of capitalist production, and proper proportions between production and the buying power of the market.

Only by observing these two conditions can capitalist production proceed more or less normally. But in our analysis of progressively increasing reproduction, we pointed out that the slightest violation of balance in the development of the different branches of capitalist production, or between production and the buying capacity of the market, may upset the equilibrium of the capitalist system, owing to the close connections existing between its component parts.

What, then, are the conditions that disturb the proportional development of capitalist production?

We already know the forces driving capitalist production to expand. These are: (1) the thirst for surplus value, which becomes particularly keen because of the falling rate of profit, resulting from the more rapid growth of constant capital as compared with variable capital, and (2) competition, which forces the individual capitalist to increase his production, independently of the first cause, if only for the reason that he wants to keep his place in the struggle and

maintain the economic strength and power which he has already attained.

The result is progressively increasing production accompanied by a rising organic composition of capital, which rise is not the same in all branches of capitalist production. In the branches producing means of production it rises much faster than in the branches producing means of subsistence.

Accumulation signifies that the capitalist, instead of spending the whole of his surplus value for the satisfaction of his personal requirements, spends a part of it for the further extension of production. That means that instead of buying for the whole of the surplus value articles of consumption for himself and his family, he invests part of it for the purchase of means of production for new establishments or for the enlargement of the existing ones, and a smaller part for the purchase of means of subsistence for the additional workers. Accumulation of capital leads to the same results in the second branch. Here, too, the capitalist must invest part of the surplus value in new means of production and part in means of subsistence for his additional workers. Here also the demand for means of production increases faster than the demand for means of consumption. In this manner, progressively increasing production results in a greater expansion in the production of means of production than of means of consumption.

This unequal development of different industries becomes more marked because differences in the organic composition of capital lead to differences in the mass of profit received by the capitalists.

We know that profit is distributed in capitalist society in proportion to capital investments. Consequently, inasmuch as the capital invested in the first division is considerably greater than that invested in the second division, the mass of profit made in the first division is also greater. From this it follows that the capitalists of the first division will be in a position to invest a considerably greater part of their profit for the extension of production than the capitalists of the second division. This results in unequal accumulation in the two branches of production, which still further accentuates the disproportion in capitalist production.

The demand for means of production on the part of both

divisions, which is rapidly increasing under the influence of capitalist accumulation, calls forth a rise in prices of the means of production. With the rise in prices the rate of profit increases. The capitals attracted by the high prices and the high rate of profit flock to the industries producing means of production. The extension of these industries proceeds at a feverish rate. But the results of this rapid growth in the production of means of production cannot assert themselves quickly on the market because each extension of production in this branch involves colossal investments in fixed capital—gigantic factory buildings, huge machines, etc., etc. All this requires some time to take effect. And as long as the newly produced means of production do not appear on the market, the demand for the means of production on the part of both divisions remains unsatisfied. Their prices will stand high as before and will tempt capitalists to invest more and more capital in the industries producing means of production.

The picture will be quite different in the industries producing means of consumption. There will be a relative drop in the demand for the means of consumption produced by them. That contraction will be due to the fact that the capitalists of the first as well as the second division, to the extent that their accumulation increases, will spend an ever greater part of their surplus value on means of production necessary for the extension of production and a relatively smaller part on the purchase of articles of consumption, both for themselves and for the newly employed workers.

While the capitalist is able to consume an ever smaller part of his increasing mass of surplus value, the share of the worker in the income of capitalist society, as a result of the increase in constant capital to the detriment of variable capital, and on the basis of the growing rate of exploitation, is relatively declining, and the working class consumes an ever smaller part of the increasing wealth.

The slowing down in the demand for means of consumption must inevitably result in a drop in their prices and a reduction of the rate of profit. Some factories cut down production and others are ruined. Workers are thrown out on the streets. This reduces the demand for means of consumption still further, because the workers thrown out of the fac-

tories have no money to buy with and cannot be a source of buying-power for means of consumption, although perhaps never before in their lives have they felt the need for these articles so much as now.

Under these circumstances a period of contracted production sets in in the industries producing means of consumption. This invariably reduces the demand for means of production, because once production diminishes it is ridiculous to think of buying new means of production. The result is that by the time the industries producing means of production can bring their commodities to the market, they no longer meet with a demand for them. It is found that much greater quantities of commodities have been produced than the market can buy. The sale of the finished commodities is delayed, and this immediately affects credit, the most sensitive spot in the capitalist economic system. Usually at the beginning of a period of prosperity there are large supplies of unemployed capital seeking a field for investment, as a result of which the rate of interest is very low. But later, as industry revives and increases the demand for loan capital, the rate of interest begins to rise. The banks, carried away by the favourable situation of the market, hand out endless loans and issue vast quantities of banknotes, cheques, etc. On the first report that the sale of commodities is held up, the rate of interest takes a big jump. Depositors and holders of securities get into a panic. The entire mass of securities is brought to the bank to be exchanged for gold. But the banks are unable to exchange them all.

" On the eve of the crisis the bourgeois, with the self-sufficiency that springs from intoxicated prosperity, declares money to be a vain imagination. Commodities alone are money. But now the cry is everywhere : money alone is a commodity! As the hart pants after fresh water, so pants his soul after money, the only wealth." (Marx, *Capital*, vol. i, p. 155, Kerr edition.)

The fact that credit links together individual establishments and whole industries, means that the credit crisis, which accompanies the crisis of production, affects establishments which would perhaps not be engulfed in the stream were it not for their credit relations.

Following on the sharp jump in interest, prices of goods

fall rapidly and heaps of unsold commodities are clogged up. Many factories work part-time, some of them stop entirely, and many capitalists are ruined.

The crisis, which begins with one industry, is transmitted through the connections of the market to other industries, and involves the whole organism. This is followed by a prolonged period of stagnation. The contraction of production goes further than was made necessary by the contraction of the market, and after a while it gradually begins to revive.

The revival begins with the branch of industry producing means of subsistence. The stocks of commodities are gradually sold out at reduced prices. A new demand arises for new means of subsistence, as a result of which the industries producing such articles gradually begin to revive. The revival in the industries producing means of subsistence necessitates an extension of their production, and a demand arises for means of production, which leads to a revival in the industries producing means of production. The demand for labour-power increases, the consumption of the workers rises, and a general revival sets in, which ends once more in rapid development and leads to a new crisis.

The question arises, why do these crises assume such catastrophic forms? Because over-production continues for a long time before it is found out. It can be found out only after the commodities reach the market, prior to which concealed over-production may have existed for a long period. When the market signalises the danger by a rise in interest and a reduction in prices, the over-production of commodities is immediately discovered and a crisis sets in, which rapidly permeates the whole capitalist organism. The crisis becomes further accentuated by the credit system. In time of prosperity, credit helps to organise new establishments, supplying the capitalists with the necessary money for that purpose. When over-production begins, credit covers and conceals the fact. Many factories would be unable to enlarge their production without credit and would discover the fact of over-production much sooner, but as the banks give them credit, their production can increase although difficulties in selling commodities on the market already exist. In this manner prosperity is artificially maintained when over-production has already set in. The discovery of the crisis is

therefore delayed, and when it is finally discovered it is already very deep and acute.

Crises are inevitable in progressively increasing capitalist reproduction.

Increasing production must in its further development inevitably disturb the equilibrium of the capitalist system, it must end in a crisis. On the other hand, every crisis, in restoring equilibrium, prepares the conditions for a new expansion of production, which, after a certain time, again ends in a crisis.

" Under the capitalist mode of production," says Kautsky, " it is a law that crises and prosperity are inseparable, that prosperity is bought at the price of a stunning crash, which is the more violent, the more flourishing the prosperity, and that an industrial boom cannot be anything but a prelude to a crash."

The position is no way altered by the fact that in times of crisis the capitalists, in the search for markets for their goods, invade the backward countries, which have not yet been drawn into the sphere of capitalist exchange. Not only does this not eliminate the inevitability of crises, but, on the contrary, it creates a wider basis for them. By drawing the backward countries into the sphere of capitalist exchange, and particularly by supplying them with the means of production, the capitalists convert them from non-capitalist countries into capitalist countries, and thereby make crises an inevitable condition of their further development.

Marx asks in the *Communist Manifesto* :

" How does the bourgeoisie overcome these crises ? "

And he answers :

" On the one hand, by the compulsory annihilation of a quantity of the productive forces ; on the other hand, by the conquest of new markets and the more thorough exploitation of old ones. With what result ? The result is that the way is paved for more widespread and more destructive crises, and that the capacity for averting such crises is lessened." (*Communist Manifesto*, English edition, 1929.)

Crises are not only inevitable ; however painful, they are a necessary element of capitalism. Considering the anarchy which prevails in capitalist society, and the complicated system of exchange which unites the separate parts into one

economic organism, a prolonged disproportion between production and the purchasing power of the market, if not discovered in the form of crises, would lead to the decline of the capitalist system. Crises bring the concealed infection to the surface and thus make possible its rapid cure.

Crises have other consequences for capitalism. They intensify the competitive struggle among the capitalists In that struggle only the strong capitalists can survive, and as a result the concentration and centralisation of capitalist production immensely increases. Finally, crises stimulate a further increase in the productivity of labour. Low prices in time of crisis and during the subsequent stagnation, force the capitalists to cut the cost of production so as to make it profitable even at low prices. The entire capitalist apparatus of scientific and technical research gets busy working out the problem of better organisation of the labour process (better in the sense of providing for more intensive exploitation) and the invention of more modern tools of production. A crisis serves, therefore, as a starting point for a further rise in productive forces.

Crises also greatly intensify the exploitation of the working class. They increase the army of unemployed, they help to cut wages, they stimulate the intensification of labour. By forcing the capitalists to secure better instruments of production, they still further reduce the relative demand for labour-power, etc. But by worsening labour conditions and making the position of the workers uncertain and precarious, they greatly develop the revolutionary consciousness of the workers. Crises remind the workers in accentuated form that as long as the capitalist order exists there can be no radical improvement in the position of the working class, and no matter what partial success the labour movement may have in its long and bitter economic struggles, in the form of higher wages, and reduction of the working day, these successes cannot be stable and are swept away by the first crisis. Crises therefore lead the thoughts of the workers away from the immediate tasks of partial improvement of their position within capitalism, to the main tasks of struggle for the destruction of all crises, in other words, for the destruction of the foundations of capitalism. And these final aims, forgotten in the process of the everyday struggle, in times of

crisis flare up in the minds of the workers with full force and intensity.

QUESTIONS FOR STUDENTS

1. What do you understand by production and reproduction?
2. What are the peculiar characteristics of simple capitalist reproduction as distinct from pre-capitalist reproduction?
3. Can we consider the hoarding of money as accumulation in the capitalist meaning of that term? What, in your opinion, is the essence of capitalist accumulation?
4. Wherein does progressively increasing reproduction under capitalism differ from increasing reproduction prior to capitalism?
5. Describe the methods of capitalist accumulation.
6. Can there be a crisis of over-production in self-sufficing economic systems? Show the basis upon which your reply is given.
7. How is the market created for progressively increasing capitalist production?
8. In Maslov's book, *The Theory of Development of National Economy*, we read:

"Comparing the statistics of the last American census on the productive forces in industry for the periods 1880 and 1905, we find that while there is a general increase in production, the production of means of production has increased much more than the production of means of subsistence.

Industries manufacturing for direct consumption:

Year.	Fixed Capital in Dollars.	Wages in Dollars.	Value of Products in Dollars.
1880	1,367,101,000	415,597,000	2,732,274,000
1905	4,433,261,000	897,347,000	7,065,792,000

The value of fixed capital increased 224 per cent. and wages 115 per cent.

In the production of means of production the following increase is recorded:

Year.	Fixed Capital in Dollars.	Wages in Dollars.	Value of Products in Dollars.
1880	960,790,000	269,177,000	1,626,868,000
1905	4,056,178,000	785,473,000	4,320,836,000

In the production of means of production fixed capital increased 315 per cent. and wages 192 per cent."

What conclusions can you draw from these figures as to the causes of crises?

9. Show other causes of crises not indicated by these statistics.

10. How can you explain the catastrophic and periodical character of crises; what part does fixed capital play in this?

11. What is the rôle of crises and can they be avoided under capitalism?

12. What is the difference between concentration and centralisation of capital?

13. On the basis of statistics taken from A. Kon's book, *Finance Capital*, we find that the average American establishment had:

	Year.						
	1869.	1879.	1889.	1899.	1909.	1914.	1919.
Workers	8·1	10·6	13·8	22·6	24·1	25·4	31·3
Capital in thousands of dollars	6·7	11·0	19·0	43·1	68·7	82·6	154·1
Production in thousands of dollars	13·4	21·1	28·1	54·8	77·2	87·7	216·9

What are the tendencies of capitalist development shown in this table?

PART IX

Chapter I

IMPERIALISM AND THE DOWNFALL OF CAPITALISM

113

Capitalism and the Development of Productive Forces.

In the preceding chapters we have seen how enormously, in the comparatively short period of its existence, capitalist society has developed its technique and its productive forces.[1] The transition from the primitive wooden plough, the horse and the camel to the modern tractor, the electric engine and aeroplane, shows that parallel with the contradictions inherent in capitalism it contains also progressive elements helping the development of the productive forces of society. What are those elements?

We said that capitalism was based on competition from the moment of its inception. Competition is the main factor of capitalist development, notwithstanding the negative features that go along with it. Every capitalist is seeking to beat his rival, to cheapen his goods and to lower the cost of their production. This he can accomplish by improving his technique. By installing better machines he not only cheapens the commodities and gains a stronger position in the competitive struggle, but receives a differential profit until that better machine is universally introduced.

But even before that time comes, the capitalist is already thinking of new improvements because his rivals, the other capitalists, are not asleep either.

Notwithstanding the bankruptcy of some establishments and the ruin of many small business men, competition leads to a spontaneous development of technique, a spontaneous development of the productive forces of capitalist society.

[1] By productive forces we mean all forces which human society possesses in a given phase of its development for the struggle against nature. The productive forces consist of: (1) tools and means of production, (2) living human beings (labour-power). The state of the productive forces in society determines the productive relations among men and through those relations all other phases of social life.

Even the periods of crisis, when the destructive spirit of capitalist anarchy is most rampant, even those periods lead, in the final analysis, to a growth and development of production. We know that there can be no boom in capitalist society without a preceding crisis. It is known that during the periods of " peaceful development " of capitalism, i.e. in time of prosperity, the capitalists are not very anxious to instal new machines, as the buying power of the market is then so high that their commodities can easily be sold. It is only when a crisis threatens to ruin the capitalist that he takes decisive steps towards the cheapening of his production. It is no accident that most technical improvements are made towards the end of crises.

A crisis, by ruining hundreds of small manufacturers who work with backward technique, creates a basis for the enlargement of big establishments with more modern machinery.

A crisis, by destroying productive forces, creates the conditions necessary for a further and more rapid development of new productive forces.

In such cases crises are like growing pains, which, although they cause great temporary harm to the organism, make possible its further development.

Even the worst phases of capitalism, and of the exploitation which lies at its foundation, have a certain progressive significance: by ruining thousands and millions of small independent producers and driving them from their remote villages to huge capitalist towns, capitalism tears them away from the backwardness of rural life which is so characteristic of capitalist society. The once ignorant, downtrodden and illiterate peasants, full of old prejudices, are assembled in the capitalist factory in a powerful collective body ; the struggle against capitalism, and the surroundings of the capitalist town, rouse their mental faculties and their striving for a higher life. Even the woman for whom, far more than for the man, the capitalist factory is a prison, is roused to a conscious life and is converted from a domestic slave into an equal fighter in the great army of labour.

Such are the progressive features of the capitalist order, such are the creative possibilities inherent in the capitalist system. It was these progressive features that promoted the

development of society in the dawn of the capitalist system and in its maturity.

However, capitalist society does not remain in one place. In the process of its development it reaches a level where it acquires certain new characteristics, which, although they arise on the basis of the tendencies of capitalist development, add certain new features distinguishing it from the earlier stages of its development. A new capitalist epoch sets in, the epoch of finance capital, or imperialism. In that epoch capitalism becomes devoid of the progressive features of its initial stages. The capitalist system enters upon a stage of its development in which the further growth of productive forces becomes difficult (and even impossible) and the " overhead expenses " of capitalist antagonisms are no longer counter-balanced by the positive achievements of capitalism.

The capitalist mode of production begins to decline and an epoch sets in, in which the inevitability of the downfall of capitalism and the inevitability of its displacement by a new social order become clear.

What are the peculiar characteristics of that epoch? What distinguishes it from capitalism in its earlier stages of development? Why does capitalism in that stage lose its progressive character and become an obstacle to the further development of society?

114

Joint-Stock Companies.

We stated above that the new epoch of capitalist development arises on the basis of the tendencies with which we have already become acquainted.

We have seen how, as a result of the struggle for profits and influence on the market, the larger and technically more developed establishments, possessing much capital, are the victors in capitalist society, while the smaller establishments are either ruined in the unequal battle, or fall under the influence of the larger ones. Competition inexorably leads, therefore, to the concentration and centralisation of capital.

The first characteristic peculiarity of the last phase of capitalism is that the concentration and centralisation of capital have reached enormous proportions.

Some of the old forms of concentration and centralisation now become specially significant, and side by side with the old forms, new forms arise.

We will discuss in some detail both the old and the new forms of concentration and centralisation.

The advantages of large-scale production have long ago prompted the capitalists to find ways of enabling individual enterprises to go beyond the limits of capital belonging to a single capitalist. We have seen how this is partly accomplished with the help of credit.

However, so far we have not dealt with one form of centralisation, namely, the form of joint-stock companies, which, in the epoch we are analysing, become very important.

What is the essence of the joint-stock company and wherein does it differ from other forms of enterprise?

Besides the establishments in which the individual capitalist is the master, there are in capitalist society company establishments run by several capitalists.

All companies have the common characteristic that the capital of each of them consists of share payments made by capitalists and that the profits are divided among all who took shares in the establishment.

We will now see what these shares are and what are the main features of a joint-stock company.

As just stated, the capital of a joint-stock company, as of any other company, consists of share payments paid by individual capitalists who open up jointly some enterprise—a factory or bank, etc. The shares paid by the individual capitalists need not necessarily be equal, one may invest half of the capital of the enterprise, another one-tenth, and a third one-hundredth, etc. The rights of any of the shareholders to the property of the establishment and its profits, etc., are determined according to his share. The capitalist who invested half of the capital has the right to half of the profit, the one who invested one-tenth of the capital has a right to draw one-tenth of the profit, and so on. In exchange for the money invested, each investor receives a certain number of

certificates, known as shares or stock, indicating his right of participation in the establishment and its profits. The entire capital of the stock company is broken up into a number of equal parts, so that if the entire capital amounts to 50,000 pounds, which is divided into one thousand shares, an individual who pays fifty pounds receives one share and the right to one-thousandth of the profits of the establishment; the individual who pays, say, half of the entire capital (that is to say, 25,000 pounds) receives 500 shares, etc. In deciding the business of the establishment, in electing the board of directors, the managers, etc., each stockholder has the right to cast a vote for each share held.

If a shareholder sells his shares (or some of them), his rights are transferred to the individual who buys them.

Why is it that the form of joint-stock companies is so widespread in the phase of capitalist development under discussion?

We have seen that one of the tendencies of capitalist development is the rapid growth of constant capital, accompanied by a still more rapid growth of the fixed part of it, viz. instruments of production—machines, buildings, etc.

This growth in fixed capital has two results.

1. The flow of capital from one industry into another, as a means of levelling out profits and their approximation to the average rate, becomes extremely difficult. To withdraw capital invested in some huge metallurgical plant means to lose a big part of the capital.

2. The minimum amount of capital necessary for the launching of new enterprises becomes so large that no individual capitalist can undertake it.

The chief advantage of a joint-stock company lies precisely in the fact that it greatly facilitates the mobilisation of capital. Notwithstanding the slow turnover of capital in modern big establishments, the individual capitalist can easily withdraw his capital from the establishment by selling his stock. Furthermore, joint-stock companies, in addition to the forms of credit analysed above, open up great possibilities for the concentration of scattered small sums of money in large capitalist establishments. This is accomplished by means of issuing shares at very small sums so that the price of one share may be even less than one pound. In

Great Britain, for instance, there are shares of one shilling each, in France of two francs. It is obvious that under such conditions shares can be bought not only by capitalists, but by clerks, workers and farmers who have some savings " for a rainy day." The joint-stock company, therefore, solves another difficulty which capitalism meets with in its development, namely, the inadequacy of individual capitals for the organisation of new establishments.

Facility in attracting capital is combined with ease in securing credit. Joint-stock companies have vast capitals at their disposal and are therefore more solvent than any individual capitalist or enterprise, and the banks, therefore, give them credit more willingly than anyone else. The fact that the social character of the joint-stock company allows the bank to establish control over its affairs with comparative ease, may also have some influence.

The joint-stock company can also make use of credit by issuing debentures. A debenture is a certificate which gives the right to receive a certain interest. A debenture, as distinct from a share, does not entitle its holder to partnership in the company and gives him no voice at the shareholders' meeting.

It is quite obvious that owing to this ease in attracting capital and obtaining credit, a joint-stock company can enlarge its establishment much more readily than an individual capitalist.

Apart from that, the independence of the joint-stock company from individual owners plays a big part in spreading this form of company. Whereas the fate of individual capital may be determined by numerous circumstances, not only of a social, but of a purely personal or family character, as, for instance, disagreement among relatives, etc., such things cannot happen in a joint-stock company. Here the property is freed from the individuality of the owner.

It stands to reason that joint-stock companies, being large-scale establishments with huge sums of capital, have all the advantages which modern production has over small production.

Joint-stock companies which possess large quantities of capital are able to undertake the construction of huge buildings such as no individual capitalist is in a position to build.

Marx says that :

" The world would still be without railroads, if it had been obliged to wait until accumulation should have enabled a few individual capitals to undertake the construction of a railroad. Centralisation, on the other hand, accomplished this by a turn of the hand through joint-stock companies." (*Capital*, vol. i, p. 688, Kerr edition.)

It is clear that small establishments, which are doomed to destruction in their unequal struggle with large enterprises, become even more powerless in the struggle against big joint-stock companies.

115

Joint-Stock Companies and the Centralisation of Capital. The System of " Subsidiary " Companies.

Joint-stock companies can be found in all phases of capitalist development, but they become specially important in its final stage.

What new element is introduced into capitalist society by joint-stock companies ?

We have seen that the individual capitalist is relegated to an unimportant position, and that his place is taken by an association, a group of people who invest their capital in the establishment.

But we already know that not all shareholders are equal members of the company. Inasmuch as in deciding the fate of a company, the election of a board of directors, the distribution of profit, etc., the voting strength of every member depends on the number of shares he holds, power in the stock company is actually in the hands of the richest shareholders. Theoretically, the capitalist who owns a little more than half the shares is master of the company. But as a matter of fact, it is not always necessary to possess most of the shares in order to have control. The fact is that many small shareholders are scattered throughout the country and cannot attend the general shareholders' meeting. In many cases it would cost much more to come to the meeting than the dividends are worth. Besides, the insignificant weight of their

vote kills their desire to try to influence the establishment, and they are content just to draw their dividends. Many small and medium shareholders depend on the larger shareholders, in which case they cast their votes for one big shareholder or another who is thus elected to the board of directors.

Joint-stock companies are, therefore, a powerful instrument for the centralisation of the whole of social capital in the hands of a handful of big capitalists.

This centralisation increases still further when one company participates in another company and brings the latter under its influence. We will give an illustration of how this happens.

We will assume that a certain company has a capital of 1,000,000 pounds. A capitalist who holds shares to the amount of 510,000 pounds has undivided power in that establishment. By issuing bonds he can increase the capital of the company to an amount considerably greater than 1,000,000 and still retain his control because bondholders do not have the rights of shareholders. But company A can undertake to organise a new company B, in which connection A will try to secure most of the shares of B. We will assume further that the share capital of the new establishment amounts to 2,000,000. If company A does not happen to have a million available, it can float a loan and buy half of the shares of the new concern and assure itself of control in the new establishment. Company B will be called a " subsidiary " or " daughter " company and company A the " parent " company. The capitalist who owns only half a million dominates the parent company with a capital of 1,000,000 pounds and extends his control through that company to another with a capital of 2,000,000 ; B in its turn can participate in a third company C, which will be the " grand-daughter " of company A, and so on. In this manner one capitalist, by organising new " daughter," " grand-daughter " and " great-grand-daughter " companies, or by buying shares of existing companies, constantly increases his power. Entire branches of industry and the largest establishments fall in this manner into the hands of a handful of big capitalist shareholders.

116

Dividends, Founder's Profit and Fictitious Capital.

The actual domination of a small group of big capitalists cannot fail to influence the distribution of profits in joint-stock companies.

We said above that the profit received by each shareholder is in proportion to the capital represented by his shares. But this does not mean that the entire profit of the company is distributed among the shareholders according to their shares. Not all, but only a part of the profit is divided. The truth of the matter is that the directors of a company, having the controlling positions in their hands, fix salaries for themselves whereby they pocket a considerable part of the profit. The big capitalists gain doubly: (1) they take the cream of the profit in the form of salaries; (2) by owning many shares they also receive a big part of the profit which goes for general distribution among the shareholders in the form of dividends.

But this does not exhaust the advantages of the big capitalists and their intimates.

In organising a joint-stock company shares are sold at a nominal price: if the capital amounts to 500,000 pounds and 5,000 shares are issued, everyone who pays 100 pounds receives one share. But suppose a person wishes to sell the shares he bought when the company was founded. Will he sell them at 100 pounds each? That will depend on the dividends he can realise on his shares. We will assume that a share brings in a dividend of 15 pounds per annum. It is evident that in selling the share its owner will want enough money to give him in the form of interest as much as the share gives him in the form of dividends. If the average interest paid by the bank is 5 per cent., the shareholder certainly will not sell his share for 100 pounds, because by putting the 100 pounds in the bank he will receive only one-third of what he can receive by holding the share. It is clear that in this case the share will be sold at a price three times as great as the nominal price, namely, 300 pounds.

But the 300 pounds received by the founder for his share represent only 100 pounds of real capital of the establishment

(in the form of machines, merchandise, etc.) ; the remaining 200 pounds are paid merely for the right to receive interest in the form of dividends, because 300 pounds deposited in the bank would give an annual interest amounting to as much as the annual dividend on the share, i.e. 15 pounds.

The 300 pounds paid by the purchaser of the share do not represent the price of some real value. He does not buy any goods for the money in the production of which socially-necessary labour has been spent, but merely the right to receive a certain income in the form of dividends.

This purchase of the right to receive dividends is very like the purchase of land, because the land, as we know, has no value of its own and the money paid to the landowner for it represents merely capitalised surplus value, a payment for the right to receive ground rent.

The same may be said of the price of shares, which represents capitalised dividends.

In this capitalisation of dividends, as in the capitalisation of ground rent, the contradictions of capitalist society are clearly reflected. On the one hand, surplus value cannot arise without real values—machines, raw material and, especially, labour-power ; on the other hand, the distribution of surplus value is so much divorced from its production that money is paid for the mere right to receive a certain part of it, which right is converted into a form of capital.

This capital, as distinct from real capital (consisting of real values), is called fictitious capital.

The capitalist who bought shares at the foundation of the establishment at a nominal price, which in our example is 100 pounds, regards them as (fictitious) capital of 300 pounds each, just as the landowner considers his land as of a certain value, even if he does not mean to sell it.

He actually receives on his 100 pounds paid for the share a 15 per cent. founder's profit ; the person who buys shares receives only interest (5 per cent.). The founder, in selling his share for 300 pounds, receives 200 pounds more than he paid, which 200 pounds, constituting the difference between the real capital of 100 pounds and the fictitious capital of 300 pounds, comprise what is called founder's profit. This founder's profit is the price for which the founder by selling the share waives his right to profit in the future.

The parasitical character of the capitalist class here becomes extraordinarily clear. In order to make profit, it is enough to hold a share, although the shareholder may never have seen the establishment where the surplus value is produced; to be one of the founders is a sufficient ground for receiving founder's profit, without moving a finger. If, formerly, the capitalist played a progressive rôle in managing his enterprise and organising production, now many capitalists are reduced to the position of parasites who buy and sell shares and draw dividends. The organisational and technical side of the business is now looked after by hired workers. The handful of big capitalist plutocrats at the head of a company have only the "general direction" in their hands.

Utilising their power, these magnates not only take the cream of the profits; in case of failure, they throw the risk over to the small shareholders. With their inside knowledge of the business, they hurriedly sell their shares in anticipation of failure, before the fact becomes known to the rest. To do this they sometimes purposely pay high dividends so as to boost the share quotations and be able to sell their shares at a good price; only when their shares are sold out do they give the game away, and then, of course, it is not they, but the buyers of their shares who are the losers.

Inasmuch as the Stock Exchange quotations (the price for which stocks are bought and sold) change in accordance with dividends, the quotation may either rise or fall in expectation of a rise or fall in dividends. This gives rise to speculation in shares and other securities. In expectation of a drop in the quotation, everyone is feverishly anxious to sell his shares; but if, on the contrary, a rise is expected, the demand for shares increases. In this game of the Stock Exchange people "make" and lose millions, and in the process the small dealers are usually the victims of swindles perpetrated by the big crooks. But the gains and losses accompanying this speculation do not signify any actual increase or decrease in the wealth of society, but merely its redistribution. The parasitic nature of the bourgeoisie reveals itself here therefore in its most naked form.

117

The Rise of Capitalist Monopolies.

In discussing credit, we saw how the banks, by collecting and concentrating scattered and insignificant sums of money in their hands, actually bring thousands and millions of small proprietors under the influence of the banks and the big capitalists at the head of them. Actually the small and middle capitalists, who deposit money in the bank, become ordinary rentiers, people who have the right to draw interest. All other profit obtained with the help of their capital goes to their capitalist " superiors."

The process of mobilising social capital, that is, the collection of capital and its setting in motion, later develops, as we have just seen, through joint-stock companies.

The concentration and centralisation of capital in capitalist society eventually reaches a stage in which the competition between large-scale, petty, and average production may be considered a thing of the past. Petty and average production are either ruined or hold on in branches of industry which do not compete with modern enterprise, or are entirely subordinated to big capital.

In that stage the further struggle proceeds among giants nearly equal in economic strength, for either of whom victory can only be achieved after a long-drawn struggle, which exhausts and weakens both sides. The result is that even a victory cannot always compensate for the losses suffered in the combat.

The further the process of concentration and centralisation proceeds, the greater the capital sums accumulated in the hands of a few magnates, and the smaller the number of these magnates, the more difficult and destructive becomes competition among them. With the growth in the organic composition of capital, its withdrawal from industries giving a smaller profit and transference to profitable branches becomes ever more difficult. Meanwhile there is the tendency of the falling rate of profit, and the further we go the more the capitalists begin to feel this tendency. As a result of the falling rate of profit, the limits within which production may

be profitable are becoming ever more restricted. Competition under such conditions may lead to a loss of all profit. The result is that, to use an expression of an American manufacturer, all competitors extend their hands to each other so as to grab each other by the throat. Capitalist combines arise which entirely eliminate free competition, replacing it by monopoly organisations.

The growing consciousness, revolutionary determination and organisational strength of the working class also greatly help in the development of monopolist employers' organisations, establishing a united front of the bourgeoisie to resist the proletariat which is organising for a struggle against capitalism.

In the course of its development, competition thus turns into its opposite. At first the competition of many capitalists leads to the ruin of the weaker ones and the survival and consolidation of the big capitalists ; later the struggle among big capitalists prompts them to unite, to displace competition by monopoly, to establish the undivided power of big capitalist concerns.

The conversion of competition into monopoly is the main feature of capitalism in the last phase of its development, whence it derives its name of monopoly capitalism.

118

Forms of Monopoly Concerns.

Before examining the other peculiarities and characteristic features of monopoly capitalism, we must describe the forms of monopoly capitalist concerns.

The most elementary type of a monopoly concern is the cartel. The cartel is an agreement among manufacturers of a certain line concerning prices, the division of markets, conditions of credit, purchase of raw materials, etc.

" Participants in a cartel establish binding minimum prices for their goods, and maximum wages ; they divide among themselves the markets and elect directors who control the carrying out of the conditions of the agreement on the part of all participants and lead their struggle against

the independent manufacturers who have remained outside the cartel." (A. Kon, *Finance Capital*, 1925, Russian edition, pp. 70-1.)

The cartel is so organised that it does not give any real guarantee that the agreement will be observed by all capitalists participating in it. As a result, the cartel falls to pieces as soon as the conditions which prompted the capitalists to make the agreement are changed. If a member of a cartel sees that under certain conditions it would be more profitable for him to cut the established minimum prices or to sell his goods on a market from which he is excluded under the agreement, etc., he breaks the agreement without any scruple. The continued commercial independence of establishments involved in cartel agreements and the absence of guarantees that the conditions will be adhered to are the chief weaknesses of cartels. They may be more or less stable if conditions do not change, but they rapidly collapse if the situation changes; if prices fluctuate, if there is an unstable currency, etc., there are great temptations to violate the agreement.

The instability of cartels makes it necessary for capitalists to seek a more stable form of organisation—syndicates.

A syndicate is a capitalist amalgamation in which the enterprises participating lose their commercial independence.

"Participants in syndicates establish fixed prices and organise the joint sale of goods. For this purpose a company is formed which buys the commodities of all participants and sells them to the consumers as a monopolist organisation without any competition. The shares of such concern (known as a syndicate) are divided among the participants in the agreement." (*Ibid.*)

A syndicate gives a better guarantee than a cartel against separate action on the part of individual capitalists belonging to it, because it divorces them from direct contact with the market. A change in the market situation does not shake the stability of a syndicate so easily.

But although a syndicate is much more sure of its monopolist position and strength than a cartel, it cannot altogether destroy competition among the enterprises belonging to it.

This competition takes place chiefly in the distribution of orders among the enterprises belonging to the syndicate.

Each enterprise tries to increase its share in production. This striving becomes particularly marked when a syndicate is in a position to receive good prices for its commodities on the market. Every member of the syndicate then tries to manufacture and throw on the market as large a quantity of commodities as possible, so as to make the highest possible profit. The syndicate, on the contrary, is not interested in putting large quantities of merchandise on the market, as this would reduce prices. This inherent contradiction often leads to the collapse of syndicates.

This leads the capitalists to seek still closer forms of monopolist amalgamation, which they find in trusts.

The trust is an amalgamation of capitalists in which the affiliated enterprises are deprived not only of their commercial independence, but also of their technical and any other independence. The trust has full power to dispose of all enterprises affiliated to it and even to close down the more backward of them.

The capitalists who organise the trust lose their right of individual ownership of the establishments and become partners in the combined property of the trust, which is usually organised in the form of a company.

The trust has a great advantage over the cartel and the syndicate owing to the fact that, having unlimited power to dispose of the individual factories, it can eliminate the poorer ones working at a high cost of production and, by means of concentration of production in the better factories, it can reduce the cost of production, increase its profit and strengthen its position in the competitive struggle against the factories outside the trust.

But the greatest advantage of the trust is that it entirely does away with competition among the establishments belonging to it.

But the trust eliminates only horizontal competition (that is, competition among enterprises producing the same kind of articles), while side by side with horizontal competition there is what is known as vertical competition, competition among related industries, as for instance, the machine industry which produces machines and the metallurgical industry which supplies the raw material for these machines. This vertical competition may be no less hazardous and destruc-

tive than horizontal competition. Let us take this same machine industry. It may suffer just as much from high prices of iron inflated by the metallurgical concerns as from the low prices of machines created by other machine factories.

This calls forth the necessity for a combine, i.e. a monopolist amalgamation uniting heterogeneous enterprises.

According to Lenin a combine is a

" Grouping in a single enterprise of different branches of industry which represents the different stages in the working of a raw material (for example, the melting of iron ore, the making of steel, the manufacture of different steel articles) or which are auxiliary to one another (for example, the utilisation of waste or secondary products, the manufacture of packing, etc.)" (Lenin, *Imperialism the Last Stage of Capitalism.*)

Hilferding says that :

" Combination levels out the fluctuations of trade and assures the combined enterprise of a more stable rate of profits. Secondly, it eliminates trading. Thirdly, it makes possible technical improvement and, consequently, an extra profit as compared with other establishments. Fourthly, it improves the position of the combined establishment as compared with the others, and increases its competitive power in periods of great depression, when the fall in prices of raw material does not keep pace with the fall in prices of manufactured articles." (Hilferding, *Finance Capital.*)

A special form of combine is known in some countries as a " concern."

This term is used to mean large-scale fusions in which certain enterprises subordinate others by buying a part of their shares and delegating their own people to their boards, thus converting them into subsidiary companies.

Such " concerns " are usually headed by big industrialists who can bring a large number of enterprises under their influence.

Concerns in this sénse are most widespread in Germany, but they exist also in France, Italy, Austria and other countries.

To understand how powerful they are, it will suffice to take the Stinnes concern.

The Stinnes concern has, according to A. Kon's *Finance Capital*, 1,664 enterprises in the most diverse branches of

industry. Among them are commerical enterprises, electric stations, gas works, canal and telegraph companies, production of electric supplies, car and engine works, railroads, steamship companies, coal mines, houses, road construction, chemical plants, sugar refineries, paper mills, oil fields, banks, insurance companies, etc., etc.

Such are the main types of monopolist amalgamation.

119

Statistics of Monopolist Concerns.

The following statistics show to what extent monopolist concerns actually dominate modern capitalist society:

The trusts' share in national production was already high in the United States in 1900. They controlled 50 per cent. of the textile industry, 54 per cent. of the glass industry, 60 per cent. of the paper and printing industry, 62 per cent. of food trades, 72 per cent. of the alcohol industry, 77 per cent. of the metal industry (not including iron and steel), 81 per cent. of the chemical industry, and 84 per cent. of the iron and steel industry. Since then their share has considerably increased because the process of concentration and centralisation of capital in the United States proceeds at a fabulous rate. (Bukharin, *World Economy and Imperialism.*)

In the United States again the capital of the trusts amounted to 35,000,000,000 dollars in 1908. The trusts extended their influence in railways and the chief branches of industry. They monopolised the main branches of industry —the production of iron and steel (steel trust), oil and the oil trade (oil trust), copper, engines, steamships, telegraphs, railways, the electrical industry, tobacco, agricultural machines, automobiles, meat, etc.

We see the same picture in Germany. There were over 500 cartels and amalgamations in Germany before the war.

The Rhine-Westphalia Coal Syndicate and the steel syndicate are the two largest syndicates in the country. According to Rafaelovitch, the coal syndicates produced 85,000,000 tons of coal in the Dortmund district in 1909, while the concerns not affiliated with the syndicate produced but 4,200,000

tons (4·9 per cent.). In January, 1913, the production of coal by the syndicate comprised 92·6 per cent. of the entire production of the Ruhr district and 54 per cent. of the entire national production. The steel syndicate raised its share to 43-44 per cent. of the production of the country. The sugar trust, embracing forty-seven refineries, gives a very high figure—70 per cent. for home trade and 80 per cent. for foreign trade. The electricity trust provides 40 per cent. of the energy produced, etc.

Even in such a backward country as Tsarist Russia, capitalist monopoly was highly developed. According to statistics given by Goldstein, there were over one hundred monopolist combines in Russia. We will mention the largest of them. In the coal industry, the Produgol produced 60 per cent. of the coal of the Donetz basin ; in the iron industry there were nineteen syndicates ; the most important were the Prodomet (88-93 per cent.) ; Krovlia (60 per cent. of tin-plate) ; Prodvagon (fourteen out of the sixteen car-building plants) ; in the oil industry almost the whole production was in the hands of four inter-related companies ; there were also the copper syndicate (90 per cent.) ; the sugar trust (100 per cent.) ; the textile association ; the tobacco trust (57-58 per cent.) ; the match syndicate, etc.

Approximately the same picture can be observed in other countries. It should be borne in mind that these statistics refer to pre-war years. During the war and since this movement towards capitalist amalgamation has made considerable progress.

Thus, in Germany the steel trust produced in 1925 53 per cent. of the iron and 62 per cent. of the steel output of the country, which is considerably higher than the pre-war figures shown above ; the chemical trust in 1926 had in its hands 80 per cent. of the chemical industry ; 80 per cent. of the production of electricity is in the hands of the State.

A similar consolidation of the already enormous power of the trusts has taken place in America. Even Great Britain, the classic country of free competition, has entered on the path of monopoly capitalism since the war. The wealth of the world is ever more concentrated in the hands of a few magnates whose power is greater than the power of kings and parliaments.

120

Monopolist Capitalist Combines and " Recalcitrant " Establishments.

The formation of capitalist monopoly combines (as the statistics we have given show) does not yet mean the complete disappearance of unorganised or, as they are called, " recalcitrant " establishments.

Cartels, trusts, syndicates and other capitalist combines often meet with resistance on the part of individual more or less powerful capitalists who for various reasons do not want to join these combines.

The struggle against these recalcitrant capitalists often assumes desperate forms and costs the capitalists very much.

In the effort to subordinate these recalcitrant capitalists, the monopolist combines sell their wares very cheaply on the market, sometimes even at a loss, so as to ruin their rivals. They make agreements with the suppliers of raw material, obliging them not to sell raw material to their competitors. They make agreements with the trade unions, binding them to withhold the supply of labour-power. In the same way they deprive the recalcitrants of means of transport and of credit ; they give them no chance to sell their goods. By buying up the shares of their rivals and putting them on the stock exchange at suitable moments, they undermine confidence in the particular establishment. Sometimes they do not even stop at such methods as damaging their competitors' goods, blowing up their warehouses, etc.

This struggle usually results either in the ruin of the recalcitrant capitalists, their subordination to the monopolist combines, or the formation of new combines on the part of the recalcitrants, who now enter the struggle in an organised way against the older combines. The respective strength of the combines determines the outcome of their struggle.

In addition to the comparatively big capitalists who are more or less serious opponents of the monopolist organisations, smaller enterprises also exist in the last phase of capitalist development. These small enterprises (as we pointed out in the preceding part) are usually preserved either in the

industries with a comparatively low technique or where the object of production is to satisfy the individual requirements of consumers (articles of luxury, instruments for scientific purposes, etc.).

It is obvious that these small producers are entirely subordinated to the big capitalists and cannot play a decisive part in modern capitalist society.

It should be pointed out that the big capitalists, although they fight against the unorganised concerns and try to subordinate them, are to a certain extent interested in preserving some of these enterprises.

Inasmuch as the demand for goods in capitalist society changes and the curtailment of production is, as we have seen, not profitable for big enterprises, the monopoly trusts try to run their industry so as to cater for the demand for staple goods. The production of goods, for which the demand fluctuates according to the vicissitudes of the market, they leave to the unorganised enterprises, letting them take all the risks involved in such production.

The unorganised establishments are thus used to protect the combines.

121

Fusion of Bank Capital with Industrial Capital. Finance Capital.

We have established that the characteristic features of capitalism in the final stage of its development are: (1) an unusual degree of centralisation and concentration of capital; (2) the conversion of competition into monopoly.

To this a third important feature should be added, namely, the fusion and merging of industrial capital with bank capital. We already know that the banks are powerful magnets which draw money from all "pores" of society, whether that money belongs to an individual capitalist or consists of small savings put away by the workers for a rainy day.

In placing this money at the disposal of industrial capitalists, the bank creates for them new possibilities of enlarging

production, manœuvring on the market and fighting against competitors. The larger the industrial enterprise and the greater the number of threads which link it up with the rest of the economic structure, the greater will be the importance of credit and the support of the bank. The bank is of importance to the company not only as a place where credit can be obtained, but also as a means of insuring the sale of debentures which the companies frequently issue, as a means of circulation of shares, etc.

But the more the manufacturer applies to the bank for assistance, the more does the bank become interested in his operations. The bank establishes control over the enterprise to find out how sound it is and, in giving credit, it can intervene in the business of the capitalist and insist on the carrying out of certain orders in the production and sale of commodities, in the purchase of raw material, etc.

But the bank is not merely interested in the affairs of the manufacturer and in supervising his business—in the epoch of monopoly capitalism, which we are now analysing, the banks themselves become participants in industrial enterprises.

This new rôle of the banks is linked up directly with the form of joint-stock companies. Before companies were much in vogue, banks could not invest big sums of capital in manufacture. To invest capital in industry means to convert it into machines, etc., and to leave it there for an unlimited time. But the money at the disposal of the bank is given to it for a definite period. This greatly limits the banker's rights to manipulate the capital. Because of this he cannot invest his capital for any length of time in a factory. The company, as we have seen, makes possible the withdrawal of money invested in industry through the sale of shares. The banks make extensive use of this opportunity.

The banks invest ever larger amounts of capital in industry. They buy up the shares of existing factories, they build new factories, and instead of agencies gathering and disbursing capital, they become the governing centres of industrial organisations.

Hilferding says:

"An ever larger part of industrial capital does not belong to the manufacturer who uses it. He obtains capital only

with the help of the bank, which, as far as he is concerned, is the owner of that capital. On the other hand, the bank also has to invest ever larger sums of capital in industry. Because of this, bank capital is to an ever larger degree becoming industrial capital. Such bank capital—capital in the form of money—which is in this manner converted into industrial capital, I call finance capital." (Hilferding, *Finance Capital.*)

It need not be assumed that industrial capitalists become slaves and the banks masters under finance capitalism. The epoch of finance capital is characterised by the fact that bank capital is being merged and fused with industrial capital, so that very often the industrial capitalist becomes a banker and the banker a manufacturer.

" Morgan, one of the biggest capitalist magnates in the world, head of the National Bank of Commerce—one of the largest banks in the world—and a group of banks affiliated to it, is the head of the United States Steel Corporation, and one of the biggest railway kings." (A. Kon, *Finance Capital.*)

The banks themselves, which play such an important rôle in the life of modern capitalist countries in general and in the concentration and centralisation of capital in particular, are affected by the process of concentration and centralisation, and they also merge. The banks are compelled to concentrate by the fact that competition between them is not limited to the sphere of credit ; it takes place also along the lines of manufacture and commerce. In the struggle against competitors each bank has to defend a host of credit, manufacturing and commercial enterprises which belong to it, or are under its influence, and every defeat leads to colossal catastrophes. The most powerful and biggest banks are the victors and, through their amalgamation, competition here, too, gives way to monopoly.

The following statistics show to what extent concentration and centralisation have affected the banks :

"At the end of 1909 nine big Berlin banks, together with the establishments linked up with them, handled 11,300 million marks, that is, about 83 per cent. of the total banking capital of Germany. The Deutsche Bank, which, together with the banks under its control, handles nearly three milliards of marks, constituted with the Prussian State Rail-

ways the biggest and also the most decentralised accumulation of capital in the Old World." (Schulze-Gaevernitz, Die Deutsche Bank, taken from Lenin's *Imperialism.*)

In 1913 eleven big banks of Great Britain concentrated 68 per cent. of the capital of all British credit banks and had undivided control of the market.

" In France four large banks dominate the whole country.

" In 1914 the capital of forty-seven Russian banks amounted to 584·9 million roubles; 62·3 per cent. of that capital, or 364·5 million roubles, was in the hands of seventeen Petersburg banks." (A. Kon, *Finance Capital.*)

That is how:

" The banks become transformed, and instead of being modest go-betweens they become powerful monopolies dealing with almost all capital, and with almost all capitalists (and small proprietors); and similarly dealing with the biggest part of the means of production and of the sources of raw materials of a country or of several countries. The transformation of numerous little intermediary concerns into a handful of monopolists constitutes one of the essential elements of the change from capitalism to capitalist imperialism." (Lenin, *Imperialism*, English edition, p. 22.)

122

The Fusion of Finance Capital with the Capitalist State.

The finance capitalists have a monopoly not only in the economic life of a country—they have control of all phases of life, and particularly of politics, of the modern capitalist State.

The earlier State was also an instrument of the ruling class, through which the latter held sway and subordinated the lower classes. But if in the progressive stage of capitalist development the State represented the interests of the capitalist class as a whole, or at least the greatest part of it, in the stage of finance capital it becomes dependent upon a handful of finance capitalists who rule the capitalist world.

In the economic conditions of to-day huge sums of capital, which the Government must take from the banks, are re-

quired for the building of Government enterprises, such as transport, communication, etc.

Still greater amounts are necessary for the upkeep of the colossal State apparatus, and for armaments which, as we shall see, occupy a big place in the budgets of modern States.

To secure money, the State must very often float loans. Banks play a big part in this business, and this in turn makes the State dependent upon the financial capitalist.

Furthermore, inasmuch as the State, when it runs its own factories, railroads, etc., acts as a capitalist, it falls under the operation of the laws of finance capital; it must come to terms and " fuse " with the private monopoly concerns.

Wherever the Government is opposed to such agreements, the financial kings resort to all the measures which they employ in the struggle against recalcitrant capitalists.

Financial power gives these magnates a monopoly of the Press which moulds the minds of the masses in their interests. The servile and kept Press thus becomes one of the most powerful instruments in the struggle of finance capital for hegemony.

The close intertwining of the State apparatus with capitalist monopolies gives rise to conditions in which State officials, members of parliament and influential statesmen become the servants of the capitalist trusts and banks. It frequently happens that a minister or a prominent member receives compensation from his masters for some Act of Parliament, for passing certain bills, etc. It often happens that statesmen who resign their posts immediately receive " soft jobs " in some trust or bank. Very often the captains of capitalist industry take the Government directly into their own hands.

We may recall that Baldwin, late British Prime Minister, is one of the owners of the large steel firm, Baldwins Ltd.

The same is true of the late German minister, Rathenau, who was killed in 1921; he was the director of one of the largest capitalist companies in the world—the Allgemeine Elektrizitäts Gesellschaft.

Under the rule of monopoly capital, the banks, syndicates, trusts, and the State, are generally transformed into one gigantic combined enterprise under the control of the financial oligarchy.

123

The Regulator in Monopoly Production and Exchange.

Let us now see what peculiarities there are in the regulation of capitalist production in the period of monopoly capitalism.

If all capitalist countries have a tendency to become transformed into gigantic combined enterprises, does this not mean that anarchy and chaos in capitalist production disappear, at least within the limits of each country organised in one national economic unit ?

It would be wrong to conclude that this is so. The laws of spontaneous regulation, the laws of value, cannot cease to operate in monopoly capitalism, if only for the reason that the financial kings also act through the market and enforce their domination through the methods used on the market. The domination of monopoly capital does not do away with private property. Thousands of small enterprises, as we have seen, still exist.

The organisation of an ideal single national system without anarchy and struggle is impossible because, notwithstanding the concentration of all key positions in the hands of a small group of people, there are certain conflicting interests among the chiefs—the monopolists dominating the sources of raw material conflict with the kings of the manufacturing industries who are interested in cheap raw materials ; heavy industry which produces machines has interests conflicting with those of the light industries which produce means of subsistence. In dealing with crises we have already shown how the fight for profits causes disproportion and unevenness in the development of different branches of national economy. Inasmuch as the struggle for profits takes place under monopoly capitalism, and an equal development of the different parts even within the limits of one country is impossible, anarchy in production and a struggle among individual members of the ruling groups are inevitable.

But although the market with its spontaneity and chaos is not eliminated, it does not follow that the law of value

operates under monopoly capitalism in the same way as it operated before. We have already spoken, in connection with profits and the price of production, of the peculiarities of the operation of the law of value in monopoly capitalism. This made it possible to get a clear idea of the way in which the law of value operates in the U.S.S.R.

We will briefly touch upon this question again.

1. It is clear that the price of a commodity under monopoly capitalism cannot be fixed arbitrarily. The minimum price will on the whole be the cost of production—the cost of production in the poorest enterprise belonging to the monopoly concern, inasmuch as the monopolist will not allow his worst factory to work at a loss ; [1] the maximum level (even if we leave out of consideration the competition of the recalcitrant factories) will depend upon the buying power of the population. The demand of the population may drop in case of high prices to an extent which would make it unprofitable for the capitalist to cling to those prices.

2. Nevertheless, monopoly prices are fixed above the prices prevailing under conditions of free competition because the monopolist can sell his merchandise not at the price of production, but at a price guaranteeing the sale of such quantities of goods as will bring him a maximum of profit.

This is so because monopoly restricts the free flow of capital.

3. Monopoly capitalist concerns sell goods, as we have seen, at prices which guarantee an average rate of profit even for the most technically backward factories belonging to those concerns. Because of this the more developed factories make a profit above the average, they earn what is called " cartels' differential rent."

4. The surplus profit of the monopolist has its sources in (*a*) a part of the surplus value of the unorganised factories which, owing to the domination of the monopoly, is drawn

[1] In some cases the monopolist, in order to defeat his rivals, may sell his goods at a loss, i.e. below the cost of production. But this is done with the object of securing a profit and covering the losses subsequently. The sale of goods below the cost of production is, therefore, not characteristic of monopoly capitalism for any length of time.

into the pockets of the latter; (*b*) the cutting of real wages caused by over-payment in buying high-priced goods; (*c*) the exploitation of small proprietors, who by buying goods at high prices lose part of their income.

5. The total price of commodities of the whole of society (both the organised and unorganised concerns) is still equal to their total price of production and value—there is only a less equal distribution of profit and more extensive exploitation of labour in conditions of monopoly capitalism.

6. The surplus profit of the trusts serves in its turn as a stimulus to independent capitalists to organise and create new competitive trusts, leading to a reduction of surplus profits and an equalisation of the rate of profit.

But absolute equality is impossible under the uneven development of modern capitalism.

124

The Conquest of Foreign Markets.

Protective Tariffs.

Thus we see that although the monopoly capitalist is able to raise the prices of his goods considerably higher than the capitalist in conditions of free competition, prices cannot rise endlessly.

First of all, in producing commodities the capitalist must reckon with the buying power of the consumer of these commodities. If he raises prices indefinitely, he may reach a point when the demand for those commodities would drop considerably and the surplus profit which he would make in selling each commodity would be reduced to nought, for the reason that a part of his goods would remain unsold. The impossibility of selling goods at excessive prices becomes clearer if we recall the extent to which the buying power of the masses is limited in capitalist society. It is evident that if the supply is greater than the demand, prices must drop sooner or later. That prices may remain at their former level, production has to be curtailed.

But a curtailment in production with the object of keeping

up prices is, as we have seen, expedient only up to a certain limit and cannot be a general tendency of capitalist development, for it would contradict the laws of the capitalist mode of production, the most characteristic feature of which is the quest for profit and the desire to accumulate. A curtailment in production is the more dreaded by the capitalist because a reduction in the amount of goods produced means that the cost of production per commodity rises and the profit correspondingly decreases.

But to a certain extent monopoly capital can find a way out. In reaching out beyond the borders of its own country it finds foreign markets where it can sell its products and thereby counteract the necessity to curtail production or cut prices, and can create new possibilities for increased production and greater profits.

The foreign market may serve the capitalist as a safety valve. In putting goods on the foreign market, he reduces the supply of those goods on the home market and thereby raises their prices. In order to raise prices at home, the capitalist may sell his goods abroad at unusually low prices, even at a loss (known as dumping), which loss is, of course, covered by the surplus profit exacted from his countrymen at home.

But the importance of foreign markets is not limited merely to their function as a means of raising prices on the home market. They become important in themselves, because the capitalist who conquers foreign markets and expands the limits of his power proceeds from the sale of goods at a loss and at low prices to their sale at " normal " prices which equal, and sometimes even exceed, the prices at home. But in gaining this power on the new foreign market and insuring his monopolist domination, the capitalist again meets with certain limits in the matter of raising prices and increasing production, forcing him to search for new markets. This gives rise to an endless and insatiable struggle for foreign markets.

When it passes beyond the borders of its own country, the monopoly organisation of one country clashes with those of other countries which are also desirous of conquering new markets.

This begets antagonisms and a struggle among capitalist

companies of different countries for markets. The competitive struggle formerly waged chiefly among capitalists within one country, now enters the world arena and is fought out among capitalist giants of different countries.

Every capitalist who trespasses on the sphere of action of another thereby breaks the monopolist domination of the latter. To defend itself the capitalist concern, fused with the capitalist State, first of all seeks to protect its home market from foreign competition. This is accomplished by means of customs tariffs enacted by modern capitalist States at the behest of their masters.

Each one of them puts on a special tariff on imported goods so that the foreign commodity would cost the consumer more (or at any rate, not less) than the home product, and the native capitalist may be able to realise not only his cost of production, but also a normal profit and a monopolist surplus profit.

If protective tariffs in defence of home markets against an invasion of foreign cheap goods existed before, prior to the era of finance capital, the object of these tariffs was then entirely different from now. Then they were enacted by the technically more backward States, so as to enable home industry to realise its cost of production and a normal profit, and thereby create the most favourable conditions for the development of industry and the growth of the productive forces of the country. Now, on the other hand, tariffs are enacted by the most economically powerful States with the object of insuring their domination on the market and the realisation of a monopolist surplus profit.

The wider the sphere of the customs' tariffs of a given State, the wider are the limits of its domination.

In capturing foreign markets, the capitalists try to bring them under the sphere of action of their own customs' tariffs and to protect them from the penetration of other capitalist robbers.

This gives rise to the striving to annex the conquered markets as a part of the given State or to transform them into vassal and subjugated states and colonies.

125

The Export of Capital.

Capitalist amalgamations of one country, which are protected by customs' tariffs from the competition of capitalist groups of other countries, never, of course, give up the idea of breaking through the frontiers of the other concerns and capturing their markets.

If customs' tariffs restrict the imports of finished goods of other countries, it is obvious that instead of finished goods they will import capital.

" There is no wall that cannot be surmounted by an ass loaded with gold," were the words once uttered by a Macedonian warrior who took a fort by bribing the guards ; these words hold good for the capitalist of to-day.

" Money does not smell." It bears no trace of its origin, and it is much easier to cross frontiers with money than with any other goods.

Loans made by capitalists or the Government of one country to another country constitute the first form of capital exports.

While exacting a high interest, the capitalists granting credit at the same time secure for themselves certain privileges, which help them to subordinate the country that is in need of their money. A loan is frequently accompanied by an obligation to conclude commercial and other treaties with the creditor ; the capitalists who grant loans secure for themselves the sole right to import certain goods to the borrowing country, to provide it with military and other supplies. A loan frequently entails the granting of concessions, the building of railways and other works of construction. If the borrower is not a Government, but a big capitalist, the latter may undertake to bring pressure to bear on his Government for the benefit of the creditor, etc.

The American bankers, for instance, when they offered a loan to Poland recently, asked for a concession of the Polish match monopoly. The Japanese militarists, in giving a loan to Chang Tso-lin, the dictator of Manchuria, secured the right to build a railway line.

The famous Dawes Plan is also but an establishment of control over the economic life of Germany in exchange for credit.

Capital is exported, of course, not only in the form of loans.

By exporting their capital to foreign countries directly, capitalists can open up their own banks or make agreements with local banks, seeking, of course, to subordinate the latter.

It is known that the largest banks of Tsarist Russia were mixed credit institutions in which French capital predominated. The big Azov-Don Commercial Bank had a share capital to the amount of 60,000,000 roubles, 36,000,000 of which was French; the Russo-Asiatic Bank also had 36,000,000 roubles of French capital out of a total of 56,000,000 roubles.

Side by side with bank enterprises, the capitalists invest in the industrial and commercial enterprises of other countries.

There are therefore two distinct forms of capital exports—the export of loan capital and of industrial capital. If capitalists give credit to foreign enterprises, we are dealing with the export of loan capital, in which case the exported capital bears interest. If capitalists invest their capital in foreign enterprises directly, we have the export of industrial capital, in which case it bears not interest, but profit.

The export of industrial capital usually takes the form of the purchase of shares of foreign enterprises.

Thus in Tsarist Russia, about 2¼ milliard roubles of foreign capital was invested in industrial enterprises. French capital had absolute mastery in two of the most important branches of industry—the mining and metallurgical industries.

British capital had under its control the production of 199,000,000 poods (60 per cent.) of oil produced in the Baku district.

It is a known fact that most of the heavy industry enterprises of China belong to British, Japanese and American capitalists.

126

The Struggle for Colonies and the Division of the World.

The export of capital to technically backward countries is especially profitable and is therefore very common.

These countries attract capital because, generally speaking, the rate of profit, as we have shown above, is considerably higher there than in highly developed capitalist countries because of their lower organic composition of capital.

Apart from that, the export of capital and the launching of industrial establishments in backward countries, is more profitable because labour-power is very cheap there. Finally, some of the backward countries are the richest sources of raw material, which is much cheaper if used at the point of its production.

This is of special importance in connection with capital exports.

It is generally known that all kinds of raw materials for industry are produced in agriculture. But in capitalist society agriculture as a rule does not keep pace with the growth of industry.

Ground rent and many other circumstances lead to a relatively slower rate of development of agriculture than industry, but the demand for raw material on the part of industry is constantly rising and, consequently, the price also.

The search for cheaper raw material compels the capitalists to look to the backward countries even if they do not intend to organise enterprises in those countries directly.

Moreover, various raw materials can be secured chiefly in the backward countries, because, owing to historical conditions, the highly developed capitalist countries are situated primarily on territories of a moderate climate, while many forms of raw material can be obtained only in the semi-tropical or tropical belts. This is the case with cotton, for instance, which is so vital for the textile industry and which grows primarily in such backward countries as Egypt, India, Asia Minor, China, Turkestan, etc. The same is true of rubber. From this it is clear what an attraction these countries must have for the capitalists.

Everybody knows the importance of iron ore, coal and oil for modern industry. These raw materials are not confined to backward countries, and any capitalist country would gladly capture oil fields and coal districts situated in more highly developed capitalist countries.

Wherever possible this is just what happens (as a live example we can take the capture of the rich Rhine territories by France from Germany). But it is not an easy matter to rob an equal. Furthermore, in the technically advanced countries, all natural resources have long since been explored and the richest deposits have already been exploited for some time.

It is different with backward countries. There, the capture of a good slice is comparatively easy, and, besides, they have large territories which have not yet been explored. Explorers may find colossal subterranean deposits which could be brought to the surface with comparative ease. Vast oil fields, rich coal deposits and colossal deposits of iron ore lie neglected and unused. Owing to the lack of capital in those countries, they cannot exploit these resources without the help of the big robber capitalists.

The conquest of colonies and the rapacious exploitation of their wealth constitutes one of the most shameful pages in the record of capitalist development.

The capitalists find in the colonies primitive economic conditions. The people inhabiting them are:

" Either not inclined towards trade or, in general, do not sell the means of production so important for capital, owing to the forms of property and the general social structure prevailing in those countries. This refers firstly to the land with all its mineral wealth, its meadows, forests and lakes and the herds of the primitive peoples. To watch the process of the gradual dissolution of these primitive economic systems, which might last hundreds of years, and look forward to the time when the most important means of production will be obtainable through simple exchange, would mean for the capitalists to give up entirely the hope of obtaining the productive forces existing there. Capitalism considers it, therefore, a vital necessity to take violent possession of the most important means of production in the colonial countries." (Rosa Luxemburg, *The Accumulation of Capital.*)

Feverishly hurrying to grab the wealth of the colonies, the capitalists violently rob the natives of their best land, dooming them to starvation or slavery. Wherever slavery has been officially abolished, it really continues to exist in a more or less hidden form. Native " wage workers " are doomed to starvation because their wages are extremely low, while the prices of means of subsistence, especially bread, are extremely high, because the civilised capitalists grab the best land for the cultivation of articles for their own need (rubber, coffee, cotton, etc.). After seizing colonies by military force, the capitalists tax the natives for the maintenance of the same armies which subject them to plunder and extermination. It would take many volumes to describe all the abuses and mockery to which the natives are subjected, to show all the " benevolence " of the capitalists. The most characteristic method of carrying culture to the backward countries is that of sending Christian missionaries together with capitalists and soldiers. In the invasion of even comparatively cultured countries, the capitalists never hesitate to destroy even the most valuable monuments of culture.

Describing how the European capitalists waged war against China in the name of " free trade " (the freedom of selling opium—a poison which Europeans have imported into China), Rosa Luxemburg said :

" Every war was accompanied by raiding the country and robbing it on a mass scale of its ancient monuments. . . . The smoking ruins of the largest and oldest towns, the ruin of agriculture over vast stretches of land, unbearable taxation as a means of war contribution, were the accompaniments of all European invasions, side by side with commercial success." (*Ibid.*)

Thus the conquest of colonies, their violent subjugation, and the exploitation of their people, make necessary military force, which, as we shall see, plays an enormous rôle in the last phase of capitalist development.

127

International Combines and the Struggle for a Redivision of the World.

The feverish struggle of capitalist combines (and the States which represent them) for markets and for sources of raw material, has resulted in the partition of the entire globe by the big capitalist powers. At the present time there is practically not a corner of the world which does not belong to some capitalist robber or other.[1] Even those countries which, in the present stage of technique, or for other reasons, cannot be utilised as markets or sources of raw material, are grabbed by the capitalist powers so as not to give other powers a chance to grab them in the future.

The number of big capitalist States that have divided the world amongst themselves and brought the smaller States under their influence is so small that they can be counted on one's fingers.

Out of 140,000,000 sq. kilometres of the surface of the earth, about 34,000,000 belonged even before the war to Great Britain.

The British Empire thus had one-fourth of the surface of the earth. That territory had a population of 440,000,000 people (one-fourth of the population of the earth) ; Britain proper comprises a territory of only 300,000 sq. kilometres, with a population of about 47,000,000. France comprised 500,000 sq. kilometres, with a population of 40,000,000, and had colonies before the war over an area of almost 11,000,000 sq. kilometres, with a population of over 55,000,000. Tsarist Russia occupied one-sixth of the earth and subjugated one-tenth of the human race.

Great Britain and Russia, together with four other big powers (France, Germany, United States and Japan) held almost two-thirds of the earth, with a population of more than one-half of the human race.

It should be borne in mind that a considerable part of the other countries (especially China) was already under the actual sway of these powers.

[1] The Soviet Union, of course, is not included.

Can individual capitalist combines be satisfied with the "shares" they have obtained in the partition of the earth?

Evidently not. Growing accumulation and the thirst for profit drive the capitalist, as we have seen, to expand production, to widen the market for the growing masses of his goods and to seek spheres of investment for his augmenting capital. Monopolist combines cannot give up their striving to spread their influence beyond the borders of their states and colonies. They seek to invade the colonies of other powers and the territory of highly developed countries and semi-independent states, known as semi-colonies.

If competition, which was formerly most violent on the arena of the home market among individual capitalists of one and the same country, is now, in the epoch of finance capital, to a certain extent displaced by monopoly, there is flaring up a new and hitherto unexampled competitive struggle amongst monopoly combines, amongst capitalist states, on the arena of the world market.

Judging by the size and power of the combatants it is clear that the methods of this struggle, its fury, and the ravages which it must work, leave far behind the struggles we have seen in the epoch of comparatively "peaceful" development of industrial capitalism.

High protective tariffs which ruin the population and assume the character of "tariff wars" among different countries, the flooding of foreign countries with cheap goods, the supply of cheap credit even at a loss in order to ruin the competitor and to subordinate other countries, intensive exploitation of the workers at home, ruthless exploitation of the colonies in order to attain enhanced fighting power on the world market—such are the most "inoffensive" measures which the capitalist robbers resort to in their struggle.

But these "peaceful" measures are ruinous only for their weaker opponents, for the comparatively small states, which, sooner or later, must submit to the influence of the most powerful capitalists.

The bigger capitalist exploiters, who can hold out longest in the struggle against their rivals, may, as a result of the competitive struggle, enter into certain agreements amongst themselves.

It is in this manner that international capitalist combines arise, which share spheres of influence and markets.

One of the first international combines was the international rail syndicate, which originally included Great Britain, Germany and Belgium, and later France and the United States. In 1905 the syndicate allocated the shares of export among its members as follows: Great Britain, 38 per cent.; United States, 26 per cent.; Germany, 20 per cent.; Belgium, 12½ per cent.; France, 3½ per cent. The division of the earth by the rail syndicate was thus completed in 1905.

In his *Imperialism*, Lenin gives an example of the partition of the earth between two powerful trusts—the Deutsche Allgemeine Elektrizitäts Gesellschaft (which had a "daughter" company in Russia in the so-called Russian General Electric Company), and the American General Electric Company.

These two companies were so powerful that there was no electric company in the world entirely independent of them. In 1907 these two giants agreed on the division of the earth. Competition was done away with—the General Electric Company received a monopoly in the United States and Canada and the Deutsche Allgemeine Elektrizitäts Gesellschaft in Germany, Austria, Russia, Holland, Denmark, Switzerland, Turkey and the Balkans. Special agreements —secret, of course—were arrived at concerning "daughter" companies in new branches of industry and "new," as yet formally undivided, countries.

The oil market was divided between two of the greatest oil combines even before the war.

Of post-war agreements we may mention the revival of the rail syndicate in 1926, this time without American participation (Great Britain has now a share of 42 per cent., Germany and France of 19 per cent. each, Belgium of 10·5 per cent., etc.); the international steel cartel, also organised in 1926; the Swedish-American Match Trust; the German-French Potash Cartel, etc.

We could cite many such examples of agreements among capitalists on a world scale.

But do these facts indicate permanent agreement on the part of capitalist magnates and an eradication of antagonisms among them? Of course not.

The share which each of the capitalist combines receives in the distribution of " spheres of influence " depends on its strength. The slightest weakening of either of the parties and the strengthening of the other renders the old agreement invalid and gives rise to the need for a redivision of " spheres of influence." Agreements among individual capitalists do not exclude, but, on the contrary, give rise to a desire for further consolidation of power, as a result of which the agreements are temporary and unstable.

The motto " everyone for himself," predominant in capitalist society, does not lose its force in this phase of capitalist development. An agreement can only mitigate the struggle for a time, it cannot stop it. Notwithstanding these agreements, the struggle continues in the form of protective tariffs, intrigues, bribes, etc. In addition, constant and intensive, although hidden, preparations are in progress for a new struggle.

Inasmuch as the whole world is already divided up among the capitalist powers, the further expansion of the individual States is possible only to the detriment of the other States, by means of a repartition of the lands which have already been partitioned. This brings the capitalist States into irreconcilable conflict among themselves.

128

The Inevitability of War in the Epoch of Monopoly Capitalism, Militarism.

The Imperialist War of 1914-18 *and its Causes.*

It is evident that with such irreconcilable antagonisms among the capitalist powers, with their ambition to increase their strength, and with the wealth and power which the different rival States have at their disposal, the struggle among them cannot be limited to " peaceful " means.

The struggle is constantly sharpening and sooner or later it assumes the form of actual war.

The struggle for colonies, the violent subjugation and plunder of the colonies, and the need to suppress the working

class at home, have given rise to the growth of armaments in capitalist States. These armed forces play an enormous rôle in the " peaceful " agreements of the capitalists, because the weight of each capitalist State and, hence, the share which it can receive in the division of spheres of influence, largely depends upon its military strength.

With the sharpening antagonisms among capitalist States, with the impossibility of their settlement by means of peaceful agreements, these armed forces become the means of settlement of conflicts.

In this manner the contradictions of capitalist production in the last phase of capitalist development create the necessity for imperialist wars. It is these antagonisms that gave rise to the great imperialist war of 1914-18, which is still fresh in our memory and the results of which can still be felt to-day.

We have already stated that even before the war vast stretches of the earth were divided among a small number of States. Great Britain alone possessed one-fourth of the earth.

Germany, a young but rapidly growing capitalist State, entering the arena of the world market comparatively late, was faced with the fact that the best colonies had already been divided. This rendered Germany's struggle for influence on the world market, for a " place in the sun," as the German imperialists loved to say, very desperate. Aggressive German capitalism captured position after position. It rapidly penetrated backward countries, which were already half colonies of other countries and had become the scene of struggles for influence among capitalist thieves. In the last twenty years before the war, German capital began to permeate China, where it competed with Japanese, British and to some extent Russian capital. It penetrated Asia Minor, which was occupied chiefly by Turkey ; the Balkan Peninsula also had attractions for German capitalists, who dreamt of subjugating that territory and drew up plans for the construction of a great railway line uniting Berlin, the capital of Germany, with the most important centre of Asia Minor—Bagdad—through the Balkans and the Turkish capital, Constantinople.

In its striving to subjugate this vast territory, Germany

clashed with Russian interests which also had their eye on the Balkans and Asia Minor, dreaming of an annexation of Constantinople and the straits of the Black Sea and the Sea of Marmora, as well as with the interests of Great Britain, which had long since divided Persia into spheres of influence with Russia and was also aiming at the subjugation of Turkey, and especially the capture of the Turkish possessions situated along both sides of the Suez Canal—Egypt and Palestine.

In schemes for the conquest of colonies in Africa, Germany clashed with the French and Italian imperialists.

A desperate struggle was being waged for influence on the Russian market. It is well known that before the war Germany was in a comparatively favourable position on the Russian market, laid down by the Russo-German trade agreement, which gave Germany many advantages. But France and Great Britain were also greatly interested in the Russian market, as British, Belgian and French capital actually predominated in the banks and the most important coal mines, oil fields, metallurgical plants, and machine works of Russia.

The economic rise of Germany menaced chiefly the supremacy of Great Britain. Germany rapidly caught up with Great Britain in many spheres and, in some of them, even surpassed Great Britain.

Thus, measured by the volume of exports and the size of the merchant fleet, Britain stood above Germany, but Germany constantly continued to develop her industry and trade.

In such an important economic sphere as the production of iron, Germany was leading on the European market before the war and not only beat Great Britain on the foreign market, but even penetrated British colonies and Britain itself, where the appearance of cheap German goods caused a good deal of disturbance.

Great Britain, although supreme on the world market, possessing vast colonies and the most important centres of world trade, holding such key positions as the Suez Canal and Gibraltar, could not but dream of extending her power. In opposition to the German plans of capturing the world, Great Britain had her own schemes of conquest of new colo-

nies, and the building of colossal railway lines (the Cape—Cairo—Constantinople).

Germany's growing strength not only hampered the growth of British power, it threatened to strip Great Britain of her supremacy on the world market. This antagonism between British and German capital was the decisive factor in the outbreak of the world war.

A somewhat less important, but nevertheless considerable, part was played by French ambitions to capture the rich coal areas, situated along the German and French frontier, so much coveted by the French iron kings who had not sufficient coal in France; and also by the struggle between France and Germany for the Russian market and for African colonies.

Modern imperialist wars, therefore, are but an accentuated form of competitive struggle among capitalists, and just as the capitalist system cannot be conceived without private property and clashes between propertied interests, so also it is impossible to conceive finance capital without wars.

The unavoidability of war forces capitalist States, even in time of "peace," to spend colossal amounts of capital on armaments. Armaments are of importance, as we have already stated, for the "maintenance of order" at home and in the conquered colonies, for the determination of the "specific gravity" of the State in "peace" treaties and in the "peaceful" division of spheres of influence. That is why we see such feverish competition in armaments in time of peace, each capitalist State doing its utmost to surpass its rivals.

Before the war of 1914 Great Britain dreamed of a navy superior in strength to the navies of Germany and France. Rivalry in naval armament was particularly sharp between Great Britain and Germany. But since the war Great Britain has been gradually falling behind America. "We will bake cruisers like hot cakes," said an American militarist in reply to the naval armaments of the European powers. France is still supreme in the air, possessing more planes than the two next largest countries combined. The production of heavy artillery and apparatus for chemical warfare is a subject of constant concern to the "peace-makers" of Europe and the world. During the three years 1910, 1911 and 1912,

six first-class military powers spent £1,000 million on armies and navies. Since the war, as we shall see, military expenditure has increased still further.

The production of armaments is becoming one of the most important branches of industry in modern capitalist countries. The famous Krupp munition works in Germany and the Creusot munition works in France are ranked among the largest capitalist concerns in the world.

The development of war industries in its turn helps to bring about military clashes. Conflicts between capitalist States and military clashes are profitable to the munition kings because they necessitate an expansion of their production and brings them greater profits. It is not surprising therefore that their activity is often directed towards hastening the outbreak of war, which in any case is unavoidable.

Such are the results of the struggle for profits in the conditions of monopoly capitalism.

129

General Conclusions.

Imperialism Defined.

Certain conclusions can be drawn from what we have said so far.

We have seen how the new phase of capitalist development, the epoch of finance capital, has developed as a direct continuation of capitalism in general.

Without an analysis of the general laws of capitalism it is impossible to understand how the new phase of capitalism with all its peculiarities has arisen. It should be remembered that all these peculiarities appeared at a stage in capitalism when

" Certain of its essential qualities began to be transformed into their opposites, when the features of a period of transition from capitalism to a higher social and economic structure began to take shape and be revealed all along the line.

" The feature that is economically essential in this process is the substitution of capitalist monopolies for free capitalist

competition. . . . At the same time, monopoly, which has sprung from free competition, does not drive the latter out of existence, but co-exists over it and with it, thus giving rise to a number of very acute and very great contradictions, antagonisms and conflicts." (Lenin, *Imperialism*, p. 94, English edition.)

The new epoch in the development of capitalism, in which the striving of the capitalist combines to expand their spheres of influence and to seize new markets takes the form of military clashes, is also called the imperialist epoch.

In this connection the important fact should be borne in mind that just as not every machine (or building or raw material) is capital unless it is used under certain capitalist productive relations, not every striving towards expansion, not every policy of conquest is imperialist. Only those which arise from the productive relations among men in the monopolist phase of capitalism are imperialist.

" Imperialism," says Bukharin, " is a policy of conquest. But not all conquests are imperialistic. Finance capital cannot pursue any other policy, and when we speak of imperialism as a policy of finance capital, we mean its policy of conquest and the productive relations arising from this policy of conquest." (Bukharin, *World Economy and Imperialism.*)

If we regard the policy of conquest as the basic and only feature of imperialism, regardless of the concrete forms which it assumes, and of its causes, then we may understand by imperialism anything in the world. In this case, any robber who steals other people's property might be classified as an imperialist, and every plant or animal whose nature it is to crowd out the others for lack of space or food, etc., would be proclaimed as an imperialist.

But such use of one term for the most diverse conceptions would not be scientific. Science attempts not to lump everything together, but to find in every phenomenon its own concrete peculiarities and the main causes giving rise to its external attributes. The domination of monopoly capitalist relations constitutes a concrete feature of imperialism.

Lenin said:

" If it were necessary to give the briefest possible definition of imperialism, it would be defined as the monopoly stage of capitalism. . . . But very brief definitions, although conve-

nient because they summarise the principal data, are nevertheless insufficient . . ."

Therefore:

" We must give a definition of imperialism embracing its five essential features:

" 1. The concentration of production and capital, developed so highly that it creates monopolies which play a decisive rôle in economic life.

" 2. The fusion of banking capital with industrial capital and the creation, on the basis of this financial capital, of a financial oligarchy.

" 3. The export of capital, which has become extremely important as distinguished from the export of commodities.

" 4. The formation of international capitalist monopolies which share out the world amongst themselves.

" 5. The territorial division of the whole earth completed by the greatest capitalist powers.

" Imperialism is capitalism in that phase of its development in which the domination of monopolies and finance capital has established itself; in which the export of capital has acquired very great importance; in which the division of the world among the big international trusts has begun; in which the partition of all the territories of the earth amongst the great capitalist powers has been completed." (Lenin, *Imperialism*, pp. 95-6, English edition.)

130

The Formation of World Economy in the Imperialist Epoch.

Having analysed some of the main features of capitalism in the last stage of its development, we shall now see what new elements this epoch has introduced in the development of the productive forces of society.

We already know that commodity production, hence also capitalist production, is based on a certain system of division of labour in the various branches of production.

In the epoch of free competition, the epoch of " industrial capitalism," this division of labour and the consequent relations between different enterprises took place chiefly within

the limits of individual countries. It is true that international trade existed from the very beginning of merchant capitalism and that manufactured goods were interchanged among nations. But that interchange was comparatively insignificant and did not cause any qualitative changes in the general nature of capitalist production.

It is otherwise in the imperialist epoch. Here capitalist production is transformed from primarily " national " production within the limits of individual countries into world production in which the relations between the different countries, the division of labour between them, becomes of the utmost importance and lends to that production its peculiar characteristic features.

Some parts of the globe have always been distinguished from others by natural conditions, such as climate, vegetation, natural wealth, etc. Apart from that, not all countries have entered at the same time on the path of capitalist development, and their productive forces differ both in quantity and quality—we know that industrially developed countries exist side by side with backward agrarian countries, etc.

These differences, both natural and social (technical and economic), between various countries gave rise, at a certain stage in the development of productive forces, to division of labour and, consequently, to close interrelations among the nations.

The development of modern technique connected with the construction of machinery, the building of railways, etc., has given rise to an enormous demand for metal, iron, steel, aluminium and copper. But the iron, copper, etc., deposits are far from being equally distributed throughout the world. In view of the development of metallurgy and the production of various metal compounds for the different kinds of machines, all kinds of rare metals (manganese, vanadium, etc.), which, if alloyed with iron, aluminium and other comparatively abundant metals, considerably change the properties of the latter (add to their strength, change their ductility, etc.), become of extraordinary importance.

Inasmuch as the place of construction of metallurgical plants and the place where metal ores are extracted may be different, inasmuch as the various metals which serve to

make up some particular compound are procured in different countries, it is natural that the further development of metallurgy and the construction of machinery should be based on close relationships between the different countries.

Thus it is known that the Soviet Union provides the metallurgical industry of the whole world with manganese, that it also supplies platinum, and that Spain provides quicksilver. The machine industry of some countries, Italy for example, works on imported iron ore.

The development of technique, as we have already shown, is bound up with the development of engines. In this connection, fuel, which the motors turn into mechanical energy, is of colossal importance. The main forms of fuel at the present time are coal and oil, the deposits of which again are not equally divided all over the world.

It is a known fact that the Soviet Union, the United States, and certain other countries provide the whole world with oil, and that some countries (Italy, for example) have no coal of their own and must import it from other countries.

The growth of electricity, which is one of the latest technical achievements, also strengthens the technical relations of the different countries because electricity makes possible the transmission of power over long distances and the water power of one country can be utilised in the industry of another.

Division of labour and mutual technical relations between different countries also arise from the fact that some of the most vital raw materials are available, owing to climatic conditions, only in countries where the corresponding branches of manufacture are undeveloped.

America, India and Egypt thus provide with cotton almost the entire textile industry of the world. Certain other countries in the same way have a monopoly in the supply of rubber.

Finally, the industrial development of some countries may lead to a relative, or even an absolute, curtailment of agriculture, and to a deficit in the supply of means of subsistence and raw materials which could be worked up in the particular country. Division of labour between primarily industrial countries and primarily agricultural countries arises.

If formerly the industry of each country was, as Marx

shows, chiefly directed towards the working up of raw material produced in the same country, if formerly Great Britain worked up wool, Germany flax, France silk and flax, India and the Levant cotton, now, owing to the development of productive forces, division of labour has assumed such dimensions that modern industry, uprooted from its native soil, depends exclusively on the world market, on the international division of labour.

This growth in the international division of labour is revealed primarily in the growth of world trade and the development of communications.

Thus, while in 1800 world trade amounted to 1,479 million dollars, in 1850 it amounted to 4,049 million dollars, in 1900 20,105 million, and in 1913 to 40,420 million dollars.

The development of transport is to be seen in the colossal growth of the network of railways (which in 1840 was 7,700 kilometres throughout the world, and in 1913 over 1,000,000 kilometres), in the growth of the river and sea shipping (which in 1821 had a capacity of 5½ million tons, and in 1914 31½ million tons), and, lately, in the growth of air communications.

Some countries supply others not only with raw material, not only with means of production and means of consumption, but also with labour-power. We have already shown in dealing with wages that agrarian countries such as Russia, Poland, Italy and China, having a relative surplus population, have for a long time supplied labour-power to such industrial countries as America.

Thus productive forces are reaching out beyond the limits of individual countries and their further growth is made impossible within those limits.

131

Contradictions Between Productive Forces and Productive Relations in the Imperialist Epoch.

All commodity production based on division of labour and private property contains within it a contradiction between the social character of production and the individual owner-

ship of the product; no commodity producer or commodity owner can exist without the labour of other members of society; his own activity must be co-ordinated with the activity of others; nevertheless, the product created by society for the needs of society is the private property of individuals who put forward their own interests as against the interests of society.

This antagonism between the social character of production and the individual ownership of the product gives rise to economic chaos, to crises, etc.

Does monopoly capital abolish this main antagonism of commodity production? From what has been said it should be perfectly clear that the answer to this question must be in the negative. In conditions of monopoly capitalism, this antagonism is not abolished; on the contrary, it becomes so intensified that capitalism is driven into a blind alley, and the contradictions cannot be bridged within the framework of capitalism.

The development of the productive forces under capitalism leads, as we have seen, to the necessity for close contact between the different parts of the world economic system.

The continuation of the development of technique which accompanies the progress of concentration of capital becomes virtually impossible within the limits of separate and isolated sections of the world and in the anarchy and chaos which prevail in capitalist countries.

Electricity, the greatest achievement of modern technique, requires systematic and organised production. Wherever private property in land prevails, wherever property limits (within a country or between countries) separate the sources of energy (coal, peat, waterfalls) from the point where stations are built, from the connections through which energy is transmitted, and from the point where it is consumed, electrification on a large scale meets with great obstacles.

The further development of chemistry and metallurgy, and further successes in the building of motors largely also depend upon the relations between the countries supplying fuel, rare metals and important chemical compounds, and the countries with highly developed technique.

Scientific organisation of labour and the strictly rational methods of production introduced by modern capitalism can

also be fully realised only through a planned economic system.

Having given rise to the technical conditions necessary for a single planned world system, monopoly capitalism (as we have seen in dealing with the regulator in monopoly production) cannot eliminate individual ownership, the differentiation of the economic interests of individual proprietors, which is so characteristic of the capitalist order. Hence the contradiction between the productive forces of monopoly capitalism, which can continue to develop only in conditions of a unified systematic production, and its productive relations which give rise to antagonisms among the different parts of world economy, and to a state of anarchy.

Inasmuch as under monopoly capitalism the capitalist is prompted, as before, by his search for profit, for the highest possible profit, he seeks, as before, to develop only those branches of industry which interest him from this point of view. Making use of his monopoly, he tries to regulate prices with a view to receiving the largest possible profit, and in this connection the requirements of the masses and the fullest development of the productive forces of society are not taken into consideration.

The greatest achievements of technique may remain unused if they conflict with the interests of the capitalists.

Thus the interests of bourgeois property become a hindrance in the path of the further development of electricity.

" Extensive electrification," says Stepanov, " completely revolutionises all industrial relations. The owners of coal and oil deposits must to a certain extent give up the positions which they have achieved in the last few years. The working up of iron ore has now been made possible in new districts, which have hitherto attracted no attention because they lacked sources of cheap energy. The heavy metallurgical industry can also be transferred thither. The profound changes wrought by electricity in the production of copper, aluminium, pewter, zinc, lead, artificial fertilisers, in numerous agricultural operations, in irrigation and drainage, threaten to upset all existing relations, creating absolutely new branches of industry which will squeeze out the old, snatch from the grip of nature new vast areas of land for agriculture, and revolutionise the methods of farming.

Carrying with it a new economic rationalisation worked out on a new technical basis, electricity threatens to scrap as backward and irrational many existing industries, with all their equipment, and to depreciate the capital invested in them.

" There are thus many groups in the capitalist world whom an extensive and systematic spreading of electricity throughout the whole economic organism threatens with the destruction of their usual mode of existence and of hopes based on the present value of their property. What are the general interests of their class to them, if electricity threatens their own interests ? Do they not view the general interests of society exclusively from the point of view of the interests of their own group, or even from the still narrower point of view of their own individual interests ?"[1]

The contradictions of capitalist society are such that the more the productive forces, and with them the concentration and centralisation of capital and monopoly, develop, the greater become the barriers of individual monopoly interests to the further development of the productive forces.

The growth in the organic composition of capital and the slowing down of the rate of its circulation in itself, gives rise to a certain " technical " conservatism, a reserved attitude to technical innovations, because such innovations put the old machines out of action long before they are worn out, and if we consider the high cost of modern machines, frequent re-equipment involves enormous losses which cannot always be made good by the profitability of the new machines.

Not being anxious to introduce new machines, but fearing that other capitalists may use them, the big capitalists use their wealth to buy up new inventions and to conceal them from others.

If formerly, in the epoch of free competition, the capitalist aimed at technical improvement which gave him a certain differential profit, arising from the difference between the individual cost of production of his products and the average

[1] I. Stepanov, *Electrification in the R.S.F.S.R.* There is another factor keeping the capitalists from electrification. " By centralising the generation of electricity in a few electric stations, a small number of nerve centres are created, the loss of which would strike a deathblow to capitalist society." (*Ibid.*) This danger is particularly great in time of uprisings and in time of war.

social cost of production, now this motive largely falls away, as far as the home market is concerned. Monopoly prices of goods, as we have seen, are not dictated by the average cost of production, and the monopolist can, without fearing competition, raise his prices within certain limits and secure a profit even on the products of the most backward enterprises, without improving his technique.

Moreover, the monopolists are often interested not only in regarding technical progress, but even in curtailing production. When we were speaking of the regulator in monopoly production, we found that prices giving the monopolist the greatest profits can sometimes be attained by a curtailment of production.

It is true that this curtailment of production, by increasing the surplus profit of the capitalist, at the same time becomes an incentive to further accumulation, to an enlargement of production. But this only shows how deep are the contradictions of monopoly capitalism if, on the one hand, it stimulates a constant enlargement of production and, on the other hand, puts obstacles in the way of that enlargement.

This contradiction between the striving for high prices and the striving to expand production, the monopolists, as we know, try to overcome by finding foreign markets.

We have already seen how monopoly can ignore the interests of society and send enormous quantities of goods to foreign countries, even at a loss, merely in order to screw up prices at home.[1]

The very fact of searching for new markets and the sending of enormous quantities of goods abroad, while the needs at home remain unsatisfied because of the limited buying power of the population, shows to what extent capitalism has ceased to meet the requirements of society. But, apart from that, this reaching out beyond the limits of the individual country only accentuates the antagonisms of monopoly capitalism, because on the basis of struggle for foreign markets antagonisms arise between the monopoly combines of various capitalist States which result in military clashes.

[1] It is a known fact that American grain dealers a few years ago dumped thousands of bushels of grain into the Mississippi, so as to keep up prices. This, notwithstanding the fact that millions of people had no bread to eat!

In thus developing only the most profitable branches of industry, in securing the sale of his goods at the most advantageous prices, the monopolist is unable to organise production so as to maintain a balance in the different sections, between the production of means of production and means of subsistence, between the buying power of the masses and the growth of production.

Hence the inevitability of a relative under-production and over-production of goods; hence, as we have already seen, the inevitability of crises in the conditions of monopoly capitalism.

Crises become the more terrific because, owing to the close connections between the different parts of modern production, they shake the system from top to bottom and assume the form of regular catastrophes.

Capitalism's inability to organise planned production within the framework of one country becomes accentuated by the fact that monopoly, as we have seen, does not completely abolish property barriers, even within the boundaries of one country. The capitalists insure their domination by subjecting the unorganised firms through the market, e.g. through the employment of the old methods; but, as we know, they are interested to a certain extent in the existence of independent firms.

The inability to organise planned production on a world scale is even more pronounced.

Although monopoly capitalism has itself given rise to the technical conditions necessary for one world-wide economic system, although through the creation of foreign markets and the development of international trade it helps to establish world relations, yet it hampers that development because of the individual mode of appropriation and intensifies the antagonism between the different parts of the system, which are essentially one, but are torn asunder by the private interests of individual monopolists.

While capitalist monopoly enterprises tend to go beyond their " national " boundary lines in the search for profit, the need to fight against the monopolist organisations of other capitalist countries gives rise to a directly opposite tendency, the tendency to national self-sufficiency, guaranteeing the economic independence of each country from the other countries.

War breaks up all world relations and leads to a point when the combatant powers must chiefly depend on their own national resources. An economic system which makes a country dependent upon other countries is therefore dangerous from the point of view of the interests of individual capitalist groups.

That is why each capitalist State wants to have its own industry and its own raw material for the production of machines, ammunition, etc.

It is clear that the tendency to organise independent national economic systems sharply conflicts with the tendency of the productive forces to grow beyond the boundary lines of individual countries. For this reason, too, inventions, which cannot be utilised by one country, are not introduced but are bought up and hidden, so that other capitalist countries may not use them.

For the same reason, inventions used by the different States in their industries are kept secret from the other States. For the same reason, again, States possessing valuable raw material try to keep a monopoly of that material so as to prevent rival countries from using it, or at least to limit their use of it for the enlargement of their productive forces.[1]

Modern capitalism thus hampers the development of productive forces wherever they threaten the narrow imperialist interests of the different capitalist groups by growing beyond the limits of the individual State.

This alone shows that capitalism has arrived at a point where it has already exhausted its creative potentialities and that it has passed from the progressive phase of its development, and has entered the phase of its decay.

[1] England, for example, now has a monopoly of rubber and thereby puts certain obstacles in the way of the development of the rubber and automobile industries. Spain has a monopoly of quicksilver, etc.

132

Militarism. War and the Development of the Productive Forces.

But the tendency towards national self-sufficiency which trammels the development of the productive forces of society is, as we have seen, a result of antagonisms between capitalist States, and is bound up with the inevitability of war, and the break-up of world relations which takes place in time of war.

Armaments in time of peace devour colossal amounts of social wealth, which is absolutely wasted from the point of view of the general development of the productive forces of society and from the point of view of social production.

In the hundreds of thousands of young people called to service every year and in every country, the best cadres of labour power are excluded from the general mass of productive forces for quite a long time, while their maintenance takes a considerable part of social wealth which might otherwise be used as productive forces.

The same is true of many factories working for the army and producing cannon, tanks and other munitions. If the product of a textile factory is used for the making of clothes for the workers, that product, by helping to reproduce labour-power, helps in the general process of reproduction; if, however, the same factory produces cloth for soldiers, it is evident that, inasmuch as the soldier takes no part in the process of production, the wearing of the clothes by him is of no use from the point of view of social reproduction.

The waste and destruction of productive forces in time of war assumes fabulous dimensions.

It is not hundreds of thousands, but millions and tens of millions of people who are torn away from the process of production, and for a much longer period than in normal times. Millions who lose their lives in time of war, drop out from the mass of the social productive forces for ever; many who remain alive become partly or totally disabled, so that they become a burden on the rest of society.

The production of munitions increases manifold as compared with peace time. Victory in modern wars largely de-

pends on the state of military technique, which leads to the militarisation of the whole of industry, a transformation of practically all industrial establishments into factories producing means of destruction. Reproduction is no longer increasing nor is there simple reproduction, because the longer the war lasts, the greater is the amount of social products blown up in the air, which leaves no trace in social reproduction, but, on the contrary, causes a further wiping out of productive forces by the destruction of thousands of buildings, machines, supplies, cultivated areas, etc., on the battlefields.

The upkeep of colossal armies during the last imperialist war required enormous supplies of food and clothing, which supplies constantly diminished in the belligerent countries. The break-up of world connections gave rise to a shortage of various imported goods. This necessitated a careful consumption of products, which resulted in the introduction of "State capitalism" in the belligerent countries. Private capitalist enterprises were put under the control of the State. The consumption of meat and bread was strictly limited and a card system was introduced for their distribution. The railways, which play an enormous part in the transportation of troops, food products and ammunition, were taken over by the State in countries where they belonged to private concerns before the war (America).

Being, in substance, a colossal crisis of capitalist economy, a modern war calls forth great economic disturbances, which shatter the weaker establishments first. The large capitalist combines, of course, can more easily survive the shock, and some of them even grow rich by working on war orders and by the sale of necessaries at high prices. This enrichment takes place, of course, at the expense of the small firms, at the expense of the masses of the population and, particularly, at the expense of the workers and the farmers.

If some capitalist enterprises [1] fatten and become stronger

[1] Not only individual capitalist enterprises grow fat in time of war; this may be the case also with some countries at the expense of others. Thus, America and Japan, which did not do much fighting in the war, profited from it in supplying the warring countries with arms and food products, and in draining vast sums of gold in exchange.

in time of war, it does not mean that the economic system as a whole is prosperous and that social reproduction increases. We have seen that from the point of view of the whole of society, war diminishes production by destroying the productive forces of society.

But is not this destruction compensated by the advantages, the new possibilities for enlarged production and the further development of society, that may follow after the war?

Is not a modern war a growing-pain which causes certain temporary harm to the organism, but helps in its further development?

If this were so, wars would really settle all antagonisms arising before the war, or would at least create the conditions necessary for their settlement.

In reality, however, this is not the case.

The main cause of imperialist wars is, as we know, a struggle for influence on the world market, a struggle for markets and for sources of raw material.

Since the colossal growth of capitalism has already accomplished the partition of the world among the different capitalist groups, war can bring about only a re-partition of the spoils, and in this process the position of some thieves may be improved at the expense of the others. From the point of view of world economy as a whole there would be no improvement. The subsequent struggle among capitalists cannot cease, because the conquered countries will strive to get back what they have lost, while the victors, on the other hand, will strive further to increase their aggrandisements.

But the striving of capitalists to conquer other countries, which possess cheap raw material and offer a higher rate of profit, contains its own inner contradiction. The more a backward country is brought under the influence of capitalist development, the greater will be the development of commodity relations and the development of native industry. This inevitably results in a rise in the organic composition of capital, a lowering in the rate of profit, and an increase in the cost of raw material. By this the capitalists themselves, as it were, undermine their own positions. They deprive themselves of the safety valve which saved them in time of over-

production in their own country, and at the same time lose the chance of receiving colonial super-profits.

This sharpens still further the struggle among the capitalists for colonies which have not yet become industrialised, the number of which is decreasing daily.

133

The Position of the Working Class and the Class Struggle in the Imperialist Epoch.

The epoch of monopoly capitalism with its specific attributes could not, of course, fail to effect a series of vital changes in the position of the working class and the class struggle.

We have already seen that the development of technique in capitalist society is closely bound up with a more intensive exploitation of the workers—the absolute reduction of the working day which takes place with the development of technique is more than compensated by the intensification of labour.

In the imperialist epoch, which arose on the basis of a colossal development of technique, the intensity of labour has reached extraordinary dimensions—Taylorism, the capitalist rationalisation of production of which we have already spoken, is the child of that epoch.

The intensified exploitation of the working class is made possible also by the enormous growth of the reserve army of unemployed, caused by the ruin of masses of small proprietors and the relative displacement of workers by machines. The vast armies of unemployed, thrown out of the factories in times of crisis, cannot be absorbed in industry even in the subsequent years of prosperity.

This intensified exploitation of the working class in the epoch of imperialism leads not only to relative, but to absolute impoverishment. Thus, if before the beginning of the twentieth century wages in most European countries dropped only in comparison with the general rise in national revenue, real wages in the last ten years before the world war dropped in several European countries absolutely.

After the war, wages dropped still further and in many countries they have not yet returned to the pre-war level.

Wage reductions and intensification of labour after the war are largely caused by the capitalists' desire to recover the losses suffered during the war and in the post-war crisis.

With the growing exploitation of the working class, the epoch of monopoly capitalism makes extremely difficult the economic struggle of the proletariat for better working conditions. Formerly, when free competition prevailed, the workers organised in their trade unions and political organisations had to cope with individual and unorganised capitalists who competed with each other on the market; but now the workers have to deal with united capitalists who use their whole machinery of economic and political power in the struggle against the workers.

Formerly, the individual capitalist had reasons to fear a strike, because the stoppage of his factory caused him material losses and deprived him of customers, thus enabling his rivals to capture his trade; but now he is no longer afraid of the competition of others; trusts and syndicates often even undertake to cover strike losses suffered by their members, making them thereby more stubborn in the struggle.

On the other hand, capitalist combines have a powerful weapon against strikes and labour demands in the lock-out, e.g. the stoppage of work of all enterprises belonging to those combines. This deprives the workers on strike of the material aid that could be given by their comrades in the other factories, and the trade unions are not in a position to support large numbers of locked-out workers. By this means the capitalists are able to force the workers to accept their terms.

There is, of course, no need to prove that the capitalist State, which is closely fused with finance capital, aids the capitalists in this struggle.

Every strike and every conflict now affects huge masses of workers. A struggle carried on by small numbers becomes impossible. Conflicts affect entire countries and sometimes go even beyond the limits of individual countries. All this makes the class struggle more and more acute.

The struggle of the workers is continuously growing beyond the limits of isolated "guerilla" skirmishes; the

workers are beginning to realise the necessity of organisation for a united struggle for the destruction of monopoly capitalism.

Together with the impoverishment of the working class and the sharpening of the class struggle, we observe in the imperialist epoch another unusually interesting and important phenomenon, revealed in the rise and development of the so-called labour aristocracy in the chief capitalist countries.

The capitalists of those countries, by making enormous surplus profits, both at home and in the colonies (and also through trade with the more backward countries), are able to part with a portion of that surplus profit for the benefit of the upper strata of the working class—the most highly qualified workers in the metropolis. By this means the bourgeoisie splits the working class into two parts—a comparatively small group of the upper strata which becomes interested in the imperialist policy of its masters, and a huge mass of proletarians who are ruthlessly exploited with the support of the labour aristocracy.

This division of the working class into two parts is particularly clear in such developed capitalist countries as Great Britain and America.

Engels spoke of this process among the British working class as early as the middle of the last century, showing that, together with the bourgeoisie, the British workers were complacently enjoying the benefits of the British colonial monopoly and monopoly of the world market.

This process becomes especially clear if we compare the wages of British workers with the wages of British colonial workers. Thus, while a skilled worker in Great Britain rereceives an average of about ten shillings a day, in India a worker with the same skill receives only about two shillings, and his working day is much longer. We have practically the same correlation between the wages of unskilled workers (in England about six shillings, in India about one shilling).

" In speaking of the British working class, the bourgeois student of British imperialism in the twentieth century is obliged to distinguish systematically between the ' upper layers ' and the ' lower layers, or proletarians properly so called.' . . . In order to present the condition of the British working class under its best possible aspect, only this upper

layer—which constitutes only a minority of the proletariat—is generally spoken of. For instance: 'The question of unemployment is mainly a question of London and the lower proletarian element.' . . ." (Lenin, *Imperialism*, p. 116, English edition.)

As for America, with its growing economic power and influence throughout the capitalist world, it is leaving old Britain behind, and is becoming more and more the classical country of the labour aristocracy.

The wages of an American worker are 2·2 times as high as those of a British worker; three times as high as those of a French worker, and five times as high as those of an Italian or a Czecho-Slovakian worker; they are ten times as high as the wages of an Indian worker, and still further above those of a Chinese or an Egyptian worker, etc. It is evident that this colossal difference in wages cannot be explained simply by the cultural traditions of the American bourgeoisie.

Here, too, of course, the term labour aristocracy does not apply to the whole working class.

It is a known fact that there are labour unions in America, representing the so-called native Americans, whose members are exclusively of the labour aristocracy. The privileges obtained by these unions benefit their members only; they do not affect the great mass of proletarians, consisting chiefly of immigrants from Russia, Poland, and Italy, many of whom have lived many years in the United States.

"Even in America," says Bukharin, "there are great differences among the proletariat. . . . For example, Davis, United States Secretary of Labour, openly declared a short time ago that it is no exaggeration to say that there are several million American workers who would do heavy work at low wages. Furthermore, he pointed out that there are not less than 10 to 15 million people who are deprived of the ordinary necessities of life, which the rest of the people enjoy. In the Southern States, especially in the textile industry, the working day is from ten to eleven hours, the work is extremely hard and the monthly wage varies from 18 to 32 dollars.

"Hence, within the ranks of the American workers we have, on the one hand, a labour aristocracy and, on the other hand, a low grade of workers which works under slave con-

ditions." (Bukharin, *Report of the C.P.S.U. to the C.I. at the 15th Congress of the C.P.S.U.*)

As finance capital develops and the number of monopoly combines which divide the world diminishes, and as the colonies become industrialised, the circle of the labour aristocracy is constantly dwindling, while the number of common labourers is growing and their living conditions are becoming worse.

Side by side with the increasing exploitation of the working class, the position of the middle strata of the population—the farmers, artisans and small proprietors—is also deteriorating. Many of them are actually turned into servants carrying out the orders of their masters. The difference between them and the workers is that they have the semblance of being independent.

134

The Class Struggle and National Struggles in Colonial and Backward Countries.

The class struggle is flaring up not only in the highly developed capitalist countries, but also in the colonies.

Here the position of the working class is especially hard because the workers have to suffer a two-fold exploitation—both by the native bourgeoisie and by the bourgeoisie of the " advanced " capitalist countries which subordinate the backward countries.

The forms of exploitation of the workers of China and India, of Africa and Malaya, bring us back to the worst periods of slavery, in the period of the genesis of capitalism. We have already seen (in the parts dealing with surplus value and wages) how long the working day is, how low wages are, and how mercilessly female and child labour is exploited in that period.

This monstrous exploitation largely arises on the basis of the backwardness and lack of organisation of the working class.

The development of capitalism and the industrialisation of the colonies work the same " miracles " as in European

countries. In concentrating the proletariat in giant capitalist factories, capitalism itself creates the pre-requisites necessary for working-class organisation and united action against the bourgeoisie.

The class struggle in the colonies and the backward countries is characterised by the fact that it is closely bound up with the national struggle, as the emancipation of the workers from exploitation is bound up with the struggle for the emancipation of the oppressed country from foreign capitalist marauders. In the struggle for national independence the working class gains the support of millions of peasants and urban petty bourgeoisie (artisans, etc.), for whom capitalism spells ruin and poverty.

The post-war epoch is characterised by a sharpening of the national struggle and an accentuation of the class struggle. The national revolutionary movement in contemporary China, the struggles for independence in India, Turkey and Persia, confirm this in the clearest possible manner.

135

Decadence of the Capitalist Class.

Simultaneously with the ruin of the masses and the sharpening of the class and national struggles, there is to be observed degeneration and decay within the ranks of the capitalist class.

In speaking of joint-stock companies we have already called attention to the fact that the capitalist class, divorced from the process of production and the performance of useful economic functions, is converted into a parasitic class capable only of clipping coupons and drawing dividends.

This decadence of the bourgeoisie is most clearly revealed in the growing class of rentiers.

In his *Imperialism*, Lenin says that:

"Imperialism is an immense concentration of money capital in a few countries, a concentration which amounts to 100 or 150 milliard francs in various securities. Hence the inevitable development of a class, or rather of a category, of bondholders (rentiers), people who live by clipping coupons,

people entirely strangers to activity in any enterprise whatever, people whose profession is idleness. The export of capital, one of the essential economic bases of imperialism, detaches still more bondholders from production; and sets the seal of parasitism on the whole country living on the labour of several overseas countries and colonies." (Lenin, *Imperialism*, p. 109, English edition.)

To what an extent the capitalist class is actually degenerating is seen from the fact that it is even becoming incapable of putting forward its own people for political leadership in order to guarantee capitalist domination. The task of political leadership is performed by the hired servants of capitalism, descending from other classes. It is no accident that the greatest and most talented statesmen in the contemporary bourgeois world are people originating from the working class or people who got their political training under the influence of the ideas of the working class.

It suffices to mention that Millerand and Briand in France, Mussolini in Italy, Pilsudsky in Poland, and other heroes of modern political life were once members of socialist parties.

136

Unequal Development of Capitalism.

We have thus seen how, with the growth of monopoly capitalism, the sharpening of class contradictions, and the decay of the bourgeoisie, obstacles to the further development of productive forces arise.

Does this mean that the development of productive forces has entirely stopped in capitalist society, that monopoly capitalism has reached a point at which increasing reproduction is impossible, and that only diminishing or, at best, simple reproduction is possible?

It would seem that the facts show the contrary.

True, the last world war caused a colossal destruction of the productive forces of the world. The loss in labour-power alone was 37,000,000 people (if we include the killed and maimed, and the reduced birth-rate); the destruction is

estimated at 37,800,000,000 pounds, constituting one-third of the wealth of the warring countries.

In the first years after the war, production had fallen so much that in some countries it comprised only one-third of pre-war production.

But " capitalism is now emerging or has already emerged from the post-war chaos in the sphere of production, trade and finance " (Stalin). We see that production has reached the pre-war level and has even excelled it in some countries.

We are witnessing a colossal growth of technique in the sphere of chemistry, metallurgy, machinery and aviation. One of the greatest achievements of modern technique, of which we have already spoken, is electricity, a child of the twentieth century—and the twentieth century is the age of imperialism. Every journal and every newspaper tells us of new inventions and new technical achievements.

Does not this contradict everything we have so far said, does it not show that the creative potentialities of capitalism have not yet been exhausted, and that it is too early to speak of decay?

This question is so serious that it requires a special examination.

We have already shown that in the period of free competition capitalism was progressive and the productive forces grew and developed during that epoch.

But does that mean that this growth proceeded smoothly and evenly? Not at all. The development of capitalist society is characterised by the fact that it develops by leaps and bounds and that in the epoch of free competition this spasmodic and uneven development is manifested chiefly in the uneven development of the different branches of production. Usually the industry which at a given moment is most profitable attracts many capitalists and becomes highly developed, to the detriment of the other industries which are neglected. But after a time capital feverishly begins to concentrate in some other industry and is withdrawn from the first, and so on.

The inequality inherent in capitalism in all stages of its development becomes particularly accentuated in the epoch of imperialism, and assumes a series of highly important peculiarities.

Instead of unevenness in the development of different branches of industry, the uneven development of different countries becomes of vital importance.

Unequal development of different countries was known before, for not all countries started out at the same time along the path of capitalist development, and the rate of that development was not everywhere alike.

But inasmuch as international relations were comparatively weak in the past, inasmuch as each capitalist country was in a way a self-sufficing national unit, this inequality in the development of the different countries could not be as important as the unevenness in the development of different branches of industry within one country.

But in the epoch of imperialism the different countries are united into one world system, and the existing unevenness in their development creates the conditions for further uneven development in the different countries of which it consists.

True, the strengthening of world relations, as we have seen, draws the backward countries into capitalist development, and it would seem that unevenness in development is mitigated, but the opposite tendency—the tendency to " intensify and accentuate the unevenness of development " (Stalin)—becomes still stronger in the epoch of imperialism.

What stimulates this intensification?

Let us hear what Stalin has to say on this:

" What are the basic elements of the law of unequal development under imperialism?

" Firstly, they lie in the fact that the world has already been divided among the imperialist groups; there are no more ' free ' unoccupied territories in the world, and in order to get new markets and new sources of raw material, and to expand, it is necessary to take away territory from others by force.

" Secondly, they lie in the fact that the unprecedented development of technique and the progressive levelling of capitalist countries, have facilitated a sporadic outreaching of some countries by others, a crowding out of the more powerful by weaker but more rapidly developing countries.

" Thirdly, they lie in the fact that the old division of spheres of influence among the imperialist groups constantly clashes with the new correlation of forces on the

world market, and that in order to re-establish an ' equilibrium ' between the division of spheres of influence and the correlation of forces, a periodical redivision of the world is necessary by means of imperialist wars. Hence, a more intensive and more accentuated uneven development in the period of imperialism." (Stalin, *Once More About the Social Democratic Deviation in Our Party.*)

Inasmuch as the earth is already divided among the imperialist groups, the further partition and re-partition of the world is possible only by strengthening one imperialist group at the expense of another (this happened in the last imperialist war), which, of course, does not diminish but accentuates the inequality in the development of different countries.

On the other hand, technique can now develop so rapidly that, if conditions were favourable, one country would be able in a comparatively short period to outreach the other countries and leave them far behind. Thus, for instance, the rapid progress in the production of oil in America resulted in the fact that Great Britain, which formerly supplied the world with coal, and whose entire industry was based on coal, has now become, in comparison with America, a relatively backward country, instead of an advanced country.

The sporadic development of technique in itself also accentuates the unevenness. Apart from that, it creates dissatisfaction among the new imperialist upstarts who cannot be content with the old division of the world and begin to look forward to a redivision in accordance with the new correlation of forces. This leads to a further strengthening of one group of countries to the detriment of others and to a further accentuation of their inequality.

In the light of the theory of uneven development of capitalism we have just propounded, it is not difficult to reply to the question whether capitalist stabilisation denies the fact of decay, and whether the facts of growing technique refute our postulate that monopoly capitalism has already become an obstacle in the development of the productive forces of society.

Lenin, in his *Imperialism*, says:

" It is characteristic of capitalism that both contradicting tendencies—the tendency of ' decay ' and the tendency of

growth—are interlaced within it. Some branches of industry, some sections of the bourgeoisie, some countries, reveal in the imperialist epoch now one and now the other of these tendencies in one degree or another. On the whole, capitalism develops incomparably more rapidly than before, but that development becomes not only in general ever more uneven, but that unevenness expresses itself in the decay of some of the most powerful capitalist countries (Great Britain)." (Lenin, *Imperialism*, English edition.)

It follows that in some cases the productive forces can develop, although there is a general process of decay by which, as Lenin shows, the most powerful capitalist countries are affected.

The inequality in the development of capitalism is evidence of the gravity and the contradictions within the capitalist system and of the dangers with which it is threatened by these contradictions.

137

The Theory of Super-Imperialism.

In this case, where is capitalism going?

Arguing in the abstract we might come to the following conclusion: if the conflicts lead to the organisation of monopoly companies, it is possible that these companies will later get together, or that the stronger will swallow the weaker, and that eventually we shall arrive at a single world trust, a single organisation of the capitalist world with no contradictions between its different parts.

Some social democrats, and particularly Kautsky, who was once a revolutionary Marxian, really advance this theory.

How correct is the theory?

Let us hear what Lenin has to say:

" ' From a purely economic point of view,' writes Kautsky, ' it is not impossible that capitalism will yet go through a new phase, that of the extension of the policy of the cartels to foreign policy, or of ultra-imperialism.' That is, of super-imperialism, of the union of world imperialisms and not of their struggles; a phase when wars shall cease under capitalist rule, a phase of ' the exploitation of the earth by

finance capital internationally united.' . . . Let us consult in this matter the exact economic data relating to it. Is 'ultra-imperialism' possible 'from the purely economic point of view'?

"If the 'purely economic point of view' means pure abstraction, all that can be said resolves itself into the following proposition: the evolution of capitalism tends to monopolies, hence it tends to a united world monopoly, to a universal trust. This is undeniable, but it is also completely devoid of meaning.

"If, on the other hand, we are discussing the 'purely economic' conditions of the period of finance capital, considered as an actual historical period at the beginning of the twentieth century, then lifeless abstractions about imperialism are best refuted by the concrete economic realities of the present world situation. (Kautsky's line of argument on 'ultra-imperialism' encourages, amongst other things, that profoundly mistaken idea, which only brings grist to the mill of the apologists of imperialism, that the domination of finance capital *weakens* the inequalities and contradictions of world economy, whereas in reality it *strengthens* them). . . .

"We notice three areas of highly developed capitalism—that is, with a high development of means of transport, of trade and of industry. They are the Central European, the British areas, and the American. . . . There are two areas of weak capitalist development: Russia and Eastern Asia. In the former the density of population is not great, in the latter it is very high; in the former, political concentration is very high, in the latter it does not exist. The partition of China is only beginning, and the competition between Japan and the U.S.A. in connection therewith is continually gaining in intensity.

"Compare the ideas of Kautsky about 'peaceful' ultra-imperialism with this stern reality, with the vast diversity of economic and political conditions, with the extreme disproportion of the rate of development of the different countries, with the violent struggles of the imperialist States. As for the international cartels in which Kautsky sees the embryo of ultra-imperialism, do they not provide us with an example of the partition of the world and of its re-partition—of the

transition from peaceful sharing out to warlike sharing out, and vice versa? American and other finance capital which has peacefully shared out the world with the participation of Germany—in the international railway combine, for example, or in the international merchant marine—is it not now re-dividing the world on the basis of new alignments of forces resulting from changes which are by no means of a peaceful nature? . . .

" We ask was there *under capitalism* any means of remedying the disproportion between the development of production and the accumulation of capital on the one side, and the division of colonies and the spheres of influence by finance capital on the other side—other than by the resort to arms? " (Lenin, *Imperialism*, pp. 101-7, English edition.)

It follows that the creation of " a single world trust " is logically conceivable only if it is conceivable endlessly to extend the line along which capitalism develops. But if we analyse modern capitalism in concrete terms we find that its contradictions are so great that it must burst asunder and cease to exist before it can be transformed into a single world trust.[1]

The passage from Lenin was written before the end of the world war.

After the world war, instead of " a reorganisation of life on principles of justice " promised by the imperialist hypocrites, instead of one world trust and lesser capitalist antagonisms promised by Kautsky, we see, in spite of stabilisation,

[1] There is no law the action of which could be extended indefinitely, for a certain limit is always reached beyond which, owing to changed conditions, the law becomes inapplicable. That is true in the social as well as the natural sciences.

According to the law of expansion of gases under the influence of temperature, gas, if cooled by 273°, should have a volume equal to 0; that is, it should disappear entirely because a cooling of one degree diminishes its volume by $\frac{1}{273}$.

In reality, however, the gas does not disappear because when we get down to actual gas and not to abstract formulæ, we find that before reaching 273° gas becomes fluid, and the said law does not apply to fluids. The same is true of the tendency of capitalist amalgamation. In the abstract that tendency can be carried on endlessly, but actually there is a certain limit to that tendency—capitalism is destroyed before it can become a single world trust.

only a further accentuation of the antagonisms inherent in the capitalist order.

The struggle for markets and for a re-division of the world does not cease, but is being intensified; the antagonisms between the different imperialist organisations, which seemed to be mitigated during the general struggle, reappear, and new national groupings and new conflicts arise.

America, the new "mistress of the seas," clashes in her further development with another powerful buccaneer—Japan.

Great Britain, weakened by the war, does not give up her dreams of restored power; France is fighting against Great Britain for influence in Central Europe—Germany, Poland, Czecho-Slovakia—and for influence in Africa and Central Asia; bellicose fascist Italy also proclaims her pretensions in the Balkans, the ante-chamber of Asia and North Africa. The struggle for influence is sharpening in such "semi-colonies" as China and others. The collapse of Central Europe, the formation of a number of small States in place of the Austro-Hungarian Empire and on the outskirts of the former Russian Empire, have still further entangled the mass of contradictions.

Germany, which before the war was one of the richest countries in the world, has been plundered and ruined. Apart from the fact that she is stripped of her colonies and richest provinces, hundreds of the best German factories and an enormous mass of wealth were destroyed on the pretext of Germany's disarmament; the merchant fleet, a vast number of steamers and railway cars were taken away from Germany, and the country was taxed with colossal contributions.

After seven or eight years of desolation and starvation, Germany is now getting on her feet; she has hardly managed to stand up and yet already she is speaking of her right to a "place in the sun." New conflicts are brewing between Germany and Poland in connection with Germany's claims for a return of her colonies. Many of the other European States are trying to get Germany on their side in the event of war.

Notwithstanding the talk of the "last war," notwithstanding the series of disarmament conferences, there is a

feverish process of armament now in progress—Great Britain, Japan and France are feverishly building naval and air fleets and America " bakes cruisers like hot cakes."

In the quiet of scientific laboratories, plans of new means of destruction, of artillery, chemical and air warfare, are being worked out.

Europe has now more men under arms than before the war.

It is truly a " powder magazine " and a spark will suffice to cause another terrific conflagration.[1]

To talk of super-imperialism and the mitigation of the contradictions of capitalism under such conditions, only weakens the vigilance of the proletariat, which is fighting against capitalism and the wars arising from it.

138

The Inevitable Downfall of Capitalism and the Transition to Communism.

We will now sum up what we have so far said, and draw conclusions from it. We have seen that the antagonisms inherent in the capitalist order are not diminishing with its development, but are, on the contrary, constantly increasing.

These antagonisms must sooner or later end in a clash.

Capitalism is inevitably declining towards its destruction. It is not in a position to recover because its growing antagonisms limit the further development of society and its productive forces. If there is still a certain development of technique to be observed in some spheres, that development proceeds most unevenly and is largely connected with the requirements of war, i.e. with the prospect of future destruction. The moribund bourgeoisie is no longer able to lead society out of chaos. The idea of annihilation of the antagonisms of capitalist society through the organisation of a single world trust is but a hollow dream, for the antagonisms of capitalism are so great that the system will not hold out

[1] Properly speaking, military warfare has not stopped for a moment since the world war. Let us recall the events in Morocco, Syria, and China.

until one capitalist trust has devoured all others in the struggle.[1]

By concentrating production in the hands of a small minority, by raising technique to a high level, and working out through the scientific organisation of labour the principles of organisation and management of industry, capitalism has already created the pre-requisites for the organisation of a single world economic system, without property barriers and based on planned production in the interests of the whole of society.

But the fact that capitalism has created the necessary conditions for the organisation of a single economic world system is not the only important point. That these conditions may be utilised, that the possibility may become a reality, it is necessary not only for capitalism to have outlived its usefulness, but that a new force should arise which is able to convert this possibility into a reality.

This force is arising in the working class, which with the development of capitalism is inevitably concentrating and organising its power and acts as the vanguard in the struggle for a Communist society, a society knowing no anarchy in production and no class antagonisms, because the tools and the means of production, and the organisation of production and distribution, are in the hands of the producers themselves.

Economic organisation on Communist foundations is the only possible way out of the contradictions of the capitalist order and is made imperative by the course of events.

How soon the reorganisation of society on new foundations will be realised will depend upon the degree of organisation of the working class, the depth of the contradictions prevailing among the bourgeoisie, the extent to which the proletariat succeeds in winning over some of the sections of the petty bourgeoisie which now support the bourgeoisie, and the strength of the revolutionary movement in the colonies.

[1] Strictly speaking, the formation of a single trust (if that were possible) would simply signify a more intensive exploitation of the working class, increased class antagonisms ; based on capitalist foundations that trust would inevitably give rise to antagonisms and contradictions also among its component, unequally developed, parts with their conflicting interests.

In essence we have already entered the phase of that transformation. The October Revolution in Russia marked the beginning of the Communist Revolution, the beginning of the collapse of capitalism and the building up of Socialism.

The successes of the Soviet Union, side by side with the decay of the capitalist countries, guarantee the coming of the Communist Revolution all over the world. This revolution could not be realised immediately after the October Revolution, because the decay of capitalism, as we have seen, does not proceed in a straight line.

These facts are not in the least refuted by capitalist " stabilisation " of which we have already spoken.

Just as an improvement in the condition of a very sick person is not always a sign of his recovery, but rather a sign of his approaching death, so also the relative improvement of the position of capitalism (its temporary stabilisation) is not a sign of its recovery.

That the hectic flush of modern capitalism is no sign of health may be seen from the following facts. Stabilisation is accompanied by difficulties at every turn ; the crises which come and go are extremely irregular—they differ from the crises of classical capitalism by their frequency, by the fact that there is no regularity in their succession, as is the case with " normal " crises. Finally, and this is most important, contemporary stabilised capitalism is distinguished by the fact that its productive potentialities are greater than the buying power of the masses, that its technical possibilities are wider than its economic possibilities. On the one hand, the capitalists are capable of producing more than they actually produce, and on the other, the millions of unemployed and badly paid workers have no means of buying what they need.

All this goes to show that capitalism is mortally ill and that there is no power on earth which can save it from certain destruction.

MATERIAL FOR READING ON PART IX

A. Joint-Stock Companies.
Extract from *Capital*, vol. iii, pp. 516-19.

B. Dividends and Founder's Profit.
Extract from Hilferding's *Finance Capital*, chap. 7.

C. Concentration of Production and Monopolies.
Extract from Lenin's *Imperialism*, the Last Stage of Capitalism, chap. 1.

D. General Characteristics of Imperialism.
Extract from Lenin's *Imperialism*, chap. 3.

E. Uneven Development of Capitalism and the Theory of Super-Imperialism.

In addition to the extracts from Lenin's *Imperialism* given in the text, it would be advisable to read his introduction to Bukharin's *World Economy and Imperialism*. On the question of super-imperialism, we suggest also the twelfth chapter of Bukharin's book.

F. For a more detailed study of the questions dealt with in this chapter, we suggest a careful reading of the whole of Lenin's *Imperialism*, which can be understood by any reader of this book. See also Bukharin's book as above.

G. The Struggle of the Monopolists against Recalcitrant Firms.
Lenin, *Imperialism*, chap. 1.

H. Colonial Exploitation.
Extract from Rosa Luxemberg's *Accumulation of Capital*.

SUBJECTS FOR ESSAYS

First Subject

Price and Value in Conditions of Monopoly Capitalism

The basis of the essay should be the six themes dealt with in par. 123, developing and supplementing them.

Second Subject

The World War of 1914-18 *and its Consequences.*

Outline of Essay

1. The causes of the world war.
2. The war and the organisation of production during the war.
3. The Versailles Peace Treaty.
4. The position of the various capitalist countries after the war.
5. The growing indebtedness of the European States.
6. The financial crisis.
7. Unemployment.
8. The sharpening contradictions after the war: growing pro-

tective tariffs and armaments; industrialisation of the colonies and the increasing cost of raw material; the further struggle for markets in the colonies.

QUESTIONS

1. Nachimson Spectator in the first volume of his *World Economy Before and After the War*, gives the following data on companies in Tsarist Russia:

"In 1911, there existed 1,651 companies in Russia with a share capital of 3,346·4 million roubles and property to the value of 2,758·9 million roubles, and a profit of 470·6 million roubles for the year, constituting 14·1 per cent. of the share capital with a distribution of dividends to the amount of 221·2 million roubles or 6·6 per cent. of the share capital.

"These enterprises were divided as follows among the different industries:

"The largest group consisted of enterprises producing food products (18·2 per cent.), which is quite natural for an agrarian country; but as regards amount of capital, that group occupied the fourth place. The mining industry had more than one-fifth of the whole share capital (22 per cent.); then follows the textile industry (19·4 per cent.), which occupied second place in the number of enterprises (17·1 per cent.); then come the banks (14·4 per cent. of the entire capital) and the metallurgical and machine industries (10·3 per cent.). Of the total share capital, the mining establishments had almost one-third, the textile industry 15·8 per cent., the metallurgical industry 10 per cent., the food industry 8·9 per cent."

What conclusions can be drawn from these statistics concerning the specific gravity of the companies not only in the life of Russia, but in capitalist countries in general?

2. General meetings of the Boguslavsky Mining Company.

The largest number of Shares were represented by:	Representatives on Dec. 21st, 1913.	Representatives on April 26th, 1916.
Azov-Don Bank	10,000	8,000
Mrs. P. A. Borinskaya	10,000	10,200
Princess A. A. Obolenskaya ...	10,000	10,000
A. A. Polovtzev	5,900	8,000
G. F. Zeidler	2,000	2,410
A. G. Shachbudagov	1,270	—
A. I. Feldman	855	—
G. F. Zeidler	—	1,000
Petrograd International Bank ...	—	1,000
I. N. Leschinsky	—	750

Do the statistics show to what extent joint-stock companies lead to a " democratisation of capital " ?

3. What are the causes of the rapid spread of joint-stock companies in the epoch of most highly developed capitalism ?

4. Founder's profit on all shares of a company amounts to 300,000 pounds ; the average rate of bank interest is 4 per cent. ; dividends paid amount to 16 per cent. on the nominal price of the share. How much share capital was invested by the founders at the inauguration of the company ?

5. Show the founder's profit if the nominal price of a share equals A, the average rate of bank interest equals I and dividends equals D (in relation to the nominal price of the share). Apply the formula on the price of land given in par. 84.

6. Some bourgeois scholars say that imperialism is a general striving for greater power, characteristic of all nations at all times. Others maintain that imperialism is characteristic not only of nations, but also of individuals who seek power and wealth, and even of animals and plants. They say that a tree by spreading its roots and crowding out other plants has imperialist tendencies.

Mussolini recently declared in the Italian Parliament that imperialism is an attribute of every organism struggling for existence.

Analyse this view and give your opinion of it.

7. Price and Output of Automobiles in Ford Plants.

Year.	Price in dollars.	Number of Automobiles produced.
1909-10	950	18,664
1910-11	780	34,528
1911-12	690	78,440
1912-13	600	168,220
1913-14	550	248,317
1914-15	490	308,213
1915-16	440	533,921
1916-17	360	785,432
1917-18	450	706,584
1918-19	525	533,706
1919-20	from 575 to 440	996,660
1920-21	from 440 to 355	1,250,000

What does this table show ? How can these figures be reconciled with the theory of the " decay " of capitalism ?

8. Explain why the war destroyed the credit system. Explain also the high cost of living during the war.

9. Statistics show that many branches of industry developed

considerably during the war. For instance, the output of coke in Germany increased greatly; the output of electro-steel increased threefold in Germany during the war, five and a half times in Great Britain and fifteen times in America.

Does this not contradict our statement concerning the destruction of productive forces in time of war?

10. The net income of fourteen British railway companies with a capital of £13·2 millions was:

1913	£2·25 millions
1916	£2·67 ,,
1917	£3·01 ,,
1918	£2·94 ,,

Deductions for the reserve fund:

1913	£1,186 thousand
1916	£1,533 ,,
1917	£1,735 ,,
1918	£1,621 ,,

Payment of dividends:

1913	10·8 %
1916	10·9 %
1917	11·8 %
1918	11·2 %

What conclusions can we draw from these figures?

11. Draw your own conclusions from the tables below and explain their meaning.

TABLE I

Gold Deposits in the Major Countries in 1913-18.

Country.	In millions of Dollars.		Per cent. of World Supply.	
	Dec., 1913.	1918.	1913.	1918.
Great Britain ...	170	524	5	8·3
France	679	665	20	10
Italy	288	243	8·5	3·9
Germany	274	539	8·2	8·5
Austro-Hungary ...	251	53	7·4	0·8
Denmark	20	52	0·6	0·8
Norway	13	33	0·4	0·5
United States ...	692	2,246	20·4	40·3
Japan	65	226	1·9	3·6

TABLE II

Income of Belligerent States during the War.

Country.	Millions of Dollars.			
	Ordinary Income.	Internal Loans.	Loans from Allied Countries	Loans from Neutral Countries
Great Britain ...	4,902	16,082	2,909	1,067
France	5,130	10,619	1,426	606
United States ...	2,787	12,485	198	—
Germany	3,660	19,409	—	9
Austro-Hungary ...	5,410	6,241	711	—
Turkey	930	353	348	—
Russia	6,082	7,632	2,289	236

12. What do you think was the effect of economic conditions during and immediately after the war on the rentiers (people living on dividends and clipping coupons)?

13. It is known that America restored her economic position sooner than the other countries, and that she has already surpassed the pre-war level. Does not this contradict the theory of the decay of capitalism?

14. What country do you think has the most favourable conditions for the formation of a labour aristocracy?

PART X

CHAPTER I

TRANSITION FROM CAPITALISM TO SOCIALISM

139

Inevitability of the Period of Transition from Capitalism to Communism.

STEP by step we have pursued the development of capitalist society and have arrived at the point of its inevitable downfall. At the very beginning of our course, in anticipation of our final deductions, we stated that the system which is to replace capitalism will be a Communist system.

While at that point we could put it only in the form of a supposition, now, on the basis of the analysis of all the tendencies to be observed in the development of capitalism, we can repeat that statement with a scientific conviction in its correctness.

The entire trend of development of the capitalist mode of production, which Marx so excellently described in his Communist Manifesto long before our epoch, is now being borne out before our very eyes.

Marx proved that the development of the productive forces of capitalist society leads, with the inevitability of the laws of nature, towards Communism, just as the development of the productive forces in feudal society gave rise to capitalism. He said :

" We have seen that the means of production and exchange, which served as the foundation for the development of the bourgeoisie, had been generated in feudal society. But the time came, at a certain stage in the development of these means of production and exchange, when the conditions under which the production and the exchange of goods were carried on in feudal society, when the feudal organisation of agriculture and manufacture, when (in a word) feudal property relations were no longer adequate for the productive forces as now developed. They hindered production

instead of helping it. They had become fetters on production. They had to be broken : they were broken.

" Their place was taken by free competition in conjunction with the social and political system appropriate to free competition—the economic and political domination of the bourgeois class.

" A similar movement is going on under our very eyes. Bourgeois conditions of production and exchange ; bourgeois property relations ; modern bourgeois society which has conjured up such mighty means of production and exchange—these are like a magician who is no longer able to control the spirits his spells have summoned from the nether world. For decades the history of industry and commerce has been nothing other than the history of the rebellion of the modern forces of production against the contemporary conditions of production, against the property relations which are essential to the life and the supremacy of the bourgeoisie. Enough to mention the commercial crises which, in their periodic recurrence, become more and more menacing to the existence of bourgeois society. These commercial crises periodically led to the destruction of a great part not only of the finished products of industry, but also of the extant forces of production. During the crisis a social epidemic breaks out, an epidemic that would have seemed absurdly paradoxical in all earlier phases of the world's history—an epidemic of over-production. Temporarily, society relapses into barbarism. It is as if a famine or a universal, devastating war had suddenly cut off the means of subsistence. Industry and commerce have, to all seeming, been utterly destroyed. Why is this ? Because society has too much civilisation, too abundant means of subsistence, too much industry, too much commerce. The productive forces at the disposal of the community no longer serve to foster bourgeois property relations. Having grown too powerful for these relations, they are hampered thereby ; and when they overcome the obstacle, they spread disorder throughout bourgeois society, and endanger the very existence of bourgeois property. The bourgeois system is no longer able to cope with the abundance of the wealth it creates. How does the bourgeoisie overcome these crises ? On the one hand, by the compulsory annihilation of a

quantity of the productive forces ; on the other, by the conquest of new markets and the more thorough exploitation of old ones. With what result ? The result is that the way is paved for more widespread and more disastrous crises, and that the capacity for averting such crises is lessened. The weapons with which the bourgeoisie overthrew feudalism are now being turned against the bourgeoisie itself." (*Communist Manifesto*, English edition, 1929.)

The imperialist phase of capitalist development which we have just analysed constitutes a period in which the productive forces called forth by capitalism revolt against the capitalist system.

But we know that for the rise of a new social order, it is not enough that there should be a clash between the productive forces and the form of social relations. There must be a class which can snatch the banner of progress out of the hands of the class which is now compelled to quit the historical scene, and carry it onwards. If the trend of social development does not prepare the necessary conditions for the birth of such a class, then the contradictions between the growing productive forces and the form of social relations lead to the decline of that society and its return to a lower stage of social development. That is how ancient Greece and Rome, which were based on slavery, declined. The conditions of slavery could produce a revolutionary class capable of organising a new mode of production.

But in following capitalist development step by step we saw how a class, the proletariat, is gradually being formed and consolidated, and is reaching an ever clearer understanding of its interests and historical mission ; a class which is called upon to overthrow capitalist domination and to usher in the Communist order.

Marx said :

" The bourgeoisie has not only forged the weapons that will slay it ; it has also engendered the men who will use these weapons—the modern workers, the proletarians.

" In proportion as the bourgeoisie, that is to say capital, has developed, in the same proportion has the proletariat developed, the modern working class. . . . As industry develops, the proletariat does not merely increase in num-

bers; it is concentrated into larger masses, its strength grows; it is more aware of that strength. . . .

" The classes that have hitherto won to power, have tried to safeguard their newly acquired position by subjecting society at large to the conditions by which they themselves gained their possessions. But the only way in which the proletarians can get control of the productive forces of society is by making an end of their own previous methods of acquisition and therewith of all the extant methods of acquisition. Proletarians have nothing of their own to safeguard; it is their business to destroy all pre-existent private proprietary securities for, and private proprietary safeguards.

"All earlier movements have been movements of minorities, or movements in the interest of minorities. The proletarian movement is an independent movement of the overwhelming majority in the interest of that majority. The proletariat, the lowest stratum of extant society, cannot raise itself, cannot stand erect upon its feet, without disrupting the whole superstructure comprising the strata which make up that society. . . .

" Proletarians have nothing to lose but their chains. They have a world to win." (*Communist Manifesto*, English edition, 1929.)

Thus the capitalist mode of production itself prepares, in the course of its development, the conditions necessary for its own destruction and for the creation of a new type of social relations, on the one hand by so developing the productive forces that they can no longer be reconciled with the limitations of bourgeois property in the means of production, and on the other by creating its own grave-diggers—a class of revolutionary workers.

How does the transition from one mode of production to another, from capitalism to Communism, take place?

First of all the proletariat must, in the words of Marx, " expropriate the expropriators," that is take political and economic power into its hands.

We read in the *Communist Manifesto:*

" We have already seen that the first step in the workers' revolution is to make the proletariat the ruling class. . . .

" The proletariat will use its political supremacy in order by degrees to wrest all capital from the bourgeoisie, to cen-

tralise all the means of production in the hands of the State (this meaning the proletariat organised as the ruling class) and, as rapidly as possible, to increase the total mass of productive forces." (*Communist Manifesto*, English edition, 1929.)

The transition period following the capture of political and economic power by the proletariat will be a long period of revolutionary transformation of capitalist society into Communism.

In his criticism of the Gotha Programme, Marx said that:

" Corresponding with this there will be a period of political transition during which the State can be nothing other than the revolutionary dictatorship of the proletariat."

And Lenin, in his *Proletarian Revolution and Kautsky the Renegade*, reiterated:

" The revolutionary dictatorship of the proletariat is an authority maintained by the proletariat by means of force over and against the bourgeoisie, and not bound by any laws." (Lenin, *The Proletarian Revolution*, p. 18, English edition, 1929.)

But to what extent is such a dictatorship necessary? We know that the bourgeoisie, together with the landlords, constitutes the insignificant minority in all countries; is it not possible for the working class, with its numerical superiority over the bourgeoisie, to capture and maintain power without resorting to revolutionary violence, by the use of exclusively democratic methods?

To this question Lenin answered in his *Proletarian Revolution* that a dictatorship is necessary:

" In order to break down the resistance of the bourgeoisie; in order to inspire the reactionaries with fear; in order to maintain the authority of the armed people against the bourgeoisie; in order that the proletariat may forcibly suppress its enemies." (*Ibid.*, p. 42.)

But if it is not difficult to prove the necessity of a revolutionary dictatorship of the proletariat at the beginning, in the period of the overthrow of the bourgeoisie and the capture of power by the proletariat, how can that necessity be proved and justified during the entire transition period, the period of revolutionary transformation from capitalism to

Communism, which, as we have just stated, will be a very long period? The answer to that question we find again in Lenin's pamphlet mentioned above. He says:

"It is possible, by means of a successful insurrection in the centre or of a mutiny in the army, to defeat the exploiters at one blow, but except in very rare and particular cases, the exploiters cannot be destroyed at once. . . . In addition, expropriation alone, as a legal or political act, does not by far settle the matter, since it is necessary practically to replace the landlords and capitalists, to substitute for theirs another, a working class, management of the factories and estates. There can be no equality between the exploiters, who for many generations have enjoyed education and the advantages and habits of property, and the exploited, the majority of whom, even in the most advanced and the most democratic bourgeois republics, are cowed, frightened, ignorant, unorganised. It is inevitable that the exploiters should still enjoy a large number of great practical advantages for a considerable period after the revolution. They still have money (since it is impossible to abolish money at once), some movable property (often of a considerable extent), social connections, habits of organisation and management, knowledge of all the secrets (customs, methods, means, and possibilities) of administration, higher education, closeness to the higher personnel of technical experts (who live and think after the bourgeois style), and incomparably higher knowledge and experience in military affairs (which is very important), and so forth, and so forth. If the exploiters are defeated in one country only—and this, of course, is the rule, since a simultaneous revolution in a number of countries is a rare exception—they still remain stronger than the exploited, because the international connections of the exploiters are enormous. And that a portion of the exploited from among the least intelligent section of the "middle" peasant artisan class may and, indeed, do follow the exploiters has been shown hitherto by all revolutions, including the Commune of Paris (since there were proletarians also among the troops of Versailles, which the most learned Kautsky seems to have forgotten).

"In these cricumstances, to suppose that in any serious revolution the issue is decided by the simple relation between

majority and minority, is the acme of stupidity, a typical delusion of an ordinary bourgeois Liberal, as well as a deception of the masses from whom a well-established historical truth is concealed. This truth is that in any and every serious revolution a long, obstinate, desperate resistance of the exploiters, who for many years will yet enjoy great advantages over the exploited, constitutes the rule." (*Ibid.*, pp. 43, 44.)

We thus reach the following conclusion:

1. The transition from capitalism to Communism presupposes an overthrow of bourgeois domination and the revolutionary capture of political power and the means of production by the proletariat.

2. The overthrow of the bourgeoisie must be followed by a long transition period of transformation of capitalism into Communism under the dictatorship of the proletariat organised in the form of a political State.

140

Conceptions of Socialism and Communism.

We have seen that socialism does not appear ready made after the collapse of capitalism and the capture of power by the proletariat, but that it comes as the result of a long transition period in which a revolutionary transformation of capitalism into Communism takes place. In that transformation of capitalist productive relations into Communist relations, Marx, and later Lenin, distinguished two periods.

The first period, or the first phase, of Communism, corresponds to what we call socialism. It is characterised above all by the fact that the means of production are no longer private property, but belong to the whole of society. With the destruction of private property in the means of production, the capitalist class is also destroyed. From this it follows that there will be no classes with their conflicting interests and no class struggle under socialism. This is the first distinguishing feature of socialist society.

The second feature, following from the first, is the fact that the distribution of means of subsistence depends on the

amount of labour which each able-bodied individual member of society can contribute to society.

Here is what Marx said on the subject:

"Consequently, after all these deductions, the individual producer receives back precisely what he gives to society. What he has given is his individual quantum of labour. For example, the social working day consists of the sum of the individual working hours; the individual working time of the individual producer is the portion he has contributed to the social working day, his share in that day. He receives from society a voucher showing that he has done so and so much work (after deduction of his work on behalf of the communal fund). On presentation of this voucher he withdraws from the communal storehouse of articles of consumption as much as this quantum of work is worth. He receives back from society the same quantum of work in another form. Obviously the same principle is here at work as that which regulates the exchange of commodities, in so far as this is the exchange of equivalent values. Content and form are changed because, under the changed circumstances, no one has anything to give beyond his work; and because, on the other hand, nothing but articles for the individual consumption can pass into individual ownership. As far, however, as concerns the exchange of these articles of individual consumption among the individual producers, the same principle operates as when the exchange of commodity equivalents is effected, namely, a quantum of work in one form is exchanged for an equal quantum of work in another form.

"But one person is physically or mentally superior to another, and can therefore do more work in a certain time, or can continue longer at work; and if labour is to be the standard of measurement, it is necessary to take into account the duration or the intensity of the labour, for otherwise there is no standardisation. Equal right implies unequal right for unequal work. There are no class distinctions, for every worker ranks with the others; but there is tacit recognition of unequal individual endowments and therefore unequal functional capacities, those with superior equipment being privileged by nature. Like all right, therefore, it is substantially an unequal right.

" Again, one workman is married, another unmarried ; one has more children than another ; and so on. Suppose them all to do an equal quantum of work, and all to receive an equal share from the social fund of articles of consumption, it will follow that in actual effect one will receive more than another, one will be better off than another, and so on." (Marx, *Criticism of the Gotha Programme*, translated from the Russian.)

To this we must add such an extremely important cause of inequality as the division of labour into physical and intellectual, which must give rise to great inequality in the standards of intellectual development and cultural requirements and, consequently, in the amount of pay. In the same criticism of the *Gotha Programme*, Marx said :

" If we are to avoid all these mal-adaptions, the right must be unequal, not equal. But such mal-adaptions are inevitable in the first phase of communist society, because it is born out of capitalist society, and after prolonged labour pains. Right can never attain to a higher level than is attained by the economic structure of society and by the consequent cultural development of society." (Translated from the Russian.)

Finally, the third distinguishing feature of socialism is that the State still exists. It is true that in the socialist epoch the State does not suppress anyone, because there are no longer any classes and, therefore, no class inequality, class contradictions and class struggles. But, as there is still inequality arising from the distribution of means of subsistence according to the labour contributed, the State must still exist to maintain this inequality.

It is evident that the rôle of the State in this period of social development is quite different from what it is in the first period after the capture of power by the proletariat, and in the subsequent period of revolutionary transformation of capitalist society into socialism. In the socialist epoch, the State will already have entered the phase of its gradual disappearance.

After defining socialist society, it will not be difficult for us to characterise fully developed Communist society.

The fundamental feature of Communism, distinguishing it from socialism, is that it sheds the last remnants of ine-

quality which still exist under socialism. Among these remnants of inequality there is first of all the distinction between intellectual and physical labour. The result of the destruction of the last remnants of inequality will be the application of a new and more just principle of distribution of the means of subsistence. The means of subsistence will no longer be distributed in accordance with the labour performed by each member of society, but in accordance with the needs of each member of society.

In Communist society every member will have to give to society all that he is capable of giving and receive in return all that he needs. In this manner labour will be transformed from a " means of livelihood " into a " necessity of life." It is self-evident that the State as an organ of violence which maintains unequal rights in the distribution of means of subsistence under socialism, can wither away completely under Communism.

In his *State and Revolution*, Lenin said :

" The State will be able to wither away completely when society has realised the formula : ' From each according to his ability ; to each according to his needs ' ; that is, when people have become accustomed to observe the fundamental principles of social life, and their labour is so productive, that they will voluntarily work according to their abilities. ' The narrow horizon of bourgeois law,' which compels one to calculate, with the pitilessness of a Shylock, whether one has not worked half an hour more than another, whether one is not getting less pay than another, this narrow horizon will then be left behind. There will be then no need for any exact calculation by society of the quantity of products to be distributed to each of its members ; each will take freely ' according to his needs.'

" From the capitalist point of view, it is easy to declare such a social order a ' pure utopia ' and to sneer at the socialists for promising each the right to receive from society, without any control of the labour of the individual citizens, any quantity of truffles, motor cars, pianos, and so forth. Even now, most bourgeois ' savants ' deliver themselves of such sneers, but thereby they only display at once their ignorance and their material interest in defending capitalism. Ignorance—for it has never entered the head of any

socialist to ' promise ' that the highest phase of Communism will actually arrive, while the anticipation of the great socialists that it will arrive, assumes neither the present productive powers of labour, nor the present unthinking ' man in the street ' capable of spoiling, without reflection, the stores of social wealth and of demanding the impossible." (Lenin, *State and Revolution*, English edition, pp. 125, 126.)

Lenin means by this that the time has not yet come to undertake realisation of the absolute ideal of Communist equality. At present this is not a practical motto of the revolutionary struggle, but merely a scientific " prophecy." The immediate task of the epoch we are now living in is the struggle for the first phase of Communism—Socialism.

141

The Question of the Applicability of the Term Political Economy to Soviet Economics.

We have not limited ourselves merely to giving a general description of Soviet production and exchange, but have tried to give a parallel analysis of the problems of political economy and of economic problems as applied to the Soviet system. Here we must summarise and draw certain general conclusions from the material we have examined.

But before drawing conclusions and generalisations, we must deal briefly with some of the peculiarities belonging to the study of the problems of Soviet economics.

These peculiarities arise from the tremendously important economic rôle which the Soviet State—the organ of proletarian dictatorship—is called upon to play in the transition period. We have already pointed out that whereas capitalist production is in the main unorganised and chaotic, Soviet production combines planned with unorganised production. The principle of planning presupposes conscious guidance in, or at least conscious influence on, the economic processes on the part of public or State organs or individuals. This, of course, must not be taken to mean that the planning organ which guides the economic processes can do what it likes. The actions of such an organ are also conditioned by certain causes and are subject to certain laws. But it is not a blind

toy of these laws ; on the contrary, the laws operate through the agency of its will and consciousness. Anarchy, on the other hand, presupposes a regulation of productive relations by means of the blind law of value, regardless, and sometimes in spite, of the will and conscious desire of man.

This gives rise to a fundamental difference between political economy and the theory of Soviet economy. Inasmuch as the laws which regulate capitalist production operate without the will and conscious control of man, it is necessary to eliminate everything that interferes in any way with this spontaneity, including the capitalist State, in order to be able to study these laws in their purest form.[1] That has been our method throughout this course. But we must proceed quite differently in our study of Soviet economics. In Soviet economics the planning principle, as we have just said, is embodied in the organs of the Soviet State, in their acts and measures. In this sense, the Soviet State is a necessary element in the productive relations of Soviet economics, whereas in capitalist society, the State is only a super-structure over those relations.

We will now turn to the conclusions and generalisations which arise from what has been said in dealing with Soviet economics. First of all, with regard to the regulator of productive relations in Soviet economics, which is now in a stage of transition from capitalism to Socialism. We have come to the conclusion that Soviet economy, in contradistinction to capitalism, contains within it a confluence of two principles—the principle of planning and the principle of anarchy. From this the natural conclusion would seem to be that it must have two different regulators, each of which acts in its own sphere. The plan apparently must regulate the Socialist branch of Soviet economy, while the anarchic regulator, the law of value, must regulate the peasant and private branch of Soviet economy ; and as these two antagonistic principles of Soviet economy clash, there must be a struggle between them, as a result of which one regulator is crowded out by

[1] To avoid misunderstanding it should be pointed out that with regard to the imperialist phase, characterised by the existence of monopoly organisations which aim at a conscious guidance and control of the economic processes, we cannot, of course, eliminate these elements because, if we were to do so, the most vital feature of imperialism would be lost.

the other. Plausible as such an explanation may be, it is nevertheless wrong. In the chapter dealing with the regulator in Soviet economy, we established that any society can exist only on condition that it maintains a certain equilibrium between production and consumption. This equilibrium necessitates the observance of a certain proportion in the distribution of labour in the various branches of industry. This law of proportionality in labour investment is a law of every society, whatever the form of its productive relations. The only difference is that in different social formations its operation is manifested in different ways. In capitalist production it operates independently of the will and consciousness of man, through the law of value; in Communist society it operates exclusively through the will and consciousness of the people and finds its expression in the planned measures of the organs concerned. What do we find in Soviet society? In Soviet society, as in any other, the law of labour expenditure is the basis of the equilibrium in productive relations. But how and in what form does the law of value enforce its regulating influence on the productive relations of Soviet society? In accordance with the transitional character of Soviet economy, the two forms of regulation, the mechanism of the law of value and planned guidance, are merged, the active principle being planned control, which makes use of the law of value. In so far as the planning principle is gaining in strength, the law of value is transformed directly into the law of labour expenditure.

It must be remembered that the relations between the planning and anarchic principles in Soviet economy cannot be regarded simply as relations of struggle. On this question Bukharin says:

"When we speak of our economic growth on the basis of the market (this is the meaning of the New Economic Policy from a certain viewpoint), we thereby refute the view that Socialist accumulation is opposed to the law of value. Figuratively speaking, we force the law of value to serve our purposes. The law of value 'assists' us and, strange as it may seem, prepares thereby its own destruction." (Bukharin, *The Laws of the Transition Period.*)

This is the conclusion we reach on the question of the regutor in Soviet economy.

142

The Question of the Applicability of Capitalist Categories of Distribution to the Soviet System.

How does it stand with the other categories of capitalist economics, e.g. surplus value, wages, and the distribution of surplus value which is divided into manufacturers' profit, commercial profit, ground rent and interest? In solving these problems, we were guided mainly by the fact that the relations in the two main branches of Soviet economics, the socialist State relations on the one hand, and the simple commodity relations in agriculture on the other, are fundamentally not capitalist, and that therefore the categories of capitalist economics are not applicable to them, although they preserve the outer form of these categories.

As to the State capitalist and the private capitalist elements in the Soviet system, we found it possible to apply the capitalist categories to them with the reservations arising from their relations with the socialist branch of Soviet economics.

But if we find that in relation to the socialist branch of Soviet production and the greater part of peasant agriculture, the capitalist categories of surplus value, wages, profit, etc., are inapplicable, and at the same time admit the existence of the external form of these categories, the question naturally arises: what, in the final analysis, is the content hidden behind these forms, and is the preservation of these forms of any significance? In analysing the problems of Soviet production, we touched upon this question, so that all we have to do now is draw certain general conclusions.

We will take first the question of the content, the productive relations hidden behind the external relations of Soviet production. As the two main branches which determine the nature of productive relations in Soviet society are the socialist branch on the one hand, and the branch of simple commodity relations in small peasant agriculture on the other, the productive relations may in the main be reduced to two problems—firstly, the problem of interrelations between the working class organised in the State

as a whole, and the individual workers as parts of that whole, as well as between the different groups of workers; secondly, the problem of inter-relations between the working class and the peasants. These two groups of productive relations determine in the main the nature of the Soviet economic system.

If we consider the socialist branch of Soviet economy in greater detail, we find that behind the external forms of surplus value (a term which, by the way, we would suggest should be displaced by the term surplus product), wages, merchants' profit and interest, there are essentially different kinds of inter-relations between the working class as a whole and the individual workers or groups of workers. What, after all, are wages in the conditions of Soviet State industry? They are nothing but a fund for the individual sustenance of the workers. And what is surplus value? It is the surplus product created by the workers which does not enter the fund for individual consumption, but goes partly towards the social needs of the workers' State, that is, the working class as a whole, and partly into the fund of socialist accumulation, that is, again for the needs of the working class as a whole. As to industrial and commercial profit and interest, etc., these are but different forms of distribution of the surplus product of State industry within the Socialist branch. It follows that behind all these forms, which externally resemble capitalist categories, there are concealed essentially non-capitalist relations. We have here a contradiction between form and content constituting a specific peculiarity of every transition period. We have already established that the preservation of these external forms is called forth by the anarchic elements in Soviet production, and by the necessity for the State socialist branch to adapt itself to the simple commodity production of the overwhelming majority of the peasantry, with the object of transforming it along socialist lines. The preservation of the external forms of capitalist categories is of a still further significance. Soviet production is not yet completely Socialist; the law of value still regulates productive relations to a certain extent; and therefore we cannot yet reckon the goods produced in terms of labour hours, but are compelled to adhere to value calculations, although behind the value

form there is hidden planned regulation. In these conditions, the external forms of capitalist categories—profit of enterprise, merchants' profit and interest—have their positive significance, in the sense that they aid the calculations of the State enterprises. By putting the State enterprises on a business basis, demanding profits and taking interest on loans, etc., the Government assures better management and more efficient methods in those enterprises.

We have already touched upon the problem of inter-relations between the socialist branch of Soviet production and the simple commodity elements in small peasant agriculture, or, in other words, between the working class and the peasantry. The general conclusion we arrived at was as follows: In the main the interests of the working class and the peasantry are the same in the U.S.S.R. The existence of a proletarian dictatorship, as we shall see, guarantees to the overwhelming majority of the small peasants their development towards socialism through the most simple and easy method, through the co-operation and industrialisation of agriculture. That this may be realised the development of socialist State industry is necessary.

The peasant, therefore, must also contribute to the fund of the proletarian State, and thus the appropriation by the workers' State of a part of the peasants' income cannot be regarded as exploitation.

We see, therefore, that the relations arising between socialist production and simple commodity production in agriculture cannot be classified as capitalist relations.

All this, of course, by no means excludes certain partial and temporary contradictions and differences of interest between the various groups of workers within the working class, and between the working class and the peasantry, and these may at times become very sharp. But they are not class contradictions which can never be overcome, as in capitalist society.

The complex of productive relations in the Soviet system is not exhausted by the relations between the working class and the peasantry, which we have just analysed. Parallel with these relations there are, as already stated, capitalist relations which are fairly strong in trade, but considerably weaker in industry and agriculture. Between these capitalist

elements on the one hand, and the socialist and peasant branches of production on the other, there exists a whole network of inter-relations.

Thus, for instance, a part of the surplus product of State industry may pass through the channels of trade and credit, etc., into the hands of private capital and, vice versa, a part of the surplus value of private capital may fall into the funds of the Soviet State. In the first case we have a transformation of the surplus product into surplus value, and in the second, the reverse process, a transformation of surplus value into surplus products.

Similar transformations occur in other cases, arising out of inter-relations between the socialist and peasant branches on the one hand, and the capitalist branch on the other.

We have analysed the applicability of the categories of political economy to Soviet production. What is the tendency of development of these categories?

In our examination of the regulator in Soviet production, we came to the conclusion that, as the planning principle becomes more firmly established, the law of value will be transformed directly into the law of labour expenditure. To the extent that this transformation takes place, the capitalist categories will wither away not only as to content (we have seen that from the point of view of content they are already relatively insignificant) but also as to form, because the very necessity for the preservation of the external forms of capitalist categories, will wither away as the planning principle and the transformation of the law of value into the law of labour investment become stronger. When Soviet production has finally become socialist, all these categories will disappear—surplus value and profit will be definitely converted into surplus products, wages will become a fund for the individual sustenance of the workers of socialist society, money and credit will entirely disappear, and commerce will be transformed into a techincal organisation for socialist distribution. That will be the crowning point of the transition period of revolutionary transformation of capitalist society into socialism.

143

The Essence of Expanding Reproduction under Socialism as Distinct from Expanding Reproduction under Capitalism.

We have become acquainted with the main outlines of the nature of productive relations in Soviet society.

In taking up the question of the nature of reproduction in Soviet economy, we must first of all describe the process of reproduction in the conditions of developed socialist society.

There are a good many people among the defenders of the capitalist system who see no fundamental difference between capitalist expanding reproduction and its socialist counterpart. Their line of argument is approximately as follows: The capitalist spends the greatest part of the surplus value which he extracts from his workers, not for himself, but for the further development of industry. Under socialism, the workers will also part with a considerable part of their labour for enlarged production. Therefore, the capitalist serves society with his capital, for which service he receives perhaps rather too great a compensation. All that is necessary is simply to make some minor improvements, to put a few patches on the system of capitalist relations, and all social problems will be happily solved. As their strongest argument they point to Ford's scheme of low prices, high wages, a short working day, etc.

Is there, in fact, any vital difference between capitalist and socialist expanding reproduction, or is this question based on mere hair-splitting? The cardinal distinction between the two is the fact that capitalist increasing reproduction means expanded reproduction of capitalist productive relations, i.e. the broadening and deepening of exploitation of the workers by the capitalists; while socialist expanding reproduction, which brings society closer to Communism, means a gradual emancipation of the workers from all capitalist survivals, such as the contradiction between physical and intellectual labour, the capitalist form of wages and material inequality, etc., and brings closer the moment when "society will have written on its banner 'from each according to his ability, to each according to his needs.'"

From this main distinction there arise a number of passing distinctions, both qualitative and quantitative. Marx said in *Capital*:

" If we reduce the wages to their general basis, namely, to that portion of the product of the producer's own labour which passes over into the individual consumption of the labourer; if we relieve this portion of its capitalist limitations and extend it to that volume of consumption, which is permitted, on the one hand, by the existing productivity of society (that is the social productivity of his own individual labour in its capacity as a truly social one), and on the other hand, required by the full development of his individuality; if we reduce the surplus labour and the surplus product to that measure, which is required under the existing conditions of social production, on the one hand for the formation of an insurance and reserve fund, and on the other hand for the continuous expansion of reproduction to an extent dictated by social needs; finally, if we include in number one, necessary labour, and number two, surplus labour, that quantity of labour which must always be performed by the able-bodied for the incapacitated or immature members of society, in other words, if we deprive both wages and surplus value, both necessary and surplus labour, of their specifically capitalist character, then we have not these forms, but merely their foundations, which are common to all social modes of production." (Marx, *Capital*, vol. iii, pp. 1021-22, 1926 edition.)

Socialist increasing reproduction thus differs from capitalist increasing reproduction in the following respects:

Wages are freed from the " capitalist limitations." What these limitations are under capitalism we already know. Wages are there determined by the value of labour-power, that is, they are gravitating to the minimum of the means of subsistence necessary for the reproduction of the commodity of labour-power, and the general law of capitalist accumulation very often, and, especially in time of depressions and crises, reduces wages even below that minimum, retarding their growth in the period of industrial revival and prosperity. What then will determine the extent of " that portion of the product of the producer's own labour which passes over into the individual consumption of the labourer "

under socialism? Firstly, the " existing productivity of society " and, secondly, the requirements of a " full development of his (the worker's) individuality." As we see, there is quite an important difference. Further, the surplus labour will be reduced to the minimum necessary for a " continuous expansion of reproduction " and for the upkeep of the " incapacitated or immature members of society." To this we should add a certain quantity of surplus labour necessary for the formation of an insurance and reserve fund. In this manner the surplus labour will be reduced by the part which goes to the private consumption of the capitalist and the huge armies of people who serve them, as, for instance, domestic workers, etc., and the numerous bourgeois institutions which protect and support the domination of capitalism. With the disappearance of surplus value, the stimulus to increasing reproduction under socialism also changes. Socialist reproduction will expand " to an extent dictated by social needs," in contradistinction to capitalist expansion, which is based on the striving of the capitalists towards a maximum extraction of surplus value.

Finally, the fact that socialist society will be guided in its expansion of production by the desire to satisfy the needs of society and to bring about a maximum development of those needs in the interests of the full development of the worker's individuality, and will substitute planned guidance for capitalist anarchy, will mean that crises, which are the unavoidable accompaniments of capitalist expanded reproduction, will disappear and an enormous amount of wastage of social labour will be saved.

This shows us that there is a vast difference between capitalist and socialist increasing reproduction, and that the freeing of the process of increasing reproduction from the capitalist limitations and tendencies opens before socialist society wide perspectives, both in the sense of an enormous rise in the material welfare of the workers and in raising society's productivity of labour.

It is clear thus that the very concept of " accumulation of capital " which is now very often applied in relation to Soviet state industry (to what extent this is correct we shall see later), is inapplicable to socialist expanding reproduction.

Marx said that:

" In economic forms of society of the most different kinds, there occurs, not only simple reproduction, but, in varying degrees, reproduction on a progressively increasing scale. By degrees more is produced and more consumed, and consequently more products have to be converted into means of production. This process, however, does not present itself as accumulation of capital, nor as the function of a capitalist, so long as the labourer's means of production, and with them his product and means of subsistence, do not confront him in the shape of capital." (Marx, vol. i, p. 655.)

Inasmuch as the means of production and means of subsistence under socialism will not be the property of a capitalist and will not serve in his hands as a means of extraction of surplus value, as a means of exploitation of the worker, we cannot call socialist increasing reproduction " accumulation of capital."

144

Socialist Accumulation in the U.S.S.R.

Having examined capitalist and socialist expanding reproduction, the question of expanding reproduction in Soviet society naturally arises. To solve this question, we must first consider it in the light of the different branches of Soviet economy ; it is only after this that we shall be able to take up the question of the tendencies of development of the Soviet economic system as a whole. We will begin with the socialist branch—with State industry. What is the nature of increasing reproduction in Soviet State industry—can it be placed in the category of capitalist or socialist increasing reproduction which we have just analysed, or are we dealing here perhaps with a third category ?

After the definition of socialist expanding reproduction given by us, after what we have said on the nature of Soviet economics and Soviet State industry, we already have a ready answer to this question, and we have only to formulate our conclusion.

In Soviet State industry, as in socialist society, the means of production and hence the product and the means of subsistence do not confront the worker in the shape of capital.

Hence, in the process of expanding reproduction in Soviet State industry, we do not find the " function of a capitalist " and, just as in socialist society, there is no " accumulation of capital." Therefore, if we do apply the term capital in relation to Soviet State industry, we must always bear in mind that that term characterises only the form and not the essence of the productive relations existing in the Soviet factories, and that it is used in a limited sense. Secondly, wages in Soviet State industry are still far from being determined by what Marx calls the " full development of the worker's individuality," but, as we have already pointed out in the part dealing with wages, although not freed from the influence of the blind laws of the market, wages are nevertheless largely regulated by the State, which takes as its starting point the " existing productivity of society." Thirdly, as we also already know, the object of increasing reproduction in Soviet industry is not in the least profit as such, and the very essence of profit has changed. The object of expanding reproduction in Soviet State industry is, in the final analysis, to satisfy the demands of society, because it is precisely with this object that profit is extracted and production is increased; it is not simply an objective result of expanding reproduction, as is the case under capitalism, but is consciously aimed at by the Soviet State. Fourthly, expanding reproduction in Soviet State industry signifies an intensification of the socialist elements, a strengthening of the economic basis of the proletariat, an improvement of its material position in proportion to the growth of its productivity of labour, and an ever closer approach to complete socialism. Finally, the operation of capitalist anarchy in Soviet economy, as we shall see later, is greatly limited and weakened by the planning principle, and crises therefore are not an inevitable and necessary phenomenon within it.

We see, therefore, that expanding reproduction in Soviet State industry, both in its social essence and especially in its tendencies, is socialist expanding reproduction, or, as it is called, socialist accumulation.

As to reproduction in the private capitalist branch, it is in substance a reproduction of capitalist productive relations and an accumulation of capital. Reproduction in peasant agriculture is, in the main, reproduction of simple

commodity relations of small agriculture. But we know that the productive relations in small agriculture are not exhausted merely by simple commodity relations; they contain within them on the one hand elements of capitalism embodied in a certain percentage of big farms, and on the other hand elements of socialism. Further, among the socialist elements in agriculture we must include co-operation, government farms and various types of collective farming. In so far as there are capitalist elements in agriculture, they must be classified in the private capitalist branch, while the socialist elements belong to socialist accumulation. But reproduction in the private capitalist branch, as well as in the branch of simple commodity relations in small agriculture, has one feature which distinguishes it sharply from the reproduction of the same relations under the capitalist mode of production.

This feature consists in the fact that, whereas in the conditions of capitalism the process of reproduction is a process of further development of capitalist relations on an ever-wider basis, in the conditions of Soviet society we find at first a relative and later an absolute narrowing down of capitalist productive relations, to the extent that the socialist elements, and especially the elements of State industry, increase.

As far as the simple commodity relations of small agriculture are concerned, under capitalism they tend to decay and be transformed into capitalist productive relations. In the U.S.S.R., on the contrary, as we shall try to show later, they tend to be transformed into socialist productive relations.

145

The Significance of Plans in Socialist Construction.

After this general description of reproduction in Soviet society, we must take up the question of the concrete path along which future socialist construction in the Soviet Union will have to proceed.

Socialism is first of all an organised system of production. The socialist transformation of Soviet production, and especially of its leading section—State industry—needs

therefore a carefully worked-out plan of enlarged production. We read in a thesis of the Presidium of the Supreme Economic Council of the U.S.S.R. that:

"We must approach the problem of restoration of fixed capital in industry with a plan worked out on a national scale. The industry which is now exploited by the State, developed before the war in an absolutely chaotic manner, in conditions of anarchic competition, under the pressure of a great number of obsolete social, political, cultural and other conditions. Many of the available factories cannot now fulfil their mission. From the point of view of socialised production, it is in many cases more expedient to build new, more rational factories, which correspond more to modern technique, economics and territorial conditions of development of the Union, than to waste money on the restoration of the old. The factories in operation must all work as parts of one economic unit.

Side by side with the removal of the deficiencies in industry which the Soviet Union inherited from capitalist anarchy, it is necessary to take into consideration the main lines of development of the productive forces of that country, the sources of raw material and power, labour power, the possibilities of division of labour in the various districts, etc. Side by side with purely economic conditions, attention must be paid to a whole series of political, national and other considerations.

But that is not all. The plan of socialist construction must combine the development of industry with the development of other branches of the socialist State—of credit, trade, finance, etc., because any disproportion between these branches may upset the very best plan.

Further, in introducing the planning principle the Soviet State cannot confine itself to the socialist elements alone. The socialist branch, as we have already seen, is interlaced by an infinite number of threads with the branch of simple commodity relations in small agriculture and with the capitalist economic branch. Under these conditions, the plan of development of the socialist branch can be of practical value only if it reckons with the other economic processes in the country. But that is not all. The Soviet State, engaged in the building up of socialism, cannot limit

itself merely to calculations and to foreseeing the spontaneous processes which will take place in simple commodity production and in the capitalist branch. As we have seen, it actively interferes with these spontaneous processes for the purpose of directing them along the channels of socialist construction. All this goes to show that the planning of the Soviet State cannot limit itself merely to the socialist branch, but must affect the economic system as a whole.

Thus, a distinguishing feature of socialist construction is its plan.

146

Soviet Industrialisation.

Further, socialism, as we know, can exist only on the basis of a highly developed technique. From this it is clear that the economic policy of the Soviet State must be to industrialise the country.

What are we to understand by industrialisation?

We have already seen that the development of technique, the development of productive forces, finds its expression, on the one hand, in the development of large-scale production and, on the other, in an intensive growth of means of production in general and instruments of production in particular.

By industrialisation we must therefore understand such economic development as, on the one hand, would be accompanied by a more rapid development of industry than of agriculture, and on the other, by a more rapid rate of development of the branches producing means of production than of the branches producing means of consumption.

Only if these two conditions exist can socialism be built up and a technical basis be created for the future construction of socialist society.

Industrialisation can and should be of tremendous significance in strengthening the socialist elements in general and in the socialist transformation of agriculture in particular. The faster State industry develops, the greater will become the specific gravity of the socialist elements in the economic system, and the greater will become the possibility for State

planning to influence all other elements, especially peasant agriculture.

Small peasant agriculture, agriculture in the hands of individual small peasant proprietors with a low technique and primitive tools, cannot attain socialism. But the fact that industrialisation in the U.S.S.R. means a more rapid rate of development of State industry than of agriculture, does not in the least mean that Soviet agriculture cannot develop. The Soviet Government aims also at industrialisation of agriculture and its raising to a much higher technical level than it has reached to-day. This higher technical basis of agriculture can be made possible only by the development of State industry. The development of agricultural technique necessitates the employment of tractors, agricultural machines, etc. This leads to the necessity of developing the production of agricultural machines, i.e. to a more rapid development of the branches producing means of production. Thus, for this reason alone, apart from many others, agriculture, and particularly small peasant farming, is interested in the industrialisation of the country, in a greater preponderance of industry, and a more rapid development of the branches which produce means of production. On the other hand, industrialisation of the country and development of State industry imply the market for industry and supplies the latter with the necessary raw material and means of consumption.

However, capitalist practice knows other modes of industrialisation, generally much in vogue in the backward colonial countries. The more developed capitalist countries develop in their dependencies chiefly agriculture and light industry for the production of means of consumption (textile mills, tanneries, etc.). They keep to themselves the supply of means of production to those countries. In this way the backward countries, having no heavy industry of their own, are thus kept dependent upon the countries which supply them with means of production, and thus converted into colonies.

Such dependence on the capitalist countries would have particularly disastrous results for the Soviet Union. We have already shown the leading rôle which socialist industry plays in Soviet economics in general, and particularly in relation to agriculture. Socialist transformation of the

Soviet village is possible only with the help of State industry, which must supply the former with the necessary means of production—agricultural machines, tractors, etc.

If socialist State industry in Soviet economics in general, and in peasant agriculture in particular, is to play a greater part, and its dependence on other countries to diminish, the Soviet Union must develop its own heavy industry.

For all these reasons, the general line of the Soviet State in the sphere of socialist construction, is industrialisation of agriculture, improvement of its technique, development of State industry, especially of the branches which produce means of production.

147

Socialist Technique.

A comparison between the technique of the U.S.S.R. and the technique of the advanced capitalist countries shows that the former is very backward as compared with Europe and still more with America. If it were possible to fuse the socialist industry of the Soviet Union with American technique, the result would be a combination of all the elements necessary for the realisation of Communism. But the Soviet State must find its own means of reaching the technical level of America.

What are the main lines of technical development of the Soviet Union? They follow from the tendencies which we pointed out in analysing capitalist technique.

As the basis of the transformation and reconstruction of the Soviet economic system, there must be electrification. Lenin ascribed enormous importance to this problem and condensed it in the slogan which has become proverbial among the masses: Communism is Soviet power plus electrification.

"Only when the country is electrified, when industry, agriculture and transport are working on a basis of modern large-scale industry, shall we have been definitely victorious." (*Lenin*, vol. xvii, p. 428, Russian edition.)

Why did Lenin ascribe such great significance in socialist construction to electricity? We will not describe here all

the advantages electricity has over all other forms of technique. All we have said on this question when dealing with the tendencies of capitalist technique fully applies to the U.S.S.R. We only wish to point out certain features of electricity which render it particularly valuable for the development of productive forces in the Soviet Union.

The first characteristic of electro-technique is that its further development must have planned production, and is in itself a necessary technical basis for a planned socialist economic system. Lenin emphatically stressed the idea that a socialist plan of national economy as a whole is possible only on the basis of electricty.

" The only serious work done in the direction of a single economic plan is the Plan of Electrification of the R.S.F.S.R." (*Report given at the VIII Congress of Soviets*, Lenin, vol. xviii, Part I, p. 82, Russian edition.)

The second characteristic which makes electricity in the Soviet Union highly valuable is the possibility of its utilisation in drawing unorganised small production into the channel of planned production. As we shall see later the inter-relations between socialist industry and petty production are fundamentally different in the U.S.S.R. from those between large and small-scale production under capitalism.

Finally, the prospects which electricity opens up for the improvement of the conditions of labour assume extraordinary proportions in socialist production, controlled not by a capitalist class which, at best, is indifferent to the conditions of labour, but by the working class. Soviet conditions are such that a most efficient system of electric connections is possible without the barriers existing wherever bourgeois property prevails. What are the prospects of Soviet technical development in this most important direction? First of all, the natural forces of the U.S.S.R. are abundant enough to guarantee the fullest development of electricity; its population comprises 8 per cent. of world population, while the supplies of energy comprise 10·4 per cent. of world supplies. These supplies include coal, oil, peat, etc.

In the utilisation of these supplies the U.S.S.R. still falls considerably behind the capitalist countries.

" Thus, in the United States of America, Germany and

Great Britain there are about 80 mechanical units for each worker ; in France, 26 ; in the U.S.S.R., 9." (A. Gorev and E. Gorev, *The Economic and Political Importance of Electricity in the U.S.S.R.*)

These supplies of energy, which lie dormant in the Soviet Union, await the creative influence of social labour so as to be transformed into hundreds of thousands of mechanical slaves and to displace the physical labour of man. We already know that the most efficient utilisation of the supplies of energy is possible only with the planned construction of a network of electric power stations.

" If the country were thoroughly electrified the number of mechanical units to each worker could be increased threefold and even fourfold, without any increase in the natural supplies of energy." (*Ibid.*)

Although the Soviet Union is still very backward from the point of view of technique, yet it has every reason to hope that, with the rapid rate of development of State industry in the last few years, and the advantages which arise from the social structure of its economic system, it will reach the level of West European and American technique much sooner than would be possible if capitalist relations were retained.

" Electricity in industry," says Stepanov, " is a new death-dealing force against the old world—not a poor ineffective flash, but a shattering, irresistible thunderbolt. But through this same electric current the chains which retard the progress of mankind are melted like wax, and the Communist world receives its creative force."

148

Socialist Rationalisation of Production.

We know from the parts dealing with surplus value and wages what capitalist rationalisation of production means. Capitalist rationalisation is an organisation of production directed towards the highest possible extraction of surplus value from the worker, chiefly by means of intensification of labour. In the effort to secure a maximum of surplus value, the capitalists, as we have seen, will stop at nothing. They

will apply methods of " speeding up," forms of wages which force the worker to spend a maximum of energy, as well as lengthening the working day and cutting wages.

Socialist rationalisation of production is essentially different from capitalist rationalisation.

Socialist rationalisation, as formulated by the 15th Congress of the C.P.S.U., consists in the " introduction of new technique, improvement of the organisation of labour, heightening of the workers' skill, a shorter and a fuller working day."

Socialist rationalisation as distinct from capitalist rationalisation is thus based not so much on an intensification of labour as on its greater productivity ; it does not presuppose a longer working day, but a shorter working day in proportion to the improvement of technique ; it does not presuppose lower wages but, as we have seen in dealing with wages, their increase to the extent that productivity increases. This, of course, does not mean that the Soviet State need not intensify the process of labour. In the decision of the 15th Congress of the Communist Party of the U.S.S.R. on that question it is definitely stated that to bring about a " full working day " is part of the concept of socialist rationalisation. However, while demanding from the workers a certain intensity of labour, the Soviet State cannot uphold the capitalist idea of intensity, which means exhaustion of the physical and spiritual energy of the workers.

For instance, the workers in the Ford plants go home quivering with fatigue after an eight-hour day, and notwithstanding the comparatively high wages and good conditions of work, they are very soon forced to escape from the Ford factories. The Soviet Government must have its own and not capitalist intensity of labour, an intensity which will not undermine the health of the workers.

Moreover, in aiming at a full working day, the Soviet Government also aims at shorter hours.

But the Soviet Government is chiefly interested not in raising the intensity of labour, but in increasing its productivity.

The means of raising of the productivity of labour in Soviet State industry are measures directed chiefly towards an improvement of the organisation of labour, better

working conditions, ventilation, illumination, heating, internal transport, punctual supply of instruments and material, elimination of machine stoppages, co-ordination of the various processes of production, etc. Finally, special attention is paid to standardisation of products and normalisation of their different parts. The numerous types of products to be observed under capitalism are due to the existence of parasitic bourgeois groups which extract enormous and ever-increasing masses of surplus value without putting in any labour of their own, and develop an insatiable demand for articles of luxury, inventing new fashions, etc., for their delight. This is also partly dictated by business necessity. In this connection Marx said that :

" When a certain stage of development has been reached, a conventional degree of prodigality, which is also an exhibition of wealth, and consequently a source of credit, becomes a business necessity to the ' unfortunate ' capitalist." (*Capital*, vol. i, p. 651.)

On the other hand, for competitive reasons, the capitalists as " producers " of goods invent new styles so as to get customers. Not only do they work out constantly changing fashions, but they try to create a demand for novelty in articles of consumption. We see here a combination of bourgeois parasitism with commercial necessity. Finally, even in cases in which the capitalists have realised the advantages of mass production, its standardisation and normalisation, bourgeois property puts many obstacles in the way of its full realisation. In the Soviet Union all this largely disappears. Socialist production must of necessity be mass standardised production.

" Standardisation means socialisation applied to the technical side of production. We have seen the technique of the leading capitalist countries bursting the integument of private property in this field and entering upon a path which in its very essence is a denial of the principle of competition, of ' free labour,' and of everything connected with it." (L. Trotsky, *Whither Russia?* p. 110, New York, 1926 edition.)

Because all the economic key positions are in the hands of one master—the proletariat—the Soviet Union can realise the principle of standardisation much more readily than the bourgeoisie. A great obstacle to development in this direc-

tion at the present time is the unfortunate inheritance received from the capitalist order.

"Systematically enforced standardisation," says Djerzhinsky, "can economise hundreds of millions and even billions. . . . The Soviet Union is trammelled by the factories, machines and working habits inherited from the old régime. But we shall be able to march rapidly along the new path with the reconstruction of Soviet industry."

Finally, the conveyor principle will have to be broadly applied in Soviet State industry. The conveyor frees the worker from hard physical labour. It incarnates the tendency to substitute mechanisms for men, to multiply the labour-power of man; the conveyor is an endless chain automatically carrying the necessary objects to and fro and up and down, thus performing the work of man.

149

The Incentive to the Development of Productivity of Labour in the U.S.S.R.

What is the incentive to increase the productivity of labour in Soviet State industry?

Under capitalist production the incentive to increase the productivity of labour consists of: (1) Surplus profit secured by enterprises possessing a technique above the average, and (2) competition.

Of the two stimuli in capitalist production, the first is entirely absent in the U.S.S.R. (1) because the Soviet State does not and cannot regard its enterprises from the capitalist point of view and keep the technical improvements made in one of the Soviet factories from application in other factories. On the contrary, it is interested in spreading them as quickly as possible in all State factories; (2) the Soviet State does not set before its factories the task of making a maximum profit; in the interests of national economy as a whole it even supports factories working at a deficit at the expense of the profitable factories.

Competition as a factor in raising productiveness has its place in State industry, but its relative strength and signifi-

cance is much less than under capitalism. Competition between State enterprises is largely giving way to systematic regulation.

However, whenever this is expedient, the Soviet State may resort to competition by importing various articles from abroad, so as to force the different branches of industry to reduce prices or improve technique, thus weakening or stopping for a time their protection from world capital.

Competition can thus serve only as an auxiliary instrument in the hands of the State in the struggle for greater productivity. The question arises, is not Soviet State industry threatened with decadence through the monopolist position which it has in the country? This danger, of course, is not entirely out of the question, but it cannot possibly develop so as to endanger the very existence of the Soviet economic system.

Soviet State industry has within its socialist organism an antitoxin to resist the malady of monopolist decay—the ever-growing importance of socialist incentives to increasing productivity. What are these incentives? First of all:

" Under capitalism the object of production is profit. The consumer with his needs, desires and tastes is an objectionable necessity for whom the producer must cater. Under Socialism, on the contrary, the direct aim of production is the satisfaction of human requirements." (Trotsky, *The Quality of Production and Socialist Economy.*)

Therefore, the first and most important factor in raising the productivity of labour is the pressure brought to bear on State industry by the great mass of consumers—the workers and peasants.

" We ourselves, the directing centres of the country, and above all the Party, express and reflect (through ' regulation,' ' control,' ' direction,' etc.) these growing requirements of the masses." (Bukharin, *Some Questions on Economic Policy.*)

In accordance with Soviet economic development, the workers' wages rise and the material conditions of the peasants improve. Simultaneously, their requirements and demands for better quality and cheaper products also increase.

" The State itself will set an example. The military insti-

tutions will be strict in demanding the fulfilment of all conditions, making no allowances whatever. Such strictness on the part of the military institutions can already be observed. The Commissariat for Communication, Post and Telegraph, is also becoming more particular in its demands. The industrial managers already complain of the 'fussiness' of the State consumer, but that is a mere trifle. In the main, we observe a profound progressive process—the consumer wants quality. This also affects the relations between the trusts. If the Commissariat for Post and Telegraph brings pressure to bear on the Distribution Trust, the latter, in its turn, demands from the Transmission Trust better wires. The Machine Trusts demand better iron, the Textile Trusts demand Spanish sheeps' wool, better cotton, good dyes, etc., etc. The struggle for quality will inevitably take the form of conflicts between the different trusts and other economic institutions." (Trotsky, *The Quality of Production and Socialist Economy.*)

Thus, one of the most important factors in raising the productivity of labour will be the growing and more exacting demands of the consumer.

This growing demand on the part of the consumers will find an echo in the Government, which seeks to give the highest satisfaction to the consumers—and the confluence of these two currents will be one of the main factors of perpetual progress in the productivity of social labour.

Finally, a gigantic factor in raising the productivity of labour in the U.S.S.R. is the growing cultural level and socialist consciousness of the working class.

Under capitalism, the worker cannot be interested in technical progress. Owing to the general law of capitalist accumulation outlined above, the advantages of technical progress under capitalism go primarily and chiefly to the capitalists.

We know from the chapters dealing with surplus value and wages in the U.S.S.R. that the conditions of the working class in that country are quite different from conditions under capitalism. There is no need to repeat here what has already been said above. We will point out only one thing. The radical improvement of the material position of the working class meets with no obstacle in the Soviet Union

except the low productivity of labour and governmental bureaucratic abuses in the State.

Every advance in technical progress, every step forward on the part of Soviet State industry, cannot fail to have its influence on the material position of the working class and to bring closer the moment when the motto " to each according to his needs, from each according to his abilities " will be realised.

What strikes foreign observers most in visiting Soviet factories is the totally different attitude of the workers to their factories. The Soviet worker feels and considers himself an organic part of the collective master of all factories —the working class.

Every worker in the U.S.S.R. if he only possesses the necessary organisational ability, general development and intelligence can become the director of one branch of Soviet economy or another. The measures which the Soviet Government takes for raising the cultural level of the workers, still further increase the conscious interest of the worker in production. Moreover, the Soviet Government is production, and for this purpose it stimulates workers' production conferences, etc.

Finally, public opinion in the Soviet Union, voiced through propaganda in the general and special Press, the factory wall papers, the army of worker correspondents, village correspondents, etc., also tends to influence labour productivity.

Among the symptoms of growing working class consciousness in the Soviet Union are the operative inventors who are becoming of ever-greater importance in industry.

We can, therefore, confidently assert that among the other factors of development of Soviet industry, the conscious attitude of the working class plays no unimportant rôle.

As the cultural level of the working class rises, this factor will drive the productive forces of Soviet industry forward. Lenin ascribed tremendous significance to the conscious interest of the worker. He said :

" Communism begins where the unselfish and difficult work of the people is devoted to increasing the output of wealth, to preserving every bushel of corn, every hundredweight of coal and other necessaries, destined not for the producers themselves and their ' nearest,' but for those who

are ' distant '—for society as a whole, for the millions of human beings, at first living in separate Socialist countries, and later united in a League of Soviet Republics." (Lenin, *The Great Initiative*, p. 23, English edition, published by Andrade's Bookshop.)

150

Sources of Socialist Accumulation.

Such are the tasks confronting the Soviet Union in socialist transformation of the economic system. They are gigantic.

What are the sources from which the Government can secure the means necessary for the fulfilment of these tasks. The first is the profit accruing from State industry—using the term in the conditional sense which we have agreed upon when discussing this subject. Soviet industry in this respect is at an advantage compared with capitalism, because, in the absence of a capitalist class, the part of surplus value which under capitalism goes to the individual consumption of the capitalists, their numerous hangers-on and the bourgeois institutions protecting capitalist domination, can now be accumulated. What does Soviet State industry gain, from the point of view of socialist accumulation, by the elimination of the non-productive consumption of the capitalists? According to Strumlin, the rate of productive accumulation in pre-revolutionary Russia was approximately 7·2 per cent., whilst the rate or profit in industry was 12·9 per cent. Thus, nearly half of the profit was spent unproductively for the upkeep of the capitalists and their servants. This freed portion of profit is not, of course, entirely used for productive accumulation in the Soviet Union. Part of it must go towards the improvement of the conditions of the working class, but, with the exception of that part, all of it enters the fund of socialist accumulation.

Side by side with this advantage there is, however, a great obstacle hampering the process of socialist accumulation in the U.S.S.R. That obstacle lies in the extremely low productiveness of labour, inherited from pre-revolutionary days, as a result of which the cost of production is very high and the amount of profit very low.

There was actually a time when Soviet State industry, as a result of the destruction caused first by the imperialist and later the civil war, was working at a loss, and living partly at the expense of its own fixed capital, and partly at the expense of the State budget, the biggest part of which was covered by the peasantry. Now the situation has radically changed.

Soviet State industry has not only recovered, but from year to year increases its profit—this main source of socialist accumulation.

But if the profit made in Soviet State industry is compared with the gigantic tasks of socialist construction which the country is now facing, it would have to be recognised as an inadequate source of socialist accumulation.

Hence the need to make use of all possible sources of accumulation available in the country, in order to raise the fund of socialist accumulation. First of all, those sources of accumulation must be made use of which exist within the radius of State economy.

Among these sources are nationalised foreign trade, home trade, the banking system, etc. All these sources contribute some of their profits to the fund of socialist accumulation.

The Soviet Government has access to considerable sums available in agriculture. We shall have occasion to consider in detail the inter-relations between State industry and agriculture in the U.S.S.R., in dealing with the question of non-capitalist development of agriculture towards socialism and with crises in Soviet economy. Here we will only mention that the Soviet Government in extracting from agriculture means for the development of State industry must, in the words of Rykov at the 15th Party Conference, follow a course " whereby the great development of industry would at the same time create favourable conditions for the development of agriculture."

The savings of the millions of scattered small farms can be utilised in three different ways. A considerable part must remain in agriculture and be utilised for technical progress and socialist transformation of petty peasant agriculture. Another part must enter the fund of socialist accumulation in the form of taxes through the State budget, chiefly in the interests of industrialisation. Finally, the remaining part must

be drawn into the Soviet credit system by means of savings banks, internal loans, credit co-operatives, etc., and utilised in financing socialist construction both in town and country.

Finally, the resources accumulated in the capitalist branch of Soviet production have to be drawn into the fund of socialist accumulation. These can be obtained chiefly in the form of taxes.[1] The Soviet Government's taxation policy is based on the class principle. It tries to put the burden of taxation entirely on the backs of the capitalist elements in the country. We have already seen that this applies to the agricultural tax, which the well-to-do farmers have to pay at very high rates and from which the poor peasants are entirely exempted. The same is true of the income tax, the greatest part of which falls on the non-labouring elements, and of the indirect tax, which largely falls on articles of luxury used chiefly by the well-to-do sections of the population, but hardly affects the articles used for general consumption. Such are the sources of socialist accumulation.

The Soviet Union is at a great advantage owing to its freedom in making systematic use of the fund of socialist accumulation.

From this point of view the planned distribution of resources among the different branches of industry, accomplished through the State budget, is of first importance. All profits accruing from State industry above the established limits go to the State fund, which subsidises through the State budget branches of industry which work at a loss. Such branches are those producing instruments of production. Under capitalism, capital flows from one branch into another exclusively through the capitalists' quest for the highest possible profit. But socialist accumulation is not guided by that. All available unemployed means, whether in State industry or from other sources, that can be used for socialist accumulation, are concentrated in one industrial fund to serve as long-dated credit grants to industry. The tasks of that fund are defined as follows in the theses adopted by the Supreme Economic Council of the U.S.S.R.:

[1] The idea of securing these resources through high prices involuntarily arises here, but, as we shall see later, that cannot be used as a method of Socialist accumulation.

" The industrial fund must consist of :

(*a*) Deductions for wear and tear ;
(*b*) Sums secured from the realisation of immovable parts of capital ;
(*c*) Reserve capital ;
(*d*) Bonds and other loans ;
(*e*) Profit ;
(*f*) Interest on capital ;
(*g*) Subsidies and subventions from the budget."

The fund is used for long-term credit and serves for :

(*a*) Capital repairs and re-equipment ;
(*b*) Expansion of existing enterprises ;
(*c*) Launching of new enterprises.

Such concentration of means which may serve for expansion of reproduction makes possible their most productive utilisation and distribution in the most important and necessary branches of industry, and their concentration, in case of need, at the most important and critical point on the industrial front. To a greater or less extent, this, as we shall see, is true not only of State industry, but also of agriculture and the other sections of socialist construction. It is enough to recall for a moment the picture of capitalist accumulation, left to the vicissitudes of the market and not guided by the will of man, to understand what a mass of productive forces and labour-power Soviet industry saves by this concentration.

151

The Road to Socialism in Soviet Agriculture.
The Rôle of the Co-operatives.

We have reviewed the methods of socialist transformation of Soviet production and exchange as a whole and the transformation of industry in particular. Naturally in doing this we had to touch, at least in general outline, upon a question so vital for socialist construction as the socialist transformation of small agriculture. But we have not yet given a full answer to that question, and must now deal with it separately.

We have seen that sooner or later the overwhelming majority of small farmers under capitalism are converted into proletarians who are deprived of their means of production and means of subsistence, and that until then their lot is a miserable half-famished existence. This follows inexorably from the laws of concentration of production in agriculture already established by us. What will be the course of development of peasant agriculture in the U.S.S.R.?

Soviet agriculture, as distinct from agriculture in other countries, exists, as shown in the chapter on rent, not within a capitalist environment, but in an economic system in which the government and the economic key positions are in the hands of the working class. In his *Peasant Problem in France and Germany*, Engels defined, long before the Russian Revolution, with marvellous precision, the course which the proletariat will follow in relation to petty agriculture after the capture of power. He said:

"Obviously, being in possession of State power, we will not think of a violent expropriation of the small peasants (with or without compensation—that is immaterial) as we will in relation to the big landowners. Our task in relation to the small peasants will first of all be to reorganise their individual production and private property into co-operation; but not by means of force, but rather by the force of example and by giving social assistance in the matter."

Elsewhere, in the same pamphlet, Engels says:

"We will stand firmly by the small peasant; we will do everything possible to make his life more bearable, to facilitate his transition to co-operation if he decides to do so; should he not be in a position to decide that quickly, we will give him more time to think it over, while working on his own piece of land."

Thus Engels emphasised the inevitable death of small agriculture under capitalism, but he predicted the possibility of a non-capitalist course of evolution of small agriculture under the proletarian dictatorship, in which connection he gave a warning against any violent measures in relation to the small farmers and recommended example, persuasion and social assistance as the means of converting individual production and private property into co-operative production and ownership. A further development of that

view, and a most necessary supplement to it, is given in Lenin's article on Co-operation, which shows the concrete forms of the movement of millions of small proprietors towards socialism under the proletarian dictatorship. In that article Lenin said:

" Co-operation under a capitalist régime is undoubtedly a collective capitalist institution. There is also no doubt that in the frame of our present economic reality, whilst we combine private capitalist enterprises—though exclusively on nationalised soil, and under the control of the State—which belongs to the working class—with institutions of strict socialistic type (the means of production belong to the State, the land on which the institutions stand, as also the institutions as a whole) the question of a third kind of undertaking arises, an enterprise which from the point of view of principle was previously of no importance—the question of co-operative undertakings. Under the existence of private capitalism, the co-operative societies differ from State capitalist enterprises as institutions which are private first and collective second. Under our régime, the co-operatives differ from private capitalist enterprises as collective enterprises, but they do not differ from socialist enterprises, if they are built up on the land, and with the means of production belonging to the State, i.e. to the working class." (Lenin, *On Co-operation*, published by C.P.G.B., p. 21.)

Thus in the conditions of proletarian dictatorship, the question of co-operation assumes an entirely different aspect. From a collective capitalist enterprise it is transformed into a socialist enterprise. The result is that the utopian theories of the Narodniki and the petty bourgeois ideologists, who based their hopes on non-capitalist development of small agriculture towards socialism through co-operation, are transformed in the U.S.S.R. into a practical question of the economic policy of the proletarian State.

" In the dreams of the old co-operators there were many fantasies. They were ridiculous in their fantasies. But why were they fantastic? Because those people did not understand the fundamental and cardinal importance of the political struggle of the working class for the overthrow of the exploiters. Now that the overthrow has already been effected in the U.S.S.R., much which was fantastic, even

romantic, and insipid, in the dreams of the old co-operators, is becoming an actual reality." (Lenin)

Lenin further explains the enormous significance of co-operation in Soviet conditions where millions of small peasant producers are prompted not by socialist ideals, but by the interests of private ownership.

"In the New Economic Policy we made a concession to the peasant as a merchant, to the principle of private trade; the gigantic importance of co-operation springs precisely from that (which is contrary to what is usually believed). Properly speaking, all we need is to co-operate widely and deeply the Russian people under the New Economic Policy, because we have now found that degree of harmonisation of their private interests, the interests of private traders, their checking and control by the State, and the degree of their subordination to the general interests, which formerly constituted a stumbling block for many, many Socialists. As a matter of fact, State possession of all large means of production, State power in the hands of the proletariat, the alliance of that proletariat with the millions of small peasants, guaranteed proletarian leadership in relation to the peasants, etc.—is that not all that is necessary for the construction of complete socialist society out of the co-operatives, the co-operatives which we formerly treated as commercial organisations and which we have to a certain extent even now, under the New Economic Policy, the right to treat as such? That is not yet the upbuilding of socialist society, but it is all that is necessary and sufficient for that upbuilding. This circumstance is underestimated by many of our men of practice. Co-operatives are among us regarded with disdain without an understanding of the extraordinary significance of co-operation firstly from the point of view of principle (the ownership of the means of production in the hands of the State); secondly, from the point of view of transition to a new system by means of a most simple, easy and intelligible way for the peasantry." (*Ibid.*)

In dealing with concentration of production in agriculture under capitalism, we pointed out the fanatical belief of private property, the disbelief in social production, which holds almost undivided sway over the psychology of the small farmer. That psychology cannot be wiped out with

one sweep of the arm, simply because the proletariat has taken power. Its roots are deeply embedded in the productive relations of small agriculture.

A form of co-ordination of private and social interests must, therefore, be found, aiming at a gradual transformation of small agriculture into large-scale socialist agriculture. Co-operation provides a form which, while playing on the private property interests of the peasantry, simultaneously interests them in social production in a " most simple, easy and intelligible way for the peasantry."

How can we make the co-operatives of interest to the peasant ?

" The co-operatives must be politically so situated," says Lenin, " that they should in general and always have certain advantages, but that these advantages may be pure property advantages (the rate of bank interest, etc.). Loans to the co-operatives must be given by the Government which, although not much, would, nevertheless, exceed the loans to private enterprises, and would be at least as much as is given to heavy industry, etc.

"A new social order arises only with the financial support of a definite class. There is no need to mention the hundreds upon hundreds of millions of roubles which the genesis of ' free ' capitalism cost. We must understand and realise that the social order which we must now support more than ever is the co-operative order." (*Ibid.*)

This fully agrees with what Engels said on the necessity of giving social aid to the peasants in the transition from private production and private property to co-operative production and co-operative property.

We have thus come to the conclusion that, under the proletarian dictatorship which has possession of the means of production, the path of development of small agriculture towards socialism lies through co-operation.

152

Peculiarities of the Process of Differentiation of the Peasantry in Soviet Society.

But the mere fact that power is in the hands of the working class cannot change the nature of small production and negate the laws of its development. Obviously there must be certain other conditions to drive it along the path of non-capitalist development. Let us see what those conditions are. What drives small agriculture along the capitalist path of development under capitalism? It is the capitalist surroundings in which it lives and develops. Left to himself in the struggle against large-scale production, the small farmer must gradually decline to a position bordering on pauperism. Capitalist industry, the banks, taxation policy, etc.—everything is directed against the small farmer and in favour of the big one, and it is no wonder that the former goes under in this unequal struggle against the forces of the capitalist world. The picture is quite different in the U.S.S.R.

The Soviet Government is trying to prevent the development of capitalist relations and capitalist exploitation in agriculture. It does this by means of legislative measures.

At the basis of the Soviet land laws there is the principle of cultivation of land with one's own labour. Only the man who cultivates the land with his own labour has the right to claim it.

Further, the leasing of land is restricted. Only the peasants who till their own land have a right to lease part of it, if for some reason they are unable to cultivate it at the moment themselves. But even in this case, land can be leased only for a term restricted by the law.

Finally, there are numerous restrictions on the employment of hired labour. The position of Soviet law on this question is that hired labour may be employed as accessory labour only by peasants who cultivate their own land.

Such are the restrictions imposed by Soviet law on the development of capitalist relations in agriculture.

The general economic policy of the Soviet State also works in the same direction. The Soviet Government aims at sup-

plying agriculture with machines, fertilisers, etc., but in such a way that they may not fall into the hands of the rich sections, for which purpose it restricts the rights of the rich peasants in the co-operatives, etc., and shifts the heaviest burden of taxation to their shoulders.

But apart from fighting against the development of capitalist relations in agriculture, it helps to develop the productive forces of the middle and poor peasants by improving their technique, by advocating the rotation of crops, by supplying selected seeds, fertilisers, etc.

The Soviet Government carries out many other measures in aid of the poor peasants and their households. The poor peasants are entirely exempt from the agricultural tax, they are given privileges in the distribution of land, the distribution of timber, etc. There are also mutual aid committees whose object it is to help the poor peasants.

In brief, at the bottom of the Soviet Government's policy in relation to the peasantry lies the principle of an alliance with the middle peasants with the support of the poor for a struggle against the rich.

It would, of course, be wrong to conclude from this that the Soviet Government has entirely stopped the process of differentiation of the peasantry, the process of capitalist development in agriculture. Notwithstanding all the measures referred to, the differentiation of the peasantry in the Soviet Union is still an irrefutable fact.

However, differentiation in the Soviet Union differs sharply from differentiation in capitalist countries.

" The peculiarities of this differentiation spring from the altered social conditions. The nature of these peculiarities is that in contradistinction to the capitalist type of development, which is expressed in the decline of the middle peasantry, in the U.S.S.R. there is the process of strengthening of the middle peasants accompanied by a growth in the rich group developing out of the more well-to-do sections of the middle peasants, and a diminution in the group of poor peasants, some of whom are being proletarianised, while the others, the greater part, are gradually becoming middle peasants.

" This peculiarity of the process of differentiation in the Soviet Union leads to a further growth of the middle strata,

which only proves the correctness of Lenin's popular phrase that the middle peasant is the central figure in Soviet agriculture." (Molotov, *Report at the XV Congress of the C.P.S.U.*)

Why does the Soviet Government support the development of the productive forces of individual peasants, considering that it is interested in the building up of socialism, which is possible only on the basis of large-scale production?

First of all, the need for such support arises from the actual position of the small peasantry in the conditions of proletarian dictatorship.

The productive potentialities of individual peasant agriculture have not yet been exhausted, and socialist industry, which is very rapidly developing, puts forward an ever-increasing demand for agricultural products—raw material, means of subsistence, etc.

This necessitates a development of individual farming.

" The comrades who oppose the development of individual farming are absolutely wrong. The yield of our fields is at the present time an average of only 40-50 poods per dessiatin, whereas in European countries it is above 100. The possibility of increasing the yield by means of such relatively elementary measures as the substitution of the modern plough for the wooden plough, the use of selected seeds, introduction of the most simple machines and fertilisers, is enormous, considering the present level of Soviet agriculture.

" Thus the development of farming with the constant assistance of the State by organising the great majority of peasants in co-operatives and by systematically increasing the restrictions of exploitation is now the most important task of the Party." (Rykov, *The Present Situation and the Tasks of the Party*, 1928.)

153

· *The Road to Collective Farming.*

We have spoken of the necessity to enhance individual peasant enterprise, but we must at the same time point out that the problem of development of the productive forces in

agriculture can be radically solved only along the lines of collectivism. What is the proof of this?

"Our agriculture is so far broken up into an immense number of small farms, which has increased since the revolution. We have about 24,000,000 small farms. If we consider the question how to make farming more profitable, we find that in about 8,000,000 of the existing farms even the use of horses is unprofitable. The same thing is true of agricultural machinery.

"But the main problem of rural economic development at the present time is the fact that the upper sections of the rural population have now the advantage of possessing large farms, which enables them to keep down the small and medium farms.

"If we are at an advantage in the towns because the instruments of production of large-scale industry are in the hands of the proletariat and we can easily fight the remnants of the bourgeoisie, the economic situation in the rural areas is quite the reverse. Here the advantages of large-scale production are in the hands of the more well-to-do sections. We help the poor and middle peasantry to get on their feet and restrict the capitalist elements by means of taxation, high rents, and the conditions of employing wage labour, but we cannot destroy the economic advantages of large-scale farming over small farms and are in fact only now seriously tackling this cardinal economic contradiction in agriculture.

"It is our task to come to the assistance of the poor and middle strata in the villages with our co-operative and State institutions, the object being to solve the cardinal economic task. This should constitute our principal work in the villages at the present time." (Molotov's *Report at the XV Congress of the C.P.S.U. On Work in the Villages.*)

All this indicates that side by side with the encouragement of individual farming we must take up the task of its collective organisation.

The main levers for switching small agriculture on to the track of large-scale collective and socialist agriculture are, as we have already pointed out, co-operation and industrialisation.

We have already referred to the question of co-operation

as a road to socialism in agriculture. We shall now examine it more fully.

How, actually, can agriculture be collectivised through co-operation? Let us see the forms and methods of collective agriculture which have already taken root in Soviet co-operative organisation.

We shall begin with the co-operatives whose object is not the direct introduction of collectivism into the process of agricultural production, but the organisation of the peasants chiefly along the lines of collective purchase of means of production, the sale of farm produce and the working up of raw material. In the collective organisation of agriculture what we call the contract system is now becoming very important. The essence of that system is that any branch of State industry makes a contract with an agricultural co-operative for the supply to that industry of a fixed quantity of raw material on certain specified conditions. The contract specifies the price, the date of delivery, the quality, etc. The State industry on its part undertakes to pay a certain amount in advance, to supply the co-operative with selected seeds, fertilisers, machinery, agronomical aid, etc.

The great importance of the contract system lies in the fact that it helps to organise the small peasantry into agricultural co-operatives, because these contracts are made with co-operatives through which the individual peasants are supplied with money, instruments, and means of production. Of still greater importance is the fact that the State industry concerned becomes interested in enhancing agriculture and gets to be in a position to influence most actively not only the organisation of buying and selling, but also the very process of farming. In this respect the supply of machines to agriculture, which prompts the peasants to resort to various forms of collective farming, etc., becomes of enormous importance. At present the contract system embraces chiefly the sugar beet crops, the production of cotton, etc. It will have to be extensively applied also in the organisation of grain cultivation and collection.

Various kinds of enterprises for the working up of agricultural products, largely organised by agricultural co-operatives, are becoming very important in the co-operatives of the U.S.S.R. to-day. A new form of agricultural industry

arises—the production of all kinds of fats, the production of cheese, etc. Their distinguishing feature is that they organise the working up of agricultural products but not the process of agriculture itself. But the creation of such enterprises for the working up of agricultural products, just like the contract system, cannot fail to influence agriculture and to direct it towards collectivism. These enterprises demand, for instance, a better quality of products from the peasants, which must result in more active interference on their part in the very process of agriculture by introducing machines, etc. The great importance of these forms of co-operation lies in the fact that, beginning with the socialisation of the processes of circulation in peasant agriculture, they gradually lead to a socialisation of the process of production, as Lenin said, by the most simple, easy and intelligible way for the peasant.

But parallel with these forms of co-operation there are also forms which directly collectivise and socialise the process of agriculture. Among these are the various types of machine societies, societies for the collective tilling of the land, artels (producers' guilds) and communes. The difference between them lies in their different degree of collectivity in the process of agricultural production. The machine societies possess in common only the tools of production necessary for the cultivation of land and harvesting, etc.; the societies for collective cultivation of land commonly possess not only the tools of production, but also the land; the agricultural artels socialise all means and all processes of production and, finally, the communes socialise all means and all processes of production as well as consumption.

The usual trend of socialisation of the process of agriculture is as follows: a group of peasants starts with the socialisation of particular phases of production, then the experience of collective work gradually drives them forward along the path of ever greater socialisation of all processes of production, and eventually also of consumption.

This proceeds as follows:

"A society for the collective use of machines usually changes its constitution as soon as it begins to work and is transformed into a society for the collective cultivation of the land. The inexpediency of using horse-drawn imple-

ments with a tractor compels the collective farm to buy other machines after it has bought a tractor. It buys a tractor-thrasher, a twenty-row seeder, a reaper, a harvester, all of which are gradually procured and turned into common property. The unprofitability of using tractors for small jobs prompts the farm to secure commonly-owned horses. A strong technical base is created for the co-operative farm, and thus strikes ever deeper roots in peasant agriculture.

" For example, boundaries interfere with ploughing, consequently they are levelled out. At first they are levelled out only for ploughing and restored afterwards. But the co-operative seeder and the co-operative harvester appear, and the boundaries become a nuisance.

"At first the peasants share out sheaves ; a thrasher is procured and they stop sharing out sheaves and share out grain and straw. But in this stage of development the internal economic relations are so interdependent, the organisation of labour is so blended, that the individual farms are lost in the common farm.

"All kinds of common expenses and common tasks arise ; for instance, the teaching of a tractor mechanic, the procuring of oil products, the repair of the tractor and machines, the transport of manure, work at the thrasher, provision of a book-keeper, payment to an instructor, etc. Money and a good part of the labour are socialised. The society first adopts the system of wages and later the system of socialised consumption. Thus the individual farm passes from the society for the common use of tractors and machines, through the society for collective cultivation of land and through the artel, to the commune." (Grigorev, *Collectivisation of the Soviet Village.*)

The highest form of socialised agriculture is to be found in the Government farms. If we take even the highest type of socialisation we have just analysed, the commune, where the processes of production as well as consumption are socialised, we find that it is nevertheless an organisation based on property in the means of production owned by a comparatively small group. The members of the collective farm are at the same time its workers and owners. But Government farms are not the property of some particular small group, but the property of the proletarian State, of

the working class as a whole. The workers engaged on a Government farm may regard themselves as co-owners of that farm, not because they happen to work there, but because they belong to the working class which owns the whole of State industry, including the particular farm in question. The worker engaged on the farm has just as much right to it as to any other Government enterprise, and all other workers engaged on other enterprises have just as much right to that particular farm as he has.

The Government farms, representing the highest phase of socialisation of the processes of agriculture, are called upon to play a great part also in the collective organisation of individual farming. First of all, the Government farms must show the peasants all the advantages of large-scale farming as compared with small agriculture, and, thereby, encourage the transition towards the various forms of collectivism. At the same time, the Government farms have to help the small farmers and especially the rural poor to increase their productive forces by organising stations for hiring out machinery, etc., and thereby stimulate the collective organisation of production.

We have seen the path along which agriculture has to develop towards collective organisation, and have come to the conclusion that a radical transformation of agriculture in the U.S.S.R. is possible only on this basis. The various forms of collective and Government farms therefore become of particular importance in the collective organisation of Soviet farming. However, it would be a great mistake to say that the existing collective and Government farms already completely fulfil the tasks confronting them.

" One of our main shortcomings in the rural areas," says Rykov, " is the fact that we have as yet no well organised and important collective farms which, as examples of higher forms of agriculture, would be able to show the individual farmer his picture of the future. If we had, our whole agricultural problem would be incomparably simpler than it is. Our trouble lies precisely in the fact that to this day we have been unable to organise such farms. One of the main decisions of the XV Congress of the Party is that parallel with the more vigorous offensive against the rich peasants—of course not so as to break them—the attention of the entire

Party must be riveted on the support and encouragement of collective farms which are the embryos of Socialist organisation in agriculture. As living examples of the highest form of agricultural production, the collective farms must convince the entire mass of middle and poor peasants that a radical improvement of their material and cultural position is bound up with large-scale production built on collective foundations. Unfortunately, the existing collective farms are still far from being what they should be, which is the more reason why everything must be done to put them on their feet as soon as possible, so that they may occupy a much more important position in the country than they are to-day." (Rykov, *The Present Situation and the Tasks of the Party.*)

154

The Fallacy of the Theory of Primitive Socialist Accumulation.

From the theory of non-capitalist development of small agriculture towards socialism in the U.S.S.R., there follows the policy of community of interest between State industry and small agriculture, the policy of supporting the latter, and its gradual switching over to the socialist-track through co-operation.

In contradistinction to Lenin's plan of co-operation, Preobrazhensky, author of *New Economics*, evolved a theory of primitive socialist accumulation. What is the quintessence of that theory? We will not give a full outline of the theory here, but will merely touch upon the questions which are directly related to the problem of non-capitalist development of small agriculture and its growth towards socialism.[1]

Preobrazhensky says:

"We call socialist accumulation the surplus product created within socialist production which is added to the operating means of production and is not distributed among the agents of socialist production and the socialist State, but

[1] We have already touched upon and criticised the essence of Preobrazhensky's theory in the chapter dealing with the regulator in Soviet economy and in the chapter dealing with socialist accumulation, without, however, calling it by its name.

serves for expanded reproduction. On the other hand, we call primitive socialist accumulation an accumulation of material resources in the hands of the State chiefly from sources outside of the complex of State production."

Wherein does Preobrazhensky see the difference between primitive capitalist accumulation and primitive socialist accumulation?

"It differs from the period of primitive capitalist accumulation firstly in the fact that socialist accumulation proceeds not only at the expense of the surplus product of the small producer, but also at the expense of the surplus value of the capitalist forms of production. Secondly, the difference is here conditioned by the fact that proletarian State production arises historically at the height of monopoly capitalism and consequently has at its disposal means of regulation of the whole of production and distribution of the national revenue by economic means, which capitalism did not possess at the dawn of its development."

Thus, the essence of primitive socialist accumulation reduces itself to an appropriation of the surplus product of the small producer, and differs from primitive capitalist accumulation only in the fact that it can appropriate a part of the surplus value of capitalist enterprises and utilise its monopoly position in order to appropriate the surplus product of the small producer.

How does Preobrazhensky conceive the inter-relations between State and private production, which in the U.S.S.R. consists mainly of small individual agriculture?

In enumerating the various forms of plunder of the colonies and small producers by merchant capital, Preobrazhensky says:

"As far as colonial plunder is concerned, a socialist State, whose policy is national equality and voluntary affiliation with one national federation or another, rejects, as a matter of principle, all violent methods employed by capitalism in this sphere. This source of primitive accumulation is closed to it from the very outset and for good. But it is quite different with the exploitation of the pre-socialist economic forms in the interests of socialism. Taxation of the non-socialist forms is not only unavoidable in the period of primitive socialist accumulation; it must inevitably become of enor-

mous and even of decisive importance in agrarian countries such as the Soviet Union."[1]

"A socialist system and a system of private commodity production fused in one system of national economy, cannot co-exist for any length of time on the basis of a complete economic equilibrium between them. Such equilibrium cannot last long and one system must eventually swallow the other. Either degradation or development is possible, but to stand still is out of the question." (*Ibid.*)

From this Preobrazhensky arrives at his law of socialist accumulation, which he formulates as follows:

" The more economically backward, petty bourgeois, and agricultural a country passing over to the socialist organisation of production is; the smaller the heritage which the proletariat of the country receives for the fund of its socialist accumulation at the moment of the Social Revolution, the more will socialist accumulation be forced to rely on the exploitation of pre-socialist economic forms and the lower will be the specific gravity of accumulation in its own productive base, i.e. the less will it be fed by the surplus product of the workers employed in socialist industry. And vice versa, the higher the economic and industrial development of a country in which the Social Revolution is victorious; the greater the material heritage in the form of highly developed industry and capitalist agriculture which the proletariat of that country receives from the bourgeoisie at the moment of nationalisation, the smaller the specific gravity of the pre-capitalist forms of production in that country, and the more the proletariat of the country has to eliminate inequality in the exchange of its products for colonial products, i.e. to eliminate the exploitation of the latter—the more will the

[1] We take these quotations from Preobrazhensky's article entitled " The Basic Law of Socialist Accumulation," which originally appeared in the *Vestnik of the Communist Academy*, in 1924. Justice demands that we state that Preobrazhensky somewhat smoothed down the sharpest edges of his formulæ in the later editions. For instance, he discarded the term " exploitation " and replaced it by the term " divorcement." But Preobrazhensky himself considers these alterations of minor importance, which means that the sense in which he used these terms has remained unaltered. Naturally, we prefer to use his original formulæ, which most clearly express his views.

centre of gravity of socialist accumulation be transferred to the industrial base of the socialist forms, the more will it rely on the surplus product of its own industry and its own agriculture." (*Ibid.*)

Inasmuch as the inter-relations between State production and private commodity production (agriculture) are conceived by Preobrazhensky only as a struggle and the swallowing up of one by the other—like a duel, if I don't kill, I shall be killed—there is naturally no room in his theory for co-operation as a means of development of agriculture towards socialism. He says:

" But parallel with this, a complete system of direct relations between small production and State enterprise is inevitable. The essence of this relationship is as follows: small production is divided into three parts; one part continues for a long time to be small production, another part is organised through co-operation of a capitalist type, a third part, distinct from the second, develops on principles of a new form of co-operation, constituting a special type of transition of small production towards socialism—not through capitalism and not through the simple swallowing up of the small producer by the State.

" But this new form of co-operation under the dictatorship of the proletariat, one of the currents of which is apparently the peasant commune and artel, still has to develop and we cannot give a theoretical analysis of something which does not yet exist, a thing which still has to be born." (*Ibid.*)

His logical deduction from this is the idea of super-industrialisation of the country by means of exploitation of the peasantry through high prices of manufactured goods, an idea which he has systematically and perseveringly advocated during the last few years, in consistency with this theory.

We have endeavoured to sketch Preobrazhensky's theory in his own wording. We shall now proceed with our criticism of this theory.

First of all, we wish to point out what must appear even from a superficial study of that theory, and that is that not only has it nothing in common with Engels' and Lenin's view of the development of small agriculture towards socialism under the dictatorship of the proletariat, but that it differs radically from it.

Let us begin with " primitive " socialist accumulation. Preobrazhensky uses that term by analogy with primitive capitalist accumulation. What is the essence of primitive capitalist accumulation ?

" Primitive accumulation is merely a historical process of separation of the producer from the means of production. It is primitive because it comprises the pre-history of capitalism and of its particular mode of production."

This means that the essence of primitive capitalist accumulation is expropriation of the small producers. In relation to capitalism this is quite natural, because capitalism arises on the basis of small production. Small production is the main obstacle to the development of large-scale capitalist production and the latter can develop only on the ruins of the former.

Socialism, on the contrary, arises not on the basis of small production, but on the basis of monopoly capitalism. Socialism by no means presupposes expropriation of the small producer. On the contrary, socialism, as we know, offers the small producer for the first time the opportunity to escape the expropriation which awaits him sooner or later under capitalism. Hence, small production at the dawn of socialism is in a fundamentally different position from small production in the epoch of primitive capitalist accumulation.

Thus, if it were at all possible to make a comparison between primitive capitalist accumulation and socialist accumulation, it would be a comparison not of likes but of opposites. They resemble each other as black resembles white and cold resembles heat.

It should be pointed out that the separation of the colonies from the sphere of small production is fundamentally wrong. In essence the colonial question is nothing but a question of relations with small peasant producers.

Bukharin said that :

"All of us know perfectly well that, as has long ago been recognised, the colonial problem is destined to play an enormous part in the process of the world revolution. We know perfectly well that from a certain angle, the antagonism between the capital of the highly developed metropolis and the backward colonial countries is one of the chief antagonisms of capitalism. From the viewpoint of world

economy, these antagonisms are, to speak metaphorically, nothing but contradictions between the cities—the centres of modern industry—and the rural areas of the world—the colonial periphery of these centres." (*Enlarged Plenum of the E.C.C.I.*, 1925.)

Hence, if Preobrazhensky speaks of the necessity of robbing the peasantry for the glory of socialist accumulation, it is not clear why only the peasants of the metropolis must suffer this fate and not the peasants of the colonies.

This theoretical outlook gives rise to a corresponding attitude towards small production. If primitive socialist accumulation is in the main based on the " swallowing " up of small production, the practical policy must reduce itself to the question of how best to " skin " the peasant, to put it bluntly. If this idea were carried to its logical conclusion we should arrive at the necessity of appropriation of the whole surplus product of the peasant, and, that this may be less noticeable and less painful, Preobrazhensky advises us to follow not the line of tightening the pressure of taxation, but that of high prices and monopoly profits.

It is clear that from the principles developed by Engels and Lenin, our conclusion must be quite different. Prices must be low so that the peasant will feel the difference between a bourgeois and a proletarian dictatorship and their relation to small production, so that the peasant may be able to accumulate, so that his enterprise may not decline but progress, so that small production may be able, not in words, but in fact, to avoid the capitalist path of development, and the peasant, to use Engels' expression, may be able to lead a better life. But does this mean a policy whereby the peasant would have to make no sacrifice whatever in the interests of socialist construction? No, it does not. The peasant makes and will have to make quite considerable material sacrifices in the interests of socialist construction, both in the form of taxes and in the form of higher prices of manufactured goods.

But taxation and price policy must be such as to give the peasants a chance to develop and create a market for expanding socialist industry.

What, then, is the fundamental difference between capitalist and socialist accumulation with respect to appropriation of part of the surplus product of the small producer?

As regards capitalist accumulation:

"The transition of values from the hands of one class to another constantly enlarges class antagonism, constantly reproduces the relations between the capitalist master and his wage slaves. The same is true of every society based on exploitation. We repeat, of every society.

"But what does the passing of values from the small producers to the hands of proletarian industry express? It expresses quite the opposite tendency, namely, the tendency towards elimination of the contradictions between town and country, between the proletariat and the peasant, between socialist and petty bourgeois economics. Our aim is not the perpetuation of class relations, but their abolition. The faster the socialist economic sphere and its socialist periphery accumulates, the sooner will these contradictions be abolished." (Bukharin, *Some Problems of Economic Policy*.)

The same may be said on the question of co-operation. We have seen that co-operation as a road to socialism in agriculture is one of the main decisive points in Lenin's plan of transformation of small agriculture into large-scale socialist farming. If we were to extract co-operation from Lenin's plan, all that would be left would be the support of the small producer for political considerations, a struggle against capitalism in agriculture without any prospect of development of agriculture. We have already given sufficient proof that small production in itself cannot be an ideal of the proletariat. We have also shown that small agriculture cannot be driven with a stick into the socialist paradise. From this we arrive at the necessity of starting a lasting process of re-moulding the peasant on the basis of his own private interests, so as gradually to pull him through the medium of the market, through the medium of exchange, through the medium of buying and selling co-operation, into collective social forms of labour. What has Preobrazhensky to say about this? First of all, he speaks only of the artels and communes which at the present moment, as Bukharin correctly remarks, are of secondary importance because collective production cannot be directly suggested to small proprietors who treat with mistrust all forms of social production and cherish their private possessions above everything else. To do this would mean to abandon the careful tactics

recommended by Engels and Lenin in relation to the peasantry.

But even in relation to the artels, collective farms, etc., which Preobrazhensky mentions, he avoids a direct answer as to their future development, on the ground that no theoretical analysis can be made of something which does not exist.

Thus Preobrazhensky, quite consistently with his theory of primitive socialist accumulation, refuses to accept co-operation as a means of development of small agriculture towards socialism.

If we adopt Preobrazhensky's point of view that it is necessary " for the socialist State in the transition epoch to swallow up the small producer, just as merchant capital swallowed the small producer in the period of primitive capitalist accumulation," then the term primitive socialist accumulation, used by Preobrazhensky, is correct. It truly embodies the essence of that theory.

But if we adopt the point of view of an alliance of socialist industry with small agriculture, an alliance of the proletariat and the peasantry under the leadership of the former, if we admit the possibility and the necessity of the transformation of small farming into large-scale socialist agriculture under the dictatorship of the proletariat, the analogy with primitive capitalist accumulation must be resolutely and categorically rejected and the theory found wrong.

It is necessary, however, to express in definite terms the peculiarities in the reproduction of productive relations in the period of transition from capitalism to socialism, which will not exist in developed socialist society. Among these are the part played by anarchic relations, the fact of small production, unequal exchange, the State's need to appropriate a considerable part of the surplus product of the small producer, and many other things.

It seems to us that the generally accepted term *socialist accumulation* fully expresses the transitional character of Soviet economy. In developed socialist society, there will be no commodity relations, and, therefore, no occasion to speak of socialist accumulation. Then it will be more correct to speak in the terms of self-sufficing economy, of socialist expanded reproduction, surplus product, direct calculation

of the quantity of energy in labour hours, etc. But until we have reached that time we can use the term socialist accumulation.

155

The Question of Crises in Soviet Economy.

In speaking of the main tendencies in the development of Soviet economy and of the conditions of reproduction, we cannot avoid the question of crises.

Crises under capitalism are, as we have already shown, not only inevitable, but necessary The main causes of crises under capitalism are anarchy in production, which leads to disproportion between the various branches of industry, and the relative contraction of the market, which gives rise to over-production. Do these things occur in the Soviet system? Let us begin with anarchy in production. We have already stated on several occasions that the planning principle is fused in the Soviet system with anarchy in production, that the basis of the planning principle is socialist industry, and that the basis of the anarchic principle is the millions of small farmers. We have also seen that the developmental tendency of Soviet economy lies in the fact that as socialist industry develops and gains in strength, the planning principle gains in importance. Thus, the answer to the question whether anarchy in production can be considered entirely absent in the Soviet system is that anarchy is still extant, although to a much lower degree than under capitalism, and that the tendency of Soviet economy is to eliminate that anarchy under the growing influence of State planning.

And what about the market for the commodities of socialist industry?

The market for State industry in the U.S.S.R. is determined by the growing consumption of the urban and rural population. The urban market is determined by the buying power of the workers, clerks and non-labouring elements. Is there a tendency towards even a relative diminution of the urban market in the U.S.S.R.? That tendency would exist if the wage policy of the Soviet Government were the same as the wage policy of the capitalists, who have no other

object in developing industry but the extraction of a maximum profit. In the Soviet Union, the object of production is not a maximum profit, as we have already shown, but the satisfaction of the requirements of the workers and peasants. This gives rise to the policy of increasing wages as labour productivity rises, and to the policy of reducing prices and improving quality. Increasing wages and declining prices raise the buying power of the workers and widen the market for State industry.

The rural market for Soviet State industry is determined by the buying power of the peasantry and their demand for means of production and means of consumption. In this respect there are intimate connections between State industry and agriculture. State industry provides agriculture with instruments and with articles for personal use; agriculture in its turn provides State industry chiefly with raw material and food products. Finally, agriculture, owing to its slower rate of development, is not always able to find employment for the increasing labour-power and therefore provides industry with labour-power.

Growing socialist accumulation is, therefore, inconceivable without a corresponding accumulation in agriculture; on the other hand, the development of agriculture primarily depends on the improvement of its technique and other means of production which can be provided only by industry.

Correct correlations between these two main branches of Soviet economy are thus a necessary condition for their equilibrium and for the success of socialist construction.

How can this equilibrium be maintained? By means of a corresponding price and profit policy. That policy must on the one hand secure socialist accumulation, the development of socialist industry, and, on the other hand, guarantee a widening rural market for this developing industry. The rural market can widen only if agriculture progresses, if its productive forces develop, and if the material conditions of the peasantry improve, for only under these conditions will the demand of the peasants for means of production and consumption produced by industry increase.

This can be accomplished only by means of a policy of systematic price reduction.

Thus, we find that the market for the expanding State in-

dustries is guaranteed in the U.S.S.R. by the growing income of the workers and peasants.

What general conclusion can we arrive at from what we have just said? Since the planning principle becomes more predominant in Soviet economics, and the Soviet Government is not seeking a maximum profit, and since in the U.S.S.R. the income of the workers and peasants is constantly increasing, crises in the capitalist sense of the term are not inevitable or necessary in Soviet society.

However, inasmuch as there is still anarchy in Soviet economics, the latter cannot be considered absolutely insured against economic disturbances, similar to those of capitalist crises, which may be called forth by a disproportion in the development of one branch of production or another.

The most glaring example of such a disturbance, which was much like a capitalist crisis, was experienced by the Soviet Union in 1923. The essence of that crisis was as follows.

It is generally known that Soviet industry is in a better position to dictate monopoly prices than capitalist industry, and by abusing that position it can exploit the consumer. In 1923, the Soviet trusts and syndicates wanted to try that method, the result of which was the so-called " scissors " between industry and agriculture, expressed in excessive prices of manufactured goods and low prices of farm products. This eventually resulted in a crisis of relative overproduction, while absolute poverty prevailed in the country. However, here also the difference between the Soviet and the capitalist economic systems asserted itself. The crisis was rapidly overcome owing to the systematic pressure brought to bear on industry to reduce prices on the one hand, and the grain export policy on the other. As the result of a sharp drop in prices the buying power of the rural market immediately increased. The goods which had accumulated in Government warehouses were soon spread throughout the country and the rate of circulation of capital in industry increased. As a result of the lower prices of manufactured goods and the higher prices of agricultural produce, agriculture was given an incentive for the development of its productive forces. This rapid overcoming of a crisis would have been impossible under capitalism, owing to the absence of any plan in capitalist production.

But whereas in 1923 we witnessed something like a crisis of over-production as the result of an incorrect price policy, in 1925 we witnessed a whole series of economic difficulties arising from a shortage of goods.

These difficulties were the outcome of miscalculations on the part of the planning institutions which overestimated the harvest of 1925. The result of that overestimation was an exaggerated plan of development of State industry. According to that plan, the purchases of grain were to amount to 780,000,000 roubles, but it turned out that the purchases could not go beyond 600,000,000 roubles. This resulted in a curtailment of the industrial plan from 931,000,000 roubles to 746,000,000 roubles, a revision and curtailment of the export and import plans, a certain instability of the currency, the buying power of which largely depends on the trade balance, etc. However, the economic difficulties of 1925 differed substantially from capitalist crises. A capitalist crisis, as we have shown, is a crisis of over-production. The economic difficulties experienced in the U.S.S.R. in 1925 were, on the contrary, caused by a commodity famine, an insufficient supply of manufactured goods.

This means that it was not a fall in buying power as compared with increasing production, but, on the contrary, the development of industry could not keep pace with the growth in buying power. Over-production demonstrates, if not an absolute, at least a relative drop in the income of the workers and peasants. A commodity famine, on the other hand, is a sign that the income of the workers and peasants is increasing. These difficulties will constantly diminish in the Soviet system as the part played by the planning principle increases.

Taking into account the tendencies of the development of agriculture it is necessary, as stated in the resolution of the 14th Congress of the C.P.S.U., to build up reserve funds to insure the country against any eventualities either on the home or on the foreign market.

The crisis of 1923 and the economic difficulties of 1925 were due to temporary causes. But parallel with temporary difficulties, the Soviet economic system also experiences difficulties of a more stable character. These, perhaps, are not so acute as the difficulties of which we have just spoken,

but they nevertheless play an enormous part. These difficulties arise from the disproportion in the development of the productive forces in State industry and agriculture.

This disproportion has been inherited by the Soviet State from the old bourgeois feudal order and it can be overcome by more intensive socialist accumulation and a more rapid rate of development of State industry.

However, remembering the lessons of the crisis of 1923, the Soviet Government, in increasing the rate of socialist accumulation, must always have its eye on agriculture; its price policy must guarantee a more or less normal development not only of industry, but also of agriculture. Those who advocate high prices and a monopoly profit as a means of liquidating the commodity famine are, therefore, making a great mistake. High prices and monopoly profits would only harm the process of socialist accumulation. Reducing the buying power of the peasantry, this policy would also narrow down the market for State industry.

Apart from that, high prices of manufactured goods would reduce the real wages of the workers and it would be necessary to give them a rise, which would diminish the fund of socialist accumulation. Thus, what would be taken with one hand would have to be given away with the other.

We will not deal here with the other consequences to which such a policy would lead, as for instance, the disturbance of the currency system, etc.

It is still necessary to clear up the question of the effects of relations with the world market on Soviet economics. Some people believe that the more Soviet production is involved in the system of world economy, the more it will depend on the vicissitudes of the world market, in other words, on capitalist crises.

But this point of view is fallacious:

"Our growing dependence on capitalist economy," says Bukharin, "is at the same time a growth of our independence. If we export more grain and import more machines, this, at first sight, increases our dependence. However, it increases also our independence. If we import machines for the production of means of production, and equip with those machines our metal and metallurgical industries and systematically improve, strengthen and raise our heavy in-

dustry, we thereby build a foundation for our independence from the capitalist world." (Bukharin, Speech at the XV Moscow Conference of the C.P.S.U.)

156

The Law of Unequal Development of Capitalism and the Possibility of Building up Socialism in One Country.

We have just considered the course which the development of Soviet economy must follow. But the Soviet Union is surrounded by hostile capitalist States. The world revolution has been retarded. Capitalism is going through a period of stabilisation, although temporary stabilisation. Can the construction of socialism be carried on to the end under the conditions of the retarded world revolution?

This question essentially reduces itself to the more general question of whether the building up of socialism in one country is at all possible? There are two sides to this question. One side of the question is concerned with the internal conditions necessary for the building up of socialism, the other with the sphere of international relations. We can imagine a country possessing all the necessary conditions for the building up of socialism being throttled by an intervention of the hostile capitalist world. On the other hand, the reverse may be the case. A particular country may not possess sufficient prerequisites for the building up of socialism, but with the timely interference of the world socialist revolution it can build up socialism without them. Lenin dealt with this question during the imperialist war in 1915.

In criticising Trotsky's slogan of a United States of Europe at that time, Lenin said:

"Unequal economic and political development is an unconditional law of capitalism. From this it follows that the victory of socialism is at first possible in a few countries and even in one single capitalist country. The victorious proletariat of that country, having expropriated the capitalists and organised socialist production, would stand up against the rest of the capitalist world, attracting to its side the oppressed classes of the other countries, organise in those countries an uprising against the capitalists, march, in case

of necessity, even with military force against the exploiting classes of those countries and their Governments."

From this we draw the following conclusions:

First, that Lenin considered the victory of socialism in a single capitalist country possible and that he understood by that victory not simply the capture of power and the expropriation of the bourgeoisie, but precisely the building up of socialist society. The phrase " organised socialist production " clearly proves that.

Second, that Lenin's belief in the possibility of building up socialism in one country follows from the law of unequal development of capitalism. In the chapter dealing with imperialism, we have examined in great detail the question of this inequality. We will, therefore, limit ourselves here to the definition of this law as given by Stalin.

" The law of unequal development in the period of imperialism, signifies sporadic development of some countries as compared with the rest, a rapid crowding out of some countries by others from the world market, periodical redivisions of the already partitioned world through military clashes and disasters, a deepening and sharpening of conflicts in the imperialist camp, a weakening of the front of world capitalism, the possibility of breaking that front by the proletarians of individual countries, the possibility of the victory of socialism in individual countries." (Stalin, on The Social-Democratic Tendency in Our Party.)

The unequal development of capitalism gives rise to an extremely complicated development of the world proletarian revolution. The question of victory of the proletarian revolution in one country or another, depends on a combination of very many and diverse factors—the degree of development of the productive forces of the country, the degree of consciousness, organisation and revolutionary sentiment of the proletariat, the strength or weakness of the bourgeoisie, the revolutionary or conservative nature of the peasantry, the question whether the country was victorious or vanquished in the world war, and a good many other factors.

Thus, for instance, a country may have attained a very high level of development from the point of view of its productive forces and in this respect be quite ready for the building up of socialism, but it may have a badly organised

and an insufficiently revolutionary proletariat and peasantry and a very well organised bourgeoisie. In this case, although that country is ready for socialism from the technical point of view, it is not ready for the proletarian revolution in view of the absence of the other necessary factors. But the picture may be quite the reverse. A country may, from the point of view of its technical development, be backward, especially when compared with the advanced capitalist powers, but owing to a great number of historical causes, may have a well organised and revolutionary proletariat with a revolutionary peasantry and a weak and badly organised bourgeoisie. Through such a favourable combination of revolutionary factors, that country may accomplish the proletarian revolution before the others and commence its transitional march to socialism regardless of its technical backwardness.

That the proletarian revolution may be simultaneously victorious in most, or at least, in several countries, it would be necessary to have an approximately similar combination of these revolutionary factors in the countries concerned, and that would be possible only if the development of those countries was more or less equal. However, in the actual world we do not find such equal development but, on the contrary, a sporadic and uneven development of capitalism. Hence the possibility of the victory of socialism " at first in a few countries and even in one single capitalist country ; " nor is it absolutely obligatory for that country to be the most advanced from the point of view of technical development. All that is necessary is that it should possess sufficient internal resources for the building up of socialism.

157

The Possibility of Building Up Socialism in the U.S.S.R.

After having examined the general question of building up socialism in one country it will not be difficult for us to answer the question of the possibility of building up socialism in the U.S.S.R.

Is it possible to build up socialism in the U.S.S.R. from

the point of view of the internal resources necessary for that construction, and from the point of view of international relations?

We will begin with the question whether the Soviet Union possesses the necessary prerequisites for the building up of socialism.

We have already dealt with the conditions necessary for the victory of the Social Revolution in one country and have come to the conclusion that a country may be technically fully developed for the building up of socialism, and, nevertheless, be unable to do it in view of the lack of other necessary conditions; on the other hand, a country may be technically more backward than the other capitalist countries, but may still have reached a combination of all other revolutionary factors, so that with all its technical backwardness it may be able to build up socialism. In this connection, its technical backwardness must of course be understood in a relative sense, i.e. in the sense that the level of technical development may be lower than in other countries, but yet high enough to be able to build the socialist edifice, provided all other necessary conditions are favourable.

In the U.S.S.R. we have precisely this second type of combination of revolutionary factors.

Tsarist Russia possessed on the one hand a most backward agriculture with many survivals of serfdom, a most conservative political system, a badly organised bourgeoisie, and, on the other hand, a big centralised industry and a most revolutionary proletariat and peasantry. This combination of revolutionary factors led to the capture of power by the proletariat and the establishment of a proletarian dictatorship, faced with the task of transforming the economic system of this relatively backward country on the basis of modern industrial technique. This socialist transformation of the whole economic organisation is possible because the victorious proletariat inherited from the overthrown capitalist system not only backward economic forms, but also a modern centralised industry, means of transport, the banks and other important institutions. Having these in its hands, the proletariat, as we have seen, is able to influence Soviet economy as a whole in the sense of remaking it into a socialist system. Thus, the relative techni-

cal backwardness of the Soviet Union creates certain extra difficulties in the matter of socialist construction, but by no means makes that construction impossible. The revolutionary character of the proletariat and the peasantry facilitated the overthrow of the bourgeoisie and the capture of power by the proletariat. While in the more advanced capitalist countries the first step—the conquest of power by the proletariat—is very hard owing to the weaker revolutionary sentiment of the proletariat and the peasantry, and the better organisation of the bourgeoisie, the technical backwardness of the Soviet Union renders the difficulties of socialist construction much greater than they will be in the advanced West European or American countries after the capture of power by the proletariat.

To the question of the possibility of building up socialism in the Soviet Union, Lenin replied in the affirmative, saying:

" No matter how much the bourgeoisie of all countries and their lackeys (the Socialists of the II International) may lie and slander, the victory of Communism over capitalism is already assured in our country from the point of view of the principal economic problem of the proletarian dictatorship." (*Lenin*, vol. xvi, p. 350, Russian edition.)

Lenin approached this question even more concretely in his article on co-operation, which we have already quoted. He said:

" State possession of all large means of production, State power in the hands of the proletariat, the alliance of that proletariat with the millions of small peasants, guaranteed proletarian leadership in relation to the peasants, etc.—is that not all that is necessary for the construction of complete socialist society out of the co-operatives, the co-operatives which we formerly treated as commercial organisations and which we have to a certain extent even now, under the New Economic Policy, the right to treat as such? That is not yet the upbuilding of socialist society, but it is all that is necessary and sufficient for that upbuilding."

Lenin thus considered internal conditions in the U.S.S.R. sufficient for the construction of a socialist economic system in that country.

158

Some Statistics of the Tendencies of Soviet Economic Development.

To what extent has experience justified Lenin's prophetic words? Let us see what reply statistics give to this question.[1] First of all, we will take the figures which show the general development of the productive forces of Soviet economy.

The gross output of Soviet industry in 1924-25 amounted to 63·7 per cent. of pre-war, in 1926-27 it reached the point of 100·9 per cent. of pre-war, and according to the Estimates of the State Planning Commission it will reach in 1927-28 the level of 114·4 per cent. of pre-war.

The output of agriculture during the same period was 87·3 per cent., 108·3 per cent., and 111·8 per cent. respectively.

A still more rapid rate of development is to be observed in the development of trade.

In 1924-25 it amounted to 14,613 million roubles, in 1926-27 28,775 million roubles, and in 1927-28, according to the Estimates of the State Planning Commission, it will increase to 33,440 million roubles. Thus, if we take the figures of 1924-25 as 100, the figures for 1926-27 will show an increase of 97 per cent. and those for 1927-28 an increase of 116 per cent.

These figures indicate a rapid development of Soviet national economy.

However, the very fact of rapid economic development does not show the trend of that development, it does not indicate whether socialist or capitalist tendencies have the upper hand. To answer this question, we must take the figures showing the relative growth of the different branches of Soviet production.

Thus if we take capital investments in the socialised branch of Soviet production (State and co-operative industry, transport, electricity, etc.), these have increased from 43 per cent. of total investments in 1924-25 to 65·3 per cent. in

[1] The figures have been taken partly from Stalin's report at the XV Congress of the C.P.S.U., and partly from the *Estimates of the State Planning Commission for* 1927-28.

1927-28, while capital investments in the non-socialised branch during the same years fell from 57 per cent. in 1924-25 to 34·7 per cent. in 1927-28.

No less significant are the figures showing the growth of the share of the socialised branch in the gross output of the total industry of the country. From 81 per cent. in 1924-25 it increased to 86 per cent. in 1926-27 and will increase to 86·9 per cent. in 1927-28. The share of the non-socialised branches during the same years was systematically falling—from 19 per cent. in 1924-25 it dropped to 14 per cent. in 1926-27 and will drop according to the Estimate Figures to 13·1 per cent. in 1927-28.

In the commodity circulation of the country we find the same rising relative strength of the socialist branch and decline of the capitalist elements.

Thus the share of the socialised branch of commodity circulation rose from 72·6 per cent. in 1924-25 to 81·9 per cent., whilst the share of the private branch dropped from 27·4 per cent. in 1924-25 to 18·1 per cent. in 1926-27.

All this goes to show that the development of Soviet economy proceeds along socialist and not along capitalist lines.

We find a slower rate of socialist development in agriculture. As to drawing agriculture into the system of organised exchange of manufactured goods and farm products, this has considerably increased in the last few years. Thus the agricultural co-operatives embrace about one-third of all peasant households, the consumers' co-operatives have increased their volume of business in the villages from 25·6 per cent. in 1924-25 to 50·8 per cent. in 1926-27, the co-operative and Government institutions have increased their sales of manufactured goods in the villages from 55·7 per cent. in 1924-25 to 63 per cent. in 1926-27. But there is not much to boast of in the development of producing co-operatives, and of collective and Government farming. It suffices to mention that the collective and Government farms put together now produce a total of a little over 2 per cent. of farm products and supply 7 per cent. of the farm products on the market. Their relative strength, as compared with the millions of small farmers, is negligible. In the future one of the main tasks of the Soviet Government will be to draw the small peasants into the various forms of co-operation

—consumers' co-operatives, co-operatives for the sale of farm products and purchase of machinery, credit co-operatives, etc., and to develop collective and Government farming.

The clearest index of development of the productive forces in the Soviet economic system, and one of the most necessary and decisive conditions for the construction of socialism, is the industrialisation of the country. Apart from that, industrialisation, as we have already shown, is, together with co-operation, the most necessary condition for the transformation of small agriculture into large-scale socialist farming. What is the position of industrialisation in the U.S.S.R. ?

Industrialisation, first of all, presupposes a more rapid rate of development of industry than of agriculture. But to guarantee a more rapid rate of development of industry than of agriculture, it is necessary that the production of means of production within the sphere of industry should develop more rapidly than the production of means of consumption.

Are these tendencies to be observed in the Soviet Union ? They are.

Thus, the relative strength of industrial and agricultural produce in the general mass of commodities has changed during the period of 1923-24 and 1927-28 as follows : the share of industry has increased during the two years from 53·1 per cent. in 1924-25 to 59·5 per cent. in 1926-27 and will reach 60·7 per cent. in 1927-28, while the share of commodity produce in agriculture was 46·9 per cent. in 1924-25, 40·5 per cent. in 1926-27, and will drop to 39·3 per cent. in 1927-28.

No less significant are the figures concerning the growth in the share of means of production and the relative decline in the share of means of consumption in the gross output of Soviet production.

In 1924-25 the share of the means of production, compared with the whole of industry, was 34·1 per cent., in 1926-27 37·6 per cent., and will be in 1927-28 38·6 per cent. ; the share of the means of production in large-scale socialist industry is still greater—in 1924-25 it amounted to 43 per cent., in 1926-27 44 per cent., and will be in 1927-28 44·9 per cent.

All statistics unanimously indicate a rapid growth of productive forces in general and a rapid rise in the socialised branch of production in particular. But does not this growth take place at the expense of the working class, as is the case in the capitalist countries ? We know that the falling share received by the proletariat in the general income of the capitalist countries is one of the laws of economic development.

We have a different picture in the U.S.S.R. In the chapter on wages in the U.S.S.R. we have already given figures indicating that the share of wage-labour in the general income of the U.S.S.R. is constantly on the ascendant and does not decline.

All statistics analysed by us irrefutably prove a rapid rate of development of the productive forces in Soviet society. Side by side with general growth, there is to be observed an even more rapid growth of the socialised branch of Soviet economy—State industry, Government trade, co-operation. This rapid rate of development of the socialised branch proceeds on the basis of rapidly developing industrialisation of the country. Parallel with this the productive forces in agriculture also develop, and although the development of co-operation, especially productive co-operation, in agriculture is still weak and insufficient, the tendency of its further rapid development has been quite clearly defined. Finally, the growth in the share of the wage workers in the general income of the country shows that the fruits of this rapid development of productive forces are reaped first of all by the workers. All this fully justifies us in saying that the U.S.S.R. is a country engaged in the building up of socialism.

159

The U.S.S.R. as the Bulwark of the World Revolution.

If from the point of view of internal conditions the possibility of the building up of socialism in the Soviet Union may be considered to be certain, the question arises whether that country has sufficient guarantees that world capitalism will not crush it.

We find a reply to this question in the following sentences uttered by Stalin at the VII Plenum of the Comintern :

" The present period of ' respite ' is based on at least four main facts.

" First, on the antagonisms in the imperialist camp, which do not weaken, and which make difficult a pact against the Soviet Republic.

" Second, on the contradictions between the imperialist and the colonial countries and the growth of the liberation movement in colonial and dependent countries.

" Third, on the growth of the revolutionary movement in the capitalist countries and the growing sympathy of the workers of all countries for the Soviet Republic.

" The workers of the capitalist countries are not yet strong enough to support the proletariat of the U.S.S.R. by means of direct revolutions against their own capitalists.

" But the capitalists of the imperialist States are no longer strong enough to send ' their ' workers against the proletariat of the U.S.S.R. because the sympathies of the workers of all countries for the Soviet Republic are increasing daily and cannot but increase. And without the workers they cannot fight.

" Fourth, on the power of the proletariat of the U.S.S.R., on the successes of its socialist construction, on the strength of its Red army.

" The combination of these and similar conditions is the basis of the period of ' respite ' which is characteristic of the present international position of the Soviet Republic." (Stalin, on The Social Democratic Deviation in Our Party.)

Can we conclude that thanks to these factors the U.S.S.R. may be considered safe from any wars or interventions on the part of world capitalism? No, we cannot make this assumption. Although capitalism, as we have seen in the chapter on imperialism, is now declining, although the antagonisms tearing it to pieces are not diminishing but are becoming ever sharper, and its present " stabilisation " is highly temporary and conditional, it is nevertheless strong enough to strike heavy blows at the Soviet Union and to hamper its socialist construction. Thus we see that, while from the point of view of internal forces and possibilities the construction of socialism in the Soviet Union may be con-

sidered secure, from the point of view of the international situation no such guarantees can be given.

It would, however, be wrong to conclude that imperialism can throttle this young proletarian State.

We have seen that the capitalist system is from beginning to end a system of contradictions. The chaotic, unorganised character of the productive relations in capitalist society, the competitive struggle between individual capitalists and entire countries, the struggle between the bourgeoisie and the proletariat, capitalist crises which periodically shake the capitalist system to its very foundations, unlimited exploitation of pre-capitalistic economic forms—all these contradictions are inseparably bound up with the very essence of capitalism. The development of capitalism signifies nothing but an enlarged reproduction of these contradictions on an ever wider base. We have seen how this development gradually brought capitalism into the epoch of imperialism which Lenin, with full justice, called the last stage of capitalism. We have learned that if hitherto capitalism has been able to overcome its internal contradictions and rapidly to develop its productive forces, this is now becoming ever more and more difficult.

The Soviet system in its essence does not know the insurmountable class contradictions which constitute the necessary attributes of capitalism. It is true that it is not yet completely free from the antagonisms which it inherited from capitalism; since the Soviet system is not yet a complete socialist system, but merely a system in transition from capitalism to socialism, it is, to use Marx's expression, "in all respects—economic, moral, intellectual—covered with birth-marks of the old society from the womb of which it is born." Hence, the struggle between planning and anarchy, hence the economic inequality and the consequent contradictions within the working class, hence the temporary discord between some of the interests of the working class and the peasantry, hence the as yet incomplete elimination of the possibility of disturbances in Soviet economy which recall capitalist crises, hence the disproportion in the development of industry and agriculture which has come down from capitalism, etc., etc. All this gives rise to innumerable difficulties in the matter of socialist construction. But, on the

other hand, the tendencies of Soviet economic growth, and especially the socialist character of that growth, indicate that the development of Soviet economy will not mean an enlarged reproduction of these contradictions, but, if it may be so put, an expanding elimination of these contradictions, an expanding reproduction of socialist and socialising elements in Soviet economy.

This fact of the consolidation and further development of the socialist elements in Soviet society renders the Soviet Union, the country engaged in socialist construction, the bulwark and stronghold of the world proletarian revolution.

That is why the idea that the U.S.S.R. is truly the country of all the oppressed is taking ever deeper root in the minds of the workers and the colonial peoples of the world, that is why neither the anti-Soviet agitation of the capitalist Press, nor the treacherous policy of the menshevik leaders of the working class of Europe and America, nor the repressions so ruthlessly resorted to by the capitalist world against anything that in any way brings " its " workers into touch with the Soviet Union, are able to restrain the wave of sympathy which is growing among the workers of all countries and nations for the Soviet Union. The mere fact of the existence of the Soviet Union, which stands out in the imperialist ocean like a proud and impregnable rock, is in itself a factor of colossal revolutionary significance ; and the reason for the hatred which is shown by the capitalist world to the Soviet Union becomes quite clear.

The existence of the Soviet Union in such complex environments of decadent capitalism will often yet be exposed to great dangers. We know that at times a mortally wounded bandit is capable of inflicting deep wounds on his enemies. But no matter what trials, difficulties and hindrances the Soviet Union may have to encounter in the future, one thing is certain, and that is, that it has struck deep root in the minds of the workers of the world, and that although moribund capitalism may for a time retard the progress of the new Communist system which is coming to replace it, there is no power on earth strong enough to stem its advance.

QUESTIONS AND TASKS

1. Give the reasons for the inevitability of the epoch of transition from capitalism to Communism, and describe that epoch.
2. What is the difference between Socialism and Communism?
3. On what basis can you show that Soviet society is in transition from capitalism to socialism?
4. Look through the three tables below (from the *Estimates of the State Planning Commission for* 1926-7), and reply to the questions which follow.

TABLE I

Gross Output in Percentages

Year.	State.	Co-operative.	Private.	Total.
Industry and Agriculture put together:				
1923-24	27·6	1·9	70·5	100%
1924-25	32·9	2·1	65·0	100%
1925-26	35·4	2·3	62·3	100%
1926-27	37·0	2·3	60·7	100%
Industry alone:				
1923-24	70·3	5·0	24·7	100%
1924-25	74·6	4·6	20·8	100%
1925-26	77·0	4·9	18·1	100%
1926-27	77·9	4·8	17·3	100%
Agriculture alone:				
1923-24	11·1	0·7	88·2	100%
1924-25	10·8	0·8	88·4	100%
1925-26	9·9	0·8	89·3	100%
1926-27	9·9	0·8	89·3	100%

TABLE II

The Mass of Manufactured and Agricultural Commodities

Year.	State.	Co-operative.	Private.	Total.
1923-24	39·4	3·4	57·2	100%
1924-25	47·1	3·3	49·6	100%
1925-26	49·3	3·8	46·9	100%
1926-27	50·6	3·7	45·7	100%

TABLE III

Turnover

Year.	State.	Co-operative.	Private.	Total.
1923-24	31·0	28·2	40·8	100%
1924-25	35·5	37·5	27·0	100%
1925-26	34·0	42·3	23·7	100%
1926-27	34·0	44·5	21·5	100%

(*a*) What is the relative strength and the tendency of development of socialised and private production in the U.S.S.R.?

(*b*) What branches of national economy are the basis of planned and of chaotic production in the U.S.S.R., and to what extent?

(*c*) From Table I it is obvious that the greatest part of the gross output of the U.S.S.R. is produced privately. Does this indicate the preponderating influence of private production?

(*d*) What conclusion can be drawn from these three tables on the question of the relative strength of the planned and the anarchic elements in Soviet production?

5. Analyse the figures of Soviet trade below (from the collection of economic tables issued by the Agitprop Department of the C.C. of the C.P.S.U. and the Rationalisation Department of the Workers' and Peasants' Inspection of the U.S.S.R.) and answer the following questions:

(*a*) We observe from year to year a growth in commodity relations in Soviet economics. Why can we not conclude from this that the significance of the law of value will also increase in Soviet economics?

(*b*) Why can the same conclusion not be drawn from the growing relations of Soviet production with the world market?

Trade in the U.S.S.R. (in millions of roubles)

	1923-24.	1924-25.	1925-26.
Turnover of 70 provincial bourses	1,462	3,403	4,460
Turnover of the Moscow Bourse	1,555	2,990	3,801
Sale of goods by 303 organisations of the Supreme Economic Council	1,914	3,204	3,695
Foreign Trade	960	1,278	1,405

NOTE.—For the above questions it would be advisable to read Bukharin's speech at the VII Plenum of the Comintern or at the XV Party Conference (the parts dealing with Soviet economic relations abroad).

6. Why cannot the relations between the planning principle and the law of value in Soviet production be regarded merely as conflicting relations?

7. How does the law of value wither away in Soviet society?

8. What is the special characteristic of socialist expanding reproduction, distinguishing it from capitalist expanding reproduction?

9. Can accumulation in Soviet State economics be classified as socialist accumulation, and why?

10. What advantages does socialist construction gain from planning?

11. What part does industrialisation play in the Soviet system, and wherein does it differ from the part played by industrialisation in capitalist countries?

12. Why is electro-technique called socialist technique, and what advantages has the development of electricity in the Soviet Union as compared with capitalist States?

13. Which of the methods used by capitalism for the enlargement of capitalist reproduction can be utilised for socialist accumulation, and which have to be discarded, and why?

14. Will the Soviet system collapse because of the absence of private gain and other capitalist incentives to the development of the productive forces?

15. The capitalist countries are considerably richer than the U.S.S.R.; where will the Soviet Union find the resources to maintain a rate of socialist accumulation which would enable it not only to catch up, but to outstrip the capitalist countries?

16. What was Engels' and Lenin's idea of the path of development of small agriculture under the proletarian dictatorship?

17. Why is co-operation a road to socialism under Soviet conditions and not under capitalist conditions?

18. If socialism means large-scale production, the basis of which is a very high technique, and if the Soviet Government is really building socialism, how can this be reconciled with the fact that it supports the development of small individual agriculture?

19. How can peasant agriculture reach socialism through co-operation and industrialisation?

20. Why does the Soviet Government now stress the importance of collective farming?

21. Are crises inevitable and necessary in the Soviet system? Give the reasons for your answer.

22. On what is the belief in the possibility of building up socialism in the U.S.S.R. based?

BIBLIOGRAPHY

Of the books mentioned in this *Outline*, the following may be obtained in English :

KAUTSKY, KARL, *Economic Doctrines of Karl Marx*. A. and C. Black Ltd., London, 1925.

LENIN, N., *On Co-operation*. C.P.G.B., London.
The Great Initiative. Andrade's Bookshop.
Imperialism. C.P.G.B., London, 1928.
The Proletarian Revolution. Modern Books Ltd., London, 1928.
The State and Revolution, C.P.G.B., London, 1926.

MARX, KARL, *Capital* (3 vols.). Charles Kerr and Co., Chicago, 1926. (The *first* volume of this edition is not now obtainable in England, as the copyright in the translation is the property of Messrs. G. Allen and Unwin Ltd., who published a fresh translation of vol. i in 1928. All quotations from this *Outline* are from the Kerr edition.)

MARX, KARL, and ENGELS, FRIEDRICH, *Manifesto of the Communist Party*. Modern Books Ltd., London, 1929.

ROTHSTEIN, A. (editor), *Constitution of the R.F.S.F.R.* Labour Publishing Co. Ltd. London.

STALIN, J., *Leninism*. G. Allen and Unwin Ltd., London, and C.P.G.B. (cheap edition), 1928.

Report of XV Congress C.P.S.U. C.P.G.B., London, 1928.

In addition to the above, the following books are recommended to the student.

BOUDIN, L., *Theoretical System of Karl Marx*. Charles Kerr and Co., Chicago.

BUKHARIN, N., *A.B.C. of Communism*. C.P.G.B., London, 1927.
Economic Theory of the Leisure Class. Martin Lawrence Ltd., London, 1927. International Publishers Co., New York.

BOGDANOFF, A., *Short Course of Economic Science*. C.P.G.B., London, 1927.

HILFERDING, R., *Bohm-Bawerk's Criticism of Karl Marx*. Socialist Labour Press, Glasgow, 1920 (?).

LENIN, N., *Marxism*. Modern Books Ltd., London, 1929.

MARX, KARL, *Value, Price and Profit*. G. Allen and Unwin Ltd., London.
Wage-Labour and Capital. Modern Books Ltd., London, 1929.
Critique of Political Economy. Charles Kerr and Co., Chicago.
Civil War in France. Labour Publishing Co. Ltd., London.

PAVLOVITCH, P., *Foundations of Imperialist Policy*. Labour Publishing Co. Ltd., London.

VARGA, E., *Decline of Capitalism*. C.P.G.B., London, 1928.

INDEX OF SUBJECTS

	Sec. No.	Page.
ACCUMULATION, Capitalist, Primitive	97	319
,, ,, General law of	108	355
,, Socialist, in U.S.S.R.	144	479
,, ,, Sources of	150	494
,, ,, Primitive, Fallacy of theory of	154	510
AGRICULTURE, Collective, Road to	153	504
,, Concentration of production in, and small farmer	106	347
,, Co-operation in, under Capitalism	107	351
,, ,, in U.S.S.R.	151	497
,, large-scale, Advantages of	105	344
,, ,, Retarded development of	104	341
,, Socialist and Capitalist	90	306
,, Soviet, Road to Socialism in	151	497
,, Rent and Tax on	95	315
BANKS, Active operations of	63	236
,, Commercial Credit and	58	227
,, General Concept of	61	231
,, Notes replacing Money	66	242
,, Passive Operations of	62	234
,, Profit on Credits	64	238
BILL OF EXCHANGE as Security	59	229
,, ,, Discounting of	60	231
CAPITAL, Accumulation of, General Law of	108	355
,, Bank, Fusion with Industrial Capital	121	400
,, Centralisation of, and Joint Stock Companies	115	387
,, Circulation of	41	187
,, Composition of	31	139
,, Concentration and Realisation of	101	331
,, Constant and Variable	19	75
,, Definition of	18	73
,, Export of	125	410
,, Fictitious	116	389
,, Finance	121	400
,, ,, and the State	122	403
,, Loan, and Interest	52	217
	54	220
,, Merchant, and Rate of Profit	45	196
,, Merchant, Concept of	42	189
,, Merchant, in U.S.S.R.	48	206

	Sec. No.	Page.
CAPITAL, Primitive Accumulation of	97	319
,, Turnover of, and Rate of Profit	32	141
,, Unemployed, Formation of	53	218
,, Usurers'	56	223
CAPITALISM, Contradictions of, under Imperialism	131	427
,, Decadence of	135	442
,, Development of Productive Forces and	113	381
,, Downfall of	138	451
	139	459
,, Small Industry under	103	389
,, Unequal Development of	136	442
	156	523
CAPITALIST SOCIETY, Calculation of Costs in.. ..	35	151
CLASS STRUGGLE under Imperialism	134	441
COLONIES, Struggle for	126	412
,, Class and National Struggles in	134	441
COMBINES, International	127	415
COMMODITY Fetishism..	11	48
,, Labour-power as	16	67
COMMUNISM, Transition to	138	451
,, and Socialism, Concepts of	140	465
COMPANIES, "Daughter"	115	387
,, Joint-Stock	114	383
,, ,, and Centralisation of Capital	115	387
CO-OPERATION in Agriculture under Capitalism ..	107	351
,, ,, in U.S.S.R.	151	497
,, Road to Collective Farming ..	153	504
CREDIT, Bank and Commercial	58	227
,, Notes, General Concept of	65	240
,, ,, Distinct from Paper Money ..	67	243
,, in U.S.S.R.	74	262
CRISES, Anarchy in Production and	112	371
,, in Soviet Economy	155	518
DEVELOPMENT of Productive Forces and Capitalism	113	381
,, in U.S.S.R.	158	528
DIVIDENDS	116	389
EXCHANGE, Necessity of	1	7
,, Non-Capitalist, in U.S.S.R.	50	210
,, Price as Regulator of	2	11
,, Surplus Value not obtained from ..	15	65
EXPLOITATION, Growth of	22	86
,, of Salesmen	46	199
,, Rate of	19	75
,, Rate of, and Rate of Profit ..	33	144
IMPERIALISM, Contradictions under	131	427
,, Definition of	129	422
,, Theory of Super-	137	447
,, Working Class and Class Struggle under	133	437
,, World Economy under	130	424

	Sec. No.	Page.
INDUSTRIALISATION, Soviet	146	483
INFLATION, Influence on National Economy of	70	251
,, Restoration of Normal Currency after	71	253
INTEREST, Discount	60	231
,, in the U.S.S.R.	73	260
,, Loan Capital and	52	217
	54	220
,, Profit of Enterprise and	57	225
,, Rate of	55	221
LABOUR, Concrete and Abstract	6	24
,, Individual and Socially Necessary	7	26
,, of Salesmen	43	191
,, Simple and Complex	8	32
LABOUR-POWER as Commodity	16	67
,, Value of	16	67
,, Wages Price of	26	105
LAND, Nationalisation of, and Rent	86	292
,, Price of	83	285
MARKETS, Conquest of Foreign	124	407
MILITARISM	132	434
MONEY and Commodity Fetishism	11	48
,, as Measure of Value and Standard of Price	12	52
,, as Means of Circulation	13	55
,, Banknotes Replacing	66	242
,, Buying Power of Paper	68	245
,, International Accounting	72	255
,, Other Functions of	14	59
,, Paper	69	248
,, Paper, Distinct from Credit Notes	67	243
,, Paper, in the U.S.S.R.	75	265
,, Restoration of Normal Currency	71	253
MONOPOLIES, Forms of	118	393
,, and "Recalcitrant" Concerns	120	399
,, Rise of Capitalist	117	392
,, Statistics of	119	397
PEASANTS, Differentiation of, in Soviet Society	152	502
PLANS in Soviet Production	145	481
PRICE, Regulator of Exchange	2	11
,, Conditions on which it depends	3	13
PRIVATE OWNERSHIP, a Pre-requisite of Exchange	1	7
PRODUCTION, Anarchy in, and Crises	112	371
,, Calculation of Costs of	35	151
,, Costs of	4	18
,, Incentive to Develop Rate of, in U.S.S.R.	149	490
,, Monopoly, and Exchange	123	405
,, Price of, and Theory of Labour-value	36	159
,, Price of, in U.S.S.R.	40	183
,, Significance of, in U.S.S.R.	39	180

	Sec.	No.	Page
PRODUCTION, Socialist Rationalisation of	148		487
PROFIT, Average Rate of	34		146
,, Tendency to fall	34		146
,, Average Rate of, in U.S.S.R.	38		178
,, Co-operative	47		200
,, ,, in the U.S.S.R.	51		211
,, Founder's	116		389
,, Merchant Capital and	45		196
,, Merchant's, in the U.S.S.R.	48		206
,, ,, Source of	44		194
,, of Enterprise and Interest	57		225
,, Rate of	30		137
	31		139
	32		141
,, Rate of, and Rate of Exploitation	33		144
RENT, Absolute	80		280
,, ,, and Small Peasant Agriculture ..	89		302
,, ,, in U.S.S.R.	91		309
,, ,, Source of	81		281
,, and Agriculture Tax	95		315
,, of Building Lots	96		317
,, Differential	77		271
,, ,, Two Forms of	78		276
,, ,, Source of	79		279
,, ,, and Small Peasant Agriculture	88		299
	92		310
	93		313
,, Ground, General Significance of	76		269
,, ,, and Agricultural Prices	82		284
,, ,, and Nationalisation of Land ..	86		292
,, ,, Pre-Capitalist Forms of	87		295
,, ,, Relations of U.S.S.R. with World Market and	94		314
,, ,, Social Significance of	85		289
,, ,, Tendency to rise	84		287
REPRODUCTION, Concept of	98		322
,, Conditions for equilibrium in simple	110		362
,, Conditions for equilibrium in progressively increasing	111		366
,, Expanding, under Capitalism and Socialism	143		476
,, Increasing Capitalist	100		329
,, ,, ,, and Realisation	109		360
,, Simple Capitalist	99		324
REVOLUTION, World, U.S.S.R. as Bulwark of ..	159		531
SALESMEN, Labour of	43		191
,, Exploitation of	46		199
SECURITY, Bill of Exchange as	59		229
SOCIALISM and Communism, Concepts of	140		465

	Sec. No.	Page
SOCIALISM Building, in U.S.S.R.	157	525
,, Establishment of, in one Country ..	156	523
,, Road to, in Soviet Agriculture	151	497
SUPPLY AND DEMAND	3	13
SURPLUS VALUE, Absolute and Relative	20	78
,, Creation of Relative	21	83
,, in Soviet State Industry	24	95
,, in other forms of Industry in U.S.S.R.	25	102
,, not obtained from Exchange ..	15	65
,, Origin of	17	72
SURPLUS VALUE, Part of, of Private Trade appropriated by Soviet State ..	49	209
,, Rate of	30	137
TARIFFS, Protective	124	407
TAX, Agriculture, in U.S.S.R.	95	315
TAYLORISM	22	86
TECHNIQUE, Development of Capitalist	102	336
,, Socialist	147	485
U.S.S.R., Absolute Rent in	91	309
,, Building Socialism in	157	525
,, Building Lots in	96	317
,, Bulwark of World Revolution	159	531
,, Capitalist Categories and	142	472
,, Credit in	74	262
,, Crises in	155	518
,, Co-operative Profit in	51	211
,, Differentiation of Peasantry in	152	502
,, Differential Rent in	92	310
	93	313
,, Exchange, Non-Capitalist, in	50	210
,, General Characterisation of	23	92
,, Incentive to develop Productivity of Labour in	149	490
,, Industrialisation in	146	483
,, Interest in	73	260
,, Merchant Capital in	48	206
,, Paper Money in	75	265
,, Planned Production in	145	481
,, "Political Economy" and	141	469
,, Productivity and Wages in	29	126
,, Profit and Rate of Profit in	38	178
,, Price of Production in	40	183
,, Relations with World Market and Rent in	94	314
,, Rent and Agriculture Tax in	95	315
,, Road to Collective Farming in	153	504
,, Road to Socialism in Agriculture in ..	151	497
,, Significance of Profit in	39	180
,, Socialist Accumulation in	144	479

	Sec. No.	Page
U.S.S.R., Statistics of Development of	158	528
,, Surplus Value in State Industry of ..	24	95
,, ,, ,, in other forms of industry in	25	102
,, ,, ,, of Private Capital and the State in	49	209
,, Value in	37	168
,, Wage Factors in	28	120
UTILITY	3	13
VALUE, Development of Form of	10	44
,, Expression of Social Relations	5	22
,, General Conception of Form of	9	41
,, Labour as Basis of	5	22
,, in the U.S.S.R.	37	168
,, Price of Production and Theory of Labour ..	36	159
,, Three Forms of	10	44
WAGES, Factors in	27	110
,, ,, in U.S.S.R.	28	120
,, Forms of	26	105
,, Price of Labour Power	26	105
WAR and Development of Productive Forces ..	132	434
,, Inevitable under Monopoly Capitalism ..	128	418
,, of 1914-18, its Causes	128	418
WORLD, Re-division of..	127	415